

TELECOM ARGENTINA SA

Form 6-K

March 22, 2017

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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 March 2017

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

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(Address of principal executive offices)

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

Form 20-F 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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1. *Consolidated Financial Statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014.*
 2. *Results of Operations, Liquidity and Capital Resources as of December 31, 2016 and for the years ended December 31, 2016, 2015 and 2014.*
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Item 1

Consolidated Financial Statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014

Alicia Moreau de Justo 50

(1107) Ciudad Autónoma de Buenos Aires

Argentina

\$: Argentine peso

US\$: US dollar

\$15.89 = US\$1 as of December 31, 2016

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Telecom Argentina S.A.

In our opinion, the accompanying consolidated statements of financial position, the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Telecom Argentina S.A. and its subsidiaries (the Company) at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Buenos Aires, Argentina

March 8, 2017

PRICE WATERHOUSE & CO. S.R.L.

By /s/ Marcelo D. Pfaff
(Partner)

Marcelo D. Pfaff

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Management's Report on Internal Control over Financial Reporting

Telecom Group's Management is responsible for establishing and maintaining adequate internal control over financial reporting for Telecom Group as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Our internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRS). Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Telecom Group;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that receipts and expenditures of Telecom Group are being made only in accordance with authorizations of Management and directors of Telecom Group; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Telecom Group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of Telecom Group's internal control over financial reporting based on the framework in Internal Control – Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013). Based on its evaluation, Management concluded that the Telecom Group's internal control over financial reporting was effective as of December 31, 2016. The effectiveness of Telecom Group's internal control over financial reporting as of December 31, 2016 has been audited by Price Waterhouse & Co S.R.L., an independent registered public accounting firm, as stated in their report which is included herein.

Buenos Aires, Argentina

March 8, 2017

/s/ German H. Vidal
Chief Executive Officer

/s/ Ignacio C. Moran
Chief Financial Officer

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Table of Contents**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In millions of Argentine pesos)

| | <u>Note</u> | <u>As of December 31,</u> | |
|--|-------------|---------------------------|---------------|
| | | <u>2016</u> | <u>2015</u> |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 4 | 3,945 | 870 |
| Investments | 4 | 1,751 | 1,430 |
| Trade receivables | 5 | 7,577 | 5,663 |
| Other receivables | 6 | 1,011 | 1,336 |
| Inventories | 7 | 1,278 | 2,193 |
| Total current assets | | 15,562 | 11,492 |
| Non-Current Assets | | | |
| Trade receivables | 5 | 208 | 481 |
| Other receivables | 6 | 360 | 272 |
| Income tax assets | 14 | 680 | 265 |
| Investments | 4 | 347 | 333 |
| Property, plant and equipment | 8 | 23,165 | 17,963 |
| Intangible assets | 9 | 7,592 | 7,659 |
| Total non-current assets | | 32,352 | 26,973 |
| TOTAL ASSETS | | 47,914 | 38,465 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade payables | 10 | 8,979 | 9,873 |
| Deferred revenues | 11 | 443 | 477 |
| Financial debt | 12 | 3,266 | 3,451 |
| Salaries and social security payables | 13 | 1,610 | 1,261 |
| Income tax payables | 14 | 724 | 439 |
| Other taxes payables | 15 | 1,149 | 1,153 |
| Other liabilities | 16 | 69 | 53 |
| Provisions | 17 | 271 | 207 |
| Total current liabilities | | 16,511 | 16,914 |
| Non-Current Liabilities | | | |
| Trade payables | 10 | 152 | 52 |
| Deferred revenues | 11 | 445 | 457 |
| Financial debt | 12 | 8,646 | 1,449 |
| Salaries and social security payables | 13 | 184 | 157 |
| Deferred income tax liabilities | 14 | 569 | 550 |
| Income tax payables | 14 | 7 | 10 |
| Other liabilities | 16 | 170 | 101 |
| Provisions | 17 | 1,352 | 1,165 |
| Total non-current liabilities | | 11,525 | 3,941 |
| TOTAL LIABILITIES | | 28,036 | 20,855 |
| EQUITY | | | |
| Equity attributable to Telecom Argentina (Controlling Company) | | 19,336 | 17,194 |
| Equity attributable to non-controlling interest | | 542 | 416 |
| TOTAL EQUITY (See Consolidated Statements of Changes in Equity) | 19 | 19,878 | 17,610 |
| TOTAL LIABILITIES AND EQUITY | | 47,914 | 38,465 |

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

Mariano Ibáñez
Chairman of the Board of Directors

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Table of Contents**CONSOLIDATED INCOME STATEMENTS**

(In millions of Argentine pesos, except per share data in Argentine pesos)

| | Note | For the years ended | | |
|---|-------------|----------------------------|---------------|---------------|
| | | December 31, | | |
| | | 2016 | 2015 | 2014 |
| Revenues | 21 | 53,240 | 40,496 | 33,341 |
| Other income | 21 | 83 | 44 | 47 |
| Total revenues and other income | | 53,323 | 40,540 | 33,388 |
| Employee benefit expenses and severance payments | 13 | (9,800) | (7,253) | (5,591) |
| Interconnection costs and other telecommunication charges | 22 | (2,553) | (2,170) | (2,074) |
| Fees for services, maintenance, materials and supplies | 22 | (5,006) | (3,919) | (3,333) |
| Taxes and fees with the Regulatory Authority | 22 | (5,125) | (3,943) | (3,297) |
| Commissions | 22 | (3,849) | (3,193) | (2,494) |
| Cost of equipments and handsets | 7 | (6,188) | (4,595) | (4,143) |
| Advertising | 22 | (874) | (814) | (792) |
| Cost of VAS | 22 | (1,499) | (1,256) | (936) |
| Provisions | 17 | (187) | (113) | (84) |
| Bad debt expenses | 5 | (1,228) | (564) | (424) |
| Other operating expenses | 22 | (2,590) | (1,854) | (1,518) |
| Depreciation and amortization | 22 | (6,198) | (4,438) | (3,243) |
| Impairment of PP&E | 22 | (383) | (199) | (16) |
| Operating income | 23 | 7,843 | 6,229 | 5,443 |
| Finance income | 24 | 1,006 | 1,130 | 1,459 |
| Finance expenses | 24 | (3,250) | (2,232) | (1,206) |
| Income before income tax expense | | 5,599 | 5,127 | 5,696 |
| Income tax expense | 14 | (1,594) | (1,692) | (1,967) |
| Net income for the year | | 4,005 | 3,435 | 3,729 |
| Attributable to: | | | | |
| Telecom Argentina (Controlling Company) | | 3,975 | 3,403 | 3,673 |
| Non-controlling interest | | 30 | 32 | 56 |
| | | 4,005 | 3,435 | 3,729 |
| Earnings per share attributable to Telecom Argentina | | | | |
| Basic and diluted | 25 | 4.10 | 3.51 | 3.79 |

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

Mariano Ibáñez
Chairman of the Board of Directors

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(In millions of Argentine pesos)

| | <u>For the years ended December 31,</u> | | |
|---|--|--------------------|--------------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Net income for the year | 4,005 | 3,435 | 3,729 |
| Other components of the Statements of Comprehensive Income | | | |
| <u>Will be reclassified subsequently to profit or loss</u> | | | |
| Currency translation adjustments (no effect on Income Tax) | 288 | 245 | 227 |
| Subsidiaries' NDF effects classified as hedges (Note 20) | (9) | 8 | - |
| <u>Will not be reclassified subsequently to profit or loss</u> | | | |
| Actuarial results (Notes 3. I and 16) | (24) | 7 | 24 |
| Tax effect | 8 | (3) | (8) |
| Other components of the comprehensive income, net of tax | 263 | 257 | 243 |
| Total comprehensive income for the year | 4,268 | 3,692 | 3,972 |
| Attributable to: | | | |
| Telecom Argentina (Controlling Company) | 4,142 | 3,580 | 3,837 |
| Non-controlling interest | 126 | 112 | 135 |
| | 4,268 | 3,692 | 3,972 |

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

Mariano Ibáñez
Chairman of the Board of Directors

Table of Contents**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In millions of Argentine pesos)

| | Equity attributable to Telecom Argentina (Controlling Company) | | | | | | | | | | | |
|---|--|---------------------------|--------------------------|-----------|--------------------------------------|---------------|---|---|--|---|-----------|-----------------------------|
| | Owners contribution | | | | Reserves | | | | | | | Other comprehensive results |
| | Outstanding shares | | Treasury shares | | Treasury shares acquisition cost (2) | Legal reserve | Special reserve for IFRS implementation | Voluntary reserve for capital investments (2) | Voluntary reserve for future investments | Voluntary reserve for future dividends payments | | |
| Capital nominal value (1) | Inflation adjustment | Capital nominal value (1) | Inflation adjustment (2) | | | | | | | | | |
| Balances as of December 31, 2013 | 969 | 2,646 | 15 | 42 | (461) | 725 | 351 | 1,200 | 2,904 | - | 19 | |
| Dividends from Núcleo (3) | - | - | - | - | - | - | - | - | - | - | - | |
| Dividends (4) | - | - | - | - | - | - | - | - | - | - | - | |
| Legal Reserve (4) | - | - | - | - | - | 9 | - | - | - | - | - | |
| Voluntary reserve for capital investments (4) | - | - | - | - | - | - | - | 1,991 | - | - | - | |
| <u>Comprehensive income:</u> | | | | | | | | | | | | |
| Net income for the year | - | - | - | - | - | - | - | - | - | - | - | |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - | 16 | |
| Total Comprehensive Income | - | - | - | - | - | - | - | - | - | - | 16 | |
| Balances as of December 31, 2014 | 969 | 2,646 | 15 | 42 | (461) | 734 | 351 | 3,191 | 2,904 | - | 35 | |
| Dividends from Núcleo (5) | - | - | - | - | - | - | - | - | - | - | - | |
| Dividends (6) | - | - | - | - | - | - | - | - | - | - | - | |
| Voluntary reserve for future dividends payments (6) | - | - | - | - | - | - | - | - | - | 2,869 | - | |
| <u>Comprehensive income:</u> | | | | | | | | | | | | |
| Net income for the year | - | - | - | - | - | - | - | - | - | - | - | |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - | 17 | |
| Total Comprehensive Income | - | - | - | - | - | - | - | - | - | - | 17 | |
| Balances as of December 31, 2015 | 969 | 2,646 | 15 | 42 | (461) | 734 | 351 | 3,191 | 2,904 | 2,869 | 53 | |

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(1) As of December 31, 2015 and 2014, total shares (984,380,978), of \$1 Argentine peso of nominal value each, were issued and fully paid. As of the same dates; 15,221,373 were treasury shares.

(2) Corresponds to 15,221,373 shares of \$1 Argentine peso of nominal value each, equivalent to 1.55% of total capital. The treasury shares acquisition costs amounted to 461. See Note 19 Equity to the consolidated financial statements.

(3) As approved by the Ordinary Shareholders Meeting of Núcleo held on March 28, 2014.

(4) As approved by the Company's Ordinary Shareholders Meeting held on May 21, 2014 (second tranche).

(5) As approved by the Ordinary Shareholders Meeting of Núcleo held on March 26, 2015 and the Board of Directors meeting of Núcleo held on December 17, 2015.

(6) As approved by the Company's Ordinary Shareholders Meeting held on April 29, 2015.

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

Mariano Ibáñez
Chairman of the Board of
Directors

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Table of Contents**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Cont.)**

(In millions of Argentine pesos)

| | Owners Contribution | | | | Equity attributable to Telecom Argentina (Controlling Company) | | | | | | | Other comprehensive results |
|---|---------------------------|----------------------|-------------------------------|--------------------------|--|---------------|---|---|--|---|-----------|-----------------------------|
| | Outstanding shares | | Treasury shares | | Reserves | | | | | | | |
| | Capital nominal value (1) | Inflation adjustment | Capital nominal value (1) (2) | Inflation adjustment (2) | Treasury shares acquisition cost (2) | Legal reserve | Special reserve for IFRS implementation | Voluntary reserve for capital investments (2) | Voluntary reserve for future investments | Voluntary reserve for future dividends payments | | |
| Balances as of January 1, 2016 | 969 | 2,646 | 15 | 42 | (461) | 734 | 351 | 3,191 | 2,904 | 2,869 | 53 | |
| Voluntary reserve for future dividends payments (3) | - | - | - | - | - | - | - | - | - | 3,403 | | |
| Dividends (4) | - | - | - | - | - | - | - | - | - | (2,000) | | |
| Comprehensive income: | | | | | | | | | | | | |
| Net income for the year | - | - | - | - | - | - | - | - | - | - | | |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - | 16 | |
| Total Comprehensive Income | - | - | - | - | - | - | - | - | - | - | 16 | |
| Balances as of December 31, 2016 | 969 | 2,646 | 15 | 42 | (461) | 734 | 351 | 3,191 | 2,904 | 4,272 | 69 | |

(1) As of December 31, 2016, total shares (984,380,978), of \$1 Argentine peso of nominal value each, were issued and fully paid. As of December 31, 2015; 15,221,373 were treasury shares.

(2) Corresponds to 15,221,373 shares of \$1 Argentine peso of nominal value each, equivalent to 1.55% of total capital. The treasury shares acquisition costs amounted to 461. See Note 19 Equity to the consolidated financial statements.

(3) As approved by the Company's Ordinary Shareholders Meeting held on April 29, 2016.

(4) As approved by the Company's Board of Directors Meeting held on April 29, 2016.

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

Mariano Ibáñez
Chairman of the Board of
Directors

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Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions of Argentine pesos)

| | <u>Note</u> | <u>For the years ended</u> | | |
|---|-------------|----------------------------|------------------------------------|----------------|
| | | <u>2016</u> | <u>December 31,</u> <u>2015</u> | <u>2014</u> |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | | |
| Net income for the year | | 4,005 | 3,435 | 3,729 |
| Adjustments to reconcile net income to net cash flows provided by operating activities | | | | |
| Bad debt expenses | 5 | 1,228 | 564 | 424 |
| Allowance for obsolescence of inventories, materials and other | | 77 | 72 | 88 |
| Depreciation of property, plant and equipment | 22 | 4,358 | 3,046 | 2,389 |
| Amortization of intangible assets | 9 | 1,840 | 1,392 | 854 |
| Consumption of materials | 8 | 507 | 294 | 227 |
| Gain on disposal of property, plant and equipment | 21/22 | (17) | (31) | (9) |
| Impairment of property, plant and equipment | 22 | 383 | 230 | 25 |
| Net book value of property, plant and equipment | | 21 | 35 | 45 |
| Provisions | 17 | 187 | 113 | 84 |
| Other financial results | | 1,721 | 351 | (8) |
| Income tax expense | 14 | 1,594 | 1,692 | 1,967 |
| Income tax paid | 4.b | (1,700) | (1,631) | (2,277) |
| Net increase in assets | 4.b | (1,660) | (4,640) | (1,854) |
| Net increase (decrease) in liabilities | 4.b | (1,179) | 1,890 | 37 |
| Total cash flows provided by operating activities | 4.b | 11,365 | 6,812 | 5,721 |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | | |
| Property, plant and equipment acquisitions | 4.b | (9,541) | (5,148) | (4,895) |
| 3G/4G licenses acquisitions | 4.b | - | (2,256) | (3,091) |
| Other intangible asset acquisitions | 4.b | (1,798) | (1,310) | (1,118) |
| Proceeds from the sale of property, plant and equipment | | 19 | 39 | 17 |
| Investments not considered as cash and cash equivalents | 4.b | (20) | (976) | (339) |
| Total cash flows used in investing activities | | (11,340) | (9,651) | (9,426) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | | |
| Proceeds from financial debt | 4.b | 9,337 | 4,301 | - |
| Payment of financial debt | 4.b | (2,936) | (31) | (12) |
| Payment of interests and related expenses | 4.b | (1,573) | (471) | (29) |
| Payment of cash dividends and related withholding tax | 4.b | (2,000) | (849) | (1,299) |
| Total cash flows provided by (used in) financing activities | | 2,828 | 2,950 | (1,340) |
| <u>NET FOREIGN EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS</u> | | | | |
| | | 222 | 75 | 505 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 3,075 | 186 | (4,540) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 4.b | 870 | 684 | 5,224 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 4.b | 3,945 | 870 | 684 |

See Note 4.b for additional information on the consolidated statements of cash flows.

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

Mariano Ibáñez
Chairman of the Board of Directors

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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 these consolidated financial statements.

AMBA (Área Metropolitana de Buenos Aires): the Metropolitan Area of Buenos Aires.

ADS: Telecom Argentina's American Depositary Share, listed on the New York Stock Exchange, each representing 5 Class B Shares.

ADSL (Asymmetric Digital Subscriber Line): A modem technology that converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications.

BCBA (Bolsa de Comercio de Buenos Aires): The Buenos Aires Stock Exchange.

BCRA (Banco Central de la República Argentina): The Buenos Aires Central Bank.

CAPEX (Inversiones en bienes de capital): Capital expenditures.

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

CNDC (Comisión Nacional de Defensa de la Competencia): Argentine Antitrust Commission.

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

Company or Telecom Argentina: Telecom Argentina S.A.

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CONATEL (Comisión Nacional de Telecomunicaciones del Paraguay): The Regulatory Authority of Paraguay.

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.

Cuentas claras : Under the *Cuentas claras* plans, a subscriber pays a set monthly bill and, once the contract minutes per month have been used, the subscriber can obtain additional credit by recharging the phone card through the prepaid system.

D&A: Depreciation and amortization.

DLD: Domestic long-distance.

ENARD (Ente Nacional de Alto Rendimiento Deportivo): National High Sport Performance Organization.

ENTel (Empresa Nacional de Telecomunicaciones): Argentine State Telecommunication Company, which was privatized in November, 1990.

FACPCE (Federación Argentina de Consejos Profesionales en Ciencias Económicas): Argentine Federation of Professional Councils of Economic Sciences.

FFSU or SU Fund (Fondo Fiduciario del Servicio Universal): Universal Service Fiduciary Fund

Fintech: Fintech Telecom LCC, Sofora's parent company.

IAS: International Accounting Standards.

IASB: International Accounting Standards Board.

IDC (Impuesto a los débitos y créditos bancarios): Tax on deposits to and withdrawals from bank accounts.

IFRS: International Financial Reporting Standards, as issued by the International Accounting Standards Board.

IGJ (Inspección General de Justicia): General Board of Corporations.

LAD (Ley Argentina Digital): Argentine Digital Law No. 27,078.

Lebacs (Letras del BCRA): Bonds issued by the BCRA.

LGS (Ley de General de Sociedades): Argentine Corporations Law No. 19,550 as amended. Since the enforcement of the new Civil and Commercial Code its name was changed to General Corporations Law .

Micro Sistemas: Micro Sistemas S.A.

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NDF: Non-Deliverable Forward.

Nortel: Nortel Inversora S.A., the parent company of the Company.

Núcleo: Núcleo S.A.

NYSE: New York Stock Exchange.

OCI: Other Comprehensive Income.

PCS: Personal Communications Service. A mobile communications service with systems that operate in a manner similar to cellular systems.

PEN: National Executive Power.

Personal: Telecom Personal S.A.

PPP (Programa de Propiedad Participada): Share Ownership plan.

PP&E: Property, plant and equipment.

Price Cap: rate regulation mechanism applied to determine rate 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.

Publicom: Publicom S.A.

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Regulatory Authority: Previously, the SC and the CNC. Since the issuance of the Decree of Need and Urgency No.267/15, the Regulatory Authority is the National Communications Agency (ENACOM).

Roaming: a function that enables mobile subscribers to use the service on networks of operators other than the one with which they signed their initial contract. The roaming service is active when a mobile device is used in a foreign country (included in the GSM network).

RT: Technical resolutions issued by the FACPCE.

RT 26: Technical resolution No, 26 issued by the FACPCE, amended by RT29 and RT43.

SAC: Subscriber Acquisition Costs.

SBT (Servicio básico telefónico): Basic telephone service.

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

SEC: Securities and Exchange Commission of the United States of America.

SRMC (Servicio de Radiocomunicaciones Móvil Celular): Cellular Mobile Radiocommunications Service.

SMS: Short message systems.

Sofora: Sofora Telecomunicaciones S.A. Nortel's controlling company.

Springville: Springville S.A. Personal sold its equity interest in Springville on February 19, 2014.

STM (Servicio de Telefonía Móvil): Mobile Telephone Service.

SU: 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.

Telecom Group/Group: Telecom Argentina and its consolidated subsidiaries.

Telecom Italia Group: Telecom Italia S.p.A and its consolidated subsidiaries, except where referring to the Telecom Italia Group as Telecom Argentina's operator in which case it means Telecom Italia S.p.A and Telecom Italia International, N.V.

Telecom USA: Telecom Argentina USA Inc.

Telco S.p.A.: A joint company made up of Assicurazioni Generali S.p.A., Intesa San Paolo S.p.A., Mediobanca S.p.A., Sintonia S.A. and Telefónica, S.A. (of Spain).

Telefónica: Telefónica de Argentina S.A.

TLRD (Terminación Llamada Red Destino): Termination charges from third parties wireless networks.

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

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

VAS (Value-Added Services): Services that provide additional functionality to the basic transmission services offered by a telecommunications network such as SMS, Video streaming, Personal Video, Personal Cloud, M2M (Communication Machine to Machine), Social networks, Personal Messenger, Contents and Entertainment (content and text subscriptions, games, music ringtones, wallpaper, screensavers, etc), MMS (Mobile Multimedia Services) and Voice Mail, among others.

Table of Contents**Note 1 Description of business and basis of preparation of the consolidated financial statements****a) The Company and its operations**

Telecom Argentina was created through the privatization of ENTel, the state-owned company that provided telecommunication services in Argentina.

Telecom Argentina's license, as originally granted, was exclusive to provide telephone services in the northern region of Argentina since November 8, 1990 through October 10, 1999. As from such date, the Company also 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 and through its subsidiaries, mobile telecommunications services in Argentina and Paraguay and international wholesale services in the United States of America. Information on the Telecom Group's licenses and the regulatory framework is described in Note 2.

The Ordinary and Extraordinary Shareholders Meeting held on June 22, 2015 approved the Telecom Argentina's corporate purpose change, adapting it to the new definition of ICT services of the LAD and, thus, including the possibility of providing Audiovisual Communication Services. The Company obtained authorization from the AFTIC and later of the CNV and IGJ, which registered the amendment of the Company's bylaws on September 26, 2015.

As of December 31, 2016, entities included in the consolidation process and the respective equity interest owned by Telecom Argentina is presented as follows:

| Subsidiaries | Percentage of capital stock owned and voting rights (i) | Indirect control through | Date of acquisition | Segment that consolidates (Note 28) |
|-----------------------|--|---------------------------------|----------------------------|--|
| Telecom USA | 100.00% | | 09.12.00 | Fixed Services |
| Micro Sistemas (ii) | 99.99% | | 12.23.97 | Fixed Services |
| Personal | 99.99% | | 07.06.94 | Personal Mobile Services |
| Núcleo (iii) | 67.50% | Personal | 02.03.98 | Núcleo Mobile Services |
| Personal Envíos (iii) | 67.50% | Núcleo | 07.24.14 | Núcleo Mobile Services |

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

(ii) Dormant entity as of and for the fiscal years ended December 31, 2016, 2015 and 2014.

(iii) Non-controlling interest of 32.50% is owned by the Paraguayan company ABC Telecomunicaciones S.A.

b) **Segment reporting**

An operating segment is defined as a component of an entity that engages in business activities from which it may earn revenues and incur expenses, and whose financial information is available, held separately, and evaluated regularly by the Telecom Group's Chief Executive Officer (CEO).

Operating segments are reported in a consistent manner with the internal reporting provided to the CEO, who is responsible for allocating resources and assessing performance of the operating segments at the net income (loss) level and under the accounting principles effective (IFRS as issued by the IASB) at each time for reporting to the CNV. The accounting policies applied for segment information are the same for all operating segments.

Information regarding segment reporting is included in Note 28.

c) **Basis of preparation**

These consolidated financial statements are a free translation from the original consolidated financial statements issued in Spanish and filed to the CNV in Argentina and contain the same information to the original version, except for the elimination of the original Note 31 Additional relevant information on the possible application of IAS 29 in the Telecom Group because of the inclusion of Non-GAAP measures.

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB and in accordance with RT 26 (as amended by RT 29 and RT 43) of FACPCE as adopted by the CPCECABA, and as required by the CNV in Argentina for most of public companies.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Telecom Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.u).

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The consolidated financial statements (except for cash flow information) are prepared on an accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur. Therefore income and expenses are recognized at fair value on an accrual basis regardless of when they are received or paid. When significant, the difference between the fair value and the nominal amount of income and expenses is recognized as finance income or expense using the effective interest method over the relevant period.

The accompanying consolidated financial statements have also been prepared on a going concern basis (further details are provided in Note 3.a) and the figures are expressed in millions of pesos, otherwise indicated.

These consolidated financial statements for the year ended December 31, 2016 were approved by resolution of the Board of Directors meeting held on March 8, 2017.

d) **Financial statement formats**

The financial statement formats adopted are consistent with IAS 1. In particular:

- the consolidated statements of financial position have been prepared by classifying assets and liabilities according to current and non-current criterion. Current assets and liabilities are those that are expected to be realized/settled within twelve months after the year-end;
- the consolidated income statements have been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and represents the way that the business of the Group is monitored by the Management, and, additionally, are in line with the usual presentation of expenses in the telecommunication industry;
- the consolidated statements of comprehensive income include the profit or loss for the year as shown in the consolidated income statement and all components of other comprehensive income;
- the consolidated statements of changes in equity have been prepared showing separately (i) profit (loss) for the year, (ii) other comprehensive income (loss) for the year, and (iii) transactions with shareholders (owners and non-controlling interest);

- the consolidated statements of cash flows have been prepared by presenting cash flows from operating activities according to the indirect method , as permitted by IAS 7.

These consolidated financial statements contain all material disclosures required under IFRS. Some additional disclosures required by the LGS and/or by the CNV have been also included, among them, complementary information required in the last paragraph of Article 1 Chapter III Title IV of the CNV General Resolution No. 622/13. Such information is disclosed in Notes 7, 8, 9, 17, 20, 22 and 26 to these consolidated financial statements, as admitted by IFRS.

e) **Application of IAS 29 (Financial reporting in hyperinflationary economies)**

IAS 29 establishes the conditions under which an entity shall restate its financial statements if it is located in an economic environment considered hyperinflationary . It should be mentioned that if the qualitative and / or quantitative characteristics to consider an economy as a hyperinflationary economy set out in paragraph 3 of IAS 29 occur, the restatement of financial statements must be made retroactively from the date of the revaluation used as deemed cost (in the case of Group companies located in Argentina, since February 2003) or from the acquisition date for assets acquired after that date.

The Company s Management periodically verifies the evolution of official statistics as well as the general factors of the economic environment in the countries in which the Telecom Group operates. The Company s Management also considers the opinion of other organizations interested in this matter: the national and international accounting profession, domestic and foreign audit firms, national and the United States capital market regulators, and, in particular, the International Practices Task Force (IPTF), aware that the conclusions to which a financial statement issuer arrives must be consistent with the vision of those organizations for an uniform application of IAS 29.

Although the standard does not establish an absolute rate at which hyperinflation is deemed to arise, usually - in compliance with the provisions of IAS 29- a cumulative inflation rate over three years approaching or exceeding 100% is used as reference in conjunction with other qualitative factors related to the macroeconomic environment.

The Company analyzes the economic environment as required by the provisions of IAS 29, based on the inflation rates published by the National Institute of Statistics and Census (INDEC), following the same criteria adopted by the accounting profession in the Argentine Republic.

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After declaring a state of statistical emergency in January 2016 and due to the reorganization of the INDEC structure, that agency was impelled to publish the Internal Wholesale Price Index for November and December 2015 and the Consumer Price Index for the period November 2015- April 2016. Under these circumstances, the INDEC suggested the alternative utilization of Price Indexes published by the Province of San Luis and the City of Buenos Aires, which are integral part of the National Statistic System until the INDEC publishes Price Indexes in compliance with international standards of quality. Finally, in May 2016 the INDEC published the Internal Wholesale Price Index (IPIM) retroactively from January 2016 while the Consumer Price Index (IPC) was published from May 2016. It s worth mentioning that, as of the date of issuance of these consolidated financial statements, the INDEC has not completed the IPIM and IPC s statistical series, despite the requirements of domestic accounting profession organizations.

Therefore, for years 2015 and 2016 the Company analysis was performed according to Consumer Price Index and Internal Wholesale Price Index published by the INDEC until October 2015 and it was complemented applying November and December 2015 Price Index published by the Province of San Luis and the City of Buenos Aires, as the INDEC suggested. Also, the company applied Price Index of the period January-April 2016 published by the Province of San Luis and the City of Buenos Aires for the calculation of the Consumer Price Index for the year 2016. It is worth mentioning that these simplified procedures as provided in paragraph 17 of IAS 29 were performed due to the unavailability of official statistics at national level.

The tables below show the evolution of these indexes in the last three years according to official statistics (INDEC), with the exceptions explained above regarding the use of alternative indexes for November and December 2015 for Consumer Price and Internal Wholesale Price and, additionally, the Consumer Price Index for the period January-April 2016:

| | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--|-------------|-------------|-------------|
| <u>Consumer Price Index</u> | | (*) | (**) |
| Consumer Price Index (annual) | 23.9% | 20.6% | 36.3% |
| Consumer Price Index (3 years accumulated) | 52.4% | 65.8% | 103.7% |
| <u>Internal Wholesale Price Index</u> | | | |
| Internal Wholesale Price Index (annual) | 28.3% | 19.2% | 34.6% |
| Internal Wholesale Price Index (3 years accumulated) | 66.5% | 75.4% | 105.8% |

(*) Consumer Price Index and Internal Wholesale Price Index published by INDEC until October 2015 were 11.9% and 10.6% respectively. These rates (which contain ten months accumulated), were updated with November and December 2015 Consumer Price Index average rates for this two months (7.8%) published by the Province of San Luis and the City of Buenos Aires.

(**) Due to the unavailability of Consumer Price Index published by the INDEC, the Company estimated 16.6% for the period January-April 2016; this estimation is an average of the indexes published by the Province of San Luis and the City of Buenos Aires for that period. The Consumer Price Index at national level published by the INDEC for the period May-December 2016 was 16.9%.

The Annual Price Index for the year 2016 (Consumer Price Index: 36.3%, Internal Wholesale Price: 34.6%) and three years accumulated (Consumer Price Index: 103.7%, Internal Wholesale Price: 105.8%) show high levels of inflation rates that, for the first time, exceed 100% accumulated and highlight, between other matters, the effect in the internal prices of the Argentine peso devaluation since December 2015, the elimination of certain exchange restrictions, and the increase in the public services tariffs approved by the Government after been frozen for more than a decade.

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According to the high inflation levels in Argentina registered in late years, the Company's Management has further assessed the characteristics set out in paragraph 3 of IAS 29, including (i) the quantitative condition provided in section (e) *the cumulative inflation rate over three years is approaching, or exceeds, 100%*, as well as (ii) the qualitative characteristics contained in paragraphs a) to d) of that paragraph.

From the analysis assessed as of December 31, 2016, the Company's Management considers that the quantitative condition provided in section e) of IAS 29 has been met, while the qualitative conditions of the Argentine economy are mixed (some of them would recommend the existence of a high inflation environment and others have not substantially changed respect to previous years, when it was concluded that financial statements should not be restated). Under these circumstances, and in order to objectify the analysis, the Company's Management gave priority to the conclusions reached by some international auditing firms to which the Company's Management had access, which considered that, to date, there was insufficient evidence to consider the Argentine economy as hyperinflationary under IAS 29 terms. Similar conclusions for US GAAP were reached by the IPTF, according to its memo issued on November 17, 2016.

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An extract of the mentioned memo stated in point III.A.3(a) related to countries with projected inflation rates above 100% (accumulated over the last three years): *The Task Force is aware that in late December 2016, certain US accounting firms submitted a white paper to the SEC staff from the Office of the Chief Accountant that asserted that the firms would not require a registrant to consider Argentina's economy as highly inflationary under US GAAP for the reporting period from October 1, 2016 to December 31, 2016. The SEC staff from the Office of the Chief Accountant, after reviewing the white paper submitted by the firms, stated that the staff would not object to a calendar year-end registrant's determination that Argentina's economy would not be considered highly inflationary under US GAAP for the reporting period from October 1, 2016 to December 31, 2016.* In addition, the Task Force suggests registrants to continue monitoring inflation information and other Argentine economy conditions in order to assess whether it is necessary to consider it as highly inflationary during 2017.

While there are differences in the definition of a hyperinflationary and highly inflationary environments between IFRS and US GAAP, respectively, the Company believes that the assessment of the macroeconomic situation of a country should be substantially similar under both accounting frameworks and, on this condition, considers consistent the conclusions arrived by the IPTF with those provided in the analysis assessed by international audit firms according to IFRS and US GAAP.

Additionally, while the CNV required public companies the full implementation of IFRS-as issued by the IASB- from periods beginning on January 1st, 2012, Decree No.664/03 continues to be in force as of the date of issuance of these consolidated financial statements. Through this Decree, the PEN instructed the control authorities including the CNV- not to accept filings of restated financial statements. This legal restriction is foreseen in the current Regulations of the CNV (Title IV - Chapter III Article 3 - paragraph 1).

The Company's Management will continue monitoring the characteristics and the evolution of the inflation rates in Argentina in order to comply properly with IAS 29 provisions, with special consideration of the pronouncements of Argentine regulators which as of the date are forbidden to accept the filing of financial statements restated for inflation according to Decree No.664/03 and its supplementary standards. The Company's Management will also monitor the pronouncements of foreign regulators, as well as the evaluation that the domestic and international accounting profession will perform with regards to the uniform application of IAS 29 together with other issuers that apply IFRS in the Argentine Republic.

Note 2 - Regulatory framework

(a) Regulatory Authority

Telecom Argentina and its domestic subsidiaries 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.

Until the issuance of Law No. 27,078 (hereinafter Ley Argentina Digital or LAD, as explained in *e) below*), which was published in the Official Bulletin on December 19, 2014 and has been in force since its publication, the telecommunication services provided by the Company and its domestic subsidiaries were regulated by the CNC, a decentralized agency within the scope of the SC, which was also under the scope of the Ministry of Federal Planning, Public Investment and Services.

The LAD created the Federal Authority of Information and Communication Technologies (AFTIC), as a decentralized and autonomous agency within the scope of the PEN which would act as the Regulatory Authority of the LAD and would replace, for all purposes, of the SC and the CNC.

The LAD conferred the AFTIC the regulation, control, supervision and verification functions concerning the *Information and Communications Technologies* (ICT) in general, and in particular of the telecommunications, of the postal service and all those matters integrated to its field in accordance with the provisions of the LAD.

By the end of December 2015, the PEN issued the Decree of Need and Urgency (*Decreto de Necesidad y Urgencia* or hereinafter the DNU) No.267/15 published in the Official Bulletin on January 4, 2016. The DNU substantially amends Law No.26,522 (Audiovisual Communication Services SCA) and Law No.27,078 (LAD) and also creates the National Communications Agency (ENACOM) as a new Regulatory Authority of those laws. The ENACOM replaces the AFTIC and AFSCA (Federal Authority of Audiovisual Communication Services). This new Authority acts as an autonomous agency, within the scope of the Ministry of Communications. Further information on *Decree No.267/15 - Amendments to the LAD* is included in f) below.

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Additionally, Decree No.13/15 creates the Ministry of Communications. The organizational structure of the Ministry was approved by Decree No.268/15, issued on December 29, 2015 (published in the Official Bulletin on January 4, 2016).

The Board of ENACOM will be composed of a Chairman and 3 directors appointed by the PEN, as well as 3 directors appointed by the Bicameral Commission of Audiovisual Communication and ICT services. The quorum is met with the attendance of four members. No special suitability conditions are established to be a member of the Board; the only limitation is the non-existence of incompatibilities, under the terms of Law No 25,188 (Public Ethic). The ENACOM members can be removed directly and without cause by the PEN.

The ENACOM has started its operations on January 5, 2016 with the 4 directors appointed by the PEN through Decree No.7/16, thus resulting in the constitution of the ENACOM as established by Article 23 of Decree No. 267/15.

(b) Regulatory framework of the Company and Personal services

Among the principal features of the regulatory framework governing the services provided by the Company and its domestic subsidiaries is worth mentioning:

- The LAD, as amended by Decree of Need and Urgency No.267/15 and Decree No. 1,340/16;
- Law No.19,798 remains in force only to the extent that it does not conflict with the provisions set out under the LAD;
- The Privatization Regulations;
- The Transfer Agreement;
- The Licenses for providing telecommunication services granted to Telecom Argentina and Telecom Personal through several regulations; and the List of Conditions and their respective regulations.

In addition, Law No. 27,078 states that Decree No. 764/00 and its amendments shall remain in force to the extent that it does not conflict with the provisions set out under the LAD, for the time required by the Regulatory Authority to draw up the regulations concerning the Licensing Framework for ICT Services, the Interconnection Regulation, the Universal Service Regulation and the Administration, Management and Control of the Spectrum Regulation. Also, the new Law states that Law No.19,798 (Ley Nacional de Telecomunicaciones passed in 1972) and its amendments shall remain in force in respect of those regulations not opposing its provisions.

Núcleo, Personal's Paraguayan subsidiary, is supervised by the *Comisión Nacional de Telecomunicaciones de Paraguay*, the National Communications Commission of Paraguay (CONATEL) and its subsidiary Personal Envíos S.A. is supervised by the *Banco Central de la República del Paraguay*. Additionally, Telecom USA, Telecom Argentina's subsidiary in the United States, is supervised by the Federal Communications Commission (the FCC).

(c) Licenses granted as of December 31, 2016

- **To the Company**

As of December 31, 2016, 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;
- VAS, data transmission, videoconferencing and transportation of audio and video signals; and
- Internet access.

- **To the Company's subsidiaries**

As of December 31, 2016, the Company's subsidiaries have been granted the following licenses:

- **Personal** has been granted a non-expiring license to provide mobile telecommunication services (STM) in the Northern Region of Argentina, and data transmission and VAS throughout the country. In addition, Personal owns licenses to provide mobile radio communication services (SRMC) 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. Additionally, from November 2014, Personal has been granted a license to provide Mobile Advanced Communications Services (SCMA) for 15 years as explained in j) below.

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- **Núcleo**, a company controlled by Personal, has been granted a license to provide mobile telecommunication services (STM and PCS) throughout Paraguay. In addition, Núcleo has been granted a license for the installation and provision of Internet and Data throughout Paraguay. All these licenses have been granted for renewable five-year periods.

- **Personal Envíos**, a company controlled by Núcleo was authorized by the Central Bank of Paraguay to operate as an Electronic Payment Company (EMPE) through Resolution No.6 issued on March 30, 2015 and its corporate purpose is restricted to such service.

(d) Events of revocation of the Licenses

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

- repeated interruption of all or a substantial portion of service;
- a modification of corporate purpose without prior approval of the Regulatory Authority 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 Authority;
- the sale, encumbrance or transfer of assets which has the effect of reducing services supplied, without the prior approval of the Regulatory Authority;
- a reduction of Nortel's ownership of in the capital stock of Telecom Argentina to less than 51%, or the reduction of Nortel's common shareholders' ownership to less than 51% of the capital stock with voting power, in either case without prior approval of the Regulatory Authority (as of December 31, 2016, all Nortel's ordinary shares belong to Sofora. Additional information in Note 27);
- any transfer of shares resulting in a direct or indirect loss of control in Telecom Argentina which has not been executed ad referendum of the approval of the ENACOM and informed within 30 days following its completion (according to the provisions of Article 8 of Decree No.267/15); and
- the Company's bankruptcy.

If the Company's license is revoked, Nortel must transfer its interest in the Company's capital stock to the Regulatory Authority in trust for subsequent sale through public auction.

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Once the sale of the shares to a new management group is performed, the Regulatory Authority may renew the license to the Company under the terms to be determined.

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

- repeated interruptions of the services as set forth in the List of Conditions;
- any transfer of the license and/or the related rights and obligations, without the approval of the Regulatory Authority (according to the provisions of article 8 of Decree No.267/15);
- any encumbrance of the license;
- any voluntary insolvency proceedings or bankruptcy of Personal; and
- a liquidation or dissolution of Personal, without the prior approval of the Regulatory Authority.

According to the Auction Terms and Conditions for the awarding of frequency bands for SCMA (and some bands for SRMC and PCS), approved by SC Resolution No. 38/14, the authorization to use radio electric spectrum (as defined in the Auction) will be revocable under the following circumstances:

- repeated or persistent breaches of obligations related to quality indicators of services provided under the terms of the Regulation for the Quality of Telecommunications Services approved by SC Resolution No. 5/13 (further information on filings of the Company and Personal against the sanction processes initiated by the Regulatory Authority related to quality matters is disclosed in j) below);
- repeated or persistent failure of infrastructure sharing obligations and the conditions set for automatic roaming agreements established in the Terms and Conditions;
- repeated or persistent failure of the coverage obligations set in Annex III of the Terms and Conditions;
- assignment, transfer, encumbrance, lease or sale to third parties of the authorization for the use of the awarded bands, without the authorization 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 service obligations.

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According to the Resolution No.6/2014 of the Central Bank of Paraguay Personal Envíos license to provide Electronic Payment services may be revoked by:

- i) insolvency proceedings or bankruptcy,.
- ii) sanctions imposed by the Central Bank of Paraguay, with prior administrative proceedings, regarding the performance of operations that are forbidden by the legislation in force.

(e) Law No.27,078 Argentine Digital Law

Among the most relevant contents in the LAD which amended the regulatory framework in force as of December 19, 2014 as regards telecommunications are:

- a) the recognition as an essential and strategic public service of ICT as regards the use and access to the telecommunications networks, for and between licensees of ICT services (subsequently repealed by Article 22 of Decree No.267/15);
- b) the rule on prices and rates establishing that the licensees of ICT services shall set their prices which shall have to be fair and reasonable, cover the exploitation costs and tend to the efficient supply and reasonable operation margin;
- c) the exemptions of taxes, establishing that tax exemptions or reductions, prices and encumbrances of ICT in general and telecommunications in particular may be set on a precarious basis when the nature of certain activities so warrant;
- d) the amendments as regards Universal Service (further information in i) below);
- e) the asymmetric regulation as universalization tools towards the development of an effective competition.
- f) a maximum period for granting each authorization or use of frequencies of the radioelectric spectrum must be established (section 28 *in fine*).

The Law declared of public interest the development of ICT and its associated resources, in order to establish and ensure complete neutrality of networks, and to guarantee every user the right to access, use, send, receive or offer any content, application, service or protocol through Internet without any restrictions, discrimination, distinction, blocking, interference, obstruction or degradation.

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The new Law set forth that the licensees of the ICT services may supply audiovisual communication services with the exception of those provided through satellite link, in which case, the corresponding license must be requested to the proper authority. Also, the new Law allowed ICT services licensees included in the restrictions of the Audiovisual Services Communications Law (among them, Telecom Argentina) to provide audiovisual communications services. Nevertheless, that regulation was partially amended by Decree No 267/15 (see f) below).

According to the LAD provisions, Telecom Argentina amended its corporate purpose during 2015, which was approved by AFTIC Resolution No.19/15. Further information is disclosed in Note 1.a).

Also, the law established the framework for suppliers and licensees entering the audiovisual communication services market (among them, Telecom Argentina and its domestic subsidiaries) setting forth that the Federal Authority of Audiovisual Communication Services (replaced by the ENACOM since Decree No.267/15 enforcement) would determine the go-to-market conditions of audiovisual communication services for ICT suppliers and licensees. The Law also stated a gradual implementation plan through the setting up of promotion areas for limited periods of time determined according to public interest, within which the ICT licensees with significant market power would not be able to provide audiovisual communication services.

It also set forth that the ICT service should be provided throughout the national territory, considered for that end as a unique area of exploitation and supply, and the modification of the interconnection schedule, imposing higher obligations to the operators and more rights to the Argentine government for the regulation in this sense of the wholesale market.

According to the LAD provisions, the SBT holds its status of public service (section 54), but with a different scope than the previous regulations provisions. It was defined as the national and international telephone voice service, through the local networks, notwithstanding the technology used for its transportation, provided that it complies with the objective of allowing its users to communicate with each other (section 6 paragraph c)). In addition, in section 90 of Title XI, it established that said definition, comprises the senses of the definition established in the Bidding Terms and Conditions for the International Public Bidding process for the Privatization of the Supply of the Telecommunications Service timely approved by Decree No.62/90.

The LAD introduced substantial changes to the SU regulation established by Decree No.558/08. Among its provisions the LAD creates a new FFSU and provides that the investment contributions for the SU programs shall be managed through this fund, which assets belong to the Argentine government. Further information see i) below.

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Law No.19,798 Telecommunications Act (passed in 1972), as amended continues in effect only with respect to those provisions that do not contradict the provisions of the new LAD (including, for example, Article 39 of Law No.19,798 referred to exemption from all taxes on the use of soil, subsoil and airspace for telecommunications services).

The LAD also revoked Decree No.764/00, as amended, but provisions of the decree that do not contradict the LAD will remain in effect, during the time it takes to the Regulatory Authority to issue new licensing, interconnection services, universal service and spectrum regulations.

(f) Decree No. 267/15 Amendments to the LAD

On January 4, 2016, Decree No.267/15 was issued, amending Law No.26,522 (Audiovisual Communication Services) and Law No.27.078 (LAD). As mentioned above, ENACOM was created as the Regulatory Authority applicable of these laws. However, many of its provisions were subsequently amended by Decree No. 1,340/16.

The main amendments to the LAD consist in:

- The incorporation of Broadcasting Services provided by subscription (physical or radio electric link, such as Cable TV) as an ICT service within the scope of the LAD, and excluding it from Law No.26,522. Satellite Television Services will remain within the scope of Law No. 26,522. Furthermore, Decree No.267/15 states that the ownership of a satellite television license provided by subscription is incompatible with having any other kind of ICT services license. Provision amended by Decree No. 1,340/16.

Broadcasting supplied by subscription licenses (such as Cable TV) issued before the application of Decree No.267/15 will be considered for all purposes as in compliance with LAD upon the respective registration for such service provision. Furthermore, the Decree states a 10 years extension from January 2016, for the use of frequency spectrum to radio electric link provided by subscription license holders.

Among the amendments that replaces Section 6 of the LAD is the incorporation of video on demand service, defined as a service offered by an ICT services supplier to provide access to software under demand on a catalogue basis. On January 7, 2016 the Company and Personal presented to ENACOM an application for the registration of Video On Demand or On Demand Video Service, describing the service characteristics which registration was requested. As of the date of issuance of these consolidated financial statements, the ENACOM resolution is still pending.

Decree No.267/15 replaced the LAD's article No. 94, and states that SBT suppliers, fixed telephony license holders within the scope of Decree No.264/98, and mobile telecommunication license holders within the scope of Decree No.1,461/93 are prohibited from

providing Broadcasting under subscription services (defined as any form of communication, primarily one-way, for the transmission of signals to be received by a determinable public, either by physical or by radio connection, for example, video cable and IP TV services) until January 1, 2018 (this term can be extended by 1 additional year). Also, the Decree replaces article 95 of the LAD and provides several obligations for fixed telephony licensees granted by Decree No.264/98 and mobile services providers with licenses granted by Decree No.1,461/93, which choose to provide broadcasting under subscription services. This provision was subsequently amended by Decree No. 1,340/16.

In addition, shareholders of a 10% or more stake interest in companies that provide public services may not be holders of a Subscription Radio Record. However, this will not apply in the following cases: (i) non-profit companies to whom the national, provincial or municipal State has granted the license, concession or permission to provide a public service (such as telecommunications cooperatives); (ii) those mentioned in section 94 (including the Company and Personal) who will be only able to provide the service after the expiration of the period specified therein.

In addition, the Decree provides an advertising and opposition mechanism, in case of the existence of another provider of the same service in the same area when requesting its inclusion in the record, with intervention, in case of opposition, of the National Competition Defense Commission. Such procedure must not apply to non-profit companies who exclusively provide public ICT service.

- Section 28 of Decree No. 267/15 created, in the field of the Ministry of Communications, the Commission for the Elaboration of the Draft Law for the Reform, Updating and Unification of Laws No 26.522 and 27.078 (Comisión para la Elaboración del Proyecto de Ley de Reforma, Actualización y Unificación de las Leyes N° 26.522 y 27.078). The Commission is responsible for the study of the reform of both laws under the principles set out herein.

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On April 15, 2016, the Ministry of Communications through Resolution No. 9/16 provided that the Commission shall be composed by 6 members and 1 Secretary, who will perform their duties *ad honorem*. The Resolution also appointed its members. The Commission should submit a draft Law for the reform, updating and adaptation of a unified system of the Regulatory Framework Law for the Telecommunications and Audiovisual Communication Services in Argentina, within the following 180 calendar days from the date of its constitution.

Through Resolution No. 1,098-E/16 published on October 31, 2016, the Ministry of Communications extended for 180 days the deadline for the preparation of the draft reform of Laws No. 26.522 and 27.078. As of the date of issuance of these consolidated financial statements, the elaboration of the draft reform of Laws No. 26,522 and 27,078 is still pending.

- Furthermore, the Decree provides that licenses transfers and stake interest transfers involving the loss of company control must be approved by ENACOM, stating a new procedure provided by section 8 of Decree No. 267/15. That licenses transfers and stake interest in licensees transfers will be considered *ad referendum* of ENACOM approval.

- Decree No.267/15 repealed Section 15 and Section 48 (second paragraph) of the LAD. Therefore, the following provisions have no longer effect: (i) the condition of essential and strategic public services of ICT regarding the access to the telecommunications network for the ICT services license holders; and (ii) the Regulatory Authority power to regulate tariffs due to public interest reasons.

- On April 8, 2016, the Chamber of Representatives voted in favor of the validity of DNU No. 267/15. According to this, such Decree acquired the status of Law.

- The Decree also establishes several amendments to the Audiovisual Communications Services Law (SCA).

(g) Personal and Company s filings to Regulatory Authority under the LAD

On June 18, 2014, the Company made a filing before the SC requesting the adjustment of the SBT lines Connection Fee, in order to obtain an urgent restoration of the balance that must reasonably exist in the operative costs incurred for the provision of the public service under its charge, recomposing the Connection Fee in an equitable manner and pursuant to the legal provisions that govern the licenses granted to the Company, taking into account that the revenues obtained for the installation of the SBT lines was much lower than the direct costs that the Company incurred to connect new customers. In addition, the Company requested that, until such adjustment takes place, such installations become excluded from the sanctioning regime provided by Decree No.1,185/90, Decree No.62/90, and SC Resolution No.5/13.

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On July 23, 2014, the Company made a second filing before the SC pursuant to which it requested, among other matters: (i) an adjustment of the monthly basic charges of all the SBT categories set forth in the Tariffs General Structure; (ii) the determination of a social tariff; (iii) the adjustment of the telephonic pulse value; (iv) the adaptation of the international long distance tariff to the current value of the gold franc; and (v) the tariff deregulation of the commercial service category. In addition, and until such adjustments are made, the Company also requested the SBT to be excluded from the sanctioning regime provided by Decrees Nos. 1,185/90 and No. 62/90, and SC Resolutions No.10,059/99 and No. 5/13. It is worth mentioning that such adjustments would have relevant effects on Telecom Argentina's ability to finance the technological updating of its networks and infrastructure, which would finally result in the provision of better services to its customers.

The Company has not received any answer related to the filing made before the SC.

Following these presentations, on December 19, 2014 the LAD (under Title (VI) Prices, rates and levies), established a general rule (Article 48) setting a new legal framework in this matter.

Under the provisions of Article 48 of the LAD, on April 16, 2015, the Company made two presentations before the CNC through which it reported new installation rates for the business, professional and government segment (which were applied from April 23, 2015 and will be equal to \$690 Argentine pesos) and the new monthly rates for this segment (which were applied from July 15, 2015 and will be equal to \$77.28 Argentine pesos). The presentation was rejected by the CNC through a letter received on April 29, 2015, in which it requested that the Company refrain from engaging in unilateral conduct, or it could otherwise face penalties under a sanctioning process.

Likewise, on June 2, 2015, the Company informed the CNC of new rates for the price per minute for calls made by its customers to certain international destinations that became effective on October 15, 2015. The Company also informed the CNC of the new prices applying for public telephony service in the Southern Region and new prices applying to the assisted call service, effective on July 1, 2015.

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On June 16, 2015 the Company was notified of the CNC GC Note No.364/15 through which the CNC urged the Company to apply the effective maximum rates approved by the General Tariff Structure to international calls made to the mentioned countries according to the provisions of CNT Resolution No.127/91, as amended. The Company was also asked to refrain from engaging in unilateral conduct, or it could otherwise face penalties under a sanctioning process.

On May 27, 2015 and July 2, 2015, the Company filed its defense of rights in response to both CNC letters.

However, on July 17, 2015, the AFTIC notified the Company of the initiation of a sanction process related to a potential violation of the General Tariff Structure and of CNT Resolution No. 127/91, as amended, with respect to the increase of the installation charges prices and the monthly charges tariffs for the business, professional and government segment informed on April 16, 2015.

On August 11, 2015, the Company filed before the AFTIC a discharge against the mentioned sanctioning process, which, as of the date of issuance of these consolidated financial statements, is still pending of resolution. In the opinion of the Company's legal counsel, there are solid legal arguments under the LAD that allow it to perform these price adjustments.

On February 1, 2016, the Company informed the ENACOM, that effective May 15, 2016, the new rate of SBT for residential segment will be \$50 Argentine pesos (plus VAT) and that the Retired customer's category will have a discount of 50% on the mentioned new rate.

However, on March 11, 2016, the Company informed the ENACOM that the new rate of SBT for the residential segment will be \$38 Argentine pesos (plus VAT) since May 1st, 2016, in response to a collaboration request made by the Regulatory Authority taking into consideration the special circumstances of the current macroeconomic environment in Argentina.

Before implementing the mentioned rates increase, Telecom Argentina has communicated the new rate to its affected customers.

On June 14, 2016, Personal informed ENACOM that, since August 15, 2016, the TLRD price, in CPP mode for calls from fixed origin to mobile destination, regardless the time band, will be \$0.90 Argentine pesos plus VAT per minute, applying a discount during the first 120 days, period in which the price will be \$0.66 Argentine pesos plus VAT per minute.

Personal through fixed operators informed the changes of the mentioned prices to its affected subscribers.

On August 18, 2016, ENACOM summoned Personal to refrain from modifying the amounts established by SC Resolution No. 48/03. Personal filed its response on August 26, 2016, supporting its right to increase the price informed, which is fully in force.

As of the date of issuance of these consolidated financial statements, ENACOM has not rejected the disclaimer presented by Personal.

(h) Decree No. 1,340/16 - Amendments to DNU No. 267/15

Decree No. 1,340/16 issued by PEN and published in the Official Bulletin on January 2, 2017 provides the rules for achieving a greater convergence of networks and services under competitive conditions, promoting the deployment of next generation networks and the penetration of Broadband Internet access throughout the national territory, in accordance with the provisions of Laws No. 26,522 and 27,078. This Decree introduces some amendments to DNU No. 267/15, which has the status of Law.

Among the most relevant provisions, it establishes:

- Fix the 15-year-term, as from the publication of the Decree, as differential condition in the terms provided by section 45 of Law No. 27.078, for the protection of last-mile fixed NGN networks for Broadband deployed by ICT licensees for Broadband regarding the regulations of open access to Broadband and infrastructure to be stated, notwithstanding the provisions of section 56 of said Law.

- That the Ministry of Communications or ENACOM, as appropriate, shall establish the rules for the administration, management, and control of the radio spectrum, according to guidelines for the promotion of competition as follows:

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a) the ENACOM, in a period not exceeding 6 months since the publication of the Decree, shall call for National and International Public Auction Process for the allocation of new frequency bands for the provision of mobile communications services, according to the service attributions following the recommendations of the International Telecommunication Union (ITU), to maximize and increase the radio resources assigned thereto;

b) for the purposes of the provisions of section 28 of Annex IV of Decree No. 764/00 and section 29 of Law No 27,078, rules and procedures shall be adopted ensuring the reattribution of radio spectrum frequencies with economic compensation and shared use to frequencies previously allocated to other service and assigned to ICT or SCA providers who request to re-use them for the provision of mobile or fixed wireless services with LTE or higher technologies. To this effect, the Regulatory Authority shall impose coverage obligations and specific goals;

c) for the purposes of the provisions of sections 27 and 28 of Law No 27,078 and section 2 subparagraphs c) and d) of Decree No 798/16, the ENACOM shall have the power to assign radio spectrum frequencies on demand, establishing compensation, deployment and coverage obligations, within the corresponding deadlines, to: 1) current local or regional providers of ICT services in their service areas; and 2) current providers of MCS, on the terms provided in section 3 of Decree No 798/16;

d) the term of authorizations for the use of frequencies of the Advanced Mobile Communications Service, as well as the corresponding deployment obligations, shall be computed since the effective migration of services currently operating in these bands in the scope of Area II, defined according to the provisions of Decree No 1,461/93 and its amendments (additional information on the impact on Personal is provided in Note 3.i) and Note 18.e) to the consolidated financial statements as of December 31, 2016).

- That Operators included in section 94 of the LAD (among them, the Company and Personal), may register the Broadcasting Service by subscription, by physical or radio connection as of the enforcement of this Decree, setting January 1, 2018 as initial date for the provision of such service in the AMBA (and extended AMBA), and in the cities of Rosario (Santa Fe Province) and Córdoba (Córdoba Province). The Decree also provides that, for the rest of the country, the initial date for the provision of the services of these operators shall be determined by the ENACOM.

- That ICT s licensees and Satellite Link Subscription Broadcasting licensees, who as of December 29, 2016 simultaneously provided both services, may retain ownership of both types of licenses.

- That ICT s services providers carrying out joint service offerings, shall detail the price of each of them, including the breakdown of these values, and the discounts or benefits applied to each service or product of the aforementioned offer, not being able to subsume, under any condition, the hiring of any service to the hiring of another, so as to prevent the consumer from obtaining the service individually or separately.

- That within 180 days of the Decree enforcement, the Ministry of Communications will establish the necessary guidelines for the creation of the Public Protection, Defense and Security Operations Network (Red de Protección Pública y Operaciones de Socorro, Defensa y Seguridad) under the terms of section 12 of Law No. 27,208 to secure suitable

communications for public safety agencies.

- That for the purposes of the provisions of section 92 of Law 27,078 and section 2, paragraph g) of Decree No. 798 issued on June 21, 2016, MINCOM shall ensure the following principles on interconnection matters:

- a) Until the interconnection prices determination systems provided by the National Interconnection Regulation are implemented, averages of regional Latin America prices shall be considered for similar functions and facilities, corrected by parameters which comply with the conditions of the sector, as determined by the Authority of Application;
- b) In accordance with section 46 of Law No. 27,078, the National Interconnection Regulation shall provide asymmetric interconnection rates for mobile services for a 3 years period from the effective service implementation, extendable for a maximum of 18 months.
- c) The National Interconnection Regulation shall provide rules concerning the automatic national roaming service, forcing mobile services providers, for a maximum period of 3 years, to make such service available to other providers in areas where they do not have their own network coverage.

The temporary limitation provided in the previous paragraph shall not be enforceable in those cases in which mobile services are provided by cooperatives and small and medium-sized companies with exclusively regional coverage.

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Mobile service providers shall freely enter into agreements to secure, among other issues, technical, economic, operational and legal conditions. Such agreements may not be discriminatory or may not establish technical conditions that prevent, delay or obstruct interconnection services.

The National Interconnection Regulation will enable ENACOM to define reference prices for a maximum period of 3 years, taking into consideration the costs of the assets involved (subject to exploitation) and a reasonable return rate to ensure speed, neutrality, non-discrimination and competition between mobile service providers. Likewise, they shall not contain technical, interconnection, operational or other conditions that delay, obstruct or create barriers for the remaining mobile services providers to access the market.

As of the date of issuance of these consolidated financial statements, the Company's Management, with the assistance of its legal advisors, is evaluating the operational, business and financial implications of the provisions of the recently issued Decree No. 1,340/16, and its application together with Decree No. 267/15, in order to protect the Company's and its shareholder's interests.

(i) Universal Service Regulation

Decree No. 764/00

Annex III of Decree No.764/00 required entities that receive revenues from telecommunications services to contribute 1% of these revenues (net of taxes) to the SU fund. The regulation adopted a pay or play mechanism for compliance with the mandatory contribution to the SU fund. The regulation also established the exemption to contribute to the FFSU in the following events: i) for local services provided in areas with teledensity lower than 15%, and ii) when certain conditions exist in connection with a formula which combines the foregone revenues and the market share of other operators than Telecom Argentina and Telefónica who provide local telephony. Additionally, the regulation created a committee responsible for the administration of the SU fund and the development of specific SU programs.

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

Decree No. 558/08

Decree No. 558/08, published on April 4, 2008, introduced certain changes to the SU Fund regime, replacing the Annex III of the Decree No. 764/00.

The Decree established that the SC would assess the value of service providers direct program contributions in compliance with obligations promulgated by Decree No.764/00. It would 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.

In defining Universal Service, the new regulation established two categories: a) geographical 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 would 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. The financing of SU ongoing programs which were recognized as such were determined by the SC, whereas telecommunications providers appointed to participate in future SU Programs were selected by competitive bidding.

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

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Providers of telecommunications services should rely on the advice of a Technical Committee made up of seven members (two members should be appointed by the SC, one member should be appointed by the CNC, three members should be appointed by the telecommunication services providers two of which should be appointed by Telecom Argentina and Telefónica and one by the rest of the providers and another member had to be appointed by independent local operators). This Technical Committee was informed by the SC of the programs to be financed and was 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.

The Technical Committee was created. Additionally, telecommunications service providers sent the proposed Fiduciary agreement to the SC. The SC approved it in January 2009 through Resolution No.7/09.

On December 9, 2008, the SC issued Resolution No.405/08 which was objected by the Company and Personal. These objections were resolved by the SC through its Resolution No.154/10.

On April 4, 2009, by means of SC Resolution No. 88/09, the SC created a program denominated Telephony and Internet for towns without provision of Basic Telephone Services that will be subsidized with funds from the SU Fund. The program sought to provide local telephony, domestic long distance, international long distance and Internet in towns that did not provide basic telephone services. The proposed projects approved by the SC would 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.

On December 1, 2010, the SC issued Resolutions No. 147/10 and 148/10, approving Internet for educational institutions and Internet for public libraries programs, respectively. These programs aimed to reclaim the Broadband service to state-run educational institutions and public libraries, respectively, and were implemented through the use of the FFSU resources. Telecom Argentina was awarded with the Internet for educational institutions program and is finishing the last project facilities, reaching 1,540 schools. This program represents a billing to the FFSU of approximately \$5 per year for a period of 5 years. On the other hand, the auction Internet for public libraries program was cancelled by the Regulatory Authority for its redefinition. During 2012, the auction Telephony and Internet for towns without provision of Basic Telephone Service took place according to Resolution No. 88/09, which involved the service provision in 430 locations. Personal presented its offer to the auction. As of the date of issuance of these consolidated financial statements, the auction is pending of definition.

On November 11, 2010, the SC issued Resolution No. 154/10 adopted the methodology for the deposit of the SU contributions to the trustee's escrow account. The Resolution included several provisions related to the determination of the contributions that correspond to the periods before and after Decree No. 558/08 was issued. It also provided that until the SC determined the existence of programs, the amounts that would correspond to their implementation would be discounted by the telecommunication providers when determining their contribution to the SU Fund. If completed the verification from the SC there were unrecognized amounts, they should be contributed into the FFSU or for the development of new works of the SU, with the approval of the SC.

On December 30, 2010, the trustee notified Telecom Argentina and Personal the trustee's escrow account number in which they should deposit the SU contributions under the provisions of SC Resolution No.154/10.

Amendments of the LAD to the SU Regulation

In December 2014, the LAD introduced substantial modifications to the SU regulations pursuant to Decree No. 558/08. Among its provisions the LAD establishes the creation of a new FFSU and the fact that the investment contributions corresponding to the SU programs be managed through said fund, whose assets shall belong to the Argentine government.

The licensees of ICT Services (among them, Telecom Argentina and Personal) are obliged to make investment contributions to the FFSU equivalent to one per cent (1%) of the total accrued revenues for the provision of the ICT Services included in the scope of application of the law, net of imposed taxes and charges. The investment contribution shall not be transferred to the users whatsoever. In turn, the Regulatory Authority may dispose, once the SU objectives are reached, the total or partial, permanent or temporary exemption, of the obligation to perform said investment contributions.

The Law also establishes that by virtue of that set forth by Sections 11.1 and 11.2 of the Management Trust Agreement of the FFSU of Decree No. 558/08, the resources therein foreseen in section 8 of Annex III of Decree No. 764/00 and its amendments shall be integrated to the FFSU created by the LAD in the conditions determined by the Regulatory Authority.

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The SU funds shall be applied by means of specific programs. Its content and the corresponding awarding mechanisms shall be defined by the Regulatory Authority who may entrust the execution of these plans directly to the entities included in article 8, paragraph b), of Law No. 24,156, or, complying with the selection mechanisms that may correspond, respecting publication and competition principles, to other entities.

On September 10, 2015 the Company and Personal filed before the AFTIC their respective SU contribution affidavits corresponding to the revenues recorded in July 2015, clarifying that these presentations were made with the understanding that the operational rules related to the FFSU contribution, regulated by Decree No. 558/08 and related provisions, were in force. Additionally, Personal proceeded to deposit the corresponding contribution in the new FFSU account reported through the Official Notice published by the AFTIC.

In its filings, the Company and Personal had stated that the filing of the affidavits and - in the case of Personal - the deposit did not imply explicit or implicit consent of the regulations issued by the LAD, and expressly reserved their rights in relation to the unconstitutionality of the provisions set forth in articles 21, 22, 91 and related provisions of said law, as well as the claim of any rights arising from the acknowledgement of this argument.

As of the date of issuance of these consolidated financial statements, Personal has not received any response to its filings.

ENACOM Resolution No. 2,642/16 approved the new SU Regulation, which was published on May 31, 2016.

The new regulation retains the obligation of contributing 1% of total income related to the provision of ICT services net of taxes and fees, anticipating the possibility of granting exemptions, in which case the subjects liable for payment, must comply with the obligations established by the Regulatory Authority.

In accordance with ENACOM Resolution No. 6.981-E/16 issued on October 19, 2016, the FFSU and the FFSU Investment Contribution Settlement and Interest Report forms were approved and will be in force since January 1, 2017, being operationally implemented since March 2017. As a result, the Company and Personal have continued submitting the presentation of their monthly payments to the ENACOM, with the existing formalities prior to the Resolution No. 2,642/16. Taking into consideration the changes introduced in the Affidavits Form approved by the regulation, the Company and Personal made a presentation to the Regulatory Authority exposing the need to introduce amendments to the forms in order to continue deducting the SU services that both companies are providing.

ENACOM Resolution No. 8,770-E/16, issued on December 19, 2016, amends section 21 of the RGSU, providing that programs developed in accordance with sections 19 and 20 of the Regulation will be awarded by Resolution of the ENACOM Board of Directors through any of the following mechanisms, as proposed by the Chairman of the ENACOM Board of Directors:

a) Direct implementation of the programs to entities included in section 8 paragraphs b) of Law No. 24,156, or

b) Public or private, national or international, single or multiple-stage auction or offering.

Priority will be given to projects to be developed in those municipalities that have adopted the regulations proposed in the code of good practices for the deployment of mobile communications networks developed by Argentine Federation of Municipalities and the Operators of Mobile Communications and supported by the former SC of the former Ministry of Federal Planning, Public Investment and Services on August 20, 2009 or those contemplating regulations of similar characteristics.

ENACOM Resolution No. 1,035-E/2017, issued on February 20, 2017, approved the Digital Educational Networks Program , which aims to develop the internal network infrastructure of state managed educational facilities to enable the reception and use of Broadband Internet service and to enhance their educational practices. The Program will be implemented through the execution of a project and/or projects which presentation will be made by EDUC.AR S.E, with the intervention of the National Ministry of Education and Sports.

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As of the date of issuance of these consolidated financial statements there are still pending administrative resources filed by the Company in 2012 against several resolutions that rendered ineffective deductions in the SU payments with reference to several programs provided by Telecom Argentina in the mode play of the SU. The magnitudes of the deductions challenged by the Regulatory Authority are disclosed in Note 2.i) FFSU - Impact in the Company of the consolidated financial statements, transforming the asset position of the Company (\$2,423 billion) into a liability position of approximately \$628 million for the period July 2007 - December 2016. However, the Company's Management, with the assistance of its legal advisors, considers that has solid fact and legal arguments to defend the criteria that Telecom Argentina has held and holds with regard to the SU scheme. Additional information is provided on Note 2.r) to the consolidated financial statements Renegotiation of agreements with the Argentine government .

FFSU Impact in Telecom Argentina

Several years after the market's liberalization and the effectiveness of the first SU regulations, incumbent operators have not received any set-offs for providing services as required by the SU regime and the LAD.

As of the date of issuance of these consolidated financial statements and in compliance with SC Resolution No.80/07 and No.154/10 and CNC Resolution No.2,713 /07, Telecom Argentina has filed its monthly calculations since July 2007 for the review of the Regulatory Authority and estimated a receivable of \$2,423 (unaudited). This receivable has not yet been recorded as of December 31, 2016 since it is subject to the approval of the SU programs, the review of the Regulatory Authority and the availability of funds in the SU Trust.

On April 8, 2011, the SC issued Resolution No. 43/11 notifying Telecom Argentina that investments associated with High-Cost Areas amounting to approximately \$2,171 since July 2007 to date and which are included in the abovementioned receivable - did not qualify as an Initial Indicative Program. Telecom Argentina filed a claim on this resolution.

Telecom Argentina was notified of SC Resolutions No. 53, 54, 59, 60, 61, 62, 69 and 70/12, pursuant to which the Special Service of Information 110 , the Discounts for Retired People, Pensioners and Low Consumption Households , the services of Social Public Telephony and Loss-Making Public Telephony , the Services and Discounts relating to the Information Society Program argentin@internet.todos , the Services for Deaf-Mute People , the Free Access to Special Emergency Services and Special Community Services , the Value Added Service 0611 and 0612 and the Long Distance Semipublic Service , respectively, did not qualify as an Initial Indicative Program, pursuant to the terms of Article 26 of Annex III of Decree No. 764/00, and that, they did not constitute different services involving a SU provision, and therefore they cannot be financed with SU funds, pursuant to the terms of Article 2 of Decree No. 558/08.

The Company's Management, with the advice of its legal counsel, has filed appeals against SC Resolutions Nos. 53, 54, 59, 60, 61, 62, 69 and 70 presenting the legal arguments based on which such resolutions should be revoked. The deductions that were objected by the SC Resolutions amount to approximately \$880 and are included in the credit balance mentioned in the second paragraph.

As of the date of issuance of these consolidated financial statements, the resolution of this appeal is still pending.

On September 13, 2012, the CNC required Telecom Argentina to deposit approximately \$208. The Company has filed a recourse refusing the CNC's request on the grounds that appeals against the SC Resolutions are still pending of resolution. As of the date of issuance of these consolidated financial statements, although it cannot be assured that these issues will be favorably resolved at the administrative stage, the Company's Management, with the assistance of its legal advisors, considers that it has solid legal and de facto arguments to support the position of Telecom Argentina. Additional information is provided in r) of this Note.

FFSU Impact in Personal

Since January 2001, Personal has recorded a liability related to its obligation to make contributions to the SU Fund. In addition, since July 2007 and in compliance with SC Resolution No.80/07 and No.154/10 and CNC Resolution No.2,713/07, Personal deposited the correspondent contributions of approximately \$112 into an account held under their name at the Banco de la Nación Argentina in January 2011.

During the first quarter of 2011, the above mentioned funds were transferred to the trustee's escrow account, in compliance with the provisions of SC Resolution No.154/10 previously described. Since January 2011, the SU Fund contributions were made into such escrow account.

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On January 26, 2011 the SC issued Resolution No. 9/11, establishing the Infrastructure and Facilities Program. The Resolution provided that telecommunication service providers could contribute to investment projects under this program, exclusively the amounts corresponding to their pending obligations of investment contributions born under Annex III of Decree No.764/00, before the effective date of Decree No.558/08.

In March 2011, Personal submitted to the SC a \$70 investment project, pursuant to SC Resolution No. 9/11, for the development of a network infrastructure in locations in the Northern Region of Argentina with no mobile coverage. Personal submitted its calculations from 2001/2007 related to the mentioned project to be financed through its own SU contribution of such periods as required by the SC.

On April 9, 2014 Personal filed an amendment proposal for the project within the scope of Resolution No. 9/11, pursuant to the SC's request. This new filing consists only of additional detailed information about the project's scope. As of the date of issuance of these consolidated financial statements, the project is pending of approval.

On July 5, 2012, the SC issued Resolution No.50/12 pursuant to which it notified that the services referred to by the Mobile Communications Services Providers, which were filed as High Cost Areas or services provided in non-profitable areas, services provided to clients with physical limitations (deaf-mute and blind people), rural schools, and the request relating to the installation of radio-bases and/or investment in the infrastructure development in various localities, did not constitute items that may be discounted from the amount of contributions to the SU pursuant to the last part of Article 3 of Resolution No.80/07, or Article 2 of Decree No. 558/08. It also provided that certain amounts already deducted would be used for investment projects within the framework of the Program of SC Resolution No.9/11, or deposited in the SU Fund, as applicable.

Personal has filed an administrative action against SC Resolution No.50/12, requesting its nullity. As of the date of issuance of these consolidated financial statements, the resolution of this matter is still pending.

On October 1, 2012, responding to an SC's requirement, Personal deposited under protest approximately \$23 in the SU Fund, corresponding to the assessment of the SU services provided by Personal since the issuance of Decree No.558/08, reserving its right to take all actions it may deem appropriate to claim its reimbursement, as informed to the SC and the CNC on October 15, 2012. Since August 2012, Personal is paying under protest of those concepts in their monthly affidavits.

The Management of Personal could not assure that this issue would be favorably resolved in the administrative stage.

(j) Spectrum

SC Resolution No. 38/14

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On July 7, 2014, SC Resolution No. 38 was published in the Official Bulletin which announced a Public Auction process (the Auction process) for the awarding of the remaining frequencies of the Personal Communication Services (PCS), of the Cellular Mobile Radiocommunication Services (SRMC), as well as those of the new spectrum for the Advanced Mobile Communications Service (SCMA) recently created.

The Terms and Conditions organized the aggregate of the spectrum to be auctioned in 10 Lots, being the first one to be auctioned exclusively among entering operators. The Public Auction took place on October 31, 2014. Personal presented its economic bids and was awarded Lots 2, 5, 6 and 8. Telefónica Móviles Argentina S.A. (Movistar), América Movil S.A. (Claro) and Arlink S.A also participated in the Auction.

Through SC Resolution No.79/14 the SCMA service was awarded to Personal, while through SC Resolutions No. 80/14, 81/14, 82/14 and 83/14 that were published in the Official Bulletin on November 27, 2014, the following frequency bands were awarded to Personal:

| SC Resolution | Lot No. | | Frequency Band | Exploitation area/ (Service) | Amount paid (in millions of US\$) | Capitalized cost of acquisition (in millions of \$) |
|---------------|---------|------|---|-------------------------------|-----------------------------------|---|
| 80/14 | 5 | PCS | 1890-1892.5 Mhz and 1970-1972.5 Mhz | Northern (3G) | 5.0 | 43 |
| 81/14 | 2 | SRMC | 830.25-834 Mhz and 875.25-879 Mhz | AMBA (3G) | 45.0 | 387 |
| 82/14 | 6 | PCS | 1862.5-1867.5 Mhz and 1942.5-1947.5 Mhz | Southern (3G) | 6.0 | 51 |
| 83/14 | 8 | SCMA | 1730-1745 Mhz and 2130-2145 Mhz | Country (4G) partial awarding | 354.7 | 3,049 |
| | | | | | 410.7 | (*) 3,530 |

(*) Includes \$18 corresponding to the tax on debits to bank accounts that were capitalized in the cost of the licenses.

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Personal paid for the awarded frequency bands, and also constituted the corresponding performance guarantees. In the case of Lot No. 8, the payment was made on account of the single and total price offered for this Lot.

Personal asked that the assignment of the Frequency Bands for the SCMA services in Lot No. 8, which was partially awarded to Personal through SC Resolution No.83/14, be completed and reserved the applicable rights.

The full awarding of Lot No. 8 became essential for compliance with the commitments foreseen in the Auction Terms and Conditions. Once the awarding process was completed, Personal had access to SCMA Frequency Bands 713-723/768-778, and Personal paid the equivalent of US\$ 247.3 million (the remaining balance of the bid) and constituted the performance guarantees of 15% of the said amount.

The Auction Terms and Conditions provided authorizations for the use of the auctioned frequency bands for a period of fifteen (15) years from the notification of the award. After this deadline the Regulatory Authority would extend the terms of use upon formal request of the awarded operator (which price and conditions would be set forth by the Regulatory Authority).

The Auction Terms and Conditions also established strict coverage and network deployment commitments which require significant investments to Personal. Additional information is provided in Note 18.e).

Through SC Resolution No. 25/15, issued on June 11, 2015, Personal was assigned Frequency Bands 713-723 MHz and 768-778 MHz, which composed Lot 8 and that were pending of assignment by the SC.

On June 25, 2015 Personal paid the offered amounts corresponding to the awarded Frequency Bands (which were equivalent to US\$ 247.3 millions) pursuant to the provisions of the Bidding Terms and Conditions and its complementary clarifying documents, as a result of which the whole amount of the sum offered for Lot 8 was paid. In addition, in its bid documents, Personal stated that such Lot formed a unique and comprehensive block for purposes of complying with the obligations undertaken in connection with the deployment of the SCMA, also expressing that the Federal Government has the obligation to cause the awarded bands to be free from occupants and interferences.

SC Resolution No. 18/14, provided that the 698 to 806MHz frequency bands had to be disengaged before a two years deadline. Expired that period, the irradiating systems involved in the migration had to finish their emissions.

As of the date of issuance of these consolidated financial statements, the deadline provided by SC Resolution No. 18/14 for the disengagement of the 698 to 806MHz frequency band expired on July 18, 2016. However, such frequency band continues to be busy.

New Developments for fiscal year 2016

ENACOM Resolution No. 6,396/16, published in the Official Bulletin on July 22, 2016, provided that the licensees within the scope of the migration provided by SC Resolution No. 18/14 that are currently providing services within the 698 to 806MHz frequency band, may choose to: (i) temporarily continue providing their respective services in other frequencies corresponding to the bands allocated to the broadcasting service, particularly 512-698 MHz frequency band, subject to technical feasibility verified in each case, and for the term provided in section 2 of Resolution No. 6,396/16; or (ii) request the assignment of a bandwidth equivalent to that currently authorized, in 12.2 to 12.7 GHz destination band.

On the other hand, the Authorization Agreement for the Use of Frequency Bands , related to the bands awarded to Personal as a result of the public auction called pursuant to the provisions of SC Resolution No. 38/14 is still pending of execution by the Regulatory Authority.

Personal has filed a presentation before the ENACOM, requesting clarification on the timescale in which the operators involved in the migration should comply with the provisions of the ENACOM Resolution No. 6,396/16. In addition, Personal has requested the review of the proceedings related to the migration of services operating in the bands that were awarded to it through SC Resolution No 25/15. As of the date of issuance of these consolidated financial statements, ENACOM has not responded to the request filed.

According to the provisions of Decree No. 1,340/16, the term of the authorizations for the use of frequencies of the Advanced Mobile Communications Service, as well as the corresponding deployment obligations, will be computed from the actual migration of the services currently operating in these bands in Area II (AMBA) (Additional information on the impact on Personal is disclosed in Note 3.i) and Note 18.e) to the consolidated financial statements as of December 31, 2016).

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On January 18, 2017, Personal filed a letter to ENACOM expressing its interest in participating in the Auction, Offering or Reattribution procedure/s of frequency bands timely available within the scope provided by Law No 27,078 and consistent regulations, subject to the analysis of the conditions defined at that time. This includes the bands currently attributed to the Mobile Communications Service or Advanced Mobile Communications Service, as thus also any other band which, in the future, be attributed to the provision of such services among other frequencies in bands 2.5-2.6 Ghz, 3.4-3.7 Ghz, 450 Mhz, 600 Mhz, 700 Mhz, 800 Mhz, 850 Mhz, 900 Mhz, 1900 Mhz, AWS, and extended Aws.

On January 31, 2017, Resolution of the Ministry of Communications 171-E 2017 was issued, approving the Regulations of Refarming with Financial Compensation and Shared Use of Frequencies (Reglamento de Refarming con Compensación Económica y Uso Compartido de Frecuencias). As a summary, the following provisions can be highlighted:

- Instructs ENACOM to analyze the technical feasibility and implement the allocation to the mobile service, with primary status, of the 450-470 MHz, 698-960 MHz and 2,300-2,400 MHz frequency bands. All of the above is to be used in the provision of SCMA or any other arising from technological developments..
- Provides the preventive suspension of the reception of awarding procedures in 1.427-1.518 and 3300-3600 MHz frequency bands.
- Modifies the spectrum cap, setting it in 140 MHz per provider for each area and/or operating location. For such purposes, the spectrum assigned to each company, its subsidiaries or controlling shareholders, directly or indirectly, or subject to common control or those holding more than 30% of the shares of another company, will be considered if, with such equity interest, holds a position of substantial influence in the decisions of such company. Any other subject or body may be included in the calculation of the spectrum awarded to any other subject or entity assigned to that spectrum when it is understood that any contractual linkage has been entered into to circumvent this limit.
- Instructs ENACOM to modify the National Scheme of Attribution of Radio Spectrum Bands (Cuadro Nacional de Atribución de Bandas del Espectro Radioeléctrico ER) for the purpose of making available for MCS providers frequency bands suitable to that end.
- From the publication of the new bandwidth table and its respective channels, MCS providers will have a maximum of 15 working days to request their express assignment. Such allocations shall be made on equal terms and conditions as those required from other providers of similar service in the same band. This provision is complemented by section 9 of Resolution No. 1,034-E/17.

- The regulatory authority is delegated to ENACOM, who will provide the necessary complementary or explanatory rules for a better application of these provisions.

Through the Annex attached to the resolution, the Refarming Regulation is approved including a series of definitions that enable to properly understand the scope of the resolution. These definitions include the following:

Economic Compensation (EC): The amount established by ENACOM to be paid by the Authorized Provider for the implementation of the Refarming procedure, calculated on the basis of the values obtained from URV, RV and its application thereto of the relevant discounts according to the Coverage Obligations and other weightings carried out in the approving resolution.

Distinguishes between *Provider, Authorized Provider*: (licensee to which ENACOM authorizes a new mobile service of high spectral performance using Radio Spectrum frequencies previously authorized for the provision of another fixed or mobile service) and *Incoming Provider* (licensee that until the approval of the project requesting the re-allocation of frequency use through Refarming, was not providing PCS, SRMC, STM or SCMA. Any entity that, directly or indirectly, is the parent company of, controlled by, or subject to common control with, any entity that is providing PCS, CMRS or AMCS shall not be deemed as *Incoming*. Notwithstanding this, ENACOM may consider cooperatives or SMEs as *Incoming*, even when they are providing PCS, SRMC or SCMA in the virtual operator mode).

Reference Value (RV): Value based on the VUR to be calculated for the frequency bands originally assigned for other services.

Unitary Reference Value (URV): The value expressed in US\$ cents per MHz per inhabitant, which will be the multiplication factor of the bandwidth and population of each of the localities covered by each submitted Project, for the purpose of the RV.

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Principles of the Reclassification Procedure (Refarming): It will only be applicable to Frequency Bands for which, according to ENACOM opinion, there is commercial availability of the technology ecosystem. ENACOM will be entitled to determine, to its exclusive judgment, whether the applicant meets the necessary conditions for the provision of the services involved. It will also be empowered to impose coverage obligations and specific service goals. On the other hand, the authorizations resulting from the Refarming procedure may have extension terms similar to those of equivalent services.

The Refarming project: Each provider who requests the re-qualification of the RE having a use other than the one originally assigned must submit a project including at least:

- Description of the bands
- Area of coverage and affected localities
- Population
- Bandwidth
- 15-year customer estimate and associated Investment Plan

If the Project is approved, ENACOM shall publish it in the Official Bulletin with the level of detail required in the regulation (service plan, location, values, deadlines, etc.).

The deadline for the payment of the Financial Compensation will be 30 working days from the enactment of the Administrative Act. In the case of an SME or cooperative, a payment plan may be requested.

The URV shall be calculated on the basis of the arithmetic average of the final values resulting from auctions carried out in our country for each specific frequency band involved in the refarming procedure expressed in US\$ cents per MHz per inhabitant.

In the absence of a national background, the market average retrieved in auctioning processes in each frequency band retrieved from publications of ITU, *Organización para la Cooperación y el Desarrollo Económicos* (CNUCYD), *Conferencia de las Naciones Unidas sobre Comercio y Desarrollo* (UNCTAD), among other multilateral organizations of reference, will be adopted. These values should be adjusted by comparative parameters reflecting the differences of scenarios with Argentina (PPP and ARPU). Once the URV is calculated, the next stage is to determine the RV, which is obtained by multiplying the URV of each band by MHz and the population of each location.

The amount of the EC will emerge when applying discounts to the VR, according to the impact in the Discounted Cash Flow (CDF) that coverage obligations and goals of service established by ENACOM may have, as well as the speed of network services deployment calculated from the investment amounts of the first 5 years with respect to the total amount of the Project. In each Project, the provider may propose returning to the State portions of the spectrum not used in the Refarming, which may be applied to deduct the calculated value of the RV.

In addition, ENACOM Resolution No. 1,033-E/17, issued on February 20, 2017 provided to allocate the frequency bands between 905-915 MHz, and 950-960 MHz to the Mobile Service with primary status, and the use of the frequency bands between 905-915 MHz, and 950-960 MHz for the provision of the Advanced Mobile Communications Service.

ENACOM Resolution No. 1,034-E/17, also issued on February 20, 2017, allocated the frequency band between 2,500-2,690 MHz to the Mobile Service with primary status, and the use of the frequency band between 2,500-2,690 MHz for the provision of the Advanced Mobile Communications Service, in addition to current services when their coexistence is possible.

On March 7, 2017 ENACOM Resolution No. 1,299-E/17 was published in the Official Bulletin. This Resolution approved the Refarming Project with Financial Compensation and Shared Use of Frequencies to Nextel Communications Argentina SRL (Nextel), to provide the Advanced Mobile Communications Service, granting this company the registration for the provision of such service, and authorizing it to:

- use frequencies between 905-915 MHz and 950-960 MHz in accordance with the provisions of ENACOM Resolution No. 1,033-E/17 and channels 7 to 10, and 7 to 10 in FDD mode, provided in the Annex of Resolution No. 1,034-E/17, for the provision of the Advanced Mobile Communications Service in locations and areas described in the Project approved by the Resolution.
- use frequencies between 2,550-2,560 MHz, and between 2,670-2,680 MHz exclusively for migrating users from pre-existing services, for a 2-year period, term in which it should additionally resolve the final destination of those users. Once the migration is completed, or the 2-year term expires, whichever occurs last, Nextel may use channels 11 and 12, and the corresponding 11 and 12 in FDD mode, provided in the Annex to Resolution No 1,034-E/17, for the provision of the Advanced Mobile Communications Service in locations and areas described in the Project hereby approved.

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The Resolution provides as URV for the radio spectrum the following bands involved in the project:

- 900 MHz Band = 0,1841 (US\$/MHz/inhabitant)
- 2,600 MHz Band = 0,0423 (US\$/MHz/inhabitant)

RV for frequencies involved in the Project in FDD mode is set in US\$178,419,397 calculated pursuant to Section 7 of MINCOM Resolution No. 171-E/17, based on the URV provided in the foregoing section.

The rule establishes that the following discounts and weighting factors will be applied, which shall be calculated pursuant to section 7 of MINCOM Resolution No. 171-E/17, and which in detail will be used in order to determine the amount of the Financial Compensation that will be part of the agreement to be settled.

- Discounts:

- The amount equivalent to the frequencies of the spectrum whose return is provided in section 7 therein, and whose value will be calculated according to the URV provided in section 8 herein, as appropriate.

-The amount corresponding to the valuation of the Coverage Obligations provided by section 10 of the regulation.

- Weighting Factors:

-The speed of networks and service deployment calculated from the amount of investment for the first five years, with respect to the total Project hereby approved.

-The speed of deployment of the Coverage Obligations provided in section 10 therein.

The approved Project has not been published and its implementation is subject to the issuance of the agreement specifying the terms, conditions, goals, obligations and other issues inherent to the provision of Advanced Mobile Communications Service, which is pending of subscription.

The Company and Personal, with the assistance of its legal advisors, are analyzing the impact that the application of the provisions of MINCOM Resolution No. 171-E/17, ENACOM Resolution No. 1,034-E/17 and ENACOM Resolution No. 1,299-E/17 may have on their business.

(k) SC Resolution No.1/13 - Contingency plan for service provision in case of emergencies

On April 8, 2013, SC Resolution No.1/13 was published in the Official Bulletin, establishing that all mobile operators should guarantee the service provision, even in emergency situation or catastrophe, in which case the normal service provision must be restored in a maximum period of one hour. Mobile operators must, in all cases, prioritize the access to emergency services in the affected areas.

In addition, SC Resolution No.1/13 established that mobile operators present within 45 days a Contingency Plan for emergency situations, for purposes of guaranteeing the continuity of services in such circumstances.

As of the date of issuance of these consolidated financial statements, Personal has appealed SC Resolution No.1/13 exposing the arguments by which the mentioned resolution should be released. However, Personal has met its commitment to present a Contingency Plan for emergency situations.

On January 26, 2015, the CNC provided comments on Personal's Contingency Plan and also required the reporting of the measures chosen to implement the Plan and the status thereof. Personal filed to AFTIC a new Contingency Plan with the required amendments. As of the date of issuance of these consolidated financial statements, the Regulatory Authority has not pronounced on this matter.

(I) SC Resolution No.5/13 Telecommunication service quality regulation

On July 2, 2013, SC Resolution No.5/13 was published in the Official Bulletin. This Resolution approved a telecommunication service quality regulation, establishing, among others, new quality parameters required for telecommunication services provided through mobile and fixed public networks, for all the operators in Argentina, as well as the obligation to provide periodic information to the CNC.

CNC Resolution No.3,797/13 was published in the Official Bulletin on November 13, 2013, supplementing SC Resolution No. 5/13 and approving the Audit Procedures and Technical Verification of Service Quality Regulation of Telecommunications Services Manual.

Pursuant to the provisions of CNC Resolution No.3,797/13, the Company and Personal have submitted their respective Technical Reports (detailed technical specifications of the measurement process) and have made their submissions providing the required information pursuant to the provisions of SC Resolution No.5/13.

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On August 14, 2014 the CNC notified the Company and Personal that the audits and technical verifications that the Regulatory Authority shall perform on the supply of services regarding licenses of the Company and Personal will be performed following the processes and methods of measurement exhibited in the respective presentations of the Technical Reports . The CNC also notified the Company that these shall be carried out using the principles set forth in SC Resolutions No.5/13 and CNC No.3,797/13. Notwithstanding, the CNC developed verification tasks of the mobile services by means of tests of calls and data with measuring mobile devices in different locations of the country using procedures different from those defined in the Quality Regulation and published the results at quenosecorte.gob.ar .

Within the scope of said verifications, the CNC initiated penalty processes against Personal for alleged non-compliance with CNC Resolution No.3,797/13. The Management of Personal has in a timely basis submitted its solid legal defense against these claims.

Since the enforceability of this Resolution is subject to the compliance of certain steps for its implementation with the previous approval of the Regulatory Authority, the Company and Personal have carried out the corresponding reservations of their rights in each of their submissions. In addition, the Company has stated in its different submissions that, due to the special circumstances that affected its tariff structure, the compliance of the burdensome operative and customer service parameters set forth in SC Resolution No.5/13 should not apply.

(m) Regulation of Virtual Mobile Operators

SC Resolution No.68/14, published in the Official Bulletin on October 28, 2014, approved the Regulation of Virtual Mobile Operators (VMO) and the Basic Requirements for VMO Agreements. Among its provisions, the Resolution states that the Network Mobile Operators (NMO) that have spectrum and infrastructure, shall annually file a reference offer for those interested in providing services as VMO, in which they will set forth the technical and economic conditions, which shall be reasonable and non-discriminatory. The Resolution also provides the modalities and procedures for the provision of such services. According to Article 2 of the Annex of the Resolution, the Regulation is applicable to SCMA.

Ministry of Communications Resolution No. 38/16, issued on May 5, 2016, approved the new Regulation of Virtual Mobile Operators (VMO) and revoked SC Resolution No. 68/14, which had approved the Regulation of Virtual Mobile Operators previously provided by former SC.

The mentioned Resolution provides that Network Mobile Operators (NMO), which have spectrum and infrastructure (among them, Personal), must submit, within 120 calendar days since the Resolution publication, a Reference Offer (the RO) for those interested in providing VMO services. The RO must be published annually in the NMO and on the Regulatory Authority official web site, and shall provide the economic and technical conditions (that will be freely established between the parties, reasonable, and non-discriminatory), clearly detailing the prices and conditions of each of the benefits and services to be provided.

This new Regulation is applicable for Mobile Communications Service (SCM), which includes Mobile Telecommunication Services (STM), Cellular Mobile Radio-communications Services (SRMC), Personal Communications Services (PCS) and Mobile Advanced Communications Services (SCMA). The Resolution also provides the procedures for the Services Agreements subscription between the NMO and the VMO, which will determine the terms and conditions under which the NMO will provide telecommunications network access and, where appropriate, telecommunications network interconnection the VMO.

On September 1, 2016, Personal filed a presentation to the Ministry of Communications through which it exposed substantial grounds for finding essential the suspension of the deadline for submission of the OR provided in Section 2 of Ministry of Communications Resolution No. 38/16, until the 700MHz frequencies comprising Lot 8 (awarded and paid by Personal) were in full conditions of use and until the spectrum of Lot 1 of the Frequency Bands Public Auction developed by SC Resolution No. 38/14 was allocated and on-air . Through the mentioned presentation it was also requested: a) the removal of Section 10 of Annex I of the above-mentioned rule (which does not allow agreements with VMO on an exclusive basis); b) that ENACOM enclose interference measurements carried out in the 700MHz Band awarded to Personal; and c) that ENACOM informs whether it has definitively resolved all the claims filed by the users of such band.

Notwithstanding its presentation, on January 12, 2017, ENACOM charged Personal for non-compliance with the RO presentation. Personal has submitted its discharge rejecting the accusation and has submitted its RO, which validity is subject to the resolution of the legal issues exposed in its submissions.

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(n) Decree No. 798/16: National Plan for the Development of Competitiveness Conditions and Quality of Mobile Communications Services

Decree No. 798 published in the Official Bulletin on June 22, 2016 issued within the scope of the Ministry of Communications approved the National Plan for the Development of Competitiveness Conditions and Quality of the Mobile Communications Services, which has its strategic focus on encouraging greater efficiency in the market, with quality services at fair and reasonable prices.

The above mentioned plan provides that within 90 days the Ministry of Communications shall, i) start the process of adaptation of the scheme approved by Resolution SC No. 157/97 (CPP scheme) to the provisions of the LAD; ii) update the General Regulation of MCS customers along with the process initiated by the Resolution SC No. 12/13, proving for the existence of mechanisms that would allow customers to access information about the quality of the service and to get benefits and/or compensation in their services in case of non-compliance with the established quality standards; (iii) start the process of adaptation of the Regulation on Administration, Management and Control of Frequency Bands (Reglamento sobre Administración, Gestión y Control del Espectro Radioeléctrico), to the provisions of the LAD, in order to introduce greater competitiveness in all services; (iv) update the National Scheme for the Granting of Frequency Bands (Cuadro Nacional de Atribución de Bandas del Espectro Radioeléctrico) so as to increase the availability of frequencies for the provision of mobile communications services, for which purpose the procedures provided in section 30 of the LAD will be initiated; v) incorporate to the Universal Service General Regulation (Reglamento General del Servicio Universal) approved by Resolution ENACOM No. 2.642/16, the granting of priority to consider -in programs with SU Funds- projects eligible to be developed in those Municipalities which have adopted the legislation proposed in the Code of Good Practices for the Deployment of Mobile Communication Networks (Código de Buenas Prácticas para el Despliegue de Redes de Comunicaciones Móviles) provided by the Argentine Federation of Municipalities and the Operators of Mobile Communications (Federación Argentina de Municipios y los Operadores de Comunicaciones Móviles) and supported by the former SC of the former Ministry of Federal Planning, Public Investment and Services on August 20, 2009, or those contemplating rules of similar characteristics that would not prevent, in fact or Law, the deployment of such networks; (vi) develop a National Contingency Plan for disaster situations; and (vii) Update the National Interconnection Regulations and Licensing for Telecommunications Services and the Scheme of Portability Number approved by Resolution SC No. 98/10.

This Decree also provides that the Ministry of Communications, through the ENACOM, shall, in a 60-calendar-day term, prepare measurement protocols that would enable to show the quality perception of MCS users, taking into account UIT parameters, and review and update quality standards for the ICT service networks through all the corresponding areas.

In addition, the ENACOM shall perform measurements of non-ionizing radiations in order to control that these remain within non-harmful levels to human health, and the Administration Agency for State Property (Agencia de Administración de Bienes del Estado - AABE) shall in its role as governing Body of the state property policy, perform procedures and administrative acts and relevant contracts to grant the use for valuable consideration of terraces, roofs, towers, solar and/or any installation, plant or property sector of the State that are suitable for the installation of supporting structures of antennas, equipment and installations associated with telecommunications, information technologies and communications and/or audiovisual communication services. The AABE will make available for the licensees of such services and for independent companies sharing passive infrastructure, the listing of state properties potentially suitable for such facilities.

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Among other aspects, the Decree provides that, as a way to encourage the rapid deployment of networks and the infrastructure sharing, rent fees will not be charged for a 1-year period for the use of state property in which base stations are installed within 3 months of publication of the rule in the Autonomous City of Buenos Aires, or within 6 months in the rest of the country. Under the same condition, this period will be extended to 3 years when the infrastructure is shared by two Mobile Services Licensees, and to 4 years when it is shared by more than two. Identical benefit will be granted if it is a sharing independent company of passive infrastructure, and the above conditions are met.

In this regard, it is worth mentioning the agreement signed on April 27, 2016 between Personal, AMX Argentina S.A., Telefónica Móviles Argentina S.A., the Ministry of Communications and the Government of the City of Buenos Aires, to facilitate the deployment of network infrastructure in the area of Comuna 1 of the Autonomous City of Buenos Aires, including the use of roofs and luminaries of the GCBA.

As of the date of issuance of these financial statements, the issuance of the rules regulating the above mentioned provisions is still pending.

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Through Resolution No. 5/2017 of the Ministry of the Interior, Public Works and Housing Court of Appraisals of the Nation (February 1, 2017), initial monthly rent fees for the year 2017 were approved, for the use against payment of terraces, roofs, solar towers or any installation, plant or sector of state property that are suitable for the installation of supporting structures of antennas, equipment and installations associated with telecommunications, information technologies and communications and audiovisual communication services.

(o) Mobile Services Parcial Interruption

On October 5, 2016, while upgrading some Personal s network equipment, an equipment failure caused difficulties in establishing voice communications in some random areas for approximately five hours. The rest of the mobile services, such as data, were not affected. Clients could continue communicating by data instant messaging and other applications without inconveniences. The failure affected approximately one million mobile subscribers across the country.

Due to this partial interruption, during October 2016, Personal subsidized to its prepaid subscribers a full day of calls to other Personal s subscribers and also subsidized to postpaid subscribers a full day of their monthly charges.

(p) 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 after November 8, 1990 and the proposed use for the resulting savings and increases in contribution rates that have occurred.

The Company had recorded a liability related to the savings caused by reductions in the levels of social security contributions initially earmarked for the argentina@internet.todos Program. The mentioned savings were substantially generated during fiscal year 2000. Resolution No. 41/07 allowed the Company to recover the increases in social security contributions that it has to pay as a consequence of the increase in social contributions rates.

Within this context and considering applicable the principle of tax stability provided by the Transfer Agreement approved by Decree No. 2,332/90, the Resolution authorized the aforementioned savings being offset with the amounts arising from the application of the mentioned increases.

The offset of both concepts and the determination of a balance, were subject to the audit results performed by the Regulatory Authority according to the information provided by the Company. The mentioned audit was performed during the third quarter of 2007. The Company took knowledge of the proceedings, in which the CNC recognized a receivable arising from increases in social contributions within the scope of Resolution No. 41/07, and cancelled payables arising from reduction in social contributions taxes with the Regulatory Authority and other sanctions imposed to the Company.

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As of December 31, 2016, the Company has a net receivable of \$34 which, in addition to the receivable of \$23 corresponding to the IDC as explained in (q) below, is included in the line item Other receivables .

Since Resolution No. 41/07 provides the Company the right to offset receivables with existing and/or future regulatory liabilities and, given the Company's intention to exercise this right, the receivable was recorded net of several provisions. As of December 31, 2016, the provisions which can be offset with the receivables arising from Resolution No. 41/07 and from IDC amounted to \$57.

It is worth mentioning that since December 2008, the Company continued its practice of billing customers for the increases in its social security contribution rate accrued from October 2008, applying the same method used to bill the IDC.

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

On February 6, 2003, the Ministry of Economy, through Resolution No.72/03, defined the method to allow, going forward, rate increases on Basic Telephone 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. The Company planned to claim such amount within the rate renegotiation process (see (r) below).

In April 2007, the Company provided the CNC with supporting documentation about this amount and in May 2007 filed its preliminary economic evaluation to the Regulatory Authority. The Company took knowledge of the Regulatory Authority's documentation which corroborates the amount claimed by the Company and provides a similar offsetting method pursuant to Resolution No.41/07 (as described in (m) above). As a result, the Company recorded as Non-current Other receivable a total of \$23. This receivable is also included in the provisions for regulatory matters described above.

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(r) Renegotiation of agreements with the Argentine government

Convertibility period of the peso to the US dollar: dollarization rates.

On November 28, 1991 the Company and Telefónica signed an agreement with the Argentine government related to the rate regime, which was ratified by Decree No. 2,585/91 and was effective from December 18, 1991. The most relevant aspects included in this agreement that amended the rate regime provided by the Transfer Agreement were:

1. The rate, measured in basic telephone pulses, was set in US dollars, adjustable twice a year (April and October) based on the variation of the U.S. C.P.I. (all items). These rate adjustments did not require the prior approval of the Regulatory Authority. Since 2000 these rate adjustments were not applied according to agreements signed with the SC, which delayed its implementation. Subsequently, in October 2001, an injunction prevented the continuity of application, as indicated in o) above.

2. The customers billing continued performing in local currency.

Rates pesification: regulated public services rates freezing

On January 6, 2002, the Argentine government enacted Law No.25,561, *Ley de Emergencia Pública y Reforma del Régimen Cambiario* (the Public Emergency Law). This Law, by Article 8, annulled adjustment clauses in dollars or other foreign currencies and indexation clauses based on price index and any other indexation method. As a consequence, from that date the Company's rates were set in pesos at the exchange rate \$1 Argentine peso per US\$ 1. As a consequence, regulated fixed service tariffs remained frozen until the end of the year 2015. Such freezing of tariffs violated the Transfer Contract and regulations that supplemented it.

The Transfer Agreement and the resolution of the regulatory issues that negatively affected the operations of the Company since the enactment of the Public Emergency Law and the Exchange Regime System Reform in January 2002 (pesification of rates, lack of compensation for SU features, increased penalties for delays in repairing and installation in fixed telephony, etc.), have not been fulfilled by the Argentine government making it responsible for the damages caused.

Additional information on the Company's tariffs pesification, Letters of Understanding with the National Government / UNIREN and Price Cap are presented in consolidated financial statements of prior years.

(s) Other regulations

Buy Argentine Act

According to the provisions of Article 1 of Law No. 25,551, which is regulated by Decree No.1,600/02, Telecom Argentina, as a public fixed telephone service licensee, and their respective direct subcontractors, shall give preference to the purchase or lease domestic goods and services.

Article 2 of the mentioned law provides that a good or service is of domestic origin when it has been produced or extracted in Argentina, provided that the cost of raw materials, supplies or nationalized imported materials do not exceed 40% of the goods or services gross production value.

Article 3 of the mentioned law provides that the preference established in Article 1 to domestic goods or services will apply when, for identical or similar goods or services, under cash payment terms, the price is equal to or lower than the price of imported goods or services, increased by 7% when the offering of the good or services is carried out by companies qualified as SME, and 5% when the offering of the good or services is carried out by other companies. For comparison purposes, the price of imported goods shall include import duties and taxes and all expenses required for its nationalization.

The mentioned law provides that the hiring companies shall announce their tenders in the Official Bulletin as required by the regulation involved, so as to provide all possible bidders timely access to information that enables them to participate in the mentioned tender. It is worth mentioning that the communication provided in the hiring processes law for purchases subject to the Buy Argentine Act, establishes a considerable period prior to the issuance of the purchase order. The mentioned Act also establishes criminal sanctions for non-compliance.

Relating to services acquisitions, Decree No.1.600/02 refers to Law No. 18,875, which provides the obligation to hire only companies, consultants and domestic professionals, as defined in the mentioned Law. Any exceptions must be approved by the competent Ministry.

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In August 2004, the CNC Resolution No. 2,350/04, approved the Procedure for the accomplishment of the Buy Argentine Act , which includes the obligation to submit semiannual affidavits related to the compliance with the Act. The Act provides an administrative sanctions procedure for non compliance with this information procedure.

It is worth mentioning that this Act provides to the Company less operational flexibility related to, among other matters, the terms lengthening in tenders, authorizations management prior to acquisitions and higher administrative expenses for the required semiannual information submission.

Regulation Draft for Mobile Communication Service Subscribers

SECTIC Resolution 6-E/16 issued on September 16, 2016 declared the opening of the Procedure provided by the General Regulation for the Participatory Formulation of Regulations (Reglamento General para la Elaboración Participativa de Normas) in relation to the draft of Regulation for Mobile Communication Service Subscribers (Reglamento de Clientes de los Servicios de Comunicaciones Móviles) published in the Official Bulletin and on the ENACOM website. This Procedure invites citizens to express their opinions and proposals regarding the Regulation draft. The deadline for opinions and proposals submission expired on November 1, 2016. Personal submitted its comments to the Regulation draft.

Amendment Draft to the Number Portability Regulation

Through SECTIC Resolution 7-E/16 issued on September 16, 2016, the ICT Secretary declared the opening of the Consultation Document procedure provided by the General Regulation of Public Hearings and Consultation Documents for Communications (Reglamento General de Audiencias Públicas y Documentos de Consulta para las Comunicaciones), in relation to the Number Portability Regulation Amendment Project. The submission of opinions and proposals deadline expired on October 17, 2016. Personal submitted its opinion to the amendments proposed in the published draft.

Document on Consultation on Interconnection and ICT Services Network Access

Through SECTIC Resolution 9-E/16: published on September 22, 2016, the ICT Secretary declared the opening of the procedure provided by the General Regulation of Public Hearings and Consultation Documents for ICT Services in relation to the document Consultation on Interconnection and ICT Services Networks Access . On October 20, 2016, the Company submitted to the ICT Secretary its opinions and proposals for the published consultation.

Identification of Users of the Mobile Communications Service

Through Resolution No. 6-E/16, issued on November 10, 2016, the Ministry of Security and MINCOM, decided jointly to instruct ENACOM to adopt, within a period of 15 days, the necessary measures to identify all Mobile Communications Service users of the country in a Mobile Communications Service Identity Record.

ENACOM Resolution No. 8,507-E/16, published on December 2, 2016, approved the Regulation for the Mobile Communications Services user s identity validation. Personal is developing the necessary actions and implementations in order to comply with the registration guidelines of its subscribers, provided in this regulation.

Consultation on ICT Services Licenses Regulation Document

MINCOM and SECTIC Resolution No. 1-E/17, issued on January 20, 2017, declared the opening of the Consultation Document procedure provided in Annex I of the General Regulations for Public Hearings and Communications Consultation Documents , in relation to ICT Services Licenses Regulation project.

Blocking Procedure for handsets with Theft or Loss Report and Identification of Irregular IMEIS

ENACOM Resolution No. 2,459/16, published in the Official Bulletin of May 20, 2016, approved the Terminal Blocking Procedure for handsets with Theft or Loss Report and Identification of Irregular IMEIS , for the purpose of establishing the obligations to be complied by Mobile Communications Service Providers and Virtual Mobile Operators regarding the blocking of mobile handsets with theft or loss report, and the identification of Irregular IMEIs operating on their networks, as well as the obligations of loading and updating negative databases, or negative list .

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The Regulation entered into force since July 6, 2016 and among its main provisions establishes that SCM users should report the theft or loss of their telephone line and its associated ETM to its PSCM, which should block the Telephone line and its last associated IMEI without any exception, by including the latter in its Negative Database (BDN) at the time of receiving the complaint. The PSCM and the MVNO should make available to the users different channels of contact for the receipt of complaints, among which stand out: i) Personalized Attention in branches and customer service centers; li) Telephone Assistance, through a unique and free number to which the user must have access both by mobile telephone network and by fixed telephone network; lii) PSCM Web site.

The PSCM shall exchange their BDNs in order to ensure that the IMEIs contained therein are blocked or enabled in all networks, with a period of EIGHT (8) hours, and shall include the Authority Of Application in the circuit of exchange of registrations, so that the latter updates the Administrative Database, administered by the Application Authority.

The standard establishes control mechanisms in relation to Irregular IMEIs, which provide that the PSCM must arbitrate the necessary means to analyze their networks in order to detect the activity of ETM with Irregular IMEI, for later blocking, providing a Term for its implementation of 180 days, counted from the effective date of the Regulation.

It is also provided that the PSCM should block and include in their BDN all invalid IMEI detected. For the cases of the ETMs associated with a telephone line prior to the present time, the PSCM shall, within a period of TWO (2) years, block and include in the BDN all invalid IMEI detected in their Networks.

Personal is developing the necessary system implementations in order to comply with the provisions of this Regulation.

Request for preliminary opinion on the eventual case of corporate integration

During 2016 the Company's Management started a project to analyze the technical feasibility of a corporate integration with Personal, in order to simplify the business processes and reduce the cost structure of the Group. Within the framework of this Project, in December 2016, the Company and Personal requested to ENACOM a preliminary opinion on the conditions of the transfer of licenses and frequencies of Personal in favor of Telecom Argentina, prior to any corporate integration decision that the Directors of both companies would decide. In February 2017, clarifications were provided on the reasons for the request made. As of the date of issuance of these consolidated financial statements, the Regulator's response is still pending.

Tuves' shares purchase option for Nucleo

On October 4, 2016, Nucleo's Board of Directors authorized the execution of the shares purchase option that TU VES S.A (Chile) granted to Nucleo in order to acquire the controlling interest in Tuves.

On October 6, 2016 Tuves' shareholders accepted Núcleo's proposal for executing the shares purchase option (70% Tuves' total capital), which is subject to the CONATEL's previous approval.

As of the date of issuance of these consolidated financial statements, the CONATEL has not concluded on this matter.

Note 3 Significant accounting policies

a) Going concern

The consolidated financial statements for the years ended December 31, 2016, 2015 and 2014 have been prepared on a going concern basis as there is a reasonable expectation that Telecom Argentina and its subsidiaries will continue its operational activities in the foreseeable future (and in any event with a time horizon of more than twelve months).

b) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Argentine pesos (\$), which is the functional currency of all Telecom Group's companies located in Argentina. The functional currency for the foreign subsidiaries of the Telecom Group is the respective legal currency of each country.

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The financial statements of the Company's foreign subsidiaries (Núcleo, Personal Envíos, Telecom USA and Springville up to February 2014) are translated using the exchange rates in effect at the reporting date; for assets and liabilities while income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are recognized in Other Comprehensive Income. The cash flows of foreign consolidated subsidiaries expressed in foreign currencies included in the consolidated statement of cash flows are translated at the average exchange rates for each year.

c) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the foreign exchange rate prevailing at the reporting date. Exchange differences are recognized in the consolidated income statement and are included in Financial income/expenses as Foreign currency exchange gains or losses.

d) Consolidation

These consolidated financial statements include the accounts of Telecom Argentina and its subsidiaries over which it has effective control (Personal, Núcleo, Micro Sistemas, Telecom USA, Personal Envíos and Springville up to February 2014) as of December 31, 2016, 2015 and 2014.

Control exists when the investor (Telecom Argentina) has power over the investee; exposure, or rights, to variable returns from its involvement with the investee and has the ability to use its power to affect the amount of the returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They should be deconsolidated from the date that control ceases.

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and non-controlling interests in the equity and in the profit (loss) for the year are disclosed separately under appropriate captions, respectively, in the consolidated statement of financial position, in the consolidated income statement and in the consolidated statement of comprehensive income.

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

Financial year-end of all the subsidiaries' financial statements coincides with that of the Parent and are prepared as of the same closing date and in accordance with the same accounting policies.

e) **Revenues**

Revenues are recognized to the extent that it is considered probable that economic benefits will flow to the Company and their amount can be measured reliably. Final outcome may differ from those estimates.

Revenues are stated net of discounts and returns.

The Company discloses its revenues into two groups: services and equipment. Service revenues are the main source of income for the Company and are disclosed by nature: Voice services, Internet services and Data transmission services. This classification of revenues is given by different commercial offers and products, type of contracts and kind of customers. Equipment sales represent a precursor of the mentioned service revenues; therefore, the Group only sells equipment to customers and, from time to time, the Management of Personal and Núcleo decide to sell mobile handsets at prices lower than their respective costs in order to acquire new contracts with a minimum non-cancelable period of permanence.

Other income mainly includes penalties collected from suppliers which are realized in the ordinary course of business but are not the main business objective.

The Company's principal sources of revenues are:

Fixed telecommunication services and products

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.

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Revenues are recognized when services are rendered. 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 year.

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 on a monthly basis as services are provided.

Revenues from the sale of prepaid calling cards are recognized on the basis of the minutes used, at the contract price per minute, or when the card expires, whichever happens first. Remaining unused traffic for unexpired calling cards is shown as Deferred revenue on prepaid calling cards under Deferred revenues line item in the statement of financial position.

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 when they are provided.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other telecommunication operators.

Non-refundable up-front connection fees for fixed telephony, data and Internet services that are non-separable from the service are accounted for as a single transaction and deferred (as well as the related costs not in excess of the amount of revenues) over the term of the contract or, in the case of indefinite period contracts, over the average period of the customer relationship (approximately 8 years in the case of fixed telephony's voice services).

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 up to an amount equal to or less than the amount of deferred revenues. Generally, reconnection revenues are higher than its associated direct expenses.

Revenues from sales of goods, such as telephone and other equipment, are recognized when the significant risks and rewards of ownership are transferred to the buyer.

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method). When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

No revenue or costs on construction contracts were recorded for years 2016 and 2015, respectively.

Revenue on construction contracts recognized in the year ended December 31, 2014 amounted to \$7. The 2014 agreement provides finance within 48 months from November 2014, the date when the implementation of the project was effective. As of December 31, 2016, \$17 are receivables.

Cost on construction contracts recognized in the year ended December 31, 2014 amounted to \$6

Revenue from international telecommunications services mainly includes 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 when they are provided.

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 when they are rendered.

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Mobile telecommunication services and products

Telecom Group provides mobile services throughout Argentina via cellular and PCS networks. Cellular fees consist of monthly basic fees, airtime usage charges, roaming, charges for TLRD, CPP charges and additional charges for VAS, including call waiting, call forwarding, three-way calling, voicemail, SMS, GPRS, Mobile Internet and for other miscellaneous cellular services. These revenues are recognized as services when they 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 the corresponding accounts receivable.

Revenues from the sale of prepaid calling cards are recognized on the basis of the traffic used, at the contract price per minute, or when the card expires, whichever happens first. Remaining unused traffic for unexpired calling cards is shown as Deferred revenue on prepaid calling cards under Deferred revenues line item in the statement of financial position.

Revenues from sales of goods, such as handsets, sim cards, tablets, smartphones and other equipment are recognized when the significant risks and rewards of ownership are transferred to the buyer.

Personal and Núcleo offer to their subscribers a customer loyalty program. Under such program Personal and Núcleo grant award credits as part of the sales transactions which can be subsequently redeemed for goods or services provided by Personal and Núcleo or third parties. The fair value of the award credits is accounted for as deferred revenue, and recognized as revenue when the award credits are redeemed or expire, whichever occurs first. Those revenues are classified as service or goods revenues depending on the goods or services redeemed by the customers.

Applicable to both fixed telephony and mobile telephony, for offerings including separately identifiable components (as equipment and service), the Company and its subsidiaries recognize revenues related to the sale of the equipment when it is delivered to the final customer whereas service revenues are recorded when rendered. The total revenue generated by this type of transactions is assigned to the separately identifiable units of accounting based on their fair values, provided that the total amount of revenue to be recognized does not exceed the contract revenue. IFRS does not prescribe a specific method for such assignment of revenue. However, telecommunications industry practice generally applies the method known as residual method, which was used in the preparation of the present consolidated financial statements. The residual method requires identifying all the components that comprise a transaction and allocating its fair value on an individual basis to each of them. Under this method, the fair value of a delivered item (which could not be individually determined) is determined as the difference between the total arrangement consideration and the sum of the fair values of those elements for which fair value can be estimated on a stand-alone basis.

f) Financial instruments

f.1) Financial assets

Financial assets and liabilities, on initial recognition, are measured at transaction price as of the acquisition date. Financial assets are derecognized in the financial statement when the rights to receive cash flows from them have expired or have been transferred and the Company has transferred substantially all the risks and benefits of ownership.

Upon acquisition, in accordance with IFRS 9, financial assets are subsequently measured at either *amortized cost*, or *fair value*, on the basis of both:

- (a) the entity's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset.

A financial asset shall be measured at *amortized cost* if both of the following conditions are met:

- (a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Additionally, for assets that met the abovementioned conditions, IFRS provides for an option to designate, at inception, those assets as measured at *fair value* if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

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A financial asset that is not measured at *amortized cost* according to the paragraphs above is measured at *fair value*.

Financial assets include:

Cash and cash equivalents

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed three months.

Cash and cash equivalents are recorded, according to their nature, at fair value or amortized cost.

Time deposits are valued at their amortized cost.

Investments in other short-term investments are carried at fair value. Gains and losses are included in financial results as other short-term investment gains. During 2016 and 2015, Personal acquired other short-term investments whose main underlying asset is adjustable to the variation of the US\$/ $\text{\$}$ exchange rate (dollar linked).

Investments in Lebacs are valued at amortized cost.

Trade and other receivables

Trade and other receivables classified as either current or non-current assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less allowances for doubtful accounts.

Investments

During 2016, Telecom Argentina received in payment certain Provincial Government bonds denominated in Argentine pesos (Provincia de Mendoza and Provincia de Buenos Aires) that bear interests in Argentine pesos. These Provincial Government bonds are valued at amortized cost and their results are included in Financial results as investment gains.

Those National, Provincial and Municipal Governments bonds denominated in foreign currency whose initial intention is to keep them until their maturity, are measured at amortized cost and bear an interest in foreign currency. In this particular case, Management estimated the US Dollar denominated cash flows to be generated until maturity and compared that amount to the fair value of the instrument in US Dollars at the acquisition date. The acquisition cost in US Dollars has been adjusted by applying the IRR and the resulting value was converted to Argentine pesos using the exchange rate as of the date of measurement. The exchange differences generated by these bonds are included in Financial expenses as Foreign currency exchange gains or losses.

Likewise, Telecom Argentina and Personal acquired Government bonds during 2015 and 2016. Taking into account the business model chosen to manage these financial assets, and according to the provisions of IFRS 9, these bonds are recorded at their fair value and its results were included in Financial results Other investments gains.

Núcleo s purchase option for the 70% interest stake in Tuves Paraguay S.A. is recorded at its fair value through profit or loss according to IFRS 9.

The 2003 Telecommunications Fund is recorded at fair value.

Impairment of financial assets

At every annual or interim closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the consolidated income statement for financial assets measured at cost or amortized cost.

Certain circumstances of impairment of financial assets that the Group assesses to determine whether there is objective evidence of an impairment loss could include: delay in the payments received from customers; customers that enter bankruptcy; the disappearance of an active market for that financial asset because of financial difficulties; observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, significant financial difficulty of the obligor, among others.

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f.2) Financial liabilities

Financial liabilities comprise trade payables (excluding Derivatives), financial debt, which include Notes as informed in Note 12 to these consolidated financial statements, salaries and social security payables (see n) below) and certain other liabilities.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost. Amortized cost represents the initial amount net of principal repayments made, adjusted by the amortization of any differences between the initial amount and the maturity amount using the effective interest method.

f.3) Derivatives

Derivatives are used by Telecom Group to manage its exposure to exchange rate and sometimes interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to pre-established operational limits.

All derivative financial instruments are measured at fair value in accordance with IFRS 9.

Derivative financial instruments qualify for Hedge Accounting only when:

- a) The hedging relation consists only on hedging instruments and hedged items eligible;
- b) Since its inception the hedging relation and the purpose and risk management strategy, are formally designated and documented;
- c) the hedge is expected to fulfill the efficacy requirements described in Note 20 Hedge Accounting.

When a derivative financial instrument is designated as a cash flow hedge (the hedge of the exposure to variability in cash flows of an asset or liability, a firm commitment or a highly probable forecasted transaction) the effective portion of any gain or loss on the derivative financial instrument is recognized directly in OCI. The cumulative gain or loss is removed from OCI and recognized in the consolidated income statement at the same time as the hedged transaction affects the consolidated income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the consolidated income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in OCI are immediately recognized in the consolidated income statement.

If hedged item is a prospective transaction that results in the recognition of a non-financial asset or liability or a firm commitment, the cumulative gain or loss that was initially recognized in OCI is reclassified to the carrying amount of such asset or liability.

If Hedge Accounting is not appropriate, gains or losses arising from the fair value measurement of derivative financial instruments are directly recognized in the consolidated income statement.

For additional information about derivatives operations during 2016 and 2015, see Note 20.

g) Inventories

Inventories are measured at the lower of cost and estimated net realizable value. Cost is determined on a weighted average cost basis. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Allowances are made for obsolete and slow-moving inventories.

From time to time, the Management of Personal and Núcleo decide to sell mobile handsets at prices lower than their respective costs. This strategy is aimed at achieving higher service revenues or at retention of high value customers by reducing customer access costs while maintaining the companies' overall mobile business profitability since the customer subscribes a monthly service contract for indefinite period with a minimum period of permanence and, if the contract is abandoned in advance, the mobile company has the right to cancel, totally or partially, the bonus granted to the customer at the beginning of the contractual relationship. For the estimation of the net realizable value in these cases the Company considers the estimated selling price in normal course of business less applicable variable selling expenses plus the expected margin from the service contract signed during its minimum non-cancelable term.

h) PP&E

PP&E is stated at acquisition or construction cost. Subsequent expenditures are capitalized only when they represent an improvement, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

All other subsequent costs are recognized as expense in the period in which they are incurred, unless they are improvements. When a tangible fixed asset comprises major components having different useful lives, these components are accounted for as separate items if they are significant.

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PP&E cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized in the statement of financial position under Provisions line item at its present value. These capitalized costs are depreciated and charged to the consolidated income statement over the useful life of the related tangible assets in the Depreciation and amortization item line.

The accounting estimates for dismantling costs, including discount rates, and the dates in which such costs are expected to be incurred are annually reviewed. Changes in the above liability are recognized as an increase or decrease of the cost of the relative asset and are depreciated prospectively.

Depreciation of PP&E owned is calculated on a straight-line basis over the ranges of estimated useful lives of the assets; the ranges of the estimated useful lives of the main PP&E are the following:

| Asset | Estimated useful life (in years) |
|--|---|
| Buildings received from ENTel | 35 |
| Buildings acquired subsequent to 11/8/90 | 50 |
| Tower and pole | 10 15 |
| Transmission equipment | 3 20 |
| Wireless network access | 3 10 |
| Switching equipment | 5 7 |
| Power equipment | 7 15 |
| External wiring | 3 20 |
| Computer equipment and software | 3 5 |
| Telephony equipment and instruments | 5 |
| Installations | 2 10 |

The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously taking into account, among others, technological obsolescence, maintenance and condition of the assets and different intended use from previous estimates. The effect of such changes is recognized prospectively in the consolidated income statement.

i) Intangible assets

Intangible assets are recognized when the following conditions are met: the asset is separately identifiable, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably.

Intangible assets with a finite useful life are stated at cost, less accumulated amortization and impairment losses, if any.

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Intangible assets with an indefinite useful life are stated at cost, less accumulated impairment losses, if any.

Intangible assets comprise the following:

- *Subscriber acquisition costs (SAC)*

Direct and incremental costs incurred for the acquisition of new subscribers with a minimum contractual period are capitalized when the conditions for the recognition of an intangible asset are met.

The cost of acquiring postpaid and *cuentas claras* subscribers in mobile telephony and broadband customers in fixed telephony meet the conditions established by IFRS for its recognition as intangible asset, since these contracts establish a minimum contractual period, which guarantees minimum monthly income by installments and, in the event of early cancellation, grants the right to cancel bonuses granted at the beginning of the contractual relationship (i.e, equipment bonuses). SAC are mainly related to the mobile services; and are mainly comprised of upfront commissions paid to third parties and, to a lower extent, of subsidies granted to customers on the sale of handsets.

In all other cases, subscriber acquisition costs are expensed when incurred.

Capitalized SAC are amortized on a straight-line basis over the term of the contract with the customer acquired.

On August 17, 2016, Law No. 27,265 (in force since August 29, 2016) was published in the Official Bulletin incorporating an amendment to Law No. 24,240 of Consumer Protection. This incorporation (in Section 10 *quáter*) establishes the prohibition of collection of advance notice, advance month and/or any other concept, by service providers, including public services, in the cases of unsubscription request made by subscribers, either in a personal, telephonic, electronic or similar way. In this sense, since last quarter of 2016, the Company complies with these regulations, where applicable, and the Company's Management will continue assessing the effects of the new regulations in its SAC capitalization policies.

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- Service connection or habilitation costs

Direct costs incurred for connecting customers to the network are accounted for as intangible assets and then amortized over the term of the contract with the customer if required conditions are met. For indefinite period contracts, the deferral of these costs is limited to the amount of non contingent revenue from the customer and expensed over the average period life of the customer relationship. Costs exceeding that amount are expensed as incurred. Connection costs are generated mainly for the installation of fixed lines and amortized over an average period of 8 years.

- 3G/4G licenses

As described in Note 2.j, it includes 3G and 4G frequencies awarded by the SC to Personal in November 2014 and June 2015. In accordance with Article 12 of the Auction Terms and Conditions they were granted for a period of 15 years as from the date of awarding notification. After this deadline, the Regulatory Authority may extend the term at Personal's request. The extension of the term, the related cost and conditions shall be defined by the Regulatory Authority.

Consequently, the Company's management has concluded that the 3G and 4G licenses have a finite useful life and therefore are amortized under the straight-line method over 180 months.

As a consequence of Section 4 (d) of PEN Decree No. 1,340/16, which is described in Note 2.h), the remaining useful life of the frequencies included in lot 8 of the auction was re-estimated in 4Q16. It was considered that 700 Mhz bands would be released since May 2017 and, in compliance with the mentioned Decree, the period of 15 years from such date was computed. The re-estimation of the period of use of the spectrum generated a reduction of approximately \$48 of the depreciations previously recorded during 2016.

- PCS license (Argentina)

The Company, based on an analysis of all of the relevant factors, has considered the license having an indefinite useful life since there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

- PCS and Band B licenses (Paraguay)

Initial acquisition costs of Núcleo's PCS and Band B licenses were amortized under the straight-line method over 120 months. These licenses were successively renewed for a period of 5 years, estimating the finalization of its amortization during year 2017.

- Internet and data transmission license (Paraguay)

Núcleo s license 60 years amortization was finished in fiscal year 2016.

- Rights of use

The Company purchases network capacity under agreements which grant the exclusive right to use a specified amount of capacity for a specified period of time. Acquisition costs are capitalized as intangible assets and amortized over the terms of the respective capacity agreements, generally 180 months.

- 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, with expiration ranging from financial year 2009 to financial year 2028.

- Customer relationships

Customer relationships identified as part of the purchase price allocation performed upon the acquisition of Cubecorp Argentina S.A. (a company engaged in data center business) in financial year 2008, are being amortized over the estimated duration of the relationship for customers in the data center business (180 months).

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j) **Leases**

Finance leases

Leases that transfer substantially all the risks and benefits incidental to ownership of the leased asset are classified as finance leases. The Company recognizes finance leases as assets and liabilities in its statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Subsequently, minimum lease payments are apportioned between a finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

As of December 31, 2016 the Telecom Group hold finance leases which represents current commercial liabilities in the amount of \$47 and non-current commercial liabilities of \$11. The total payable at these leases maturity amounts to \$61. PP&E related to these financial leases and several of the mentioned leases contracts characteristics as of December 31, 2016 are detailed below:

| | Book value | Lease term | Depreciation |
|--|-------------------|-------------------|---------------------|
| PP&E Computer equipment | 77 | 3 years | 3 years |
| Accumulated depreciation | (37) | | |
| Net carrying value as of December 31, 2016 | 40 | | |

Operating leases

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative.

In the normal course of business, the Company leases cell sites, switch sites, satellite capacity and circuits under various non-cancellable operating leases that expire on various dates through 2028. Rental expenses are included under Interconnection costs and other telecommunication charges and Other operating expenses items lines in the consolidated income statements.

k) **Impairment of intangible assets and PP&E**

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At least annually, the Company assesses whether there are any indicators of impairment of assets that are subject to amortization. Both internal and external sources of information are used for this purpose. Internal sources include, among others, obsolescence or physical damage of the asset, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include, among others, the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

The carrying value of an asset is considered impaired by the Company when it is higher than its recoverable amount. In that event, a loss shall be recognized in the statement of income.

The recoverable value of an asset is the higher of its fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the evaluated asset.

Where it is not possible to estimate the recoverable value of an individual asset, the Company estimates the recoverable value of the cash-generating unit to which the asset belongs. The Company considers each legal entity of the Group as a cash-generating unit.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded if no impairment loss had been recognized. The reversal of an impairment loss is recognized as income in the consolidated income statement.

Intangible assets with an indefinite useful life (including intangible assets under development or not ready to use) are not subject to amortization and are tested at least annually for impairment. The only intangible asset with an indefinite useful life held by the Company as of December 31, 2016 and 2015 is the PCS license (Argentina), which is entirely allocated to the Personal Mobile Service operating segment. Its recoverable amount is determined based on the value in use, which is estimated using discounted net cash flows projections.

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For the years presented, the Company estimates that does not exist indicators of impairment of assets that are subject to amortization, with the exception of those referred to in the following paragraphs.

During 2016 and 2015, Telecom Argentina has assessed the recoverability of certain works in progress and materials related to AFA Plus Project, recognizing a \$3 and \$107 impairment loss, respectively, and recording an impairment for the total book value of the assets involved (Note 17.4). During 2015, Personal recorded an impairment of \$49 related to the total amount of works related to the discontinuation of the Orga Gold IT project. During 2016 and 2015, Personal recorded an impairment of \$343 and \$21, respectively, related to the mobile access modernization and replacement of its cellular network's access technology in Argentina.

Likewise, in 2016 and 2015, Telecom Argentina and Personal has assessed the recoverability of a group of former work in progress, recording an impairment of \$37 and \$53 as of December 31, 2016 and 2015, respectively (equivalent to its book value).

The net effects of the constitution and recovery of the mentioned impairments are recorded under Impairment of PP&E line item. Additional information disclosed in Note 22.

I) 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.

Pension benefits shown under Other liabilities represent benefits under collective bargaining agreements for employees who retire upon reaching normal retirement age, or earlier due to disability in Telecom Argentina. 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 in the income statement, segregating the financial component, as employees render the services necessary to earn pension benefits. However, actuarial gains and losses should be presented in the statements of comprehensive income. Actuarial assumptions and demographic data, as applicable, were used to measure the benefit obligation as required by IAS 19 revised. The Company does not make plan contributions or maintain separate assets to fund the benefits at retirement.

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The actuarial assumptions used are based on market interest rates, past experience and Management's best estimate of future economic conditions. Changes in these assumptions may impact future benefit costs and obligations. The main assumptions used in determining expense and benefit obligations are the following rates and salary ranges:

| | 2016 | 2015 | 2014 |
|---|--------------|---------------|---------------|
| Discount rate (1) | 4.8% - 6.2% | 6.5% - 8.5% | 7.0% - 8.5% |
| Projected increase rate in compensation (2) | 8.0% - 22.5% | 12.0% - 26.8% | 13.0% - 28.2% |

(1) Represents estimates of real rate of interest rather than nominal rate in \$.

(2) In line with an estimated inflationary environment for the next three financial years.

Additional information on pension benefits is provided in Note 16.

- **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. It is carried at amortized cost.

- m) **Deferred revenues**

Deferred revenues include:

- Deferred revenues on prepaid calling cards

Revenues from unused traffic and data packs for unexpired calling cards are deferred and recognized as revenue when the minutes and the data are used by customers or when the card expires, whichever happens first. See Note 3.e. Revenues - Fixed telecommunication services and products.

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- *Deferred revenues on connection fees*

Non-refundable up-front connection fees for fixed telephony, data and Internet services that are non-separable from the service are accounted for as a single transaction and deferred over the term of the contract, or in the case of indefinite period contracts, over the average period of customer relationship. See Note 3.e. Revenues Fixed telecommunication services and products and Mobile telecommunication services and products.

- *Customer Loyalty Programs*

The fair value of the award credits regarding Personal and Núcleo s customer loyalty program is accounted for as deferred revenue, and recognized as revenue when the award credits are redeemed or expire, whichever occurs first. See Note 3.e. Revenues Mobile telecommunication services.

- *Deferred revenue on sale of capacity and related services*

Under certain network capacity purchase agreements, the Company sells excess purchased capacity to other carriers. Revenues are deferred and recognized as services are provided. Those revenues are recorded under Data line item.

- *Deferred income for CONATEL s government grants*

During 2010 and 2011, the CONATEL awarded to Núcleo public tenders for the expansion of the network infrastructure that provides a platform for access to mobile services and basic services in social interest areas in Paraguay.

Government grants are recognized on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. In accordance with IAS 20 the government grants related to assets can be presented either in the statement of financial position as deferred income or as a reduction of the carrying amount of related asset. The Company elected the first alternative provided by the standard considering that recognition as deferred income adequately reflects the business purpose of the transaction. Therefore, the related assets were recognized at the cost incurred by Núcleo in the construction of the engaged infrastructure and the government grant was accounted for as deferred income and recognized in profit or loss starting at the time the infrastructure becomes operative and throughout its useful life.

n) **Salaries and social security payables**

Include unpaid salaries, vacation and bonuses and its related social security contributions, as well as termination benefits. See f.2) above for a description of the accounting policy regarding the measurement of financial liabilities.

Termination benefits represent severance indemnities that are payable when employment is terminated in accordance with labor regulations and current practices, or whenever an employee accepts voluntary redundancy in exchange for these benefits. In the case of severance compensations resulting from agreements with employees leaving the Company upon acceptance of voluntary redundancy, the compensation is usually comprised of a special cash bonus paid upon signing the severance agreement, and in certain cases may include a deferred compensation, which is payable in monthly installments calculated as a percentage of the prevailing wage at the date of each payment (*prejubilaciones*). The employee's right to receive the monthly installments mentioned above starts on the date they leave the Company and ends either when they reach the legal mandatory retirement age or upon the decease of the beneficiary, whichever occurs first.

o) Taxes payables

The Company is subject to different taxes and levies such as municipal taxes, tax on deposits to and withdrawals from bank accounts, turnover taxes, regulatory fees (including SU) and income taxes, among others, that represent an expense for the Group. It is also subject to other taxes over its activities that generally do not represent an expense (internal taxes, VAT, ENARD tax).

If the income tax payments and withholdings exceed the amount to pay for the current tax, the excess shall be recognized as a tax credit, only if it is recoverable.

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The principal taxes that represent an expense for the Company are the following:

- Income taxes

Income taxes are recognized in the consolidated income statement, except to the extent that they relate to items directly recognized in Other comprehensive income or directly in equity. In this case, the tax is also recognized in Other comprehensive income or directly in equity, respectively. The income tax expense for the year comprises current and deferred tax.

As per Argentinean Tax Law, income taxes payables have been computed on a separate return basis (i.e., the Company is not allowed to prepare a consolidated income tax return). All income tax payments are made by each of the subsidiaries as required by the tax laws of the countries in which they operate. The Company records income taxes in accordance with IAS 12.

Deferred taxes are recognized using the liability method. Temporary differences arise when the tax base of an asset or liability differs from their carrying amounts in the consolidated financial statements. A deferred income tax asset or liability is recognized on those differences, except for those differences related to investments in subsidiaries that generate a deferred income tax liability, where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets relating to unused tax loss carry forwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets arising from investment in subsidiaries are recognized when it is probable that the temporary differences will be reversed in the foreseeable future and when future taxable income would be sufficient to apply those temporary differences.

The book value of a deferred tax asset shall be revised at the end of every reporting period. The company shall reduce the carrying amount of a deferred tax asset if it is probable that future taxable income will not be available to offset the benefits of the deferred tax asset. This reduction shall be reassessed at each reporting period and reversed if it becomes probable that future taxable income to offset the deferred tax asset will be available.

The statutory income tax rate in Argentina was 35% for all years 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.

Changes in the Income Tax Law

On September 23, 2013, Law No. 26,893 was published in the Official Bulletin. This Law introduced changes to the Income Tax in relation to, among others, the taxability of the share s purchase/sale results and dividend s collection. On February 7, 2014, the PEN established regulatory specifications in this area through Decree No. 2,344/13.

- *Results derived from transfers of shares*

The effective tax rate applicable for individuals is 15% (for local companies the applicable rate is 35%). Negative results arising from such operations will have the character of specific and can only be offset against future earnings from operations of the same nature.

However, results from the transfer of such securities are exempt from such income tax when they are listed on stock exchange markets authorized by the CNV (as in the case of Telecom Argentina s shares) and the gains are realized by individuals or undivided estates residents in Argentina.

When both the seller and the buyer are nonresidents, the person liable to pay the tax shall be the buyer of the shares, quotas, equity interests and other securities transferred.

- *Dividend distributions*

Dividends and profits paid in cash or in kind except for stock dividends or quota dividends ,by companies and other entities incorporated in Argentina mentioned in subsection a), paragraphs 1, 2, 3, 6 and 7 and subsection b) of Section 69 of the Income Tax Law, were subject to income tax at a 10% rate, except for dividends received by domestic companies and other domestic entities, which continued to be not subject to income tax. Dividends distributed to nonresidents shall be subject to a 10% withholding tax as an unique and definitive payment. Consequently, any dividend distribution made by the Company to its shareholders shall be subject to this broadened tax, except for those beneficiaries that are domestic corporate taxpayers sujetos empresa and regardless of, if applicable, the so called Equalization Tax .

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Law No. 27,260 repealed the above mentioned provision, as a result of which, as from July 23, 2016 all dividends and profits, in cash or in any kind, made by companies and other entities established in the country (such as Telecom Argentina), regardless their beneficiary, are not subject to the aforementioned withholding.

The statutory income tax rate in Paraguay was 10% for all years 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 15%). However, the effect of the additional income tax rate according to the Argentine tax law in force on the undistributed profits of Núcleo is fully recognized as it is considered probable that those results will flow to Personal in the form of dividends.

The statutory income tax rate in the United States was 39.50% for the years ended December 31, 2016, 2015 and 2014.

- Turnover tax

Under Argentine tax law, the Company is subject to a tax levied on revenues and other income. Rates differ depending on the jurisdiction where revenues are earned for tax purposes and on the nature of revenues (services and equipment). Average rates resulting from the turnover tax charge over the total revenues were approximately 5.3%, 5.2% and 5.4% for the years ended December 31, 2016, 2015 and 2014, respectively.

- Other taxes and levies

Since the beginning of 2001, telecommunication services companies have been required to make a SU contribution to fund SU requirements (Note 2.g). The SU tax is calculated as a percentage of the total revenues received from the rendering of telecommunication services, net of taxes and levies applied on such revenues, excluding the SU tax and other deductions stated by regulations. The rate is 1% of total billed revenues and adopts the pay or play mechanism for compliance with the mandatory contribution to the SU fund.

p) Provisions

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

If the effect of the time value of money is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The

increase in the provision due to the passage of time is recognized as Finance expenses . Additional information is given in Note 17.

Provisions also include the expected costs of dismantling assets and restoring the corresponding site if a legal or constructive obligation exists, as mentioned in h) above. The accounting estimates for dismantling costs, including discount rates, and the dates in which such costs are expected to be incurred are reviewed annually, at each financial year-end.

q) Dividends

Dividends payable are reported as a change in equity in the year in which they are approved by the Shareholders Meeting.

r) Finance income and expenses

Finance income and expenses include:

- interest accrued on the related financial assets and liabilities using the effective interest rate method;
- changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss;
- gains and losses on foreign exchange and financial instruments;
- other financial results.

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s) Treasury Shares Acquisition

In connection with the Treasury Shares Acquisition Process described in Note 19 d) to these consolidated financial statements, the Company has applied the guidance set forth in IAS 32, which provides, consistently with the CNV Regulations, that any instruments of its own equity acquired by the Company must be recorded at the acquisition cost and must be deducted from Equity under the caption Treasury shares acquisition cost. No profit or loss resulting from holding such instruments of own Equity shall be recognized in the income statement. If the treasury shares are sold, the account Treasury shares acquisition cost shall be recorded within Equity under the Treasury shares negotiation premium caption. If such difference is negative, the resulting amount shall be recorded within Equity under the Treasury shares negotiation discount caption.

t) Earnings per share

Basic earnings per share are calculated by dividing the net income or loss attributable to owners of the Parent by the weighted average number of ordinary shares outstanding during the year (see Note 25).

u) Use of estimates

The preparation of consolidated financial statements and related disclosures in conformity with IFRS requires Management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate.

Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are addressed below:

| Financial statement item / area | Accounting estimates |
|---------------------------------|---|
| Revenues | Revenue recognition is influenced by: <ul style="list-style-type: none"> • the expected duration of the relationship with the customer for deferred revenues regarding upfront connection fees; • the estimation of traffic measures. |

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| | |
|--|---|
| Useful lives and residual value of PP&E and Intangible assets | <ul style="list-style-type: none"> the legal validity of the changes in certain fixed services prices after LAD enforcement (Note 2.q). <p>PP&E and intangible assets, except for indefinite useful life intangibles, are depreciated or amortized on a straight-line basis over their estimated useful lives. The determination of the depreciable amount of the assets and their useful lives involves significant judgment. The Company periodically reviews, at least at each financial year-end, the estimated useful lives of its PP&E and amortizable intangible assets.</p> |
| Recoverability of PP&E and intangible assets with finite useful life | <p>At least at every annual closing date, an assessment is made regarding whenever events or changes in circumstances indicate that PP&E and amortizing intangible assets may be impaired.</p> <p>The recoverable amount is the higher of the fair value (less costs to sell) and its value in use. The identification of impairment indicators and the estimation of the value in use for assets (or groups of assets or cash generating units) require management to make significant judgments concerning the validation of impairment indicators, expected cash flows and applicable discount rates. Estimated cash flows are based on significant Management's assumptions about the key factors that could affect future business performance such as the future market share, competition level, capital expenditures, salary increases, foreign exchange rates evolution, capital structure, capital cost, etc.</p> <p>For the years presented the Company estimated that there are no indicators of impairment of assets that are subject to amortization, with the exception of those mentioned in the point k) of this note. However, changes in our current expectations and operating assumptions, including changes in our business strategy, technology, competition and changes in market conditions, could significantly impact these judgments and could require future adjustments to the recorded assets.</p> |
| Intangible assets with indefinite useful life PCS license | <p>The Telecom Group determined that Personal's PCS license met the definition of an indefinite-lived intangible asset for the years presented and tests it annually for impairment. The recoverability assessment of an indefinite-lived intangible asset such as the PCS license requires our Management to make assumptions about the future cash flows expected to be derived from such asset.</p> <p>Such estimated cash flows are based on significant Management's assumptions about the key factors that could affect future business performance such as the future market share, competition level, capital expenditures, salary increases, foreign exchange rates evolution, capital structure, discount rate, etc. The discount rate used to determine the discounted cash flow is an annual US dollar rate of approximately 11%.</p> <p>Our judgments regarding future cash flows may change due to future market conditions, business strategy, the evolution of technology and other factors. These changes, if any, may require adjustments to the carrying amount of the PCS license.</p> |

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| Financial statement item / area | Accounting estimates |
|--|---|
| Income taxes, recoverability assessment of deferred tax assets and other tax receivables | <p>Income taxes (current and deferred) are calculated in each company of the Telecom Group according to a reasonable interpretation of the tax laws in effect in each jurisdiction where the companies operate. The recoverability assessment of deferred tax assets sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets takes into account the estimate of future taxable income based on the Company's projections and on conservative tax planning.</p> <p>The recoverability assessment of the tax receivable related to the actions of recourse filed by the Company's related to income tax inflation adjustment (Note 14) is based on the existing legal arguments on this matter and the behavior of the National Tax Authority in revising the actions of recourse filed by the Company.</p> |
| Receivables and payables valued at amortized cost | <p>Receivables and payables valued at amortized cost are initially recorded at their fair value, which is generally determined by using a discounted cash flow valuation method. The fair value under this method is estimated as the present value of all future cash flows discounted using an estimated discount rate, especially for long term receivables and payables. The estimated discount rate used to determine the discounted cash flow of non-current receivables is an annual rate in pesos of approximately 34% for year 2015. Additionally, a 13% annual U.S. dollars was used for discounting long term receivables denominated in U.S. dollars during 2016 and 2015, respectively. Discount rates for accounts receivables were 9.8% in both years and discount rates in Guaranies for loans were 9.42% in both years too.</p> |
| Provisions | <p>The Company is subject to proceedings, lawsuits and other claims related to labor, civil, tax, regulatory and other matters. In order to determine the proper level of provisions, Management 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. Internal and external legal counsels are consulted on these matters. A determination of the amount of provisions required, if any, is made after careful analysis of each individual issue. The determination of the required provisions may change in the future due to new developments in each matter, changes in jurisprudential precedents and tribunal decisions or changes in its method of resolving such matters, such as changes in settlement strategy.</p> |
| Allowance for Doubtful Accounts | <p>The recoverability of trade receivables is measured by considering the aging of the accounts receivable balances, the necessity or request of customers unsubscribe, historical write-offs, Public Sector and corporative customer creditworthiness and changes in the customer payment terms. If the financial condition of the customers were to deteriorate, the actual write-offs could be higher than expected.</p> |

In the absence of a Standard or an Interpretation that specifically applies to a particular transaction, Management carefully considers the IFRS general framework and valuation techniques generally applied in the telecommunication industry and uses its judgment to evaluate the accounting methods to adopt with a view to providing financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Group, reflect the economic substance of the transactions, be neutral, be prepared on a prudent basis and be completed in all material respects.

New Standards and Interpretations issued by the IASB not in force

As required by IAS 8, the IFRS issued by the IASB not in force as of the date of these consolidated financial statements are reported below and briefly summarized. These standards have not been adopted by the Company.

IFRS 15 (Revenue from Contracts with Customers)

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In May 2014 the IASB issued IFRS 15. This IFRS applies to all revenue contracts (except for contracts that are within the scope of IAS 17, leases, IFRS 4, Insurance Contracts and IFRS 9, Financial Instruments). IFRS 15 provides a single model for the recognition and measurement of revenues and replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. It also establishes additional disclosure requirements and a 5-step model for revenue recognition, being the identified steps:

- 1) Identify the contract(s) with a customer;
- 2) Identify the performance obligations in the contract;
- 3) Determine the transaction price;
- 4) Allocate the transaction price to the performance obligations in the contract; and
- 5) Recognize revenue when (or as) the entity satisfies a performance obligation.

The allocation of the transaction price among different performance obligations required by IFRS 15 is one of the main issues that telecommunications companies have to assess, mainly because of the great variety of plans they offer to their customers by combining services and equipments. Another relevant issue to the telecommunications industry is the capitalization of incremental costs of obtaining a contract if the entity estimates that they will be recovered.

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The Company has initiated a project to assess the impact of the application of IFRS 15. The Group sells- especially in the mobile business -, mobile services separately at a single price for each service plan or service package (usually monthly charges). Optionally, the subscriber can purchase the service packages or plans (at the single price at which they are sold) with a handset, at a price contractually established (with profit margin for the Company). It is worth mentioning that the Company does not actually sell handsets separately (for example, without a service plan), and the handsets prices fluctuate among subscribers' categories according to the Company's marketing strategy in a very competitive context. Therefore, the Company's management believes that the services and handsets list prices are evidence of such products fair values representing a source of information in the determination of the standalone selling price of its subscribers' agreements compliance obligations.

However, there are other technical interpretations that consider that even in the described business conditions, handsets discounts contractually granted should be proportionally allocated between services and handsets chosen by subscribers on the basis of standalone selling price of each product or service. Such interpretations assume that one type of handset or service plan have an unique standalone selling price for all categories of subscribers or circumstances, which is not the case in many of the industries or economic activities. Such interpretations would generate that a same type of service plan (for example, unlimited subscription for \$500 Argentine pesos per month) was recognized as revenue for a different value than the contractual and fair value if the subscriber had chosen a *premium* or *low* handset, depending on the discount level that the Company had decided to award to the handset in that specific operation (without any subsidy or zero revenue margin).

It should be mentioned that in 4Q16 the Company reviewed certain conditions of customer contracts to adapt them to changes in the current legislation as explained in Note 3.i) to the consolidated financial statements.

With regards to handset subsidies occasionally granted by the Company to new postpaid subscribers, Management believes that the capitalization of such cost may be discontinued under IFRS 15 in light of the interpretations of the new standard. On the other hand, Management believes that commissions paid for the acquisition of postpaid and *Cuentas Claras* customers in the Mobile Segment and broadband customers in the Fixed Segment will continue to be capitalized under IFRS 15, because these costs are necessary to obtain new contracts with customers and only meeting the conditions for capitalization under the new standard. These preliminary conclusions are being analyzed. This process is expected to be finished during 2017.

It is worth mentioning that in April 2016 amendments were made to IFRS 15, without changing the underlying principles of the standard, but clarifying them. The amendment provides the way of: 1) identifying a performance obligation, 2) determining whether a company is a principal or agent, and 3) determining whether license revenues must be recognized at a point in time or over time. In addition, the standard adds the following exemptions: i) extends the possibility of not applying the standard to the registration of complete contracts to the date of transition and full contracts at the beginning of the oldest period presented; and (ii) it allows to not adjust a contract in relation to the amendments that are prior to the date of the oldest period presented, reflecting the cumulative effect when the satisfied and unsatisfied performance obligations can be identified, and when the transaction price and its allocation can be determined.

IFRS 15 is effective from annual periods beginning on January 1, 2018. Earlier application is permitted.

Amendments to IFRS 9 Financial Instruments

In July 2014, the IASB amended IFRS 9 Financial Instruments . The amendments incorporate: 1) a new classification of financial assets (valued at fair value through other comprehensive income); and 2) includes requirements related to the recognition of expected credit losses of financial assets at initial measurement if losses are expected, being no longer necessary for a credit event to have occurred before credit losses are recognized.

These amendments are effective for annual periods beginning on or after January 1, 2018. The Company is analyzing the possible impacts of the application of these amendments.

IFRS 16 (Leases)

In January 2016 IFRS 16 was issued.

This standard replaces IAS 17, IFRIC 14 and SIC 15 and 27. The standard establishes the criteria for recognition and valuation of leases for lessees and lessors. The changes incorporated in this standard impact mainly on the lessees accounting.

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IFRS 16 provides that the lessee recognizes a right of use asset and a liability at present value with respect to those contracts that meet the definition of leases under IFRS 16. According to the standard, a lease is a contract that provides the right to control the use of an identified asset for a specified time period.

For a company having control of use of an identified asset it:

- a) Must have the right to obtain substantially all the economic benefits of the identified assets and
- b) Must have the right to direct the use of the identified asset.

The standard excludes short-term contracts (less than 12 months) and those in which the underlying asset has low value (as defined by the standard, low value should be defined by reference to a brand new asset rather than a used one or its net carrying amount).

The new standard is effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted for companies that have adopted IFRS 15. During 2016 the Company continued analyzing the impact that this new standard may have on the Group's financial position, cash flows and results of operations.

Amendments to IAS 12 (Recognition of deferred tax assets for unrealized losses)

In January 2016 the IASB issued an amendment to IAS 12.

The amendment to the mentioned standard provide the way that deductible temporary differences shall be considered in cases where the tax law restricts the sources of taxable profit against which those deductible temporary differences can be offset or not.

On the other hand the amendments clarified how to estimate future taxable profit that should be considered for the recognition of deferred tax assets.

The amendments are effective for fiscal years beginning on or after January 1, 2017. Earlier application is permitted. The Company believes that this amendment will not have impacts on the Group's financial position, cash flows and results of operations.

IFRIC 22 (Foreign Currency Transactions and Advance Consideration)

In December 2016 IFRIC 22 was issued.

IFRIC 22 clarifies the accounting providing the exchange rate to apply for transactions that include the receipt or payment of advance consideration. The interpretation provides that the date of transaction for determining the exchange rate in the initial recognition of an asset, income or expense (or a part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration (If there is more than one payment or receipt of advance consideration, the date of transactions is established for each payment or receipt of advance consideration).

IFRS 22 is effective from annual periods beginning on January 1, 2018. Earlier application is permitted. The adoption of these amendments will not have significant impacts on the statements of financial position, results of operations or cash flows of the Company.

Annual Improvements to IFRSs (2014-2016 Cycle)

In December 2016 the IASB published the Annual Improvements to IFRSs (Cycle 2014-2016), which introduce amendments to IFRS 1, IFRS 12, and IAS 28. The amendment to IFRS 1 is the deletion of short-term exceptions which have been included in the Annual improvements to IFRS (2012-2014 Cycle). The amendment to IFRS 12 clarifies the scope of the standard by including those entities classified as held for sale in accordance with IFRS 5, (maintaining certain exceptions to the disclosure required by IFRS 12). Finally, the amendment to IAS 28 clarifies that the election to measure at fair value provided by IFRS 9 is available for each investment in an associate, at initial recognition.

The amendments to IFRS 1 and IFRS 28 are effective for annual periods beginning on or after January 1, 2018 while the amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company will not have significant impacts on the statements of financial position, results of operations or cash flows for applying this amendment.

Table of Contents**Note 4 Cash and cash equivalents and Investments. Additional information on the consolidated statements of cash flows****a) Cash and cash equivalents and Investments**

Cash and cash equivalents and investments consist of the following:

| | <u>As of December 31,</u> | |
|---|---------------------------|--------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Cash and cash equivalents</u> | | |
| Cash | 56 | 25 |
| Banks | 878 | 231 |
| Time deposits | 898 | 217 |
| Lebacs at amortized cost | 604 | - |
| Other short-term investments | 1,509 | 397 |
| Total cash and cash equivalents | 3,945 | 870 |
| <u>Investments</u> | | |
| <u>Current investments</u> | | |
| Government bonds at fair value | 1,456 | 616 |
| Government bonds at fair value dollar linked | - | 576 |
| Government bonds at amortized cost in foreign currency | 3 | - |
| Government bonds at amortized cost dollar linked | - | 133 |
| Provincial government and Municipal bonds at amortized cost dollar linked | 13 | 74 |
| Provincial government and Municipal bonds at amortized cost | 9 | 31 |
| Other short-term investments | 270 | - |
| Total current investments | 1,751 | 1,430 |
| <u>Non-current investments</u> | | |
| Government bonds at amortized cost in foreign currency | 255 | - |
| Government bonds at amortized cost dollar linked | - | 261 |
| Provincial government and Municipal bonds at amortized cost dollar linked | 61 | 62 |
| Provincial government and Municipal bonds at amortized cost | 8 | - |
| Tuves Paraguay S.A. shares purchase option | 22 | 9 |
| 2003 Telecommunications Fund | 1 | 1 |
| Total non-current investments | 347 | 333 |

b) Additional information on the consolidated statements of cash flows

The Company applies the indirect method to conciliate the net income for the year with the cash flows generated by its operations.

For purposes of the statements of cash flows, cash and cash equivalents comprise cash, bank current accounts and short-term highly liquid investments (with a maturity of three months or less from the date of acquisition) and bank overdrafts, which integrate the Telecom Group's cash management and whose balances fluctuate according to the Group's needs (as happened as of December 31, 2014). Bank overdrafts are disclosed in the statement of financial position as financial debts. During 2016 and 2015 bank overdrafts have been part of the permanent short-term financing structure of Personal, so, net funds requests under that

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method (with maturities less than three months) are included in financing activities.

| | <u>2016</u> | <u>As of December 31,</u> <u>2015</u> | <u>2014</u> |
|--|--------------|--|-------------|
| Cash and cash equivalents | 3,945 | 870 | 825 |
| Financial debt - Bank overdrafts | - | - | (141) |
| Total cash and cash equivalents at year-end | 3,945 | 870 | 684 |

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Additional information on the breakdown of the net cash flow provided by operating activities is given below:

| | Years ended December 31, | | |
|--|--------------------------|-----------------|-----------------|
| | 2016 | 2015 | 2014 |
| Collections | | | |
| Collections from customers | 55,928 | 41,930 | 34,396 |
| Interests from customers | 366 | 182 | 160 |
| Interests from investments | 59 | 190 | 400 |
| Mobile operators collections | 885 | 843 | 330 |
| Subtotal | 57,238 | 43,145 | 35,286 |
| Payments | | | |
| For the acquisition of goods and services and others | (17,120) | (12,784) | (7,821) |
| For the acquisition of inventories | (5,383) | (6,343) | (4,167) |
| Salaries and social security payables and severance payments | (9,113) | (6,885) | (5,146) |
| CPP payments | (393) | (413) | (475) |
| Income taxes (include tax returns and payments in advance) | (1,700) | (1,631) | (2,277) |
| Other taxes and taxes and fees with the Regulatory Authority | (10,731) | (7,775) | (8,902) |
| Foreign currency exchange differences related to the payments to suppliers | (1,433) | (502) | (777) |
| <i>Inventory suppliers</i> | <i>(295)</i> | <i>(182)</i> | <i>(343)</i> |
| <i>PP&E suppliers</i> | <i>(1,467)</i> | <i>(188)</i> | <i>(311)</i> |
| <i>Other suppliers</i> | <i>(144)</i> | <i>(31)</i> | <i>(154)</i> |
| <i>NDF</i> | <i>473</i> | <i>(101)</i> | <i>31</i> |
| Subtotal | (45,873) | (36,333) | (29,565) |
| Net cash flow provided by operating activities | 11,365 | 6,812 | 5,721 |

• **Changes in assets/liabilities components:**

| | Years ended December 31, | | |
|---|--------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Net decrease (increase) in assets | | | |
| Trade receivables | (2,773) | (2,364) | (1,646) |
| Other receivables | 276 | (754) | (158) |
| Inventories | 837 | (1,522) | (50) |
| | (1,660) | (4,640) | (1,854) |
| Net increase (decrease) in liabilities | | | |
| Trade payables | (1,391) | 1,368 | (408) |
| Deferred revenues | (58) | (48) | 78 |
| Salaries and social security payables | 369 | 221 | 261 |
| Other taxes payables | 13 | 483 | 195 |
| Other liabilities | 62 | 29 | 30 |
| Provisions (Note 17) | (174) | (163) | (119) |
| | (1,179) | 1,890 | 37 |

Income tax paid consists of the following:

| | Years ended December 31, | | |
|--|--------------------------|------|------|
| | 2016 | 2015 | 2014 |

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| | | | |
|-------------------------------------|----------------|----------------|----------------|
| Tax returns and payments in advance | (1,350) | (1,438) | (2,079) |
| Other payments | (350) | (193) | (198) |
| Total payments of income tax | (1,700) | (1,631) | (2,277) |

• **Main non-cash operating transactions:**

| | Years ended December 31, | | |
|--|--------------------------|------|------|
| | 2016 | 2015 | 2014 |
| Boden 2015 Bonds used to the acquisition of 3G/4G Licenses | - | - | 439 |
| Income tax withholding for dividends paid | - | - | 22 |
| Offsetting of tax on personal property on behalf of Shareholders | 8 | 15 | 10 |
| Income tax offset with VAT and internal taxes | - | 50 | - |
| Offsetting of other receivables with regulatory provisions | 27 | - | - |
| VAT offset with income tax payments | 54 | - | - |
| SAC acquisitions offset with trade receivables | 305 | 212 | 362 |
| Other receivables of PP&E sales offset with trade payables | 25 | - | - |

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- Most significant investing activities:**

Fixed assets acquisitions include:

| | Years ended December 31, | | |
|---|--------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| CAPEX (Note 8) | (9,632) | (6,396) | (4,304) |
| Acquisition of Materials (net transfers to CAPEX, Note 8) | (474) | (1,062) | (590) |
| Subtotal | (10,106) | (7,458) | (4,894) |
| Plus: | | | |
| Payments of trade payables originated in prior years acquisitions | (4,832) | (1,367) | (1,551) |
| Less: | | | |
| Acquisition of fixed assets through incurrence of trade payables | 5,298 | 3,592 | 1,511 |
| Assets retirement obligations | 45 | 53 | 7 |
| Mobile handsets lent to customers at no cost (i) | 54 | 32 | 32 |
| | (9,541) | (5,148) | (4,895) |

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

Intangible assets acquisitions include:

| | Years ended December 31, | | |
|--------------------------------------|--------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| 3G/4G Licenses acquisitions (Note 9) | - | (2,256) | (3,530) |
| Less: | | | |
| Acquisition with Boden 2015 Bonds | - | - | 439 |
| | - | (2,256) | (3,091) |

| | Years ended December 31, | | |
|---|--------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Other intangible assets acquisitions (Note 9) | (1,754) | (1,448) | (1,123) |
| Plus: | | | |
| Payments of trade payables originated in prior years acquisitions | (201) | (116) | (103) |
| SAC acquisition offset with trade receivables | (305) | (212) | (362) |
| Less: | | | |
| Acquisition of intangible assets through incurrence of trade payables | 462 | 466 | 470 |
| | (1,798) | (1,310) | (1,118) |

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:

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| | Years ended December 31, | | |
|---------------------------------------|--------------------------|--------------|--------------|
| | 2016 | 2015 | 2014 |
| Government bonds acquisition | (971) | (1,049) | (1,201) |
| Sales of Government bonds | 1,051 | - | - |
| Government bonds collection | 165 | 45 | 756 |
| Other short-term investments | (265) | - | - |
| Argentine companies notes collection | - | 28 | 112 |
| Investments over 90 days maturity | - | - | 10 |
| Argentine companies notes acquisition | - | - | (16) |
| | (20) | (976) | (339) |

- **Financing activities components:**

The following table presents the financing activities components of the consolidated statements of cash flows:

| | Years ended December 31, | | |
|--|--------------------------|--------------|-------------|
| | 2016 | 2015 | 2014 |
| Bank overdrafts (Personal) | 960 | 3,062 | - |
| Bank overdrafts (Núcleo) | 343 | 88 | - |
| Bank overdrafts (Telecom Argentina) | 41 | - | - |
| Non-current notes (Personal Note 12) | 1,869 | 716 | - |
| Non-current bank loans IFC Loan (Personal Note 12) | 5,956 | - | - |
| Bank loans Other (Personal Note 12) | - | 346 | - |
| Bank loans (Núcleo) | 168 | 89 | - |
| Total financial debt proceeds | 9,337 | 4,301 | - |
| Bank overdrafts (Personal) | (2,355) | - | - |
| Bank overdrafts (Núcleo) | (438) | - | - |
| Bank loans (Núcleo) | (143) | (31) | (12) |
| Total payment of debt | (2,936) | (31) | (12) |

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| | Years ended December 31, | | |
|---|--------------------------|--------------|-------------|
| | 2016 | 2015 | 2014 |
| Bank overdrafts (Personal) | (1,126) | (405) | (3) |
| Bank overdrafts (Telecom Argentina) | (117) | - | - |
| Interests on Notes and related expenses (Personal) | (205) | (3) | - |
| Interests on bank loans and related expenses (Personal) | (63) | (37) | - |
| Interest on bank loans (Núcleo) | (62) | (26) | (26) |
| Total payment of interest and related expenses | (1,573) | (471) | (29) |

Dividends paid by company breakdown are as follows:

| | Years ended December 31, | | |
|---|--------------------------|------------|--------------|
| | 2016 | 2015 | 2014 |
| ABC Telecomunicaciones | - | 45 | 53 |
| Nortel and Telecom Argentina non-controlling interest | 2,000 | 804 | 1,202 |
| Tax withholdings on dividends paid to shareholders | - | - | 44 |
| | 2,000 | 849 | 1,299 |

Cash dividends from Telecom Argentina

- **Fiscal year 2016**

The Company's Board of Directors Meeting held on April 29, 2016, resolved to allocate \$2,000 of the Reserve for future cash dividends payments (equivalent to \$2.06 pesos per outstanding share) to a cash dividend distribution in two installments: \$700 that was available to shareholders as from May 13, 2016 and \$1,300 that was available to shareholders since August 26, 2016.

- **Fiscal year 2015**

The Company's Ordinary Shareholders Meeting held on April 29, 2015, approved the payment of cash dividends of \$804 (equivalent to \$0.83 pesos per outstanding share), which was made available to shareholders on May 11, 2015. The amount paid includes: (i) income tax withholdings on dividends paid to shareholders in the amount of \$14 and (ii) recovery of tax on personal property on behalf of shareholders withholdings in the amount of \$12.

- **Fiscal year 2014**

During 1Q14 the Company paid \$44 related to withholdings on dividends paid to its shareholders by the end of 2013 in order to comply with its tax obligations. The amounts paid finally corresponded to: (i) income tax withholdings on dividends paid to its

shareholders during December 2013 in the amount of \$17 and (ii) dividends paid to its shareholders in the amount of \$27.

The Company's Ordinary Shareholders Meeting held on April 29, 2014, approved, in its second tranche of deliberations held on May 21, 2014, the payment of a \$1,202 cash dividend (equivalent to \$1.22 pesos per outstanding share) in two equal installments of \$601. The first installment was made available to shareholders on June 10, 2014. The amount paid includes: (i) income tax withholdings on dividends paid to shareholders in the amount of \$11 and (ii) recovery of tax on personal property on behalf of shareholders withholdings in the amount of \$10.

The Company's Board of Directors, at its meeting held on September 9, 2014, approved the payment of the second installment of cash dividends amounting to \$601 as from September 22, 2014. The dividends were paid before September 30, 2014, net of income tax withholdings on dividends for \$11 (which were paid to the Tax Authority later).

Núcleo s Dividends Distribution

- **Fiscal year 2015**

Núcleo s shareholders, at their meeting held on March 26, 2015, approved the distribution of cash dividends for an amount equivalent to \$63 (that correspond to 35,000 million of Guaraníes translated to Argentine pesos at the exchange rate of the approval day), with the following schedule of payments:

The Ordinary Shareholders Meeting also delegate in Nucleo s Board of Directors the possibility and opportunity of distribution of a second cash dividends for an amount of up to 35,000 million of Guaraníes (equivalent to approximately \$80).

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Finally, the Board of Directors, at their meeting held on December 17, 2015, approved the distribution of cash dividends for an amount \$80 (that correspond to 35,000 million of Guaraníes translated to Argentine pesos at the exchange rate of the approval day). According to this, the total dividends amount paid during 2015 was as follows:

| Month of dividends payment | Dividends corresponding to Personal | Dividends corresponding to non-controlling shareholders ABC Telecomunicaciones | Total |
|----------------------------|-------------------------------------|--|------------|
| May 2015 (*) | 42 | 21 | 63 |
| December 2015 (**) | 54 | 26 | 80 |
| Total | 96 | 47 | 143 |

(*) As of the payment date, the amounts were 41 and 19, respectively.

(**) As of the payment date, the amounts were 52 and 26, respectively.

- **Fiscal year 2014**

The Ordinary Shareholders Meeting of Núcleo held on March 28, 2014, approved the distribution of cash dividends for an amount equivalent to \$160, delegating in Núcleo's Board of Directors the authority to determine the number of installments, the amount and time for the payments of these cash dividends.

On May 5, 2014 Núcleo's Board of Directors determined the following schedule of payments for the cash dividends:

| Month of dividends payment | Dividends corresponding to Personal | Dividends corresponding to non-controlling shareholders ABC Telecomunicaciones | Total |
|----------------------------|-------------------------------------|--|------------|
| May 2014 | 54 | 26 | 80 |
| October 2014 | 54 | 26 | 80 |
| Total (*) | 108 | 52 | 160 |

(*) Correspond to 90,000 million of Guaraníes approved by the Ordinary Shareholders Meeting of Núcleo, translated to Argentine pesos at the exchange rate of the date of its approval. As of the payment date, the amounts were 110 and 53, respectively.

a) ***Additional information required by IAS 7***

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In January 2016, IAS 7 was amended through the incorporation of paragraphs 44A to 44E. This amendment included additional information requirements that allow financial statements users to assess changes in liabilities generated by financing activities. Although these disclosures are mandatory for annual periods beginning on or after January 1, 2017, the Telecom Group's Management has adopted the early application option set forth in IAS 7. Reconciliation between the opening and closing balances of liabilities generated by financing activities is disclosed below.

| | <u>Balances as of December 31, 2015</u> | <u>Transfers</u> | <u>Cash Flows</u> | <u>Accrued interests</u> | <u>Exchange differences and currency translation adjustments</u> | <u>Balances as of December 31, 2016</u> |
|---|---|------------------|-----------------------|------------------------------|--|---|
| Bank overdrafts Personal | 3,062 | - | (1,396) | - | - | 1,666 |
| Bank overdrafts Telecom Argentina | - | - | 41 | - | - | 41 |
| Bank overdrafts Núcleo | 84 | - | (95) | - | 11 | - |
| Bank loans principal (Personal) | - | 509 | - | - | 111 | 620 |
| Bank loans principal (Núcleo) | 193 | 85 | (61) | - | 2 | 219 |
| Notes principal (Personal) | - | 566 | - | - | - | 566 |
| NDF | - | - | - | - | 2 | 2 |
| Accrued interests | 112 | - | (1,573) | 1,613 | - | 152 |
| Total current financial debt (Note 12) | 3,451 | 1,160 | (3,084) | 1,613 | 126 | 3,266 |
| Notes principal (Personal) | 713 | (566) | 1,869 | - | 68 | 2,084 |
| Bank loans Other - principal (Personal) | 509 | (509) | - | - | - | - |
| Bank loans IFC Loan - principal (Personal) | - | - | 5,956 | - | 278 | 6,234 |
| Bank loans principal (Núcleo) | 227 | (85) | 87 | - | 99 | 328 |
| Total non-current financial debt (Note 12) | 1,449 | (1,160) | 7,912 | - | 445 | 8,646 |
| Total financial debt | 4,900 | - | 4,828 | 1,613 | 571 | 11,912 |

(a) Correspond to \$9,337 of debt proceeds, \$2,936 of principal payments and \$1,573 of interest payments.

Table of Contents**Note 5 Trade receivables**

Trade receivables consist of the following:

| | <u>As of December 31,</u> | |
|---|-------------------------------------|--------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Current trade receivables</u> | | |
| Fixed services | 1,805 | 1,449 |
| Personal mobile services equipment sales | 3,805 | 2,659 |
| Personal mobile services services sales | 2,329 | 1,759 |
| Núcleo mobile services | 271 | 182 |
| | Subtotal | 6,049 |
| Allowance for doubtful accounts | (633) | (386) |
| | 7,577 | 5,663 |
| <u>Non-current trade receivables</u> | | |
| Fixed services | 14 | 17 |
| Personal mobile services equipment sales | - | 300 |
| Núcleo mobile services equipment sales | 194 | 164 |
| | 208 | 481 |
| | Total trade receivables, net | 6,144 |
| | 7,785 | 6,144 |

Movements in the allowance for current doubtful accounts are as follows:

| | <u>Years ended December 31,</u> | |
|--|---------------------------------|--------------|
| | <u>2016</u> | <u>2015</u> |
| At the beginning of the fiscal year | (386) | (292) |
| Additions Bad debt expenses | (1,228) | (564) |
| Uses | 989 | 480 |
| Currency translation adjustments | (8) | (10) |
| At the end of the year | (633) | (386) |
| <i>Of which</i> | | |
| <i>Fixed Services</i> | (176) | (124) |
| <i>Mobile Services Personal</i> | (441) | (253) |
| <i>Mobile Services Núcleo</i> | (16) | (9) |

Note 6 Other receivables

Other receivables consist of the following:

| | <u>As of December 31,</u> | |
|---|---------------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Current other receivables</u> | | |
| Prepaid expenses | 620 | 346 |
| Expenditure reimbursement | 126 | 95 |

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| | | |
|--|--------------------------------|--------------|
| Tax credits | 46 | 165 |
| Restricted funds | 33 | 26 |
| Receivables for return of handsets under warranty | 29 | 9 |
| PP&E disposal receivables | 18 | 26 |
| Guarantee deposits | 10 | 5 |
| Tax on personal property on behalf of Shareholders | 8 | 15 |
| Non deliverable forward (Note 20) | 2 | 466 |
| Unionized employees advances | - | 57 |
| Prepaid expenses related parties (Note 27.c) | - | 36 |
| Other | 140 | 115 |
| | Subtotal | 1,032 |
| Allowance for doubtful accounts | (21) | (25) |
| | | 1,011 |
| <u>Non-current other receivables</u> | | |
| Prepaid expenses | 258 | 166 |
| Credit on SC Resolution No. 41/07 and IDC (Note 2.p and q) | 57 | 84 |
| Restricted funds | 33 | 32 |
| Regulatory receivables (Paraguay) | 27 | 22 |
| Tax on personal property on behalf of Shareholders | 18 | 18 |
| Tax credits | 11 | 12 |
| Guarantee deposits | 12 | 12 |
| Other | 19 | 28 |
| | Subtotal | 435 |
| Allowance for regulatory matters (Note 2 p. and q) | (57) | (84) |
| Allowance for tax on personal property | (18) | (18) |
| | | 360 |
| | Total other receivables | 1,371 |
| | | 1,608 |

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Movements in the allowances are as follows:

| | <u>Years ended December 31,</u> | |
|--|---------------------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| Current allowance for doubtful accounts | | |
| At the beginning of the year | (25) | (23) |
| Additions (*) | - | (5) |
| Uses | 4 | 3 |
| At the end of the year | (21) | (25) |

| | <u>Years ended December 31,</u> | |
|--|---------------------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| Non-current allowance for regulatory matters | | |
| At the beginning of the year | (84) | (85) |
| Compensation of Telecom Argentina's regulatory liabilities | 27 | - |
| Uses | - | 1 |
| At the end of the year | (57) | (84) |

| | <u>Years ended December 31,</u> | |
|---|---------------------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| Non-current allowance for tax on personal property | | |
| At the beginning of the year | (18) | (18) |
| Additions | - | - |
| At the end of the year | (18) | (18) |

Note 7 Inventories

Inventories consist of the following:

| | <u>As of December 31,</u> | |
|---|---------------------------|--------------|
| | <u>2016</u> | <u>2015</u> |
| Mobile handsets and others | 1,321 | 2,218 |
| Advances for mobile handsets acquisitions | - | 47 |
| Fixed telephones and equipment | 11 | 14 |
| | Subtotal | 2,279 |
| Allowance for obsolescence of inventories | (54) | (86) |
| | 1,278 | 2,193 |

Movements in the allowance for obsolescence of inventories are as follows:

| | <u>Years ended December 31,</u> | |
|--|---------------------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| At the beginning of the year | (86) | (73) |
| Additions Fees for services, maintenance and materials | (45) | (38) |
| Uses | 77 | 25 |
| At the end of the year | (54) | (86) |

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Sale and cost of equipment and handsets by business segment is as follows:

| | <u>Years ended December 31,</u> | | |
|--|---------------------------------|----------------|----------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Fixed Services - excluding network construction contracts | 91 | 61 | 46 |
| Fixed Services - network construction contracts | - | - | 7 |
| Cost of equipment and handsets Fixed Services | (136) | (82) | (72) |
| Total equipment loss Fixed Services | (45) | (21) | (19) |
| Mobile Services Personal | 7,535 | 5,796 | 4,920 |
| Cost of equipment and handsets Mobile Services Personal (net of SAC capitalizations) | (5,749) | (4,328) | (3,959) |
| Total equipment gain Mobile Services Personal | 1,786 | 1,468 | 961 |
| Mobiles Services Núcleo | 260 | 159 | 90 |
| Cost of equipment and handsets Mobile Services Núcleo (net of SAC capitalizations) | (303) | (185) | (112) |
| Total equipment loss Mobile Services Núcleo | (43) | (26) | (22) |
| Total equipment and handsets sale | 7,886 | 6,016 | 5,063 |
| Total cost of equipment and handsets (net of SAC capitalizations) | (6,188) | (4,595) | (4,143) |
| Total income for sale of equipment and handsets | 1,698 | 1,421 | 920 |

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Cost of equipment and handsets is as follows:

| | <u>Years ended December 31,</u> | | |
|--|---------------------------------|----------------|--------------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Inventories at the beginning of the year | (2,279) | (794) | (857) |
| Plus: | | | |
| Equipment acquisitions | (5,491) | (6,233) | (4,262) |
| SAC deferred costs (Note 3.i) | 130 | 93 | 103 |
| Decreases net of allowance of obsolescence | 49 | 25 | 46 |
| Handsets lent to customers at no cost | 54 | 32 | 32 |
| Decreases not charged to cost of equipment | 17 | 3 | 1 |
| Less: | | | |
| Inventories at the end of the year | 1,332 | 2,279 | 794 |
| Cost of equipment and handsets | (6,188) | (4,595) | (i) (4,143) |

(i) Includes 6 related to equipment construction contracts.

Note 8 Property, plant and equipment

PP&E consist of the following:

| | <u>As of December 31,</u> | |
|---|---------------------------|---------------|
| | <u>2016</u> | <u>2015</u> |
| Land, buildings and installations | 1,310 | 1,088 |
| Computer equipment and software | 2,265 | 1,885 |
| Switching and transmission equipment (i) | 5,614 | 4,368 |
| Mobile network access and external wiring | 9,078 | 5,643 |
| Construction in progress | 2,915 | 3,015 |
| Other tangible assets | 704 | 567 |
| Subtotal PP&E | 21,886 | 16,566 |
| Materials | 1,629 | 1,652 |
| Valuation allowance for materials and impairment of materials | (68) | (52) |
| Impairment of PP&E | (282) | (203) |
| Total | 23,165 | 17,963 |

(i) Includes tower and pole, transmission equipment, switching equipment, power equipment, equipment lent to customers at no cost and handsets lent to customers at no cost.

Movements in Materials are as follows:

| | <u>Years ended December 31,</u> | |
|-------------------------------------|---------------------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| At the beginning of the year | 1,652 | 872 |

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| | | |
|----------------------------------|--------------|--------------|
| Plus: | | |
| Purchases | 3,647 | 2,950 |
| Less: | | |
| Transfers to CAPEX | (3,173) | (1,888) |
| Disposal for maintenance | (507) | (294) |
| Currency translation adjustments | 10 | 12 |
| At the end of the year | 1,629 | 1,652 |

Movements in the valuation allowance for materials and impairment of materials are as follows:

| | <u>Years ended December 31,</u> | |
|--|---------------------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| At the beginning of the year | (52) | (24) |
| Additions Fees for services, maintenance and materials | (16) | (28) |
| At the end of the year | (68) | (52) |

Movements in the impairment of PP&E are as follows:

| | <u>Years ended December 31,</u> | |
|-------------------------------------|---------------------------------|--------------|
| | <u>2016</u> | <u>2015</u> |
| At the beginning of the year | (203) | (100) |
| Additions | (383) | (230) |
| Depreciation (i) | - | 1 |
| Uses | 304 | 126 |
| At the end of the year | (282) | (203) |

(i) Included in depreciation of PP&E.

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Details on the nature and movements during the years ended December 31, 2016 and 2015 are as follows:

| | Gross value as of December 31, 2015 | CAPEX | Currency translation adjustments | Transfers and reclassifications | Decreases | Gross value as of December 31, 2016 |
|---|--|--------------|--|------------------------------------|--------------------|---|
| Land | 149 | - | 2 | - | - | 151 |
| Building | 1,771 | - | 11 | 95 | - | 1,877 |
| Tower and pole | 1,238 | - | 82 | 377 | - | 1,697 |
| Transmission equipment | 6,880 | 64 | 147 | 959 | (40) | 8,010 |
| Mobile network access | 5,242 | 128 | 250 | 3,435 | (612) | 8,443 |
| External wiring | 10,208 | - | - | 1,407 | (86) | 11,529 |
| Switching equipment | 7,791 | 75 | 272 | 830 | (52) | 8,916 |
| Power equipment | 1,449 | - | 60 | 220 | (2) | 1,727 |
| Computer equipment and systems | 9,663 | 28 | 408 | 1,304 | (2) | 11,401 |
| Telephony equipment and instruments | 806 | - | 3 | 37 | (1) | 845 |
| Handsets lent to customers at no cost | 505 | 54 | 99 | - | (115) | 543 |
| Equipment lent to customers at no cost | 190 | 150 | - | 3 | (76) | 267 |
| Vehicles | 380 | 56 | 7 | - | (14) | 429 |
| Furniture | 165 | 2 | 9 | 26 | - | 202 |
| Installations | 905 | - | 15 | 252 | - | 1,172 |
| Improvements in third parties buildings | 574 | 8 | 40 | 133 | - | 755 |
| Special projects | 77 | - | - | 12 | - | 89 |
| Construction in progress | 3,015 | 9,022 | 22 | (9,090) | (54) | 2,915 |
| Asset retirement obligations | 141 | 45 | 3 | - | - | 189 |
| Total | 51,149 | 9,632 | 1,430 | - | (*) (1,054) | 61,157 |

| | Accumulated depreciation as of December 31, 2015 | Depreciation | Currency translation adjustments | Decreases | Accumulated depreciation as of December 31, 2016 | Net carrying value as of December 31, 2016 |
|---|---|----------------|--|----------------|--|--|
| Land | - | - | - | - | - | 151 |
| Building | (1,134) | (41) | 4 | - | (1,171) | 706 |
| Tower and pole | (596) | (77) | (39) | - | (712) | 985 |
| Transmission equipment | (5,265) | (476) | (87) | 35 | (5,793) | 2,217 |
| Mobile network access | (3,210) | (877) | (147) | 324 | (3,910) | 4,533 |
| External wiring | (6,597) | (472) | - | 85 | (6,984) | 4,545 |
| Switching equipment | (6,327) | (856) | (211) | 52 | (7,342) | 1,574 |
| Power equipment | (921) | (97) | (34) | 2 | (1,050) | 677 |
| Computer equipment and systems | (7,778) | (997) | (363) | 2 | (9,136) | 2,265 |
| Telephony equipment and instruments | (773) | (15) | (2) | 1 | (789) | 56 |
| Handsets lent to customers at no cost | (475) | (50) | (98) | 115 | (508) | 35 |
| Equipment lent to customers at no cost | (101) | (116) | - | 76 | (141) | 126 |
| Vehicles | (183) | (47) | (4) | 11 | (223) | 206 |
| Furniture | (128) | (11) | (7) | - | (146) | 56 |
| Installations | (603) | (102) | (14) | - | (719) | 453 |
| Improvements in third parties buildings | (403) | (98) | (28) | - | (529) | 226 |
| Special projects | (34) | (13) | - | - | (47) | 42 |
| Construction in progress | - | - | - | - | - | 2,915 |
| Asset retirement obligations | (55) | (13) | (3) | - | (71) | 118 |
| Total | (34,583) | (4,358) | (1,033) | (*) 703 | (39,271) | 21,886 |

(*) Includes 288 of net decreases with counterpart in uses of provision corresponding to Personal s access swap and 16 related to former work in progress decreases.

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| | Gross value as of December 31, 2014 | CAPEX | Currency translation adjustments | Transfers and reclassifications | Decreases | Gross value as of December 31, 2015 |
|---|--|--------------|--|------------------------------------|-------------------|---|
| Land | 147 | - | 2 | - | - | 149 |
| Building | 1,706 | 1 | 9 | 57 | (2) | 1,771 |
| Tower and pole | 991 | - | 63 | 184 | - | 1,238 |
| Transmission equipment | 6,120 | 37 | 114 | 611 | (2) | 6,880 |
| Mobile network access | 3,937 | 99 | 193 | 1,042 | (29) | 5,242 |
| External wiring | 9,197 | - | - | 1,047 | (36) | 10,208 |
| Switching equipment | 6,924 | 66 | 228 | 587 | (14) | 7,791 |
| Power equipment | 1,299 | - | 47 | 104 | (1) | 1,449 |
| Computer equipment and systems | 8,250 | 15 | 323 | 1,085 | (10) | 9,663 |
| Telephony equipment and instruments | 793 | - | 2 | 11 | - | 806 |
| Handsets lent to customers at no cost | 497 | 32 | 80 | - | (104) | 505 |
| Equipment lent to customers at no cost | 156 | 95 | - | - | (61) | 190 |
| Vehicles | 264 | 130 | 5 | - | (19) | 380 |
| Furniture | 151 | - | 7 | 7 | - | 165 |
| Installations | 802 | - | 12 | 92 | (1) | 905 |
| Improvements in third parties buildings | 471 | 2 | 29 | 72 | - | 574 |
| Special projects | 62 | - | - | 15 | - | 77 |
| Construction in progress | 2,184 | 5,866 | 21 | (4,914) | (142) | 3,015 |
| Asset retirement obligations | 87 | 53 | 1 | - | - | 141 |
| Total | 44,038 | 6,396 | 1,136 | - | (**) (421) | 51,149 |

| | Accumulated depreciation as of December 31, 2014 | Depreciation | Currency translation adjustments | Decreases and transfers | Accumulated depreciation as of December 31, 2015 | Net carrying value as of December 31, 2015 |
|---|---|----------------|--|-------------------------------|--|--|
| Land | - | - | - | - | - | 149 |
| Building | (1,094) | (33) | (7) | - | (1,134) | 637 |
| Tower and pole | (512) | (53) | (31) | - | (596) | 642 |
| Transmission equipment | (4,876) | (324) | (67) | 2 | (5,265) | 1,615 |
| Mobile network access | (2,630) | (493) | (111) | 24 | (3,210) | 2,032 |
| External wiring | (6,231) | (393) | - | 27 | (6,597) | 3,611 |
| Switching equipment | (5,650) | (520) | (171) | 14 | (6,327) | 1,464 |
| Power equipment | (818) | (77) | (26) | - | (921) | 528 |
| Computer equipment and systems | (6,692) | (811) | (285) | 10 | (7,778) | 1,885 |
| Telephony equipment and instruments | (761) | (10) | (2) | - | (773) | 33 |
| Handsets lent to customers at no cost | (471) | (30) | (78) | 104 | (475) | 30 |
| Equipment lent to customers at no cost | (75) | (87) | - | 61 | (101) | 89 |
| Vehicles | (164) | (33) | (3) | 17 | (183) | 197 |
| Furniture | (113) | (10) | (5) | - | (128) | 37 |
| Installations | (516) | (77) | (11) | 1 | (603) | 302 |
| Improvements in third parties buildings | (306) | (76) | (21) | - | (403) | 171 |
| Special projects | (23) | (11) | - | - | (34) | 43 |
| Construction in progress | - | - | - | - | - | 3,015 |
| Asset retirement obligations | (45) | (9) | (1) | - | (55) | 86 |
| Total | (30,977) | (3,047) | (819) | (**) 260 | (34,583) | 16,566 |

(**) Includes 126 of net decreases with counterpart in uses of provision corresponding to the impairment of commercial systems of Personal, mobile access swap and former work in progress.

Note 9 Intangible assets

Intangible assets consist of the following:

| | Gross value as of December 31, 2015 | CAPEX | Currency translation adjustments | Decreases | Gross value as of December 31, 2016 |
|--|--|--------------|--|----------------|---|
| SAC fixed services | 234 | 137 | - | (145) | 226 |
| SAC mobile services | 2,157 | 1,544 | 30 | (893) | 2,838 |
| Service connection or habilitation costs | 208 | 41 | - | (27) | 222 |
| 3G/4G licenses | 5,786 | - | - | - | 5,786 |
| PCS license (Argentina) | 658 | - | - | - | 658 |
| PCS and Band B (Paraguay) | 774 | - | 177 | - | 951 |
| Rights of use | 425 | 32 | 6 | - | 463 |
| Exclusivity agreements | 41 | - | - | - | 41 |
| Customer relationship | 2 | - | - | - | 2 |
| Software developed for internal use | 566 | - | 35 | - | 601 |
| Total | 10,851 | 1,754 | 248 | (1,065) | 11,788 |

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| | Accumulated amortization as of December 31, 2015 | Amortization | Currency translation adjustments | Decreases | Accumulated amortization as of December 31, 2016 | Net carrying value as of December 31, 2016 |
|--|--|----------------|--|--------------|--|--|
| SAC fixed services | (118) | (157) | - | 145 | (130) | 96 |
| SAC mobile services | (1,001) | (1,288) | (15) | 893 | (1,411) | 1,427 |
| Service connection or habilitation costs | (101) | (29) | - | 27 | (103) | 119 |
| 3G/4G licenses | (343) | (338) | - | - | (681) | 5,105 |
| PCS license (Argentina) | (70) | - | - | - | (70) | 588 |
| PCS and Band B (Paraguay) | (774) | - | (177) | - | (951) | - |
| Rights of use | (190) | (27) | (2) | - | (219) | 244 |
| Exclusivity agreements | (28) | (1) | - | - | (29) | 12 |
| Customer relationship | (1) | - | - | - | (1) | 1 |
| Software developed for internal use | (566) | - | (35) | - | (601) | - |
| Total | (3,192) | (1,840) | (229) | 1,065 | (4,196) | 7,592 |

| | Gross value as of December 31, 2014 | CAPEX | Currency translation adjustments | Decreases | Gross value as of December 31, 2015 |
|--|--|--------------|--|--------------|--|
| SAC fixed services | 177 | 158 | - | (101) | 234 |
| SAC mobile services | 1,382 | 1,206 | 24 | (455) | 2,157 |
| Service connection or habilitation costs | 207 | 36 | - | (35) | 208 |
| 3G/4G licenses | 3,530 | 2,256 | - | - | 5,786 |
| PCS license (Argentina) | 658 | - | - | - | 658 |
| PCS and Band B (Paraguay) | 634 | - | 140 | - | 774 |
| Rights of use | 372 | 48 | 5 | - | 425 |
| Exclusivity agreements | 41 | - | - | - | 41 |
| Customer relationship | 2 | - | - | - | 2 |
| Software developed for internal use | 537 | - | 29 | - | 566 |
| Total | 7,540 | 3,704 | 198 | (591) | 10,851 |

| | Accumulated amortization as of December 31, 2014 | Amortization | Currency translation adjustments | Decreases | Accumulated amortization as of December 31, 2015 | Net carrying value as of December 31, 2015 |
|--|--|----------------|--|------------|--|--|
| SAC fixed services | (84) | (135) | - | 101 | (118) | 116 |
| SAC mobile services | (562) | (882) | (12) | 455 | (1,001) | 1,156 |
| Service connection or habilitation costs | (108) | (28) | - | 35 | (101) | 107 |
| 3G/4G licenses | (19) | (324) | - | - | (343) | 5,443 |
| PCS license (Argentina) | (70) | - | - | - | (70) | 588 |
| PCS and Band B (Paraguay) | (634) | - | (140) | - | (774) | - |
| Rights of use | (168) | (21) | (1) | - | (190) | 235 |
| Exclusivity agreements | (27) | (1) | - | - | (28) | 13 |
| Customer relationship | - | (1) | - | - | (1) | 1 |
| Software developed for internal use | (537) | - | (29) | - | (566) | - |
| Total | (2,209) | (1,392) | (182) | 591 | (3,192) | 7,659 |

Note 10 Trade payables

Trade payables consist of the following:

- purchase of materials and supplies;
- purchase of handsets and equipment;
- agent and retails commissions;
- procurement of services; and
- purchase of goods included in PP&E.

| | <u>As of December 31,</u> | |
|--|---------------------------|--------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Current trade payables</u> | | |
| PP&E | 4,496 | 5,068 |
| Other assets and services | 3,422 | 2,945 |
| Inventory | 676 | 1,335 |
| | 8,594 | 9,348 |
| Agent commissions | 385 | 525 |
| | 8,979 | 9,873 |
| <u>Non-current trade payables</u> | | |
| PP&E | 152 | 52 |
| | 152 | 52 |
| Total trade payables | 9,131 | 9,925 |

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Table of Contents**Note 11 Deferred revenues**

Deferred revenues consist of the following:

- revenues received from connection fees for fixed telephony, data and Internet, nonrefundable, considered as a single element with the provision of the service during the contractual relationship with the subscriber;
- revenues collected by remaining traffic and packages of data from unexpired cards;
- the value assigned to the points delivered by customer loyalty programs in the mobile telephony;
- the advanced collection of revenues from services of international capacity; and
- subsidies received for the construction of infrastructure which are deferred in the same period of amortization of the related works.

| | <u>As of December 31,</u> | |
|--|----------------------------------|--------------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Current deferred revenues</u> | | |
| On prepaid calling cards Fixed and Mobile Services | 261 | 312 |
| On connection fees fixed services | 35 | 35 |
| On capacity rental | 41 | 47 |
| On mobile customer loyalty programs | 87 | 78 |
| From CONATEL mobile services Núcleo (Note 18.d) | 4 | 5 |
| Other | 15 | - |
| | 443 | 477 |
| <u>Non-current deferred revenues</u> | | |
| On capacity rental Fixed Services | 252 | 290 |
| On connection fees Fixed services | 87 | 79 |
| On mobile customer loyalty programs | 106 | 84 |
| From CONATEL - mobile services Núcleo (Note 18.d) | - | 4 |
| | 445 | 457 |
| Total deferred revenues | 888 | 934 |

Note 12 Financial debt

Financial debt consists of the following:

| | <u>As of December 31,</u> | |
|---|----------------------------------|--------------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Current financial debt</u> | | |
| Bank overdrafts principal (Personal) | 1,666 | 3,062 |
| Bank overdrafts principal (Telecom Argentina) | 41 | - |
| Bank overdrafts principal (Núcleo) | - | 84 |
| Bank loans Other principal (Personal) | 620 | - |

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| | | |
|--|---------------|--------------|
| Bank loans principal (Núcleo) | 219 | 193 |
| Notes principal (Personal) | 566 | - |
| NDF (Note 20) | 2 | - |
| Accrued interest (Personal) | 145 | 104 |
| Accrued interest (Núcleo) | 7 | 8 |
| | 3,266 | 3,451 |
| <u>Non-current financial debt</u> | | |
| Notes principal(Personal) | 2,084 | 713 |
| Bank loans IFC Loan principal (Personal) | 6,234 | - |
| Bank loans Other principal (Personal) | - | 509 |
| Bank loans principal (Núcleo) | 328 | 227 |
| | 8,646 | 1,449 |
| Total financial debt | 11,912 | 4,900 |

Bank overdrafts

As of December 31, 2016, Personal had bank overdrafts amounting to \$1,666, of which \$1,537 bear interests at an average annual rate of approximately 30.3%.

Telecom Argentina has bank overdrafts in the amount of approximately \$41.

Additional information is provided in Note 31 to these consolidated financial statements.

Bank and other financing entities loans

Personal

On January 28, 2015, Personal entered into a loan with a foreign bank for a total amount of US\$40.8 million (equivalent to \$353 at such date). This loan is a 27-months bullet loan with three-month interest payment at a weighted average rate of three-month LIBOR plus 8.75% (total rate of 9.6309% as of December 31, 2016).

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The terms and conditions of the loan include covenants and events of default that are usual for this type of transaction.

The funds were totally used for the acquisition of inventories.

On July 5, 2016, Personal had accepted an offer from the International Finance Corporation (IFC) for the assessment and transfer of funds for purposes of financing investment needs, work capital and debt refinancing for an amount of up to US\$ 400 million.

On October 5, 2016 Personal and the IFC signed the loan agreement (IFC Loan) for an amount of US\$ 400 million and for a six year period, payable in 8 equal half-yearly installments since the 30th month, with a 6 month LIBOR rate + 400bp. This loan will be used to deploy the 4G network and refinance short-term financial liabilities. The loan terms include standard commitments and limitations for this type of financial transactions.

On October 26, 2016 Personal received the loan proceeds for an amount of US\$ 392.5 million (net of expenses of US\$ 7.5 million), equivalent to \$5,956.

Additional information on both bank loans is provided in Note 31 to these consolidated financial statements.

Núcleo

The following table shows the outstanding loans with different local financing entities in Paraguay and their main terms as of December 31, 2016:

| Principal nominal value (in million of Guaraníes) | Amortization term | Book value | |
|---|-------------------|------------|-------------|
| | | Current | Non-current |
| 100,000 | 3 years | 55 | 219 |
| 50,000 | 2.7 years | 27 | 109 |
| 50,000 | 3 months | 137 | - |
| 200,000 | | 219 | 328 |

The weighted average annual rate of these loans is 9.42% in Guaraníes and the weighted average amortization term of these loans is approximately 2 years.

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

Global Programs for the issuance of Notes

Telecom Argentina

The Ordinary and Extraordinary Shareholders Meeting of Telecom Argentina held on December 15, 2011, approved the creation of a Medium Term Notes Global Program for a maximum outstanding amount of US\$ 500 million or its equivalent in other currencies for a term of five years.

Personal

The Ordinary and Extraordinary Shareholders Meeting of Personal held on December 2, 2010, had approved the creation of a Medium Term Notes Global Program for a maximum outstanding amount of US\$ 500 million or its equivalent in other currencies for a term of five years. On October 13, 2011, the CNV had authorized such Program, through Resolution No. 16,670.

Personal s Ordinary Shareholders Meeting held on May 26, 2016 authorized to extend the due date and expand the Program s maximum circulation amount up to U\$S 1,000 million or its equivalent in other currencies.

On October 20, 2016, the CNV authorized the extension and expansion of the mentioned Program through Resolution No. 18,277. Within such Program, Personal issued notes in four series under the following conditions:

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Series I

Issuance date: December 10, 2015.

Amount involved: \$571,505,000 Argentine pesos.

Expiration Date: 18 months from its issuance date (June 12, 2017).

Amortization: Capital will be settled by one payment in an amount equal to 100% of total capital, payable on their maturity date.

Interest rate: Series I notes bear interest from its issuance date until the sixth month maturity (inclusive) at a nominal fixed annual rate equivalent to 28.5% per annum and since the beginning of the seventh month until its maturity date will bear at a floating rate equivalent to the Badlar Privada rates published by the BCRA plus 3.75% per annum.

Interest Payment Date: Interest were paid quarterly in arrears since issuance date. The last interest payment date will be the maturity date.

Series II

Issuance date: 1 December 10, 2015.

Amount involved: \$149,000,000 Argentine pesos.

Expiration Date: 36 months from its issuance date (December 10, 2018).

Amortization: Capital will be settled by one payment in an amount equal to 100% of total capital, payable on their maturity date (December 10, 2018).

Interest rate: Series II notes bear interest from its issuance date until the ninth month maturity (inclusive) at a nominal fixed annual rate equivalent to 28.75% per annum and since the beginning of the tenth month until its maturity date will bear at a floating rate equivalent to the Badlar Privada rates published by the BCRA plus 4.00% per annum.

Interest Payment Date: Interest will be paid quarterly in arrears since issuance date. The last interest payment date will be the maturity date.

Series III

Issuance date: November 16, 2016.

Amount involved: \$721,969,404.

Expiration Date: 18 months from its issuance date (May 16, 2018).

Amortization: Capital will be settled by one payment in an amount equal to 100% of total capital, payable on their maturity date (May 16, 2018).

Interest rate: Series III notes bear interest from its issuance date until their maturity date at a nominal floating annual rate equivalent to the Badlar Privada rates published by the BCRA plus 2.90% per annum.

Interest Payment Date: Interest will be paid quarterly in arrears since issuance date. The last interest payment date will be the maturity date.

Series IV

Issuance date: November 16, 2016.

Amount involved: U\$S 77,900,400.

Expiration Date: 24 months from its issuance date (November 16, 2018).

Amortization: Capital will be settled by one payment in an amount equal to 100% of total capital, payable on their maturity date (November 16, 2018).

Interest rate: Series IV notes bear interest from its issuance date until their maturity date at a nominal fixed annual rate equivalent to 4.85%.

Interest Payment Date: Interest will be paid quarterly in arrears since issuance date. The last interest payment date will be the maturity date.

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Use of Funds

The funds arising from the Series I and II notes placement were used for the partial settlement of bank overdrafts that Personal had taken to finance the acquisition of 3G and 4G frequencies bands. Funds from notes placement have been applied to debt refinancing .

The funds arising from the Series III and IV notes were used for local bank overdrafts cancellation (refinancing of liabilities).

Notes Rating

The mentioned notes have a local risk rating awarded by FIX SCR S.A. of AA+(arg) with a stable outlook. National AA involves a solid credit quality with respect to other note s issuers of the country or other notes issued in the country.

Events of default

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

- ü lack of payment of capital and/or interests of any of the notes at the maturity date during the term stated in the respective contracts;
- ü lack of payment of capital and/or interests of any other financial debt of Personal or its subsidiaries for an amount of at least US\$ 20 million (cross default clause), after the expiration of the agreed grace period;
- ü final court sentence dictamination (including seizure, executions of property, and similar court decisions) for an amount of at least US\$ 20 million;
- ü bankruptcy petition, presentation of reorganization proceeding, or homologation petition of out-of-court preventive agreement of Personal or any of its subsidiaries;
- ü any other situation that could cause the revocation of licenses granted to Personal or its subsidiaries (if applicable), in the case of total or partial license revocation that derives in negative effect on the commercial activity, assets, financial and economic situation of Personal or its subsidiaries (taken as a whole).

According to the terms of the notes issued if any case of non-compliance is verified, the debt holders are allowed to demand the payment of the outstanding amount of capital and accrued interest at the time of non-compliance (acceleration clause). The application of this clause is generally optional for the debt holders and it is subject to compliance of certain requirements and conditions.

As of the date of issuance of these consolidated financial statements, Personal and Núcleo are in compliance with their respective loans agreements commitments.

Note 13 Salaries and social security payables

Salaries and social security payables include unpaid salaries, vacation and bonuses and its related social security contributions and termination benefits.

As of December 31, 2016, the total number of employees was 15,970, of which approximately 80% were unionized. All Management and senior positions are held by non-unionized employees.

| | <u>As of December 31,</u> | | |
|---|---------------------------|---------------|---------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Fixed services | 10,901 | 10,903 | 11,056 |
| Personal Mobile services | 4,661 | 4,908 | 4,958 |
| Núcleo Mobile services | 408 | 413 | 402 |
| Total number of employees of the Telecom Group | 15,970 | 16,224 | 16,416 |

In the field of compensation policy for Directors and Managers, the Company and its subsidiaries have a scheme that includes fixed and variable components. While fixed compensation is dependent upon the level of responsibility required for the position and its market competitiveness, variable compensation is comprised of compensation driven by the goals established on an annual basis and also by compensation regarding the fulfillment of long and medium term goals.

The Company and its subsidiaries have no stock option plans for their employees.

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Salaries and social security payables consist of the following:

| | <u>As of December 31,</u> | |
|--|---------------------------|--------------|
| | <u>2016</u> | <u>2015</u> |
| Current | | |
| Vacation and bonuses | 1,102 | 849 |
| Social security payables | 383 | 324 |
| Termination benefits | 125 | 88 |
| | 1,610 | 1,261 |
| Non-current | | |
| Termination benefits | 144 | 117 |
| Bonuses | 40 | 40 |
| | 184 | 157 |
| Total salaries and social security payables | 1,794 | 1,418 |

Compensation for the Key Managers for the years ended December 31, 2016, 2015 and 2014 is shown in Note 27.e).

Employee benefit expenses and severance payments are composed of:

| | <u>Years ended December 31,</u> | | |
|--|---------------------------------|----------------|----------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Salaries | (6,954) | (5,166) | (3,994) |
| Social security expenses | (2,147) | (1,642) | (1,259) |
| Severance indemnities and termination benefits | (521) | (319) | (242) |
| Other employee benefits | (178) | (126) | (96) |
| | (9,800) | (7,253) | (5,591) |

Note 14 Income tax payables, income tax assets and deferred income tax

Income tax asset and liability, net as of December 31, 2016 and 2015 consist of the following:

| | <u>As of December 31, 2016</u> | | | | | <u>As of</u> |
|--|--------------------------------|-----------------|---------------|----------------|--------------|---------------------|
| | <u>Telecom</u> | <u>Personal</u> | <u>Núcleo</u> | <u>Telecom</u> | <u>Total</u> | <u>December 31,</u> |
| | <u>Argentina</u> | | | <u>USA</u> | | <u>2015</u> |
| Income tax payables | 465 | 1,586 | 29 | 11 | 2,091 | 1,721 |
| Withholdings and payments in advance of income taxes | (275) | (1,077) | (15) | (5) | (1,372) | (1,287) |
| Law No. 26,476 Tax Regularization Regime (*) | 5 | - | - | - | 5 | 5 |
| Current income tax liability, net | 195 | 509 | 14 | 6 | 724 | |
| Current income tax liability, net as of December 31, 2015 | 5 | 407 | 27 | - | | 439 |
| Law No. 26,476 Tax Regularization Regime (*) | 7 | - | - | - | 7 | 10 |
| Non-current Income tax liability | 7 | - | - | - | 7 | 10 |

(*) Tax liability valued to its discount value at each time of valuation.

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

| <u>As of December 31, 2016</u> | Income tax assets | | | Deferred tax liabilities | | |
|--|----------------------|----------------|--------------|--------------------------|--------------------|----------------|
| | Telecom Argentina | Telecom USA | Total | Personal | Núcleo | Total |
| Allowance for doubtful accounts | 86 | 2 | 88 | 271 | 16 | 287 |
| Provisions | 341 | - | 341 | 149 | - | 149 |
| PP&E | - | 1 | 1 | - | 13 | 13 |
| Inventory | - | - | - | 120 | - | 120 |
| Termination benefits | 82 | - | 82 | - | - | - |
| Deferred revenues | 85 | - | 85 | - | - | - |
| Pension benefits | (*) 57 | - | 57 | - | - | - |
| Other deferred tax assets, net | 120 | - | 120 | - | 1 | 1 |
| Total deferred tax assets | 771 | 3 | 774 | 540 | 30 | 570 |
| PP&E | (477) | - | (477) | (205) | - | (205) |
| Intangible assets | (83) | - | (83) | (584) | - | (584) |
| Cash dividends from foreign companies | - | - | - | (**) (150) | (44) | (194) |
| Mobile handsets financed sales | - | - | - | (84) | - | (84) |
| Investments | - | - | - | (4) | - | (4) |
| Other deferred tax liabilities, net | - | - | - | (68) | - | (68) |
| Total deferred tax liabilities | (560) | - | (560) | (1,095) | (44) | (1,139) |
| Total deferred tax asset (liability), net | (***) 211 | 3 | 214 | (***) (555) | (****) (14) | (569) |
| Actions for recourse tax receivable | 466 | - | 466 | | | |
| Total income tax assets | 677 | 3 | 680 | | | |

(*) Include 8 in Other Comprehensive Income for the year ended December 31, 2016.

(**) Include (20) in Other Comprehensive Income for the year ended December 31, 2016.

(***) Include 10 y (65) in Telecom Argentina y Personal, respectively, corresponding to temporary differences reversals as a consequence of 2015 affidavits filings.

(****) Include (42) corresponding to current liabilities reclassifications and 9 corresponding to initial balances currency translation adjustments

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| <u>As of December 31, 2015</u> | Income tax assets | | | | Deferred tax liabilities | |
|--|----------------------|------------|----------------|--------------|--------------------------|--------------|
| | Telecom Argentina | Núcleo | Telecom USA | Total | Personal | Total |
| Allowance for doubtful accounts | 61 | 8 | 1 | 70 | 151 | 151 |
| Provisions | 314 | - | - | 314 | 129 | 129 |
| PP&E | - | 14 | - | 14 | - | - |
| Inventory | - | - | - | - | 99 | 99 |
| Termination benefits | 65 | - | - | 65 | - | - |
| Deferred revenues | 73 | - | - | 73 | - | - |
| Pension benefits | 33 | - | - | 33 | - | - |
| Other deferred tax assets, net | 78 | 4 | - | 82 | - | - |
| Total deferred tax assets | 624 | 26 | 1 | 651 | 379 | 379 |
| PP&E | (390) | - | (1) | (391) | (260) | (260) |
| Intangible assets | (86) | - | - | (86) | (478) | (478) |
| Cash dividends from foreign companies | - | (6) | - | (6) | (113) | (113) |
| Investments | - | - | - | - | (61) | (61) |
| Other deferred tax liabilities, net | - | (1) | - | (1) | (17) | (17) |
| Total deferred tax liabilities | (476) | (7) | (1) | (484) | (929) | (929) |
| Total deferred tax asset (liability), net | 148 | 19 | - | 167 | (550) | (550) |
| Action for recourse tax receivable | 98 | - | - | 98 | - | - |
| Total income tax assets | 246 | 19 | - | 265 | | |

Income tax expense for the years ended December 31, 2016, 2015 and 2014 consists of the following:

| | Year ended December 31, 2016 | | | | |
|---|------------------------------|----------------|-------------|----------------|----------------|
| | Profit (loss) | | | | |
| | Telecom Argentina | Personal | Núcleo | Telecom USA | Total |
| Current tax expense | (465) | (1,586) | (29) | (11) | (2,091) |
| Deferred tax benefit | 45 | 80 | - | 4 | 129 |
| Action for recourse income tax receivable | 368 | - | - | - | 368 |
| Income tax expense | (52) | (1,506) | (29) | (7) | (1,594) |

| | Year ended December 31, 2015 | | | | |
|---|------------------------------|----------------|-------------|----------------|----------------|
| | Profit (loss) | | | | |
| | Telecom Argentina | Personal | Núcleo | Telecom USA | Total |
| Current tax expense | (273) | (1,410) | (33) | (5) | (1,721) |
| Deferred tax benefit | 25 | (112) | 18 | - | (69) |
| Action for recourse income tax receivable | 98 | - | - | - | 98 |
| Income tax expense | (150) | (1,522) | (15) | (5) | (1,692) |

| | Year ended December 31, 2014 | | | | |
|---------------------------|------------------------------|----------------|-------------|----------------|----------------|
| | Profit (loss) | | | | |
| | Telecom Argentina | Personal | Núcleo | Telecom USA | Total |
| Current tax expense | (418) | (1,302) | (25) | (4) | (1,749) |
| Deferred tax benefit | 19 | (267) | 3 | - | (245) |
| Valuation allowance | - | 27 | - | - | 27 |
| Income tax expense | (399) | (1,542) | (22) | (4) | (1,967) |

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Income tax expense for the years ended December 31, 2016, 2015 and 2014 differed from the amounts computed by applying the Company's statutory income tax rate to pre-tax income as a result of the following:

| | For the years ended December 31. | | |
|--|----------------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Pre-tax income | 5,599 | 5,127 | 5,696 |
| Non taxable items | 79 | 8 | (42) |
| Subtotal | 5,678 | 5,135 | 5,654 |
| Weighted statutory income tax rate (*) | 34.3% | 34.5% | 34.5% |
| Income tax expense at weighted statutory tax rate | (1,947) | (1,774) | (1,950) |
| Income tax on cash dividends of foreign companies - Núcleo | (15) | (14) | (27) |
| Other changes in tax assets and liabilities | - | (2) | (17) |
| Actions for recourse income tax receivable | 368 | 98 | - |
| Changes in valuation allowance | - | - | 27 |
| | (1,594) | (1,692) | (1,967) |

(*) Effective income tax rate based on weighted statutory income tax rate in the different countries where the Company has operations. The statutory tax rate in Argentina was 35% for all the years presented, in Paraguay was 10% plus an additional rate of 5% in case of payment of dividends for all the years presented and in the USA the effective tax rate was 39.5% for all the years presented.

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Income tax - Actions for recourse filed with the Tax Authority

Article 10 of Law No. 23,928 and Article 39 of Law No.24,073 suspended the application of the provisions of Title VI of the Income Tax Law relating to the income tax inflation adjustment since April 1, 1992.

Accordingly, Telecom Argentina and its domestic subsidiaries determined its income tax obligations in accordance to those provisions, without taking into account the income tax inflation adjustment.

After the economic crisis of 2002, many taxpayers began to question the legality of the provisions suspending the income tax inflation adjustment. Also, the Argentine Supreme Court of Justice issued its verdict in the Candy case (07/03/2009) in which it stated that particularly for fiscal year 2002 and considering the serious state of disturbance of that year, the taxpayer could demonstrate that not applying the income tax inflation adjustment resulted in confiscatory income tax rates.

More recently, the Argentine Supreme Court of Justice applied a similar criterion to the 2010, 2011 and 2012 fiscal years in the cases brought by Distribuidora Gas del Centro (10/14/2014, 06/02/2015 and 10/04/2016), enabling the application of income tax inflation adjustment for periods not affected by a severe economic crisis such as 2002.

According to the above-mentioned new legal background that the Company took knowledge during 2015, and after making the respective assessments, Telecom Argentina filed during 2015 and 2016 actions for recourse with the AFIP to claim the full tax overpaid for fiscal years 2009, 2010 and 2011 for a total amount of \$371 plus interest, under the argument that the lack of application of the income tax inflation adjustment is confiscatory.

As of the date of issuance of these consolidated financial statements, the actions for recourse filed are pending of resolution by the Tax Authority. However, the Company's Management, with the assessment of its tax advisor, considers that the arguments presented in those recourse actions follow the same criteria as the one established by the Argentine Supreme Court of Justice jurisprudence mentioned above, among others, which should allow the Company to obtain a favorable resolution of actions of recourse filed.

Consequently, the income tax determined in excess qualifies as a tax credit in compliance with IAS 12 and the Company recorded a non-current tax credit of \$466 as of December 31, 2016 (\$98 were recorded in fiscal year 2015 and \$368 in fiscal year 2016, reducing Income tax cost). For the measurement of the tax credit, the Company has estimated the amount of the tax determined in excess for all fiscal years not covered by the statute of limitation (2009-2016) weighting the likelihood of certain variables according to the jurisprudential antecedents known until such date. The Company's Management will assess Tax Authority's resolutions related to actions of recourse filed as well as the jurisprudence evolution in order to annually re-measure the tax credit recorded.

Note 15 Other taxes payables

Other taxes payables consist of the following:

| | <u>As of December 31.</u> | |
|--|---------------------------|--------------|
| | <u>2016</u> | <u>2015</u> |
| Current | | |
| VAT, net | 360 | 452 |
| Tax withholdings | 319 | 201 |
| Internal taxes | 138 | 111 |
| Tax on SU (Note 2.i) | 110 | 91 |
| Regulatory fees (Net of \$14 offset with Resolution No. 41/07 receivables as of December 31,2016 Note 2.p) | 78 | 74 |
| Turnover tax | 75 | 143 |
| Municipal taxes | 35 | 46 |
| Retention Decree No.583/10 ENARD | 26 | 20 |
| Tax on personal property on behalf of Shareholders | 8 | 15 |
| | 1,149 | 1,153 |

Note 16 Other liabilities

Other liabilities consist of the following:

- pension benefits;
- guarantees received;
- legal fees payable by adhesion to the tax regularization schemes;
- any liability not included in the other liability items.

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| | <u>As of December 31,</u> | |
|---|---------------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Current</u> | | |
| Compensation for directors and members of the Supervisory Committee | 44 | 30 |
| Guarantees received | 15 | 12 |
| Other | 10 | 11 |
| | 69 | 53 |
| <u>Non-current</u> | | |
| Pension benefits (Note 3.I) | 164 | 95 |
| Legal fees | 4 | 4 |
| Other | 2 | 2 |
| | 170 | 101 |
| Total other liabilities | 239 | 154 |

Movements in the pension benefits are as follows:

| | <u>Years ended</u> | |
|-------------------------------------|---------------------|---------------------|
| | <u>December 31,</u> | <u>December 31,</u> |
| | <u>2016</u> | <u>2015</u> |
| At the beginning of the year | 95 | 68 |
| Service cost (*) | 11 | 8 |
| Interest cost (**) | 38 | 28 |
| Payments | (4) | (2) |
| Actuarial loss /(gain) (***) | 24 | (7) |
| At the end of the year | 164 | 95 |

(*) Included in Employee benefit expenses and severance payments.

(**) Included in Financial expenses.

(***) Included in Other comprehensive income as required by IAS 19R.

Note 17 Provisions

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 provisions, 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 provisions required, if any, is made after careful analysis of each individual case.

The determination of the required provisions may change in the future due to new developments or unknown facts at the time of the evaluation of the claims or changes as a matter of law or legal interpretation. Consequently, as of December 31, 2016, the Company has established provisions in an aggregate amount of \$1,680 to cover potential losses under these claims (\$57 for regulatory contingencies deducted from assets and \$1,623 included under provisions) and certain amounts deposited in the Company's bank accounts have been restricted as to their use due to some judicial proceedings. As of December 31, 2016, these restricted funds totaled \$66 (included under Other

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receivables, net line item in the consolidated statement of financial position).

Provisions consist of the following:

| | Balances as of December 31, 2014 | Additions/ (recoveries) Capital Interest (i) | | Reclassifications | Uses Debt recognition | Payments | Balances as of December 31, 2015 | Additions/ (recoveries) Capital Interest (i) | | Reclassifications | Uses Debt recognition | Payments |
|--|---|---|------------|-------------------|-----------------------------|--------------|---|---|------------|-------------------|-----------------------------|--------------|
| Current | | | | | | | | | | | | |
| Provision for civil and commercial proceedings | 71 | 34 | 19 | 68 | (25) | (55) | 112 | - | - | 47 | (15) | (35) |
| Provision for labor claims | 51 | - | - | 75 | - | (75) | 51 | - | - | 159 | (27) | (92) |
| Provision for regulatory, tax and other matters claims | 77 | - | - | - | - | (33) | 44 | - | - | 72 | - | (45) |
| Total current provisions | 199 | 34 | 19 | 143 | (25) | (163) | 207 | - | - | 278 | (42) | (172) |
| Non-current | | | | | | | | | | | | |
| Provision for civil and commercial proceedings | 228 | 49 | 31 | (68) | - | - | 240 | 14 | 54 | (47) | - | - |
| Provision for labor claims | 288 | 61 | 55 | (75) | - | - | 329 | 130 | 78 | (159) | (1) | - |
| Provision for regulatory, tax and other matters claims | 441 | (30) | 20 | (24) | - | - | 407 | 43 | 11 | (45) | - | - |
| Asset retirement obligations | 123 | 54 | 12 | - | - | - | 189 | 47 | 64 | - | - | (2) |
| Total non-current provisions | 1,080 | 134 | 118 | (167) | - | - | 1,165 | 234 | 207 | (251) | (1) | (2) |
| Total provisions | 1,279(ii) | 168 | 137 | (iii) (24) | (25) | (163) | 1,372(iv) | 234 | 207 | (v) 27 | (43) | (174) |

(i) Charged to finance costs, interest on provisions line item.

(ii) Charged 113 to Provisions, 53 to PP&E (CAPEX) and 2 to currency translation adjustments.

(iii) Reclassified to Other Receivables.

(iv) Charged 187 to Provisions, 45 to PP&E (CAPEX) and 2 to currency translation adjustments.

(v) Use of Resolution No. 41/07 receivables.

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1. *Probable Contingent liabilities*

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

- *Profit sharing bonds*

Various legal actions are brought, mainly by former employees of the Company against the Argentine government and Telecom Argentina, requesting that Decree No. 395/92 which expressly exempted Telefónica and the Company from issuing the profit sharing bonds provided in Law No. 23,696 be struck down as unconstitutional. The plaintiffs also claim the compensation for damages they suffered because such bonds have not been issued.

In August 2008, the Argentine Supreme Court of Justice found Decree No. 395/92 unconstitutional when resolving a similar case against Telefónica.

Since the Argentine Supreme Court of Justice's judgment on this matter, the Divisions of the Courts of Appeal ruled that Decree No. 395/92 was unconstitutional. As a result, in the opinion of the legal counsel of the Company, there is an increased probability that the Company has to face certain contingencies, notwithstanding the right of reimbursement that attends Telecom Argentina against the National State.

Said Court decision found the abovementioned Decree unconstitutional and ordered that the proceedings be remanded back to the court of origin so that such court could decide which defendant was compelled to pay the licensee and/or the Argentine government- and the parameters that were to be taken into account in order to quantify the remedies requested (percent of profit sharing, statute of limitations criteria, distribution method between the program beneficiaries, etc). It should be mentioned that there is no uniformity of opinion in the Courts in relation to each of those concepts.

Later, in *Ramollino Silvana c/Telecom Argentina S.A.*, the Argentine Supreme Court of Justice, on June 9, 2015, ruled that the profit sharing bonds do not correspond to employees who joined Telecom Argentina after November 8, 1990 and that were not members of the PPP.

This judicial precedent is consistent with the criteria followed by the Company for estimating provisions for these demands, based on the advice of its legal counsel, which considered remote the chances of paying compensation to employees not included in the PPP.

*Legal action's statute of limitations criteria: Argentine Supreme Court of Justice ruling *Dominquez c/ Telefónica de Argentina S.A.**

In December 2013, the Argentine Supreme Court ruled on a similar case to the above referred legal actions, *Domínguez c/ Telefónica de Argentina S.A.*, overturning a lower court ruling that had barred the claim as having exceeded the applicable statute of limitations since ten years had passed since the issuance of Decree No. 395/92.

The Argentine Supreme Court of Justice ruling states that the Civil and Commercial Proceedings Court must hear the case again to consider statute of limitations arguments raised by the appellants that, in the opinion of the Argentine Supreme Court of Justice, were not considered by the lower court and are relevant to the resolution of the case.

After the Argentine Supreme Court of Justice's ruling and until the date of issuance of these consolidated financial statements, two chambers of the Civil and Commercial Federal Proceedings Court have issued opinions interpreting the doctrine developed by the Argentine Supreme Court of Justice in its ruling, acknowledging that the statute of limitations must be applied periodically as of the time of each balance sheet- but limited to five years; and Chamber III ruled, by a majority of votes, that the statute of limitations must not be applied periodically, but that instead, was exceeded ten years after the issuance of Decree No. 395/92.

Criteria for determining the relevant profit to calculate compensation: ruling of the Civil and Commercial Federal Proceedings Court in Plenary Session Perota c/ Estado Nacional y Telefónica de Argentina S.A.

On February 27, 2014, the Civil and Commercial Appeals Court issued its decision in plenary session in the case *Perota, César c/ Estado Nacional*, as a result of a complaint filed against Telefónica de Argentina S.A, ruling: *that the amount of profit sharing bonds the corresponding to former employees of Telefónica de Argentina S.A. should be calculated based on the taxable income of Telefónica de Argentina S.A. on which the income tax liability is to be assessed*.

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The Court explained that in order to make such determination: *it is necessary to clarify that taxable income (pre-tax income) means the amount of income subject to the income tax that the company must pay, which generally means gross income, including all revenue obtained during the fiscal year (including contingent or extraordinary revenue), minus all ordinary and extraordinary expenses accrued during such fiscal year .*

As of December 31, 2016, the Company's Management, with the advice of its legal counsel, has recorded the provisions for contingencies that it estimates are sufficient to cover the risks associated with these legal actions, having considered the available legal background as of the date of these consolidated financial statements.

Additionally, on June 3, 2013 Telecom Argentina was notified of a lawsuit filed by four unions claiming the issuance of a profit sharing bonds (hereinafter the bonds) for future periods and for periods for which the statute of limitations is not expired. To enforce this claim, the plaintiffs require that Decree No. 395/92 should be declared unconstitutional.

This collective lawsuit is for an unspecified amount. The plaintiffs presented the criteria that should be applied for the determination of the percentage of participation in the Company's profit. The lawsuit requiring the issuance of a profit sharing bond represents an obligation with potential future economic impact for Telecom Argentina.

In June 2013, the Company filed its answer to the claim, arguing that the labor courts lack of jurisdiction. On October 30, 2013, the judge rejected the lack of jurisdiction plea, established a ten year period as statute of limitation and deferred ruling on the defenses of res judicata, lis pendens and on the third party citation required after a hearing is held by the court. Telecom Argentina has appealed the judge's ruling.

On December 12, 2013 this hearing took place and the intervening court differed the defense of statute of limitations filed by the Company to the moment of the final ruling, among other matters. It also ordered the plaintiff to establish that they have permission to bring the case on behalf Telecom Argentina's employees included in the claim; meanwhile the trial proceeding will be suspended. The plaintiff appealed the decision and the judge deferred this issue to the time of sentencing.

As of the date of issuance of these consolidated financial statements, the appeal regarding lack of jurisdiction raised by the Company is pending, until the documentation requested by the court to the plaintiffs was resolved.

The Company, based on the advice of its legal counsel, believes that there are strong arguments to defend its rights in this claim based, among other things, in the expiration of the statute of limitations of the claim for the unconstitutionality of Decree No. 395/92, the lack of active legal standing for collective claim for bonds issuance -due to the existence of individual claims-, among other reasons regarding lack of active legal standing.

- *Wage differences by food vouchers and non-remunerative sums*

The Company is subject to various lawsuits initiated by some employees and former employees who claim wage differences caused by the impact of the concepts non-remunerative sums (amounts not subject to social security contributions) and food vouchers over the settlement of items such as overtime, productivity, vacation, supplementary annual salary and other additional benefits provided by the Collective Bargaining Agreement.

In this regard, the Argentine Supreme Court of Justice has recognized that food vouchers are remunerative and are part of the employees compensations, declaring the unconstitutionality of Sect. 103 bis, inc. C of the Employment Contract Act (which gives them the character of social benefits). Considering these judicial precedents, as of December 31, 2016, the Company's Management, with the advice of its legal counsel, has recorded a provision for contingencies that it estimates is sufficient to cover the risks associated with these claims as of the date of issuance of these consolidated financial statements.

- *Sales representative claims*

Former sales representatives of Personal have brought legal actions for alleged improper termination of their contracts and have submitted claims for payment of different items such as commission differences, value of the customers portfolio and lost profit, among other matters. Personal believes, based on the advice of its legal counsel, that certain items included in the claims would not be sustained while other items, if sustained, would result in significantly lower amounts than those claimed. As of the date of issuance of these consolidated financial statements, some legal actions are in the discovery phase and with expert opinions in progress.

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Personal s Management, based on the advice of its legal counsel, has recorded provisions that it estimates are sufficient to cover the risks associated with these claims, which are considered that would not have a negative impact on Personal s results and financial position.

- *Regulator s Penalty Activities*

Telecom Argentina is subject to various penalty procedures, in most cases promoted by the Regulatory Authority, for delays in the reparation and installation of service to fix-line customers. Although generally a penalty considered on an individual basis does not have a material effect on Telecom Argentina s equity, there is a significant disproportion between the amounts of the penalty imposed by the Regulatory Authority and the revenue that the affected customer has generated to Telecom Argentina.

Since fiscal year 2013, the CNC significantly increased its penalty activities, increasing the amount of charges and sanctions, as well as the individual amount of each of the latter. In several cases the sanctions imposed as from 2013 had twice the economic value of those imposed to Telecom Argentina in previous periods for the same alleged infringements.

In determining the provisions for regulatory charges and sanctions, the Telecom Argentina s Management, with the assessment of its legal counsel, determines the likelihood of such sanctions being imposed, the amount thereof based on historical information and judicial precedents, also contemplating various probable scenarios of statute of limitation for charges and sanctions received, the current levels of execution of sanctions and the eventual results of legal actions that Telecom Argentina has undertaken to demonstrate, among other things, the disproportionate sanctions imposed by the Regulatory Authority since 2013.

Telecom Argentina has recorded certain provisions that it deems sufficient to cover the above mentioned sanctions and charges, estimating that they should not prosper in amounts individually higher than 200 thousand UT (9,380 Argentine pesos) per each alleged violation against its clients in the normal course of business, in accordance with the legal and regulatory analysis performed as of December 31, 2016. If Telecom Argentina and its legal advisors arguments do not prevail, the Management of Telecom Argentina estimates that the amount of provisions for regulatory charges and sanctions might be increased in approximately \$154 as of December 31, 2016.

2. *Possible Contingencies*

In addition to the possible contingencies related to regulatory matters described in Note 2 i) FFSU *Impact in Telecom Argentina*, below is a summary of the most significant claims and legal actions for which no provisions have been established, although it cannot be ensured the final outcome of these lawsuits:

- *Consumidores Financieros Asociación Civil para su Defensa claim*

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In November 2011, Personal was notified of a lawsuit filed by the Consumidores Financieros Asociación Civil para su Defensa claiming that Personal made allegedly abusive charges to its customers by implementing per-minute billing and setting an expiration date for prepaid telecommunication cards.

The plaintiff claim Personal to: i) cease such practices and bill its customers only for the exact time of telecommunication services used; ii) reimburse the amounts collected in excess in the ten years preceding the date of the lawsuit; iii) credit its customers for unused minutes on expired prepaid cards in the ten years preceding the date of the lawsuit; iv) pay an interest equal to the lending rate charged by the Banco de la Nación Argentina; and v) pay punitive damages provided by article 52 bis of Law No. 24,240.

Personal responded in a timely manner, arguing the grounds by which the lawsuit should be dismissed, with particular emphasis on the regulatory framework that explicitly endorses Personal's practices, now challenged by the plaintiff in disregard of such regulations.

The plaintiffs are seeking damages for unspecified amounts. Although Personal believes there are strong defenses according to which the claim should not succeed, in the absence of jurisprudence on the matter, Personal's Management (with the advice of its legal counsel) has classified the claim as possible until a judgment is rendered.

This claim was at a preliminary stage as of the date of these consolidated financial statements. However, the judge has ordered the accumulation of this claim with two other similar claims against Telefónica Móviles and AMX Argentina. So, the three legal actions will continue within the Federal Civil and Commercial Court No. 9.

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- *Lawsuit against Personal on changes in services prices*

In June 2012 the consumer trade union Proconsumer filed a lawsuit against Personal claiming that the company did not provide the clients with enough information regarding the new prices for the services provided by Personal between May 2008 and May 2011. It demands the reimbursement of the increase in the price billed to customers for a period of two months.

Personal's Management considers that Personal had adequately informed its clients the modifications of the terms and conditions in which the service would be provided, and therefore, believes that this lawsuit should not succeed.

On September 5, 2012 the Court took notice of the lawsuit. On June 26, 2013, the judge upheld the jurisdictional plea filed by Personal and ordered to send the lawsuit to the Administrative and Contentious court, which decided that the jurisdiction corresponded to the Commercial Court. That decision was appealed by Personal through an extraordinary motion. The extraordinary motion was denied and Personal filed a complaint with the Argentine Supreme Court of Justice, which on May 27, 2016 provided that the demand will continue its proceedings in the commercial courts. The lawsuit is in the discovery phase and both parts are preparing the evidence required.

Personal's Management considers that there are solid arguments for the favorable resolution of this lawsuit, but, in the event it is resolved unfavorably, it would not have a significant impact on Personal's results and financial position.

- *Legal Procedures relating to the Definition of the Scope of Fixed and Mobile Telephone Services under Broadcasting Law No. 22,285, repealed by Law No. 26,522 of Audiovisual Communication Services*

The Group offers a wide range of telecommunications services in the market, including, among others, those referred to as VAS, which provide additional functionality to the basic services of voice transmission through a telecommunications network.

In connection with the VAS, there are some legal claims referred to the provision of streaming services, known as video on demand, and also an Argentine Supreme Court of Justice opinion relating to the commercialization of a service called Superpack.

- o *Supercanal Case*

Within the context of a claim filed by Supercanal S.A. in 2003, an injunction was ordered against the fixed and mobile telephone companies, by which the Court ordered them to abstain from *providing supplementary broadcasting services or issuing any kind of broadcasting contents and programming*, as well as *making any advertisement relating to future services to be provided, or*

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the provision of television services as VAS or any other kind of technical method through the fixed or mobile telephone and Internet services that they provide .

In 2012 a lower court decided to consider the case without merit and to terminate the injunction. However, on February 18, 2014, the Court of Appeals overruled such decision, and the judge must now decide on the appeal filed against the injunction, which is still pending.

On June 16, 2014 Telecom Argentina filed before the Courts a request to terminate the injunction, arguing among other reasons that new Law No. 26,522 of Audiovisual Communication Services has repealed the former law, under which the injunction had been ordered.

In March 2015, Telecom Argentina reported the issuance of Law No. 27,078 (LAD) and its effect on the injunction, which became moot.

As a result, on June 3, 2015 the plaintiff informed the Court that it had no complaints the case was moot considering the new legal framework introduced by Laws No. 26,522 and 27,078.

On May 10, 2016, the judge decided that the claim is moot, ordered the lifting of the injunction and the closing of the claim.

o *Claim by the Argentine Association of Cable Television*

Within the context of a claim filed by the Argentine Association of Cable Television in 2006, an injunction was ordered against the fixed and mobile telephone companies, by which the Court ordered them to abstain from *transmitting, repeating and/or providing directly or indirectly broadcasting services or their supplementary services* , based on the former Broadcasting Law No. 22,285.

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Subsequently, such injunction was extended to the commercialization of the Superpack service (joint offer of satellite television services provided by DirecTV and telephone and Internet services provided by Telecom Argentina, where each entity invoiced the services provided by it directly to the final customer), which was suspended by an appeal filed by Telecom Argentina before the Argentine Supreme Court of Justice. However, on June 3, 2014, the Argentine Supreme Court of Justice rejected such appeal because it did not refer yet to a final decision on the substantial issue that must be resolved by such Court. Accordingly, the Company prudentially suspended the commercialization of the above referred joint offer with DirecTV from June 4, 2014. The suspension of this joint offer only meant to the Group a decrease in commissions revenues for new subscribers that our network commercialized in favor of DirecTV, and a decrease in costs from commissions conceded to DirecTV for subscribers that the latter captured for the Telecom Group, which were not material during the year ended December 31, 2014.

On June 10, 2014, the Company claimed to the Courts that the substantial issues under the claim are without merit and the injunction has become ineffective as a result of the new Law No. 26,522 of Audiovisual Communication Services which repealed the former law under which the injunction had been ordered.

On October 7, 2014, the Court notified the Company and Personal of a breach complaint related to the above referred injunction. Such notification was answered rejecting its whole content and requesting that the CNC and the SC become part of the process. The Court will have to make a joint decision on these two issues presented by the parties.

On December 19, 2014 Law No. 27,078 came into force. In Article 9 paragraph 2 states that licensees of services under the Law such as Telecom Argentina and Personal may provide audiovisual media services. This legislation reinforces the legal arguments used by the Company to continue providing the VAS analyzed in these cases.

On June 18, 2015 a lower Court decided to postpone the declaration that the claim was moot and to limit the term of the injunction for six months. The decision was appealed by the Company and other defendants. On October 8, 2015 the Court of Appeals decided the revocation of the judge's decision that the claim is moot and ruled that the injunction has ceased to apply. Against this decision, the plaintiff has filed an extraordinary resource. On March 17, 2016, the Court of Appeals rejected the resource. The plaintiff filed a complaint with the Supreme Court on March 29, 2016, which it was dismissed by the Supreme Court on August 4, 2016 and ended the claim.

- *Proceedings related to value added services - Mobile contents*

On October 1, 2015 Personal was notified of a claim seeking damages for unspecified amounts initiated by consumer trade union Cruzada Cívica para la defensa de los consumidores y usuarios de servicios públicos. The plaintiff invokes the collective representation of an undetermined number of Personal customers.

The plaintiff claims the way that content and trivia are contracted, in particular the improper billing of messages sent offering those services and their subscription. Additionally, it proposes the application of a civil penalty.

This claim has a similar object to other claims made by a consumer association (Proconsumer) where collective representation of customers is also invoked. As of the date of issuance of these consolidated financial statements, those claims are not at preliminary stages.

Personal has answered the claims through the presentation of legal and factual defenses, subpoenaing third parties involved in the provision of VAS. Likewise, with the advice of its legal counsel, Personal believes to have strong arguments for its defense in these lawsuits. However, given the absence of jurisprudential precedents, the final outcome of these claims cannot be assured.

- *Claims of some Personal Content Providers*

In the framework of the general reorganization of the content business started out by Personal in 2016, and given the upcoming expiration of agreements with content providers, some of the latter have been notified that such agreements will not be renewed.

By virtue of that communication, three of those companies initiated and obtained in court (between January 12, 2017 and February 24, 2017), precautionary measures against Personal, in order to avoid that the duly notified decision of not renewing the agreements be effective, and thus, forcing Personal to refrain from disconnecting or interrupting the contractual relationship on the scheduled dates.

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All these precautionary measures were timely appealed by Personal, with only one of them remaining in force as of the date of issuance of these consolidated financial statements. On February 7, 2017, the ENACOM decided that Personal should refrain from disrupting the services of the companies nucleated in CAVAM as well as from modifying the existing business conditions.

Later, on February 24, 2017, the ENACOM notified Personal the Resolution 2017-1122-APN-ENACOM # MCO, which set out that Mobile Operators may receive, in every respect, a percentage that should not exceed 40% of the services invoiced on behalf and to the order of providers of audiotext and mass calling Value Added Services.

In addition, the Resolution sets forth a 30-day period to file under the ENACOM the interconnection contracts or the addenda to the existing ones, that ensure adjustments to the contracts already in force and with relation to the services rendered by the members of CAVAM.

In light of the situation described, taking into account the impact on rights and interests, Personal will deduct all necessary actions and/or administrative and/or judicial resources in order to obtain revocation/modification and/or annulment of the Resolution in question, since the conditions set forth in the rule are deemed inapplicable to the contractual status with content providers, for the reason that these conditions are purely commercial and have been entered into by private parties, besides the numerous legal inconsistencies regarding said Resolution.

- *Asociación por la Defensa de Usuarios y Consumidores c/Telecom Personal S.A. claim*

In 2008 the Asociación por la Defensa de Usuarios y Consumidores sued Personal, seeking damages for unspecified amounts, claiming the billing of calls to the automatic answering machine and the collection system called "send to end" in collective representation of an undetermined number of Personal customers.

In the third quarter of 2015 Personal took knowledge of an adverse court ruling in a similar trial, promoted by the same consumers association against other mobile operator.

Personal's Management, with the advice of its legal counsel, believes that it has strong arguments for its defense, but given the new jurisprudential precedent, the outcome of this claim cannot be ensured.

- *Interest rate applicable to the matters under Labor Courts of the City of Buenos Aires*

On May 21, 2014 the National Labor Court of Appeals agreed, as a result of a divided vote, that the interest rate applicable to the matters under its jurisdiction in the City of Buenos Aires shall be the nominal annual rate for personal loans with free use of funds of the Argentine National Bank for a 49 to 60 month term (as of December 31, 2015 the mentioned rate was 3% per month). The

Court also resolved that in those cases that the Court sentences are still pending, this new rate shall be applied as from the date on which each amount is due.

As from 2002 the above mentioned Court had resolved to apply the interest rate resulting from the monthly average of the interest rate used by the National Bank of Argentina for the granting of loans (as of December 31, 2015 the mentioned average rate was 2.055% per month). Therefore, this disposition represents an increase in the interest rate, which the Company has reflected in its assessment of the provisions for pending labor claims. Although this Court's decision is not compulsory for lower Courts, an additional risk exists since the Courts might intend to apply such rate retroactively to labor credits not yet acknowledged by a Court sentence.

Telecom Group's Management, with the advice of its legal counsel, considers that there are solid legal arguments to argue against the retroactive application of this new rate. As of the date of issuance of these consolidated financial statements, Management cannot assure the result deriving from the decision of the Court of Appeals, until the lower Courts issue future opinions making their positions clear. Nevertheless, should a disadvantageous resolution prevail, it is estimated that shall not have a significant impact on the Group's financial position and results of operations

3. Remote Contingencies

The Group faces other legal proceedings, fiscal and regulatory considered normal in the development of its activities. The Company Directors and its legal advisors estimate it will not generate an adverse impact on their financial position and the result of its operations, or its liquidity. In accordance with IAS 37 provisions, not any provision has been constituted related to the resolution of these issues

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4. Contingency Asset

• AFA Plus Project Claim

On July 20, 2012, the Company entered into an agreement with the Argentine Football Association (AFA), for the provision of services to a system called Argentine Football System Administration (AFA Plus Project) related to the secure access to first division football stadiums whereby Telecom Argentina should provide the infrastructure and systems to enable the AFA to manage the aforementioned project. The recovery of investments and expenses incurred by Telecom Argentina and its profit margin would come from charging AFA with a referring price stated in 20% of the popular ticket price per each football fan that attend the stadiums during the term of the agreement, so the recoverability of the Company s assets related to the Project depended on AFA implementing the AFA Plus Project .

From 2012 and in compliance with its contractual obligations, the Company made investments and incurred in expenses amounting to \$182 as of December 31, 2016, of which \$143 are included in PP&E (as of December 31, 2015, such figures amounted to \$179 and \$140, respectively) for the provision and installation of equipment and the execution of civil works for improving the football stadiums, registration centers equipment, inventories and material storage and attend other expenses directly associated with AFA Plus Project.

For several specific reasons of the Project, the football environment and the country context, the AFA Plus system was not implemented by AFA, not even partially. Accordingly, Telecom Argentina has not been able to begin collecting the agreed price.

Finally, throughout the agreement, Telecom Argentina received no compensation from AFA for the services provided and the work performed. In September 2014, AFA notified the Company of its decision to terminate the agreement with Telecom Argentina, modifying the AFA Plus Project, and also informed that it will assume the payment of the investments and expenditures incurred by the Company. Accordingly, negotiations between the parties have started.

In February 2015, AFA made a proposal to compensate the investments and expenditures incurred by the Company through advertising exchange exclusively related to the AFA Plus Project (or the one that replaces this Project in the future), in the amount of US\$ 12.5 million. If the advertising compensation was not operating in one year, AFA would pay to Telecom Argentina the mentioned amount. The Company analyzed the quality of the assets offered by AFA in its offer of advertising exchange, and rejected the offer as insufficient.

New negotiations were conducted in 2015 to improve the mentioned offer (requiring a combination of cash payments and advertising) but a satisfactory agreement was not reached and negotiations were suspended for AFA internal affairs.

In October 2015, the Company formally demanded that AFA pay the amounts due (\$179.2 plus interest from its implementation). AFA rejected the claim but agreed to resume negotiations for a closing agreement which was then suspended by the AFA electoral

process.

In January 2016 both parties resumed conciliatory negotiations, while the Company reserved its right to exercise legal claims on the amounts due.

In June 2016 the Company initiated a compulsory pre-judicial mediation procedure. The first audience, held on July 12, 2016, was attended by both parties. A second audience was held on August 3, 2016 and a third and the last one was held on August 23, 2016, which resulted in no agreement between the parties.

As of the date of issuance of these consolidated financial statements, the Company, with the assistance of its legal advisors, is preparing the lawsuit against AFA in order to claim the owed amounts through the judicial system. The Company's Management and its external advisor believe that they have solid and legal arguments for claiming and are evaluating the actions to be followed for recovering the investments and expenses made.

It is worth mentioning that the impairment recorded by the Company arising from the uncertainties related to the recoverable value of assets recognized by the AFA Plus Project (Works in Progress and Materials amounting to \$143 as of December 31, 2016) have been only recorded for the purpose to comply with accounting standards and in no way involves giving up or limiting the rights given to the Company as a genuine creditor for the AFA Plus Project agreement.

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Note 18 Commitments

(a) Purchase commitments

The Company has entered into various purchase orders amounting in the aggregate to approximately \$7,945 as of December 31, 2016 (of which \$2,866 corresponds to PP&E commitments), 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).

(b) Investment commitments

In August 2003, Telecom Argentina was notified by the SC of a proposal for the creation of a \$70- 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 assumed by Telecom Argentina from the sale of Publicom

On March 29, 2007, Telecom Argentina's Board of Directors approved the sale of its equity interest in Publicom (a company engaged in directories publishing business) 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).

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

ii engages Publicom to publish and print Telecom Argentina's directories (white pages) for a 5-year period, which was extended annually;

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

- ii 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;
- ii 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
- ii 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 Argentina reserves the right to supervise certain matters associated with white pages publishing and distribution activities that allow Telecom Argentina 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 Argentina to apply economic sanctions in the case of non-compliance, and in the case of serious non-compliance, allow Telecom Argentina 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 Argentina that said services will be contracted at market price.

Telecom Argentina 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.

(d) Commitments assumed by Núcleo

During 2010, the CONATEL awarded Núcleo a public bidding for the implementation of the expansion of the infrastructure of networks used as platform for the mobile telephony access services and the basic service in areas of public or social interest in Paraguay. The total investment was approximately of \$17, of which \$12 were subsidized by CONATEL.

As of the date of these consolidated financial statements, Núcleo has timely fulfilled its investments obligations and the total assets and services have been installed and are satisfactorily functioning. The CONATEL has disbursed approximately \$11 related to this bidding.

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Additionally, in August 2011, the CONATEL awarded Núcleo a new public bidding for the implementation of the expansion of the infrastructure of networks as a platform for the mobile telephony access services and the basic service in the Department of Caaguazú. Núcleo committed to install and render satisfactorily functioning all the assets and services covered by the bidding within six months from the date of signing of the contract, by means of an approximate investment of \$6 of which \$5 were subsidized by the CONATEL. As of the date of these consolidated financial statements, the work is finished. The CONATEL has disbursed approximately \$4 related to this bidding.

CONATEL's total differed disbursements as of December 31, 2016 amounted to \$15 and were included under Deferred revenues line item, corresponding \$4 to current deferred revenues, having accrued gains for \$11 since fiscal year 2011.

(e) Commitments assumed from the acquisition of Spectrum by Personal

The Auction Terms and Conditions convened by SC Resolution No. 38/14 established high and demanding obligations of coverage and network deployment, which would require significant investments in PP&E that were estimated at the time of submission of Personal's bid in approximately US\$ 450 million over the next five years and whose failure could result in sanctions and adverse effects to Personal.

Some of the obligations included in the Terms and Conditions are the following:

- Extend the SRMC, STM and PCS coverage in such a way that it reaches all locations with at least 500 inhabitants in a time period that would not exceed 60 months.
- Upgrade the network infrastructure in a time period that would not exceed 60 months, in such a manner that in all the network locations where mobile Internet services are offered a minimum of 1 Mbps per user be guaranteed in the downlink for SRMC, STM and PCS.
- For the SCMA (Annex III of Terms and Conditions) progressive coverage obligations in the Argentine Republic territory are established, in five differenced stages, completed in the 60-month-period with coverage in locations with more than 500 inhabitants.

For further detail of the obligations involved, see SC Resolution No.37/14, No. 38/14 and its amendments and supplementary regulations.

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Taking into account that the frequency bands of SC Resolution No.83/14 had been partially awarded, Personal requested the SC that all the mentioned deadlines were calculated from the date on which the frequency band 713-723 Mhz to 768-778 Mhz were awarded, what would complete Lot 8 award. Such requirement was satisfied by the provisions of section 4 d) of Decree No. 1,340/16.

As of December 31, 2016, Personal s management has invested in expanding coverage and network deployment in an amount of approximately US\$ 354 million. There are also purchase orders issued related to this improvement for an amount of approximately US\$ 66 million (included in a) above.

Note 19 Equity

Equity includes:

| | As of December 31, | |
|--|---------------------------|---------------|
| | 2016 | 2015 |
| Equity attributable to Telecom Argentina (Controlling Company) | 19,336 | 17,194 |
| Equity attributable to non-controlling interest (ABC Telecomunicaciones S.A. Note 1.a) | 542 | 416 |
| Total equity (*) | 19,878 | 17,610 |

(*) Additional information is given in the consolidated statements of changes in equity.

(a) Capital information

The total capital stock of Telecom Argentina amounted to \$984,380,978, represented by an equal number of ordinary shares, of \$1 Argentine peso of nominal value, of which 969,159,605 treasury shares are entitled to one vote. The capital stock is fully integrated and registered with the IGJ.

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

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Telecom Argentina's breakdown of capital stock as of December 31, 2016 is as following:

| Registered, subscribed and authorized for public offering | | | | |
|--|---------------------------|------------------------|----------------------------|--------------------|
| Shares | Outstanding shares | Treasury shares | Total capital stock | |
| Ordinary shares, \$1 Argentine peso of nominal value each | | | | |
| Class A | 502,034,299 | - | | 502,034,299 |
| Class B | 466,890,558 | 15,221,373 | | 482,111,931 |
| Class C | 234,748 | - | | 234,748 |
| Total | 969,159,605 | 15,221,373 | | 984,380,978 |

Each ADS represents 5 Class B shares and are traded on the NYSE under the ticker symbol TEO.

(b) Share Ownership Plan

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 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), most of which was sold in a secondary public offering in May 2000.

The Annual General and Extraordinary Meetings held on April 27, 2006, approved that the power for the additional 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. As granted by the Meetings, the Board transferred the powers to convert the shares to some of the Board's members and/or the Company's executive officers. As of December 31, 2011, all the 41,339,464 shares were converted into Class B ordinary shares in eleven tranches.

The remaining 4,593,274 Class C shares 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 s/nulidad de acto jurídico*, which was released. The General Ordinary and Extraordinary and Special Class C Shares Meetings held on December 15, 2011, approved that the power for the additional conversion of up to 4,593,274 Class C shares into the same amount of Class B shares in one or more tranches, be delegated to the Board of Directors. Of such amount, 4,358,526 Class C shares have already been converted into Class B shares in 10 tranches.

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As of the date of issuance of these consolidated financial statements, 234,748 Class C shares are still pending to be converted into Class B shares.

(c) Capital Market Act - Law No. 26,831

On December 28, 2012 the new Capital Market Law (Law No. 26,831) was published in the Official Bulletin. This Law eliminates self-regulation of the capital market; grants new powers to the CNV and supersedes Law No. 17,811 and Decree No. 677/01, among other rules. The Law became effective on January 28, 2013. Since that date, governs the universal scope of the Statutory Regime of Public Offer of Mandatory Acquisition, as provided the Law, which states: *Article 90. Universal scope. The Statutory Regime of Public Offer of Mandatory Acquisition regulated in this chapter and the residual rules of participation regulated in the following chapter includes all listed companies, even those that, under the previous regime, have opted to be excluded of its application.*

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(d) Acquisition of Treasury Shares

The Company's Ordinary Shareholders' Meeting held on April 23, 2013, which was adjourned until May 21, 2013, approved at its second session of deliberations, the creation of a Voluntary Reserve for Capital Investments of \$1,200, granting powers to the Company's Board of Directors to decide its total or partial application, and to approve the methodology, terms and conditions of such investments.

In connection with the above mentioned, on May 22, 2013, the Board of Directors approved a Company's Treasury Shares Acquisition Program in the market in Argentine pesos (the Treasury Shares Acquisition Program) so as to avoid any possible damages to the Company and its shareholders derived from fluctuations and unbalances between the shares' price and the Company's solvency, for the following maximum amount and deadline:

- Maximum amount to be invested: \$1,200.
- Deadline for the acquisitions: until April 30, 2014.

According to the offer made on November 7, 2013 by Fintech for the acquisition of the controlling interest of the Telecom Italia Group in Telecom Argentina (see Note 27.a to these consolidated financial statements), Telecom Argentina suspended the acquisition of treasury shares and its Board of Directors considered appropriate to request the opinion of the CNV on the applicability of the new provisions contained in the rules issued by that entity (Title II, Chapter I, Art.13 and concurring) with respect to the continuation of the Treasury Shares Acquisition Program.

The CNV did not answer the Company's request and the Telecom Argentina's Board of Directors, at its meeting held on May 8, 2014, decided to conclude the request considering that the Treasury Shares Acquisition Program finished on April 30, 2014, which had been approved by Telecom Argentina's Board of Directors Meeting held on May 22, 2013.

Telecom Argentina's Board of Directors, at its meeting held on June 27, 2014, decided to request a new opinion from the CNV to confirm whether Telecom Argentina is obliged to refrain from acquiring treasury shares in the market under Section 13, Chapter I, Title II of the CNV rules (NT 2013).

Pursuant to Section 67 of Law No. 26,831, the Company must sell its treasury shares within three years of the date of acquisition, although the Company's Shareholders' Meetings provides an extension. Pursuant to Section 221 of the LGS, the rights of treasury shares shall be suspended until such shares are sold, and shall not be taken into account to determine the quorum or the majority of votes at the Shareholders' Meetings. No restrictions apply to Retained Earnings as a result of the creation of a specific reserve for such purposes named Voluntary Reserve for Capital Investments, which as of December 31, 2016 amounts to \$3,191. The Company's Shareholders' Meeting held on April 29, 2016 approved a three year extension to the term established in Section 67 of Law No. 26,831 for the disposal of the treasury shares.

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As of December 31, 2016 the Company owns 15,221,373 treasury shares, representing 1.55% of its total capital. The acquisition cost of these shares in the market amounted to \$461.

(e) Law No. 27,260 Historical Repair to Retired and Pensioned

On October 6, 2015 Law No. 27,181 was published. Law No. 27,181 provisions include:

(i) to declare of public interest the protection of the Argentine government's equity interest in the investment portfolio of the Sustainability Guarantee Fund of the Argentine Pension Integrated System (FGS) and its equity interests or share holdings in companies in which the Argentine government is a minority partner or where the Ministry of Economy and Public Finances holds shares or equity interest. Transfer of those interests is forbidden without prior authorization of two-thirds (2/3) of the National Congress, (ii) to create the Agencia Nacional de Participaciones Estatales en Empresas (Argentine National Agency for Government Equity Interests in Companies) (ANPEE).

On July 22, 2016, Law No. 27,260 of Historic Reparation for Retired Persons and Pensioners, abolishing Law No. 27,181 in its Section 35, was published in the Official Gazette. In addition, Section 30 of Law No. 27,260 provides that the transfer of shares of public corporations authorized by the CNV that are part of the FGS is banned without a previous and express authorization of the Federal Congress if, as a result of such transfer, the FGS's holding of the above referred securities becomes less than 7% of the aggregate assets of the FGS. The following exceptions apply: *1. Tender offers addressed to all holders of such assets at a fair price authorized by the CNV, pursuant to the terms of Chapters II, III and IV of Title III of Law No. 26,831. 2. Swaps of shares for other shares of the same or another corporation as a result of a merger, split or other corporate reorganization.*

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This new law is relevant to the Company because the FGS has an equity interest in Telecom Argentina (approximately 25% according to its annual report as of December 31, 2016).

(f) Decree No. 894/16: exercise of corporate, political and economic rights by the ANSES

Decree No. 1,278/12 provided that the Secretary of Economic Politics and Development Planning of the Ministry of Economy and Public Finances was in charge of the execution of the policies and acts relating to the exercise of the corporate rights related to equity interests in corporations where the National State is a non-controlling shareholder, and, for such purpose, approved a set of rules applicable to representatives and directors appointed by the National State.

On July 28, 2016, Decree No. 894/16 was published, modifying Decree No. 1,278/12 and providing that in those corporations which shares are part of the FGS portfolio, the corporate, political and economic rights corresponding to such shares shall not be exercised by the Secretary of Economic Politics and Development Planning, but shall instead be exercised by the Federal Management of Social Security (ANSES).

In addition, Decree No. 894/16 provides that the Directors appointed by ANSES shall have the functions, duties and powers provided in the LGS, the Capital Market Law No. 26,831 and their complementary regulations, all other rules applicable to corporations in which they act as directors, and their bylaws and internal regulations, and that they shall be exposed to all the liabilities applicable under such rules, not being subject to the provisions of Decree No. 1,278/12 and No.196/15 (the latter in connection with its delimitation of responsibility).

Note 20 Financial instruments***Categories of financial assets and financial liabilities***

The following tables set out, for financial assets and liabilities as of December 31, 2016 and 2015, the supplementary disclosures on financial instruments required by IFRS 7 and the detail of gains and losses established by IFRS 9.

| As of December 31, 2016 | Amortized cost | Fair value accounted through profit or loss | accounted through other comprehensive Income | Total |
|-------------------------------|-------------------|--|---|-------|
| Assets | | | | |
| Cash and cash equivalents (1) | 2,436 | 1,509 | - | 3,945 |
| Investments | 349 | 1,748 | - | 2,097 |
| Trade receivables | 7,785 | - | - | 7,785 |
| Other receivables (2) | 333 | 2 | - | 335 |

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| | | | | |
|---------------------------------------|---------------|--------------|----------|---------------|
| Total | 10,903 | 3,259 | - | 14,162 |
| Liabilities | | | | |
| Trade payables | 9,131 | - | - | 9,131 |
| Loans | 11,910 | 1 | 1 | 11,912 |
| Salaries and social security payables | 1,794 | - | - | 1,794 |
| Other liabilities (2) | 75 | - | - | 75 |
| Total | 22,910 | 1 | 1 | 22,912 |

| As of December 31, 2015 | Fair value | | | Total |
|---------------------------------------|----------------|----------------------------------|--|---------------|
| | Amortized cost | accounted through profit or loss | accounted through other comprehensive Income | |
| Assets | | | | |
| Cash and cash equivalents (1) | 473 | 397 | - | 870 |
| Investments | 561 | 1,201 | - | 1,762 |
| Trade receivables | 6,144 | - | - | 6,144 |
| Other receivables (2) | 344 | 454 | 12 | 810 |
| Total | 7,522 | 2,052 | 12 | 9,586 |
| Liabilities | | | | |
| Trade payables | 9,925 | - | - | 9,925 |
| Loans | 4,900 | - | - | 4,900 |
| Salaries and social security payables | 1,418 | - | - | 1,418 |
| Other liabilities (2) | 59 | - | - | 59 |
| Total | 16,302 | - | - | 16,302 |

(1) Includes 934 and 256 as of December 31, 2016 and 2015, respectively, corresponding to Cash and banks, which were measured as financial assets at amortized cost by the Company.

(2) Only includes financial assets and liabilities according to the scope of IFRS 7

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| | Net gain/(loss) | Of which interest |
|--|-----------------|-------------------|
| Financial assets at amortized cost | 707 | 374 |
| Financial liabilities at amortized cost | (3,010) | (1,667) |
| Financial assets at fair value through profit or loss (a) | 305 | - |
| Financial liabilities at fair value through profit or loss (b) | (1) | - |
| Total | (1,999) | (1,293) |

(a) Includes 61 corresponding to other short-term investments, 6 corresponding to NDF, 11 corresponding to Tuve's share purchase option and 227 corresponding to Government bonds.

(b) Corresponding to NDF.

Gains and losses by category Year 2015

| | Net gain/(loss) | Of which interest |
|--|-----------------|-------------------|
| Financial assets at amortized cost | 701 | 311 |
| Financial liabilities at amortized cost | (2,499) | (624) |
| Financial assets at fair value through profit or loss (a) | 861 | - |
| Financial liabilities at fair value through profit or loss (b) | (23) | - |
| Total | (960) | (313) |

(a) Includes 169 corresponding to other short-term investments, 455 corresponding to NDF and 237 corresponding to Government bonds.

(b) Corresponding to NDF

Fair value hierarchy and other disclosures

IFRS 7 establishes a hierarchy of fair value, based on the information used to measure the financial assets and liabilities and also establishes different valuation techniques. According to IFRS 7, valuation techniques used to measure fair value shall maximize the use of observable inputs.

The measurement at fair value of the financial instruments of the Group is classified according to the three levels set out in IFRS 7. The fair value hierarchy introduces three levels of input:

- Level 1: Fair value determined by quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value determined based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Fair value determined by unobservable inputs where the reporting entity is required to develop its own assumptions.

Financial assets and liabilities recognized at fair value as of December 31, 2016 and 2015, their inputs, valuation techniques and the level of hierarchy are listed below:

Other short-term investments: These investments are included in Cash and cash equivalents and Investments. The Group had other short-term investments amounting to \$1,779 and \$397 as of December 31, 2016 and 2015, respectively. The fair value is based on information obtained from active markets and corresponds to quoted market prices as of year-end; therefore its valuation is classified as Level 1.

Government bonds: These bonds are included in Investments in the consolidated statement of financial position. As of December 31, 2016 and 2015 the Group has Government bonds in an amount of \$1,456 and \$1,192, respectively. The fair value was determined using information from active markets, valuing each bond to its closing year market value, so, its valuation qualifies as Level 1.

Derivative financial instruments (Forward contracts to purchase US dollars at fixed exchange rates): The fair value of the Telecom Group's NDF contracts, disclosed below in the chapter Hedge Accounting was determined by information obtained in the most representative financial institutions in Argentina, the derivative financial instruments valuation was classified as Level 2.

Tuves Paraguay S.A shares purchase option: This option is included in Non-current Investments in the consolidated statement of financial position. The fair value amounted to \$22 and was determined using net cash flows projections and assuming favorable macroeconomic variables, so, its valuation qualifies as Level 3. Interest rate used to calculate discounted cash flows is a U.S. dollar rate of approximately 12.4%.

Changes in expectations and current assumptions could have a significant impact on projections used to estimate fair value.

Results generated by the recognition of the Tuves Paraguay S.A share purchase option amount to \$11 and \$9 as of December 31, 2016 and 2015, respectively, and are disclosed under financial results in the Tuves Paraguay S.A share purchase option line.

During 2016 and 2015 there were no transfers between Levels of the fair value hierarchy.

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According to IFRS 7, it is also required to disclose fair value information about financial instruments whether or not recognized at fair value in the balance sheet, for which it is practicable to estimate fair value. The financial instruments which are discussed in this section include, among others, cash and cash equivalents, accounts receivable, accounts payable and other instruments.

Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair value, the Company's fair values should not be compared to those of other companies.

The methods and assumptions used to estimate the fair values of each class of financial instrument falling under the scope of IFRS 7 as of December 31, 2016 and 2015 are as follows:

Cash and banks

Carrying amounts approximate its fair value.

Time deposits and National Government bonds (included in Cash and cash equivalents and Investments)

The Telecom Group considers as cash and cash equivalents all short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months, and those which their original maturity or remaining maturity at the date of purchase exceed 3 months, as investments. The carrying amount reported in the statement of financial position approximates fair value.

Investments

Investments in Government bonds and valued at amortized cost with its fair value at December 31, 2016 and 2015 are as follows:

| Investments | As of December 31, 2016 | | As of December 31, 2015 | |
|---|-------------------------|----------------|-------------------------|----------------|
| | Book value | Fair value (*) | Book value | Fair value (*) |
| Government bonds (dollar linked) | - | - | 394 | 365 |
| Government bonds in foreign currency | 258 | 264 | - | - |
| Provincial government bonds in pesos | 17 | 17 | 31 | 31 |
| Provincial and Municipal government bonds (dollar linked) | 74 | 70 | 136 | 119 |
| Total | 349 | 351 | 561 | 515 |

(*) According to IFRS selling costs are not deducted.

For the remaining investments the carrying amount approximates its fair value.

Trade receivables

Carrying amounts are considered to approximate fair value due to the short term nature of these accounts receivables. Noncurrent trade receivables have been recognized at their amortization cost, using the effective interest method and are not significant. All amounts that are assumed to be uncollectible within a reasonable period are written off and/or reserved.

Trade payables (except for NDF)

The carrying amount of accounts payable reported in the consolidated statement of financial position approximates its fair value due to the short term nature of these accounts payable. Noncurrent trade payables have been discounted and are not significant.

Loans

As of December 31, 2016 loans fair value amounts to \$13,988 and its carrying value amounts to \$11,912. As of December 31, 2015 loans fair value amounts to \$4,882 and its carrying value amounts to \$4,900.

Salaries and social security payables

The carrying amount of Salaries and social security payables reported in the consolidated statement of financial position approximates its fair value.

Other receivables, net (except for NDF) and other liabilities

The carrying amount of other receivables, net and other liabilities reported in the consolidated statement of financial position approximates its fair value.

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Hedge accounting

In November 2013, a new chapter was introduced in IFRS 9 on Hedge Accounting replacing the provisions contained in IAS 39. This amendment represents a major review of hedge accounting, introducing significant improvements over the previous model, basically aligning accounting and risk management as well as related disclosures. The Telecom Group believes that a hedging relationship qualifies for hedge accounting if all of the following conditions established by the rule are met:

- a) The hedging relationship consists only of eligible hedging instruments and hedged items;
- b) At the beginning of the hedge relationship, there is a formal designation and documentation of the hedging relationship and objective and strategy for risk management of the Company for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity assesses whether the hedging relationship meets the requirements of hedge effectiveness (including analysis of sources of hedge ineffectiveness and how to determine the hedge ratio); and
- c) The hedging relationship satisfies the following requirements of hedge effectiveness:
 - (i) the economic relationship between the hedged item and the hedging instrument;
 - (ii) the effect of credit risk is not predominant in respect of changes of value coming from this economic relationship, and
 - (iii) the coverage ratio of the hedging relationship is the same as that provided by the amount of the hedged item that really covers the entity and the amount of the hedging instrument that the entity actually used to cover that amount of the hedged item.

- **During 2016**

Due to the existence of commitments denominated in US Dollars as of December 31, 2016, the Telecom Group entered into several NDF agreements during 2016 to purchase a total amount of US\$ 7 million. The purpose of these NDF is to eliminate the risks associated to the fluctuation of the future exchange rate and to align the payment currency of Telecom Argentina's and Personal's commitments (hedged item) to its functional currency. As the effect of the fluctuation of the exchange rate over the hedged items is recognized in the Income Statement, changes in the fair value of NDF in 2016 (net gain of approximately \$2) have also been recognized in the Income Statement, within Finance expenses - Exchange Differences with counterpart in current assets (Other receivables), maturing in February 2017.

During 2016, Personal entered into several NDF agreements for US\$9 million, maturing in March 2017 in order to hedge the first interest installment of the IFC Loan. These NDF agreements were qualified as effective cash flow hedges for accounting purposes. The Telecom Group recognizes the hedging instruments results, distinguishing between gains and losses of such agreements that generate assets and liabilities, as appropriate, without offsetting balances with different counterparties. As of December 31, 2016, the Telecom Group has a current liability amounting to \$2, negative deferred results amounting to \$1 (before income tax) and a net loss amounting to \$1 included in Finance expenses - Exchange Differences related to the US\$9 million outstanding NDF to such date, which will mature in March 2017.

During 2016 Personal also settled U\$S 159 million of NDF agreements in US dollars that had as of December 31, 2015, which resulted in a gain of \$2 recognized in the Income Statement, within Other operating costs. The purpose of these NDF was also to eliminate the risks associated to the fluctuation of the future exchange rate and to align the payment currency of Personal's commercial commitments (hedged item) to its functional currency.

As part of their financial risk management and reduction of exchange rate risk policies, during 2016 Personal acquired National Government bonds denominated in US dollars (Discount 2033) for a total cost of \$715, which bear interest at 8.28% rate per annum, also in US dollars. These bonds were valued at fair value and generated a \$5 gain recognized in the Income Statement, within Finance profits Investments. In addition, in 2016, Personal acquired National Government bonds denominated in US dollars, Global 2021 and Bonar 2024, for a total cost of \$255, bearing interest at 6.875% and 8.75% rates per annum, respectively, also in US dollars. These bonds were valued at amortized cost and generated a \$1 gain recognized in the Income Statement, within Finance profits Investments.

Table of Contents**During 2015**

Due to the existence of commitments denominated in US Dollars as of December 31, 2015, the Telecom Group entered into several NDF agreements during 2015 to purchase a total amount of US\$189 million. The purpose of these NDF is to eliminate the risks associated to the fluctuation of the future exchange rate and to align the payment currency of Telecom Argentina's and Personal's commitments (hedged item) to its functional currency. As the effect of the fluctuation of the exchange rate over the hedged items is recognized in the Income Statement, changes in the fair value of NDF in 2015 (net income of approximately \$455) have also been recognized in the Income Statement, within Finance expenses - Exchange Differences. The Telecom Group recognizes the hedging instruments results, distinguishing between gains and losses of such agreements that generate assets and liabilities, as appropriate, without offsetting balances with different counterparties. As of December 31, 2015, the Telecom Group had a current asset amounting to \$466 and deferred results amounting to \$13 (before income tax) related to the US\$166 million outstanding NDF to such date, which matured between January and July 2016 and generated a net income of approximately \$4 included net within Finance results - Exchange Differences gains (losses).

During 1Q15, Personal also realized the remaining NDF entered as of December 31, 2014 for US\$149 million, recording a net loss of \$23 which was recognized in the Income Statement in 1Q15, within Finance expenses - Exchange Differences. The purpose of these NDF was also to eliminate the risks associated to the fluctuation of the future exchange rate and to align the payment currency of Personal's commercial commitments (hedged item) to its functional currency.

As part of their financial risk management and reduction of exchange rate risk policies, during 2015 Telecom Argentina and Personal acquired Government bonds denominated in U.S. dollars (Bonar X 2017), at a cost of \$522, with an annual interest rate of 7%, also in U.S. dollars. These bonds were valued at fair value and generated a gain of \$77 which was recognized in Financial results - Gains on investments .

Offsetting of financial assets and financial liabilities

In December 2011, the IASB issued amendments to IFRS 7. These changes require the disclosure of information in order to assess the effects or the potential effects of offsetting agreements, including offsetting rights associated with the assets and liabilities recognized in the statement of financial position. These amendments were effective from January 1, 2013 and should be applied retrospectively.

The information required by the amendment to IFRS 7 as of December 31, 2016 and 2015 is as follows:

| | Trade receivables | As of December 31, 2016 Other receivables (1) | Trade payables | Other liabilities (1) |
|---|----------------------|--|-------------------|-----------------------------|
| Current and noncurrent assets (liabilities) - Gross value | 9,196 | 357 | (10,542) | (97) |
| Offsetting | (1,411) | (22) | 1,411 | 22 |
| Current and noncurrent assets (liabilities) Booked value | 7,785 | 335 | (9,131) | (75) |

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(1) Includes financial assets and financial liabilities according to IFRS 7.

| | As of December 31, 2015 | | | |
|---|-------------------------|-----------------------------|-------------------|-----------------------------|
| | Trade receivables | Other receivables (1) | Trade payables | Other liabilities (1) |
| Current and noncurrent assets (liabilities) - Gross value | 7,832 | 822 | (11,613) | (71) |
| Offsetting | (1,688) | (12) | 1,688 | 12 |
| Current and noncurrent assets (liabilities) Booked value | 6,144 | 810 | (9,925) | (59) |

(1) Includes financial assets and financial liabilities according to IFRS 7.

The Telecom Group offsets the financial assets and liabilities to the extent that such offsetting is provided by offsetting agreements and provided that the Group has the intention to make such offsetting, in accordance with requirements established in IAS 32. The main financial assets and liabilities offset correspond to transactions with other national and foreign operators (including interconnection, CPP and Roaming), being offsetting a standard practice in the telecommunications industry at the international level that the Telecom Group applies regularly. Offsetting is also applied to transactions with agents.

Table of Contents**Note 21 Revenues**

The Company discloses its service revenues in three groups by nature: Voice, Data and Internet. At December 31, 2016, 2015 and 2014, the customers by segment and other significant operational information (unaudited) were the following:

| | December 31, | | |
|--|---------------------|--------------------|--------------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Fixed services lines (in thousands) | 3,920 | 4,043 | 4,093 |
| ADSL subscribers (in thousands) | 1,738 | 1,814 | 1,771 |
| Personal mobile services customers (in thousands) | 19,514 | 19,656 | 19,585 |
| Núcleo mobile services customers (in thousands) | 2,538 | 2,546 | 2,481 |
| Local Measured Service (million of minutes) | 9,306 | 10,789 | 11,943 |
| International Long distance telephony (million of minutes) | 423 | 636 | 818 |
| Minutes used mobile service (in billions) | 21 | 22 | 24 |
| Equipment and handsets sale Personal (in thousands) | 2,326 | 2,414 | 3,215 |
| Equipment and handsets sale Núcleo (in thousands) | 144 | 156 | 113 |

Revenues and other income include:

| | Years ended December 31, | | |
|---|---------------------------------|--------------------|--------------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| <u>Services</u> | | | |
| Voice - Retail | 4,654 | 3,304 | 2,853 |
| Voice - Wholesale | 1,356 | 1,035 | 929 |
| Data | 2,919 | 1,780 | 1,470 |
| Internet | 5,994 | 4,556 | 3,254 |
| Total Fixed services | 14,923 | 10,675 | 8,506 |
| Voice - Retail | 8,503 | 6,964 | 5,330 |
| Voice - Wholesale | 2,078 | 1,884 | 1,953 |
| Data | 6,636 | 7,156 | 7,666 |
| Internet | 10,832 | 6,254 | 3,335 |
| Total Personal mobile services | 28,049 | 22,258 | 18,284 |
| Voice - Retail | 847 | 565 | 575 |
| Voice - Wholesale | 128 | 102 | 126 |
| Data | 429 | 313 | 331 |
| Internet | 978 | 567 | 456 |
| Total Núcleo mobile services | 2,382 | 1,547 | 1,488 |
| Total services revenues (a) | 45,354 | 34,480 | 28,278 |
| <u>Equipment</u> | | | |
| Fixed services - excluding network construction contracts | 91 | 61 | 46 |
| Fixed services - network construction contracts | - | - | 7 |
| Mobile services Personal | 7,535 | 5,796 | 4,920 |
| Mobile services Núcleo | 260 | 159 | 90 |
| Total equipment revenues (b) | 7,886 | 6,016 | 5,063 |
| Total revenues (a)+(b) | 53,240 | 40,496 | 33,341 |
| <u>Other income</u> | | | |
| Fixed services | 66 | 39 | 26 |
| Mobile services Personal | 16 | 5 | 21 |
| Mobile services Núcleo | 1 | - | - |
| Total other income (c) | (*) 83 | 44 | 47 |
| Total revenues and other income (a)+(b)+(c) | 53,323 | 40,540 | 33,388 |

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(*) In 2016 includes 17 corresponding to Gain on disposal of PP&E.

Service revenues by type of service (regardless of the segment which originate them) are:

| | Years ended December 31, | | | | | |
|--------------------------------|--------------------------|------------|---------------|------------|---------------|------------|
| | <u>2016</u> | % | <u>2015</u> | % | <u>2014</u> | % |
| Voice - Retail | 14,004 | 31 | 10,833 | 31 | 8,758 | 31 |
| Voice - Wholesale | 3,562 | 8 | 3,021 | 9 | 3,008 | 11 |
| Total Voice | 17,566 | 39 | 13,854 | 40 | 11,766 | 42 |
| Data | 9,984 | 22 | 9,249 | 27 | 9,467 | 33 |
| Internet | 17,804 | 39 | 11,377 | 33 | 7,045 | 25 |
| Total services revenues | 45,354 | 100 | 34,480 | 100 | 28,278 | 100 |

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Telecom Group's services revenues by customer segment and billing mechanism are as follows:

| Services | Years ended December 31, | | | |
|-------------------------------------|---------------------------------------|----------------------|---------------|---------------|
| | 2016 | 2015 | 2014 | |
| Retail | | Profit (loss) | | |
| Monthly Charges | 11,779 | 8,272 | 6,243 | |
| <i>Voice</i> | 3,103 | 1,924 | 1,591 | |
| <i>Internet</i> | 5,451 | 4,255 | 3,081 | |
| <i>Bundles (Voice and Internet)</i> | 1,263 | 892 | 637 | |
| <i>Data</i> | 1,962 | 1,201 | 934 | |
| Measured services | 659 | 643 | 666 | |
| Connection and reconnection fees | 129 | 97 | 91 | |
| Pre-cancellation contract fees | 24 | 22 | 18 | |
| Others | 19 | 22 | 17 | |
| Wholesale | | | | |
| Monthly Charges | 1,356 | 831 | 750 | |
| <i>Cell sites and links rental</i> | 417 | 264 | 223 | |
| <i>Data</i> | 939 | 567 | 527 | |
| Fixed and mobile interconnection | 845 | 689 | 621 | |
| Others | 112 | 99 | 100 | |
| | Total Fixed services | 14,923 | 10,675 | 8,506 |
| Retail | | | | |
| Monthly Charges | 14,921 | 11,169 | 8,056 | |
| <i>Voice</i> | 526 | 676 | 736 | |
| <i>Internet</i> | 221 | 204 | 192 | |
| <i>Bundles (Voice and Internet)</i> | 14,074 | 10,175 | 6,950 | |
| <i>Others</i> | 100 | 114 | 178 | |
| Measured services | 9,942 | 8,497 | 7,944 | |
| <i>Postpaid</i> | 1,145 | 1,016 | 1,080 | |
| <i>Prepaid and Cuentas Claras</i> | 8,797 | 7,481 | 6,864 | |
| Reconnection fees | 285 | 215 | 178 | |
| Pre-cancellation contract fees | 244 | 140 | 57 | |
| Damage management services | 378 | 276 | 109 | |
| Others | 201 | 77 | (13) | |
| Wholesale | | | | |
| Interconnection | 1,711 | 1,548 | 1,611 | |
| Roaming | 283 | 285 | 301 | |
| Others | 84 | 51 | 41 | |
| | Total Personal mobile services | 28,049 | 22,258 | 18,284 |
| Retail | | | | |
| Monthly Charges | 939 | 603 | 561 | |
| <i>Internet</i> | 102 | 96 | 127 | |
| <i>Bundles (Voice and Internet)</i> | 837 | 507 | 434 | |
| Measured services | 1,115 | 733 | 735 | |
| <i>Postpaid</i> | 46 | 26 | 43 | |
| <i>Prepaid and Plan Control</i> | 1,069 | 707 | 692 | |
| Reconnection fees | 16 | 10 | 11 | |
| Pre-cancellation contract fees | 58 | 20 | 13 | |
| Others | 74 | 36 | 32 | |
| Wholesale | | | | |
| Interconnection | 115 | 78 | 118 | |
| Roaming | 1 | 21 | 3 | |
| Others | 64 | 46 | 15 | |
| | Total Núcleo mobile services | 2,382 | 1,547 | 1,488 |
| | Total services revenues | 45,354 | 34,480 | 28,278 |

Table of Contents**Note 22 Operating expenses**

Operating expenses disclosed by nature of expense amounted to \$45,480, \$34,311 and \$27,945 for the years ended December 31, 2016, 2015 and 2014, respectively. The breakdown of Employee benefit expenses and severance payments, Cost of equipments and handsets, Provisions and Bad debt expenses are disclosed in Notes 13, 7, 17 and 5, respectively.

The main components of the remaining operating expenses are the following:

Interconnection costs and other telecommunication charges

| | Years ended December 31, | | |
|---|---------------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Fixed telephony interconnection costs | (445) | (327) | (292) |
| Cost of international outbound calls | (268) | (192) | (191) |
| Lease of circuits and use of public network | (461) | (336) | (304) |
| Mobile Services - charges for roaming | (414) | (374) | (415) |
| Mobile Services - charges for TLRD | (965) | (941) | (872) |
| | (2,553) | (2,170) | (2,074) |

Fees for services, maintenance, materials and supplies

| | Years ended December 31, | | |
|---|---------------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Maintenance of hardware and software | (546) | (331) | (382) |
| Technical maintenance | (1,329) | (854) | (675) |
| Service connection fees for fixed lines and Internet lines | (267) | (224) | (205) |
| Service connection fees capitalized as SAC (Note 3.i) | 14 | 14 | 7 |
| Service connection fees capitalized as Intangible assets (Note 3.i) | 41 | 36 | 30 |
| Other maintenance costs | (524) | (396) | (315) |
| Obsolescence of inventories - Mobile Services (Note 7) | (45) | (38) | (81) |
| Call center fees | (1,428) | (1,297) | (1,141) |
| Other fees for services | (862) | (793) | (541) |
| Directors and Supervisory Committee's fees | (60) | (36) | (30) |
| | (5,006) | (3,919) | (3,333) |

Taxes and fees with the Regulatory Authority

| | Years ended December 31, | | |
|---|---------------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Turnover tax | (2,817) | (2,122) | (1,810) |
| Taxes with the Regulatory Authority | (1,078) | (917) | (729) |
| Tax on deposits to and withdrawals from bank accounts | (539) | (403) | (343) |
| Municipal taxes | (395) | (289) | (225) |
| Other taxes | (296) | (212) | (190) |
| | (5,125) | (3,943) | (3,297) |

Commissions

| | Years ended December 31, | | |
|-------------------|---------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| Agent commissions | (3,078) | (2,659) | (2,061) |

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| | | | |
|---|----------------|----------------|----------------|
| Agent commissions capitalized as SAC (Note 3.i) | 1,403 | 1,172 | 913 |
| Distribution of prepaid cards commissions | (763) | (635) | (582) |
| Collection commissions | (1,295) | (983) | (673) |
| Other commissions | (116) | (88) | (91) |
| | (3,849) | (3,193) | (2,494) |

Advertising

| | Years ended December 31, | | |
|-------------------------|--------------------------|--------------|--------------|
| | 2016 | 2015 | 2014 |
| Media advertising | (527) | (524) | (431) |
| Fairs and exhibitions | (176) | (137) | (176) |
| Other advertising costs | (171) | (153) | (185) |
| | (874) | (814) | (792) |

Cost of VAS

| | Years ended December 31, | | |
|-------------------------------------|--------------------------|----------------|--------------|
| | 2016 | 2015 | 2014 |
| Cost of mobile value added services | (1,446) | (1,218) | (920) |
| Cost of fixed value added services | (53) | (38) | (16) |
| | (1,499) | (1,256) | (936) |

Table of Contents**Other operating expenses**

| | Years ended December 31, | | |
|---|---------------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Transportation, freight and travel expenses | (961) | (768) | (559) |
| Delivery costs capitalized as SAC | 134 | 85 | 59 |
| Rental expense | (765) | (540) | (402) |
| Energy, water and others | (783) | (429) | (469) |
| International and satellite connectivity | (215) | (202) | (147) |
| | (2,590) | (1,854) | (1,518) |

D&A

| | Years ended December 31, | | |
|--|---------------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Depreciation of PP&E | (4,358) | (3,046) | (2,389) |
| Amortization of SAC and service connection costs | (1,474) | (1,045) | (811) |
| Amortization of 3G/4G licenses | (338) | (324) | (19) |
| Amortization of other intangible assets | (28) | (23) | (24) |
| | (6,198) | (4,438) | (3,243) |

Impairment of PP&E

| | Years ended December 31, | | |
|---|---------------------------------|--------------|-------------|
| | 2016 | 2015 | 2014 |
| Gain on disposal of PP&E (*) | - | 31 | 9 |
| Impairment of PP&E AFA project (Note 17.4) | (3) | (107) | 36 |
| Impairment of PP&E former work in progress and others | (37) | (53) | (61) |
| Impairment of PP&E mobile access PP&E swap | (343) | (21) | - |
| Impairment of PP&E mobile commercial and ERP systems | - | (49) | - |
| | (383) | (199) | (16) |

(*) Since 2016 these results are included in Other Income.

Operating expenses, disclosed per function are as follows:

| | Years ended December 31, | | |
|---|---------------------------------|-----------------|-----------------|
| | 2016 | 2015 | 2014 |
| Operating costs | (27,628) | (20,578) | (17,345) |
| Administration costs | (2,453) | (1,827) | (1,404) |
| Commercialization costs | (14,829) | (11,594) | (9,096) |
| Other expenses provisions | (187) | (113) | (84) |
| Gain on disposal of PP&E and impairment of PP&E | (383) | (199) | (16) |
| | (45,480) | (34,311) | (27,945) |

Operating leases

Future minimum lease payments from of non cancellable operating lease agreements as of December 31, 2016, 2015 and 2014 are as follows:

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| | Less than 1 year | 1-5 years | More than 5 years | Total |
|-------------|-----------------------------|------------------|------------------------------|--------------|
| 2014 | 501 | 725 | 46 | 1,272 |
| 2015 | 436 | 890 | 31 | 1,357 |
| 2016 | 636 | 1,169 | 74 | 1,879 |

Further information is provided in Note 3.j) to these consolidated financial statements.

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Table of Contents**Note 23 Operating income**

| | Years ended December 31, | | |
|---|--------------------------|--------------|--------------|
| | 2016 | 2015 | 2014 |
| <u>Operating income from services and other income</u> | | | |
| Revenues and other income | 45,437 | 34,524 | 28,325 |
| Operating expenses | (32,711) | (25,079) | (20,543) |
| D&A | (6,198) | (4,438) | (3,243) |
| Impairment of PP&E | (383) | (199) | (16) |
| Operating income from services and other income (a) | 6,145 | 4,808 | 4,523 |
| <u>Operating income (loss) from equipment sales</u> | | | |
| Revenues | 7,886 | 6,016 | 5,063 |
| Cost of equipments and handsets | (6,188) | (4,595) | (4,143) |
| Operating income (loss) from equipment sales (b) | 1,698 | 1,421 | 920 |
| Total operating income (a) + (b) | 7,843 | 6,229 | 5,443 |

The breakdown of Operating income by segment is as follows:

| | <u>Year ended December 31, 2016</u> | | |
|---|-------------------------------------|-----------------|--------------------|
| | Fixed services | Mobile services | Total consolidated |
| Services revenues and other income | | | |
| Third party revenues | 14,989 | 30,448 | 45,437 |
| Intersegment revenues | 1,947 | 158 | 2,105 |
| Third party operating expenses | (13,464) | (19,247) | (32,711) |
| Intersegment operating expenses | (158) | (1,947) | (2,105) |
| Subtotal income for services revenues and other (1) | 3,314 | 9,412 | 12,726 |
| Equipments revenues | | | |
| Third party revenues | 91 | 7,795 | 7,886 |
| Third party operating expenses | (136) | (6,052) | (6,188) |
| Subtotal income (loss) from equipments revenues (2) | (45) | 1,743 | 1,698 |
| D&A (3) | (1,897) | (4,301) | (6,198) |
| Impairment of PP&E (4) | 1 | (384) | (383) |
| Operating income (5)=(1)+(2)+(3)+(4) | 1,373 | 6,470 | 7,843 |
| Net effect of the intersegment eliminations (6) | (1,789) | 1,789 | - |
| Net segment contribution to the Operating income (7)=(5)+(6) | (416) | 8,259 | 7,843 |
| | | | |
| | <u>Year ended December 31, 2015</u> | | |
| | Fixed services | Mobile services | Total consolidated |
| Services revenues and other income | | | |
| Third party revenues | 10,714 | 23,810 | 34,524 |
| Intersegment revenues | 1,834 | 137 | 1,971 |
| Third party operating expenses | (9,863) | (15,216) | (25,079) |
| Intersegment operating expenses | (137) | (1,834) | (1,971) |
| Subtotal income for services revenues and other (1) | 2,548 | 6,897 | 9,445 |
| Equipments revenues | | | |
| Third party revenues | 61 | 5,955 | 6,016 |
| Third party operating expenses | (82) | (4,513) | (4,595) |

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| | | | |
|---|----------------|--------------|--------------|
| Subtotal income (loss) from equipments revenues (2) | (21) | 1,442 | 1,421 |
| D&A (3) | (1,526) | (2,912) | (4,438) |
| Gain on disposal of PP&E and impairment of PP&E (4) | (91) | (108) | (199) |
| Operating income (5)=(1)+(2)+(3)+(4) | 910 | 5,319 | 6,229 |
| Net effect of the intersegment eliminations (6) | (1,697) | 1,697 | - |
| Net segment contribution to the Operating income (7)=(5)+(6) | (787) | 7,016 | 6,229 |

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| | <u>Year ended December 31, 2014</u> | Fixed services | Mobile services | Total consolidated |
|---|--|-------------------|--------------------|-----------------------|
| Services revenues and other income | | | | |
| Third party revenues | | 8,532 | 19,793 | 28,325 |
| Intersegment revenues | | 1,772 | 117 | 1,889 |
| Third party operating expenses | | (8,056) | (12,487) | (20,543) |
| Intersegment operating expenses | | (117) | (1,772) | (1,889) |
| | Subtotal income for services revenues and other (1) | 2,131 | 5,651 | 7,782 |
| Equipments revenues | | | | |
| Third party revenues | | 53 | 5,010 | 5,063 |
| Third party operating expenses | | (72) | (4,071) | (4,143) |
| | Subtotal income (loss) from equipments revenues (2) | (19) | 939 | 920 |
| D&A (3) | | (1,230) | (2,013) | (3,243) |
| Gain on disposal of PP&E and impairment of PP&E (4) | | 9 | (25) | (16) |
| | Operating income (5)=(1)+(2)+(3)+(4) | 891 | 4,552 | 5,443 |
| Net effect of the intersegment eliminations (6) | | (1,655) | 1,655 | - |
| Net segment contribution to the Operating income (7)=(5)+(6) | | (764) | 6,207 | 5,443 |

Note 24 Finance income and expenses

| | Years ended December 31, | | |
|---|----------------------------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| Interest on cash equivalents | 1 | 20 | 279 |
| Gains on other short-term investments | 61 | 169 | 124 |
| Gains on investments (Argentine companies notes and Governments bonds) | 287 | 432 | 165 |
| Interest on receivables | 373 | 183 | 161 |
| Foreign currency exchange gains | 273 | 316 | 728 |
| TUVES share purchase option | 11 | 9 | - |
| Other | - | 1 | 2 |
| | Total finance income | 1,130 | 1,459 |
| Interest on loans | (1,613) | (566) | (30) |
| Interest on salaries and social security payable, other taxes payables and accounts payable | (37) | (26) | (27) |
| Interest on provisions (Note 17) | (207) | (137) | (118) |
| Loss on discounting of salaries and social security payables, other taxes payable and other liabilities | (15) | (9) | (5) |
| Foreign currency exchange losses (*) (**) | (1,328) | (1,456) | (1,003) |
| Interest on pension benefits (Note 16) | (38) | (28) | (23) |
| Other | (12) | (10) | - |
| | Total finance expenses | (2,232) | (1,206) |
| | Total finance income, net | (1,102) | 253 |

(*) Includes 5, 432 and (97) of foreign currency exchange gains (losses), net generated by NDF for the years ended on December 31, 2016, 2015 and 2014, respectively.

(**) Includes (1) and (228) of exchange differences generated by Government bonds for the years ended as of December 31, 2015 and 2014.

Note 25 Earnings per share

The Company computes net income per common share by dividing net income for the year attributable to Telecom Argentina (Controlling Company) by the weighted average number of common shares outstanding during the year. Diluted net income per share is computed by dividing the net income for the year by the weighted average number of common and dilutive potential common shares then outstanding during the year. Since the Company has no dilutive potential common stock outstanding, there are no dilutive earnings per share amounts.

For financial years ended December 31, 2016, 2015 and 2014 the weighted average number of shares outstanding amounted to 969,159,605 due to the changes caused by the Treasury Shares Acquisition Process that began in May 2013, as described in Note 19.d) to these consolidated financial statements

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Note 26 Financial risk management

Financial risk factors

Telecom Group is exposed to the following financial risks in the ordinary course of its business operations:

- market risk: stemming from changes in exchange rates and interest rates in connection with financial assets that have been originated and financial liabilities that have been assumed.
- credit risk: representing the risk of the non-fulfillment of the obligations undertaken by the counterpart with regard to the liquidity investments of the Group;
- liquidity risk: connected with the need to meet short-term financial commitments.

These financial risks are managed by:

- the definition of guidelines for directing operations;
- the activity of the Board of Directors and Management which monitors the level of exposure to market risks consistently with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved;

The policies to manage and the sensitivity analyses of the above financial risks by Telecom Group are described below.

Ø Market risk

The main Telecom Group's market risks are its exposure to changes in foreign currency exchange rates in the markets in which it operates principally Argentina and Paraguay. As regards to changes in interest rates, as of December 31, 2016 the Telecom Group has mainly outstanding floating rate borrowings (see Note 12).

Foreign currency risk is the risk that the future fair values or cash flows of a financial instrument may fluctuate due to exchange rate changes. Telecom Group's exposure to exchange variation risks is related mainly to its operating activities (when income, expenses and investments are denominated in a currency other than the Telecom Group's functional currency).

As of December 31, 2016 and 2015, Telecom Argentina has no financial debt outstanding in US\$ during the fiscal years ended in those dates and at their closing dates. However, Telecom Argentina, Personal and Núcleo have part of its commercial debt nominated in US\$ and euro. Additionally, Personal's and Núcleo's bank overdrafts and Personal's Series I, II and III Notes are denominated in its functional currency (argentine pesos and guaraníes, respectively) and accrue interest at variable rates. Likewise, Personal's financial debt is denominated in US\$ at variable rates and Series IV Notes are also denominated in US\$ but at fixed rate, while Núcleo's financial debt is denominated in guaraníes and accrue interest at fixed rates.

The financial risk management policies of the Group are directed towards diversifying market risks by the acquisition of goods and services in the functional currency and minimizing interest rate exposure by an appropriate diversification of the portfolio. This may also be achieved by using carefully selected derivative financial instruments to mitigate long-term positions in foreign currency and/or adjustable by variable interest rates.

Additionally, the Telecom Group has cash and cash equivalents and investments denominated in US\$ and euro (approximately 53% of these items) that are also sensitive to changes in peso/dollar exchange rates and contribute to reduce the exposure to trade payables in foreign currency. On the other hand the Telecom Group holds investments adjustable to the variation of the US\$/\$ exchange rate (dollar linked). They are also sensitive to variations in exchange rates and contribute to reduce the exposure of the commercial and financial commitments in foreign currency. Dollar linked investments and represent approximately 1% of total cash and cash equivalent and investments of Telecom Group as of December 31, 2016.

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The following table shows a breakdown of Telecom Argentina's net assessed financial position exposure to currency risk as of December 31, 2016 and 2015:

| 12.31.16 | | | | | | |
|--------------------------------|--------------------------|--|---------------|--|-------------------------------|-----------------|
| Amount of foreign currency (i) | | | Exchange rate | | Amount in local currency (ii) | |
| Assets | | | | | | |
| US\$ | 241 | | 15.790 | | (iii) | 4,067 |
| G | 250,865 | | 0.003 | | | 684 |
| EURO | 7 | | 16.625 | | | 124 |
| | Total assets | | | | | 4,875 |
| Liabilities | | | | | | |
| US\$ | (859) | | 15.890 | | | (13,648) |
| G | (311,279) | | 0.003 | | | (848) |
| EURO | (9) | | 16.770 | | | (158) |
| | Total liabilities | | | | | (14,654) |
| | Net liabilities | | | | | (9,779) |

(i) US\$ = United States dollar; G= Guaraníes.

(ii) As foreign currency figures and their amount in Argentine pesos are in millions, the calculation of the amount of the foreign currency by its exchange rate could not be exact.

(iii) Includes 735 corresponding to Government bonds at fair value (equivalent to US\$ 45 million).

In order to partially reduce this net liability position in foreign currency, the Telecom Group, as of December 31, 2016, hold dollar linked investments by \$74. According to this, the Telecom Group's net liability position in foreign currency amounts to \$9,705 as of December 31, 2016, equivalent to approximately US\$ 611 million. Additionally, the Group entered into several NDF contracts as of December 31, 2016 amounting to US\$ 16 million, so, the portion of the net liability position in foreign currency not covered by these instruments amounted to US\$ 595 million as of December 31, 2016.

| 12.31.15 | | | | | | |
|--------------------------------|--------------------------|--|---------------|--|-------------------------------|----------------|
| Amount of foreign currency (i) | | | Exchange rate | | Amount in local currency (ii) | |
| Assets | | | | | | |
| US\$ | 102 | | 12.940 | | (iii) | 1,340 |
| G | 234,194 | | 0.002 | | | 520 |
| EURO | 4 | | 14.068 | | | 54 |
| | Total assets | | | | | 1,914 |
| Liabilities | | | | | | |
| US\$ | (538) | | 13.040 | | | (7,015) |
| G | (348,051) | | 0.002 | | | (771) |
| EURO | (14) | | 14.210 | | | (191) |
| | Total liabilities | | | | | (7,977) |

| | | | | | | | | |
|--|--|--------------------|--|--|--|--|--|---------|
| | | Net liabilities | | | | | | (6,063) |
|--|--|--------------------|--|--|--|--|--|---------|

- (iv) US\$ = United States dollar; G= Guaraníes.
- (v) As foreign currency figures and their amount in Argentine pesos are in millions, the calculation of the amount of the foreign currency by its exchange rate could not be exact.
- (vi) Includes 616 corresponding to Government bonds at fair value (equivalent to US\$ 46 million).

In order to partially reduce this net liability position in foreign currency, the Telecom Group, as of December 31, 2015, hold dollar linked investments by \$1,105 and other short-term investments whose main underlying asset are financial assets dollar linked for a total amount of \$314. According to this, the Telecom Group's net liability position in foreign currency amounted to \$4,644 as of December 31, 2015, equivalent to approximately US\$ 357 million. Additionally, the Group entered into several NDF contracts as of December 31, 2015 amounting to US\$ 165 million, so, the portion of the net liability position in foreign currency not covered by these instruments amounted to US\$ 192 million as of December 31, 2015.

The exposure to the various market risks can be measured by sensitivity analyses, as set forth in IFRS 7. These analyses illustrate the effects produced by a given and assumed change in the levels of the relevant variables in the various markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on Other comprehensive income. A description on the sensitivity analysis of exchange rate and interest rate risks is given below:

Exchange rate risk Sensitivity analysis

Based on the composition of the consolidated statement of financial position as of December 31, 2016, which is a net liability position in foreign currency of \$9,779 equivalent to US\$ 630 million, Management estimates that every variation in the exchange rate of \$0.10 pesos against the U.S. dollar and proportional variations for euro and Guaraníes against the Argentine peso, plus or minus, would result in a variation of approximately \$63 of the consolidated amounts of foreign currency position.

If we consider only the portion not covered by derivative financial instruments and other assets adjusted by the variation of the U.S. dollar, the net liability position totaled \$9,450 equivalent to approximately US\$ 595 million, and a variation of the exchange rate of \$ 0.10 pesos as described in the previous paragraph, would generate a variation of approximately \$60 in the consolidated financial position in foreign currency.

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This analysis is based on the assumption that this variation of the Argentine peso occurred at the same time against all other currencies.

This sensitivity analysis provides only a limited, point-in-time view of the market risk sensitivity of certain of the financial instruments. The actual impact of market foreign exchange rate changes on the financial instruments may differ significantly from the impact shown in the sensitivity analysis.

Interest rate risk Sensitivity analysis

Within its structure of financial debt, the Telecom Group has bank overdrafts denominated in Argentine pesos accruing interest at rates that are reset at maturity, notes that bear interest at a mixed rate (fixed rate and floating rate) and fixed rate and foreign bank loans denominated in U.S. dollar and guarantees that bear interest at a floating rate.

Management believes that any variation of 10 bps in the agreed interest rates would become in the following results:

| Financial debt | Financial debt currency | Amount (in millions) | Effect (in millions) |
|-----------------|----------------------------|-------------------------|-------------------------|
| Bank overdrafts | \$ | 1,707 | 1,7 |
| Notes | \$ | 1,442 | 1,4 |
| Bank loans | US\$ | 440 | 7,0 |

This analysis is based on the assumption that this change in interest rates occurs at the same time and for the same periods.

This sensitivity analysis provides only a limited point of view of the sensitivity to market risk of certain financial instruments. The actual impact of changes in interest rates of financial instruments may differ significantly from this estimate.

Ø Credit risk

Credit risk represents Telecom Group's exposure to possible losses arising from the failure of commercial or financial counterparts to fulfill their assumed obligations. Such risk stems principally from economic and financial factors, or from the possibility that a default situation of a counterpart could arise or from factors more strictly technical, commercial or administrative.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Telecom Group's maximum theoretical exposure to credit risk is represented by the carrying amount of the financial assets and trade receivables, net recorded in the consolidated statement of financial position.

| Date due | Banks and cash equivalents | Investments | Trade receivables, net | Other receivables, net | Total |
|--------------------------------------|----------------------------|--------------|------------------------|------------------------|---------------|
| Total due | - | - | 1,738 | - | 1,738 |
| Total not due | 3,945 | 2,097 | 6,047 | 335 | 12,424 |
| Total as of December 31, 2016 | 3,945 | 2,097 | 7,785 | 335 | 14,162 |

The accruals to the allowance for doubtful accounts are recorded: (i) for an exact amount on credit positions that present an element of individual risk (bankruptcy, customers under legal proceedings with the Company); (ii) on credit positions that do not present such characteristics, by customer segment considering the aging of the accounts receivable balances, customer creditworthiness and changes in the customer payment terms. Total overdue balances not covered by the allowance for doubtful accounts amount to \$1,738 as of December 31, 2016 (\$1,301 as of December 31, 2015).

Regarding the credit risk relating to the asset included in the Net financial debt or asset, it should be noted that the Telecom Group evaluates the outstanding credit of the counterparty and the levels of investment, based, among others, on their credit rating and the equity size of the counterparty. Deposits are made with leading high-credit-quality banking and financial institutions and generally for periods of less than three months.

The Telecom Group serves a wide range of customers, including residential customers, businesses and governmental agencies. As such, the Telecom Group's account receivables are not subject to significant concentration of credit risk.

In order to minimize credit risk, the Group also pursues a diversification policy for its investments of liquidity and allocation of its credit positions among different first-class financial entities. Consequently, there are no significant positions with any one single counterpart.

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Liquidity risk represents the risk that the Telecom Group has no funds to accomplish its obligations of any nature (labor, commercial, fiscal and financial, among others).

The Group's working capital breakdown and its main variations are disclosed below:

| | 2016 | 2015 | Variation |
|--|----------------|----------------|--------------|
| Trade receivables | 7,577 | 5,663 | 1,914 |
| Other receivables | 1,011 | 1,336 | (325) |
| Inventories | 1,278 | 2,193 | (915) |
| Current liabilities (not considering financial debt) | (13,245) | (13,463) | 218 |
| Operative working capital - negative | (3,379) | (4,271) | 892 |
| <i>Over revenues</i> | <i>(6.4)%</i> | <i>(10.5)%</i> | |
| Cash and cash equivalents | 3,945 | 870 | 3,075 |
| Investments | 1,751 | 1,430 | 321 |
| Current financial debt | (3,266) | (3,451) | 185 |
| Net Current financial asset (debt) | 2,430 | (1,151) | 3,581 |
| Negative operating working capital (current assets - current liabilities) | (949) | (5,422) | 4,473 |
| Liquidity rate | 0.94 | 0.68 | 0.26 |

The Telecom Group has a typical working capital structure corresponding to a company with intensive capital that obtains spontaneous financing from its suppliers (especially PP&E) for longer terms than those it provides to its customers. According to this, the negative operating working capital amounted to \$949 as of December 31, 2016 (decreasing \$4,473 vs. December 31, 2015) positioning at higher levels (6.4% of consolidated revenues as of December 31, 2016 vs. 10.5% of consolidated revenues as of December 31, 2015).

During 2016 the Telecom Group returned to demand funds to the financial market in Argentina, what has allowed financing the Group's growth in PP&E and intangible assets at very reasonable rates. The Group has an excellent credit rating (Personal's notes have been qualified AA+ (arg) by FIX SCR S.A) related to the Group's operating cash flow record and low leverage (net financial debt ratio over company market value amounts only 9%). All the above mentioned generates that the total working capital (current assets - current liabilities) amounted to a net debt of \$949 as of December 31, 2016, resulting from a decrease in negative operating working capital and an increase in current net financial debt amounting to \$892 and \$3,581, respectively.

These increases in absolute terms, consolidated liquidity ratio (current assets / current liabilities) amounting to 0.94.

The Group has several financing sources and several offers from first-class international institutions to diversify its current short-term funding structure, which includes accessing to domestic and international capital market and obtaining competitive bank loans in what relates to terms and financial costs.

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The low financial debt of the Group makes possible to obtain financial resources for longer terms at a reasonable cost. The Group's management evaluates the national and international macroeconomic context to take advantage of market opportunities that allows it preserving its financial health for the benefit of its investors.

The Telecom Group manages its cash and cash equivalents and its financial assets trying to match the term of investments with those of its obligations. The average term of its investments should not exceed the average term of its obligations. Cash and cash equivalents position is invested in highly-liquid short-term instruments through first-class financial entities.

The Telecom Group maintains a liquidity policy that results into a significant volume of available cash through its normal course of business as it is shown in the consolidated statement of cash flows. The Telecom Group has consolidated cash and cash equivalents amounting to \$3,945 (equivalent to US\$ 250 million) as of December 31, 2016 (in 2015, \$870, equivalent to US\$ 67 million).

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The table below contains a breakdown of financial liabilities into relevant maturity groups based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| Maturity Date | Trade payables | Debt | Salaries and social security payables | Other liabilities | Total |
|---------------------------------|-----------------------|---------------|--|--------------------------|---------------|
| Due | 354 | - | - | - | 354 |
| January 2017 thru December 2017 | 8,625 | 3,869 | 1,610 | 62 | 14,166 |
| January 2018 thru December 2018 | 71 | 2,812 | 108 | 7 | 2,998 |
| January 2019 thru December 2019 | 48 | 2,095 | 39 | - | 2,182 |
| January 2020 and thereafter | 33 | 5,212 | 37 | 6 | 5,288 |
| | 9,131 | 13,988 | 1,794 | 75 | 24,988 |

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments considering the business evolution and changes in the macroeconomic conditions.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders and the level of indebtedness.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2016 and 2015.

The Telecom Group does not have to comply with regulatory capital adequacy requirements.

Note 27 Related party balances and transactions**(a) Controlling group**

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Nortel, residing in A. Moreau de Justo 50 - 11th floor Ciudad Autónoma de Buenos Aires, holds 54.74% stake in the Company, meaning that exercises control of the Company in the terms of Section 33 of Law No. 19,550. As of December 31, 2016, Nortel owns all of the Class A Preferred shares (51% of total shares of the Company) and 7.64% of the Class B Preferred shares (3.74% of total shares of the Company).

As a result of the Company's Treasury Shares Acquisition Process described in Note 19.d), Nortel's equity interest in Telecom Argentina amounts to 55.60% of the Company's outstanding shares as of December 31, 2016. Pursuant to Section 221 of the LGS, the rights of treasury shares shall be suspended until such shares are sold, and shall not be taken into account to determine the quorum or the majority of votes at the Shareholders' Meetings.

All of the common shares of Nortel belong to Sofora. As of December 31, 2016 these shares represent 78.38% of the capital stock of Nortel.

Sofora's capital stock consists of shares of common stock, with a par value of \$1 Argentine peso each and one vote per share. As of December 30, 2016, Sofora's shares are held by Fintech Telecom LLC (68%) and W de Argentina Inversiones S.A. (32%). Additionally, Fintech holds 58,173,522 Class B shares of Telecom Argentina, which represent 5.91% of Telecom Argentina's total capital stock.

Fintech Telecom LLC, a Delaware (United States) limited liability company, is a wholly-owned direct subsidiary of Fintech Advisory Inc. and its primary purpose is to hold, directly and indirectly, the securities of Telecom Argentina. Fintech Advisory Inc., a Delaware (United States) company, is directly controlled by Mr. David Martínez (a member of Telecom Argentina's Board of Directors). Fintech Advisory Inc. is an investor and investment manager in equity and debt securities of sovereign and private entities primarily in emerging markets.

In connection with the Shareholders' Agreement entered into by the Telecom Italia Group and W de Argentina Inversiones S.A., as last amended on October 24, 2014 (the New Shareholders' Agreement), Fintech Telecom LLC adhered as a party to the New Shareholders' Agreement by means of execution of a Deed of Adherence, following its acquisition of 17% of Sofora's capital stock. On March 8, 2016, as a result of its acquisition of 51% of Sofora's shares, Fintech acquired all the rights and obligations of the Telecom Italia Group under the New Shareholders' Agreement.

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Change of indirect parent company of the Telecom Group

On November 14, 2013, Telecom Italia S.p.A and Telecom Italia International N.V. (jointly, the Sellers) and Tierra Argentea (a company controlled by the Sellers) announced the acceptance of an offer by Fintech Telecom LLC to acquire the controlling stake held by the Telecom Italia Group in Telecom Argentina, owned by the Sellers, through its subsidiaries Sofora, Nortel and Tierra Argentea. Closing of the transfer of the Telecom Italia Group s shares in Sofora was subject to certain required regulatory authorizations.

On December 10, 2013, Tierra Argentea transferred to Fintech Telecom LLC Telecom Argentina s Class B shares representing 1.58% of Telecom Argentina s capital stock and Nortel s ADRs representing 8% of Nortel s Preferred Class B Shares.

On October 25, 2014, Telecom Italia S.p.A. announced its acceptance of an offer by Fintech Telecom LLC to amend and restate the agreement announced on November 14, 2013. Within the frame of this amendment agreement: 1) on October 29, 2014 Telecom Italia International N.V. transferred 17% of Sofora s capital stock to Fintech Telecom LLC; 2) it was confirmed that the transfer of the 51% controlling interest in Sofora was subject to the prior approval of the telecommunications regulatory authority (previously the SC, then the AFTIC and currently the ENACOM).

On October 16, 2015, AFTIC s Resolution No. 491/2015 was published in the Official Gazette, denying authorization for the transfer of Telecom Italia s controlling equity interest in Sofora to Fintech. Such Resolution was challenged in several opportunities by Fintech, the Sellers, W de Argentina Inversiones S.A., Telecom Argentina and Personal.

On February 17, 2016 Telecom Argentina was notified of ENACOM Resolution No. 64/16 pursuant to which ENACOM partially revoked AFTIC Resolution No. 491/15 and decided to continue analyzing the transfer of Telecom Italia Group s shares in Sofora.

On March 7, 2016, ENACOM Resolution No. 277/16 authorized Fintech s acquisition of 51% of Sofora s shares of common stock, and on March 8, 2016, the transfer of Telecom Italia Group s 51% stake in Sofora to Fintech was closed.

On March 8, 2016, the new members of the Board of Directors of Telecom Argentina and Personal appointed by Fintech replaced the members of such Boards of Directors appointed by the Telecom Italia Group. The Personal s Unanimous General Ordinary and Extraordinary Shareholders Meeting held on March 29, 2016 and the Telecom Argentina s General Ordinary and Extraordinary Shareholders Meeting held on April 8, 2016 approved, among other items, the performance of duties of the directors and alternate directors and the members of the Supervisory Committee appointed by the Sellers in such companies and appointed new directors and alternate directors and members of the Supervisory Committee to cover the vacancy generated by those appointed by the Sellers. This new directors and alternate directors and members of the Supervisory Committee would hold their positions until the next Shareholders Meetings that would consider the financial statements as of December 31, 2015.

On March 8, 2016 the change of Sofora s controlling shareholder became effective and, accordingly, the Telecom Italia Group ceased being the Company s indirect controlling shareholder (position assumed by Fintech). Based on such facts, on April 15, 2016

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Telecom Argentina and Personal notified the CNCD that the *Telco and TI-W Commitments have become moot and have completely lost its cause and purpose* .

On November 25, 2016, Fintech informed that it was notified of the Resolution No. 356/16 of the Secretary of Commerce of the Ministry of Production, which authorized the economic concentration operation consisting on the acquisition by Fintech of 68% of the common shares of Sofora.

OPA for control changing

On February 24, 2016, Telecom Argentina was notified of Fintech Telecom LLC 's intention to launch a Mandatory Tender Offer (the OPA) resulting from a change of control event for all Class B common shares of Telecom Argentina listed on the Buenos Aires Securities Market, or Mercado de Valores de Buenos Aires S.A. The OPA 's background and purpose, price, timing and terms of acceptance, and details of the facts that condition its performance, are described in an OPA notice published in the newspaper *El Cronista Comercial* on February 24, 2016, in page No.5. On July 22, 2016 Fintech informed the Company the modifications to certain terms of the OPA announced previously by Fintech, including the offering price. The offered price has been amended from \$46 Argentine pesos per share to US\$ 3.925 per share (from which US\$ 0.050 (five cents) should be deducted per share as cash dividends paid on May 13, 2016, together with any other cash dividend to be paid by Telecom Argentina from the date of the OPA 's announcement to the date of the OPA 's payment.

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On September 6, 2016, the CNV's Board of Directors approved the formal terms of the OPA. Subsequently, on September 14, 15 and 16 of 2016, Fintech published in *El Cronista Comercial* newspaper the notice provided on the CNV Rules (modified by complementary notices published in the same newspaper on October 5, 6 and 7-the first-, and on October 26, 27 and 28- the second-) setting the opening and closing dates of the OPA and the amendments to the OPA Notice published on February 24, 2016. The end of the OPA and its additional deadline took place on November 4, 2016 for Argentina.

On November 7, 2016, Fintech informed the Company that, having ended the OPA's offers reception period in Argentina, a total of 12,337,723 Class B shares acceptances were received, representing 1.253% of Telecom Argentina's total capital.

Simultaneously, Fintech had launched an OPA in the United States of America, which offers reception period expired on November 23, 2016. This OPA did not affect in any way the OPA launched by Fintech in Argentina. According to Fintech, 5,549,209 ADSs and 3,695 Class B Shares entered into the OPA launched in the United States of America. As a consequence of the OPAs launched in both markets, Fintech acquired 40,087,463 Company's shares (equivalent to 4.07% of its total capital).

Additional information regarding the transaction between the Telecom Italia Group and Fintech as well as the OPA promoted by Fintech is available in the Relevant Facts section of the CNV at www.cnv.gob.ar, and in the Company filings section (Telecom Italia S.p.A and Telecom Argentina) of the SEC at www.sec.gov.

(b) Related parties

For the purposes of these consolidated financial statements, related parties are those individuals or legal entities which are related (in terms of IAS 24) to the Telecom Italia Group, Fintech Telecom LLC or W de Argentina - Inversiones S.A., except Nortel and companies under sect. 33 of the LGS, as explained below.

In connection with the change of control explained, on March 8, 2016, Fintech Telecom LLC acquired 51% of Sofora's shares from the Telecom Italia Group. As a result, Fintech Telecom LLC acquired the indirect control of the Telecom Group, increasing its holding in Sofora to 68% of Sofora's shares and voting rights. Therefore, the transactions disclosed in d) below corresponding to the Telecom Italia Group are those performed until March 8, 2016, as from which date the Telecom Italia Group ceased to be a related party of the Telecom Group. Please note that no operations with related parties of Fintech Telecom LLC conducted as from March 8, 2016 have been identified.

For the years presented, the Telecom Group has not conducted any transactions with Key Managers and/or persons related to them, as described above.

(c) Balances with related parties

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| | Type of related party | As of December 31, | |
|--|--|--------------------|-----------|
| | | 2016 | 2015 |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | | |
| Banco Atlas S.A.(a) | Other related party | 2 | 2 |
| | Total cash and cash equivalents | 2 | 2 |
| Trade receivables | | | |
| Editorial Azeta S.A. (a) | | 1 | - |
| TIM Participacoes S.A. (b) | Other related party | - | 13 |
| Latin American Nautilus Argentina S.A. (b) | Other related party | - | 1 |
| Telecom Italia S.p.A. (b) | Parent company as of March 8, 2016 | - | 3 |
| Experta ART S.A. (d) (e) | Other related party | - | 1 |
| | Total trade receivables, net | 1 | 18 |
| Other receivables | | | |
| Latin American Nautilus Ltd. (b) | Other related party | - | 36 |
| Caja de Seguros S.A. (c) | Other related party | - | 3 |
| | Total other receivables, net | - | 39 |

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| | Type of related party | As of December 31, | |
|---|------------------------------------|--------------------|------------|
| | | 2016 | 2015 |
| CURRENT LIABILITIES | | | |
| Trade payables | | | |
| Italtel Group (b) | Other related party | - | 160 |
| Latin American Nautilus Ltd. (b) | Other related party | - | 53 |
| Telecom Italia S.p.A. (b) | Parent company as of March 8, 2016 | - | 28 |
| Telecom Italia Sparkle S.p.A. (b) | Other related party | - | 27 |
| Latin American Nautilus USA Inc. (b) | Other related party | - | 3 |
| Latin American Nautilus Argentina S.A. (b) | Other related party | - | 2 |
| TIM Participacoes S.A. (b) | Other related party | - | 2 |
| Caja de Seguros S.A. (c) | Other related party | - | 46 |
| Experta ART S.A. (d) (e) | Other related party | 16 | 12 |
| Universal Music Argentina S.A. (f) | Other related party | - | 10 |
| Haras El Capricho S.A. (g) | Other related party | 1 | 1 |
| Telcelo S.A. (h) | Other related party | 4 | 5 |
| | Total trade payables | 21 | 349 |
| Financial Debt Notes (current and non-current) | | | |
| La Estrella Sociedad Anónima de Seguros de Retiro (d) | Other related party | 172 | - |
| Experta ART S.A. (d) (e) | Other related party | 151 | - |
| | | 323 | - |

(d) Transactions with related parties and companies under sect. 33 of the LGS

• **Companies under sect. 33 of the LGS**

| | Transaction description | Type of related party | Years ended December 31, | | |
|----------------------------|-------------------------|---------------------------|--------------------------|----------|----------|
| | | | 2016 | 2015 | 2014 |
| <u>Other income</u> | | | | | |
| Nortel | Rental revenues | Direct parent Company | 1 | 1 | - |
| | | Total other income | 1 | 1 | - |

• **Related parties**

| | Transaction description | Type of related party | Years ended December 31, | | |
|--|---|------------------------------------|--------------------------|------------|------------|
| | | | 2016 | 2015 | 2014 |
| Services rendered | | | | | |
| Editorial Azeta S.A. (a) | Voice retail | Other related party | 3 | 3 | 3 |
| Banco Atlas S.A. (a) | Voice retail | Other related party | 1 | 1 | 1 |
| Penta S.A. (a) | Voice retail | Other related party | 1 | - | - |
| Telecom Italia Sparkle S.p.A. (b) | International inbound calls | Other related party | 4 | 23 | 26 |
| TIM Participacoes S.A. (b) | Roaming | Other related party | 2 | 6 | 11 |
| Latin American Nautilus Argentina S.A. (b) | International inbound calls and roaming | Other related party | 2 | 7 | 9 |
| Telecom Italia S.p.A. (b) | Roaming | Parent company as of March 8, 2016 | 2 | 4 | 2 |
| Experta ART S.A. (d) (e) | Voice retail | Other related party | 7 | - | - |
| Caja de Seguros S.A. (c) | Services sales (i) | Other related party | 58 | 328 | 125 |
| Caja de Seguros S.A. (c) | Equipment sales (ii) | Other related party | 43 | 196 | 279 |
| | | Total services rendered | 123 | 568 | 456 |

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(i) Includes integral retribution provided in the Mobile Equipment Insurance Agreement between Personal and Caja de Seguros S.A. and the income from advertising spaces rental.

(ii) Corresponds to the income generated by the restitution, on behalf and order of the insurance company, of equipment to clients insured by Caja de Seguros S.A.

| | Transaction description | Type of related party | Years ended December 31, | | |
|--|--|------------------------------------|--------------------------|--------------|--------------|
| | | | 2016 | 2015 | 2014 |
| Services received | | | | | |
| Editorial Azeta S.A. (a) | Advertising | Other related party | (3) | (2) | (2) |
| Penta S.A. (a) | Rental | Other related party | (2) | - | - |
| Latin American Nautilus Ltd. (b). | International inbound calls and data | Other related party | (19) | (71) | (147) |
| Grupo Italtel (b) | Maintenance, materials and supplies | Other related party | (10) | (125) | (63) |
| Telecom Italia Sparkle S.p.A. (b) | International outbound calls and others | Other related party | (7) | (58) | (52) |
| TIM Participacoes S.A. (b) | Roaming | Other related party | (17) | (11) | (19) |
| Telecom Italia S.p.A. (b) | Fees for services and roaming | Parent company as of March 8, 2016 | (3) | (33) | (18) |
| Latin American Nautilus Argentina S.A. (b) | International outbound calls | Other related party | (2) | (7) | (12) |
| Latin American Nautilus USA Inc. (b) | International outbound calls | Other related party | (1) | (7) | (8) |
| Caja de Seguros S.A. (c) | Insurance | Other related party | (9) | (36) | (29) |
| Experta ART S.A. (d) (e) | Salaries and social security - Insurance | Other related party | (131) | (100) | (61) |
| La Estrella Seguros de Retiro S.A. (d) | Insurance | Other related party | - | (5) | (9) |
| Universal Music Argentina S.A. (f) | VAS costs | Other related party | (4) | (4) | - |
| Haras El Capricho S.A. (g) | Advertising | Other related party | - | (1) | - |
| Telteco S.A. (h) | Fees for services | Other related party | (22) | (14) | (7) |
| Total services received | | | (230) | (474) | (427) |

(a) Such companies relate to ABC Telecommunications Group of Paraguay.

(b) Such companies relate to Telecom Italia Group until March 8, 2016.

(c) Until March 30, 2015 this company related both to Telecom Italia Group and W de Argentina - Inversiones S.A. Since March 31, 2015 and until March 8, 2016 it relates to Telecom Italia Group.

(d) Until March 30, 2015 this company related both to Telecom Italia Group and W de Argentina - Inversiones S.A. Since March 31, 2015 it relates to W de Argentina - Inversiones S.A.

(e) Until September 9, 2015 this company was La Caja Aseguradora de Riesgos del Trabajo ART S.A.

(f) Such companies relate to Telecom Italia Group since November 1, 2015 and until March 8, 2016.

(g) Such companies relate to W de Argentina Inversiones S.A.

(h) Such companies relate to a Board of Directors member appointed by W de Argentina Inversiones S.A.

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| | Transaction description | Type of related party | Years ended December 31, | | |
|--|-------------------------|----------------------------|--------------------------|----------|----------|
| | | | 2016 | 2015 | 2014 |
| Finance costs | | | | | |
| Experta ART S.A. (d) (e) | Interests on loans | Other related party | (27) | - | - |
| La Estrella Seguros de Retiro S.A. (d) | Interests on loans | Other related party | (28) | - | - |
| | | Total finance costs | (55) | - | - |

| | Type of related party | Years ended December 31, | | |
|--|--|--------------------------|------------|------------|
| | | 2016 | 2015 | 2014 |
| Purchases of PP&E and intangible assets | | | | |
| Italtel Group (b) | Other related party | 18 | 103 | 153 |
| Telteco S.A. (h) | Other related party | 1 | 4 | 12 |
| | Total purchases of PP&E and intangible assets | 19 | 107 | 165 |

| | Type of related party | As of December 31, | |
|--------------------|-----------------------|--------------------|------------|
| | | 2016 | 2015 |
| Commitments | | | |
| | Other related parties | - | 221 |
| | | - | 221 |

- (a) Such companies relate to ABC Telecommunications Group of Paraguay.
- (b) Such companies relate to Telecom Italia Group until March 8, 2016.
- (c) Until March 30, 2015 this company related both to Telecom Italia Group and W de Argentina - Inversiones S.A. Since March 31, 2015 and until March 8, 2016 it relates to Telecom Italia Group.
- (d) Until March 30, 2015 this company related both to Telecom Italia Group and W de Argentina - Inversiones S.A. Since March 31, 2015 it relates to W de Argentina - Inversiones S.A.
- (e) Until September 9, 2015 this company was La Caja Aseguradora de Riesgos del Trabajo ART S.A.
- (f) Such companies relate to Telecom Italia Group since November 1, 2015 and until March 8, 2016.
- (g) Such companies relate to W de Argentina Inversiones S.A.
- (h) Such companies relate to a Board of Directors member appointed by W de Argentina Inversiones S.A.

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 and Law No. 26,831.

(e) Key Managers

Compensation for the Key Managers, including social security contribution, amounted to \$198, \$106 and \$56 for the years ended December 31, 2016, 2015 and 2014, respectively, and was recorded as expenses under the line item Employee benefits expenses and severance payments .

| | Years ended December 31, | | |
|-------------------------------|--------------------------|------------|-----------|
| | 2016 | 2015 | 2014 |
| Salaries (*) | 52 | 37 | 31 |
| Variable compensation (*) | 53 | 26 | 7 |
| Social security contributions | 30 | 18 | 11 |
| Hiring benefits | 5 | - | - |
| Termination benefits | 58 | 25 | 7 |
| | 198 | 106 | 56 |

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(*) Gross compensation. Social security contributions and income tax retentions that are deducted from the gross compensation are in charge of the employee.

As of December 31, 2016 and 2015, respectively, an amount of \$66 and \$30 remained unpaid.

The estimated compensation of the members of the Telecom Argentina's Board of Directors for fiscal year 2016 is approximately of \$35.5. Additionally, a member of the Board of Directors (included in the Company's payroll) has performed technical and administrative tasks for \$1.4, recorded within salaries and social security compensation in the Consolidated Income Statements as of December 31, 2016.

The compensation for the members of the Telecom Argentina's Board of Directors approved by the Ordinary Annual Shareholders Meeting for fiscal years 2015 and 2014 were approximately of \$20 and \$16, respectively.

The members and alternate members of the Board of Directors do not hold executive positions in the Company or Company's subsidiaries.

Note 28 Segment information

As of December 31, 2016, 2015 and 2014, the Telecom Group carries out its activities through six companies which were consolidated by the end of fiscal years 2016, 2015 and 2014, respectively (Note 1.a).

The Telecom Group has combined the operating segments into three reportable segments: Fixed Services, Personal Mobile Services and Núcleo Mobile Services based on the nature of products provided by the entities and taking into account the regulatory and economic framework in which each entity operates.

Segment financial information for the years 2016, 2015 and 2014 was as follows:

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| |
|---|
| <i>For the year ended December 31, 2016</i> |
|---|

o Income statement information

| | Fixed Services | Personal | Mobile Services Núcleo | Subtotal | Eliminations | Total |
|--|-------------------|---------------|---------------------------|----------------|----------------|----------------|
| Total revenues and other income (1) | 17,027 | 35,766 | 2,649 | 38,415 | (2,119) | 53,323 |
| Employee benefit expenses and severance payments | (7,220) | (2,381) | (199) | (2,580) | - | (9,800) |
| Interconnection costs and other telecommunication charges | (961) | (2,721) | (200) | (2,921) | 1,329 | (2,553) |
| Fees for services, maintenance, materials and supplies | (2,311) | (2,975) | (229) | (3,204) | 509 | (5,006) |
| Taxes and fees with the Regulatory Authority | (1,118) | (3,925) | (82) | (4,007) | - | (5,125) |
| Commissions | (327) | (3,286) | (295) | (3,581) | 59 | (3,849) |
| Cost of equipments and handsets | (136) | (5,749) | (303) | (6,052) | - | (6,188) |
| Advertising | (126) | (644) | (104) | (748) | - | (874) |
| Cost of VAS | (53) | (1,329) | (117) | (1,446) | - | (1,499) |
| Provisions | (78) | (109) | - | (109) | - | (187) |
| Bad debt expenses | (152) | (951) | (125) | (1,076) | - | (1,228) |
| Other operating expenses | (1,276) | (1,378) | (158) | (1,536) | 222 | (2,590) |
| Operating income before D&A | 3,269 | 10,318 | 837 | 11,155 | - | 14,424 |
| Depreciation of PP&E | (1,686) | (2,088) | (584) | (2,672) | - | (4,358) |
| Amortization of intangible assets | (211) | (1,526) | (103) | (1,629) | - | (1,840) |
| Impairment of PP&E | 1 | (384) | - | (384) | - | (383) |
| Operating income | 1,373 | 6,320 | 150 | 6,470 | - | 7,843 |
| Financial results, net | (151) | (2,064) | (29) | (2,093) | - | (2,244) |
| Income before income tax expense | 1,222 | 4,256 | 121 | 4,377 | - | 5,599 |
| Income tax expense, net | (59) | (1,506) | (29) | (1,535) | - | (1,594) |
| Net income | 1,163 | 2,750 | 92 | 2,842 | - | 4,005 |
| Net income attributable to Telecom Argentina | 1,163 | 2,750 | 62 | 2,812 | - | 3,975 |
| Net income attributable to non-controlling interest | - | - | 30 | 30 | - | 30 |
| | 1,163 | 2,750 | 92 | 2,842 | - | 4,005 |

(*) Includes Personal Envíos operations that are not material (Revenues 25, Operating income before D&A (7), Operating income (9) and Net loss (9)).

(1)

| | | | | | | |
|---|---------------|---------------|--------------|---------------|----------------|---------------|
| Service revenues | 14,923 | 28,049 | 2,382 | 30,431 | - | 45,354 |
| Equipment sales | 91 | 7,535 | 260 | 7,795 | - | 7,886 |
| Other income | 66 | 16 | 1 | 17 | - | 83 |
| Subtotal third party revenues and other income | 15,080 | 35,600 | 2,643 | 38,243 | - | 53,323 |
| Intersegment revenues | 1,947 | 166 | 6 | 172 | (2,119) | - |
| Total revenues and other income | 17,027 | 35,766 | 2,649 | 38,415 | (2,119) | 53,323 |

o Balance sheet information

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| | | | | | | |
|---|--------------|--------------|------------|----------------|-----|----------------|
| PP&E, net | 11,468 | 9,541 | 2,156 | 11,697 | - | 23,165 |
| Intangible assets, net | 429 | 7,086 | 78 | 7,164 | (1) | 7,592 |
| Capital expenditures on PP&E (a) | 3,820 | 5,249 | 563 | 5,812 | - | 9,632 |
| Capital expenditures on intangible assets (b) | 197 | 1,481 | 76 | 1,557 | - | 1,754 |
| Total capital expenditures in PP&E and intangible assets (a)+(b) | 4,017 | 6,730 | 639 | 7,369 | - | 11,386 |
| Total additions on PP&E and intangible assets | 4,525 | 6,708 | 627 | 7,335 | - | 11,860 |
| Net financial debt | 441 | (5,860) | (473) | (6,333) | - | (5,892) |

o Geographic information

| | Total revenues and other income | | Total non-current assets |
|------------------|-------------------------------------|--|-------------------------------------|
| | Breakdown by location of operations | Breakdown by location of the Group's customers | Breakdown by location of operations |
| <i>Argentina</i> | 50,406 | 49,958 | 29,832 |
| <i>Abroad</i> | 2,917 | 3,365 | 2,520 |
| <i>Total</i> | 53,323 | 53,323 | 32,352 |

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| |
|---|
| <i>For the year ended December 31, 2015</i> |
|---|

o Income statement information

| | Fixed | | Mobile Services | | Eliminations | Total |
|--|---------------|---------------|-----------------|---------------|----------------|---------------|
| | Services | Personal | Núcleo | Subtotal | | |
| Total revenues and other income (1) | 12,609 | 28,203 | 1,717 | 29,920 | (1,989) | 40,540 |
| Employee benefit expenses and severance payments | (5,268) | (1,856) | (129) | (1,985) | - | (7,253) |
| Interconnection costs and other telecommunication charges | (719) | (2,686) | (154) | (2,840) | 1,389 | (2,170) |
| Fees for services, maintenance, materials and supplies | (1,769) | (2,417) | (152) | (2,569) | 419 | (3,919) |
| Taxes and fees with the Regulatory Authority | (818) | (3,071) | (54) | (3,125) | - | (3,943) |
| Commissions | (268) | (2,774) | (199) | (2,973) | 48 | (3,193) |
| Cost of equipments and handsets | (82) | (4,328) | (185) | (4,513) | - | (4,595) |
| Advertising | (108) | (628) | (78) | (706) | - | (814) |
| Cost of VAS | (38) | (1,136) | (82) | (1,218) | - | (1,256) |
| Provisions | (17) | (96) | - | (96) | - | (113) |
| Bad debt expenses | (79) | (462) | (23) | (485) | - | (564) |
| Other operating expenses | (934) | (960) | (93) | (1,053) | 133 | (1,854) |
| Operating income before D&A | 2,509 | 7,789 | 568 | 8,357 | - | 10,866 |
| Depreciation of PP&E | (1,341) | (1,379) | (326) | (1,705) | - | (3,046) |
| Amortization of intangible assets | (185) | (1,141) | (66) | (1,207) | - | (1,392) |
| Gain on disposal of PP&E and impairment of PP&E | (91) | (109) | 1 | (108) | - | (199) |
| Operating income | 892 | 5,160 | 177 | 5,337 | - | 6,229 |
| Financial results, net | (173) | (864) | (65) | (929) | - | (1,102) |
| Income before income tax expense | 719 | 4,296 | 112 | 4,408 | - | 5,127 |
| Income tax expense, net | (155) | (1,522) | (15) | (1,537) | - | (1,692) |
| Net income | 564 | 2,774 | 97 | 2,871 | - | 3,435 |
| Net income attributable to Telecom Argentina | 564 | 2,774 | 65 | 2,839 | - | 3,403 |
| Net income attributable to non-controlling interest | - | - | 32 | 32 | - | 32 |
| | 564 | 2,774 | 97 | 2,871 | - | 3,435 |

(*) Includes Personal Envíos operations. This company started to operate on January 1, 2015. Its operations are not material (Revenues 9, Operating income before D&A (2), Operating income (4) and Net loss (4)).

(1)

| | | | | | | |
|---|---------------|---------------|--------------|---------------|----------------|---------------|
| Service revenues | 10,675 | 22,258 | 1,547 | 23,805 | - | 34,480 |
| Equipment sales | 61 | 5,796 | 159 | 5,955 | - | 6,016 |
| Other income | 39 | 5 | - | 5 | - | 44 |
| Subtotal third party revenues and other income | 10,775 | 28,059 | 1,706 | 29,765 | - | 40,540 |
| Intersegment revenues | 1,834 | 144 | 11 | 155 | (1,989) | - |
| Total revenues and other income | 12,609 | 28,203 | 1,717 | 29,920 | (1,989) | 40,540 |

o Balance sheet information

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| | | | | | | |
|---|--------------|--------------|------------|----------------|-----|----------------|
| PP&E, net | 9,280 | 6,899 | 1,784 | 8,683 | - | 17,963 |
| Intangible assets, net | 443 | 7,131 | 86 | 7,217 | (1) | 7,659 |
| Capital expenditures on PP&E (a) | 2,846 | 3,157 | 393 | 3,550 | - | 6,396 |
| Capital expenditures on intangible assets (b) | 233 | 3,395 | 76 | 3,471 | - | 3,704 |
| Total capital expenditures in PP&E and intangible assets (a)+(b) | 3,079 | 6,552 | 469 | 7,021 | - | 10,100 |
| Total additions on PP&E and intangible assets | 3,514 | 7,158 | 490 | 7,648 | - | 11,162 |
| Net financial asset (debt) | 560 | (2,372) | (465) | (2,837) | - | (2,277) |

o Geographic information

| | Total revenues and other income | | Total non-current assets |
|------------------|-------------------------------------|--|-------------------------------------|
| | Breakdown by location of operations | Breakdown by location of the Group's customers | Breakdown by location of operations |
| <i>Argentina</i> | 38,633 | 38,344 | 24,844 |
| <i>Abroad</i> | 1,863 | 2,152 | 2,129 |
| <i>Total</i> | 40,496 | 40,496 | 26,973 |

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| |
|---|
| <i>For the year ended December 31, 2014</i> |
|---|

o Income statement information

| | Fixed | | Mobile Services | | Eliminations | Total |
|--|---------------|---------------|-----------------|---------------|----------------|---------------|
| | Services | Personal | Núcleo | Subtotal | | |
| Total revenues and other income (1) | 10,357 | 23,353 | 1,588 | 24,941 | (1,910) | 33,388 |
| Employee benefit expenses and severance payments | (4,021) | (1,452) | (118) | (1,570) | - | (5,591) |
| Interconnection costs and other telecommunication charges | (676) | (2,592) | (192) | (2,784) | 1,386 | (2,074) |
| Fees for services, maintenance, materials and supplies | (1,402) | (2,145) | (137) | (2,282) | 351 | (3,333) |
| Taxes and fees with the Regulatory Authority | (723) | (2,527) | (47) | (2,574) | - | (3,297) |
| Commissions | (210) | (2,181) | (156) | (2,337) | 53 | (2,494) |
| Cost of equipments and handsets | (72) | (3,959) | (112) | (4,071) | - | (4,143) |
| Advertising | (151) | (563) | (78) | (641) | - | (792) |
| Cost of VAS | (16) | (856) | (64) | (920) | - | (936) |
| Provisions | (115) | 31 | - | 31 | - | (84) |
| Bad debt expenses | (89) | (315) | (20) | (335) | - | (424) |
| Other operating expenses | (791) | (761) | (86) | (847) | 120 | (1,518) |
| Operating income before D&A | 2,091 | 6,033 | 578 | 6,611 | - | 8,702 |
| Depreciation of PP&E | (1,084) | (1,002) | (303) | (1,305) | - | (2,389) |
| Amortization of intangible assets | (146) | (648) | (60) | (708) | - | (854) |
| Gain on disposal of PP&E and impairment of PP&E | 9 | (25) | - | (25) | - | (16) |
| Operating income | 870 | 4,358 | 215 | 4,573 | - | 5,443 |
| Financial results, net | 275 | - | (22) | (22) | - | 253 |
| Income before income tax expense | 1,145 | 4,358 | 193 | 4,551 | - | 5,696 |
| Income tax expense, net | (403) | (1,542) | (22) | (1,564) | - | (1,967) |
| Net income | 742 | 2,816 | 171 | 2,987 | - | 3,729 |
| Net income attributable to Telecom Argentina | 742 | 2,816 | 115 | 2,931 | - | 3,673 |
| Net income attributable to non-controlling interest | - | - | 56 | 56 | - | 56 |
| | 742 | 2,816 | 171 | 2,987 | - | 3,729 |

(1)

| | | | | | | |
|---|---------------|---------------|--------------|---------------|----------------|---------------|
| Service revenues | 8,506 | 18,284 | 1,488 | 19,772 | - | 28,278 |
| Equipment sales | 53 | 4,920 | 90 | 5,010 | - | 5,063 |
| Other income | 26 | 21 | - | 21 | - | 47 |
| Subtotal third party revenues and other income | 8,585 | 23,225 | 1,578 | 24,803 | - | 33,388 |
| Intersegment revenues | 1,772 | 128 | 10 | 138 | (1,910) | - |
| Total revenues and other income | 10,357 | 23,353 | 1,588 | 24,941 | (1,910) | 33,388 |

o Balance sheet information

| | | | | | | |
|---|--------------|--------------|------------|--------------|----------|--------------|
| PP&E, net | 7,751 | 4,688 | 1,370 | 6,058 | - | 13,809 |
| Intangible assets, net | 395 | 4,877 | 60 | 4,937 | (1) | 5,331 |
| Capital expenditures on PP&E (a) | 2,112 | 1,896 | 296 | 2,192 | - | 4,304 |
| Capital expenditures on intangible assets (b) | 165 | 4,427 | 61 | 4,488 | - | 4,653 |
| | 2,277 | 6,323 | 357 | 6,680 | - | 8,957 |

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| | | | | | | |
|--|-------|-------|-------|-------|---|-------|
| Total capital expenditures in PP&E and intangible assets (a)+ (b) | | | | | | |
| Total additions on PP&E and intangible assets | 2,628 | 6,564 | 355 | 6,919 | - | 9,547 |
| Net financial asset (debt) | 219 | 693 | (167) | 526 | - | 745 |

o Geographic information

| | Total revenues and other income | | Total non-current assets |
|------------------|-------------------------------------|--|-------------------------------------|
| | Breakdown by location of operations | Breakdown by location of the Group's customers | Breakdown by location of operations |
| <i>Argentina</i> | 31,697 | 31,428 | 18,414 |
| <i>Abroad</i> | 1,691 | 1,960 | 1,510 |
| <i>Total</i> | 33,388 | 33,388 | 19,924 |

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Table of Contents**Note 29 Quarterly consolidated information (unaudited information)**

| Quarter | Revenues | Operating income before D&A | Operating income | Financial Results, net (loss) gain | Net income | Net income attributable to Telecom Argentina |
|---------------------------------|---------------|-----------------------------------|---------------------|---------------------------------------|---------------|---|
| <u>Fiscal year 2014:</u> | | | | | | |
| March 31 | 7,466 | 2,112 | 1,377 | (32) | 906 | 889 |
| June 30 | 8,119 | 2,007 | 1,241 | 186 | 930 | 916 |
| September 30 | 8,598 | 2,067 | 1,225 | 76 | 848 | 839 |
| December 31 | 9,158 | 2,516 | 1,600 | 23 | 1,045 | 1,029 |
| | 33,341 | 8,702 | 5,443 | 253 | 3,729 | 3,673 |
| <u>Fiscal year 2015:</u> | | | | | | |
| March 31 | 8,872 | 2,634 | 1,680 | (89) | 1,041 | 1,028 |
| June 30 | 9,624 | 2,501 | 1,468 | (30) | 937 | 928 |
| September 30 | 10,094 | 2,529 | 1,311 | (73) | 800 | 801 |
| December 31 | 11,906 | 3,202 | 1,770 | (910) | 657 | 646 |
| | 40,496 | 10,866 | 6,229 | (1,102) | 3,435 | 3,403 |
| <u>Fiscal year 2016:</u> | | | | | | |
| March 31 | 12,455 | 3,394 | 1,997 | (557) | 935 | 925 |
| June 30 | 12,951 | 3,361 | 1,724 | (489) | 802 | 800 |
| September 30 | 13,412 | 3,453 | 1,802 | (636) | 758 | 746 |
| December 31 | 14,422 | 4,216 | 2,320 | (562) | 1,510 | 1,504 |
| | 53,240 | 14,424 | 7,843 | (2,244) | 4,005 | 3,975 |

Note 30 Restrictions on distribution of profits and dividends**(a) Restrictions on distribution of profits**

Under the LGS, the by-laws of the Company and rules and regulations of the CNV, a minimum of 5% of net income for the year in accordance with the statutory books, plus/less previous years adjustments and accumulated losses, if any, 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). On May 21, 2014, Telecom Argentina reached the maximum amount of its Legal Reserve according to LGS and CNV provisions previously disclosed.

(b) Dividends

The Company is able to distribute dividends up to the limit of retained earnings determined under the LGS, and reserves constituted to such purpose. Retained earnings as of December 31, 2016 are positive and amounted to \$3,975, while Voluntary reserve for future dividends payment amounted to \$4,272.

2016 2015 2014

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| | | | | |
|---|------|-------|-----|-------|
| Dividends declared and paid by Telecom Argentina during the year (\$2.06, \$0.83 and \$1.22 peso per share, respectively) | (*) | 2,000 | 804 | 1,202 |
| Proposed for approval at the Annual General Meeting (not recognized as a liability as at December 31) | (**) | - | - | - |

(*) By reversal of the reserve for future cash dividends.

(**) The Company's Board of Directors has proposed to the Shareholders Meeting the allocation of the retained earnings to the constitution of a Future Cash Dividends Reserve .

Note 31 Subsequent events to December 31, 2016

a) Pre-cancelation of Personal's bank loan

On January 28, 2015, Personal had signed a loan agreement with a foreign bank for US\$ 40.8 million (equivalent to \$353 at such date). The capital was fully cancelable in 27 months (bullet) with quarterly interest payments.

On February 7, 2017, with the maturity of the interest service, Personal proceeded to fully prepay the loan, paying US\$ 40.8 million of capital (equivalent to \$643), US\$ 1 million of interest (equivalent to \$16) and US\$ 0.3 million of pre-cancellation fee (equivalent to \$5).

b) NDF to hedge interest rate fluctuations

During January and February 2017, Personal entered into various hedging agreements (NDF) to cover fluctuations in the LIBOR rate of the loan with IFC in an amount that as of the date of issuance of these financial statements totaled US\$ 300 million. These NDF allow fixing the variable rate to be set as from March 15, 2017 and for the life of the loan, ranging from 2.087% to 2.33% nominal per annum (a weighted average of 2.183% nominal per annum).

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c) Cancellation of bank overdrafts

During January and February 2017, the Telecom Group totally canceled its bank overdrafts amounting to \$1,707.

Mariano Ibáñez
Chairman of the Board of Directors

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Item 2

Results of Operations, Liquidity and Capital Resources as of December 31, 2016 and for the years ended December 31, 2016, 2015 and 2014

The below contains information regarding our (a) consolidated results of operations and (b) results of operations by segment as of December 31, 2016 and for each of the years ended December 31, 2016, 2015 and 2014. The below also contains information about our liquidity and capital resources for the same periods.

Years ended December 31, 2016, 2015 and 2014

(A) Consolidated Results of Operations

In the year ended December 31, 2016, we reported net income of P\$4,005 million, compared to net income of P\$3,435 million for the year ended December 31, 2015, and net income of P\$3,729 million for the year ended December 31, 2014. Net income attributable to Telecom Argentina increased P\$572 million in 2016 as compared to 2015, reaching P\$3,975 million, while it decreased P\$270 million in 2015 as compared to 2014, reaching P\$3,403 million, from P\$3,673 million reported in 2014.

Consolidated revenues in 2016 were P\$53,240 million compared to P\$40,496 million in 2015 and P\$33,341 million in 2014. The increase of P\$12,744 million in 2016 (a 31% increase) can be largely attributed to the growth in the Personal and Núcleo Mobile Services segments including handset revenues and in Internet and Data services included in the Fixed Services segment.

In 2016, operating expenses (including depreciation and amortization and impairment of PP&E) totaled P\$45,480 million, representing an increase of P\$11,169 million, or 33%. The increase in costs is mainly a consequence of higher revenues, higher expenses related to competition in mobile and Internet businesses, higher direct and indirect labor costs on the cost structure of the Telecom Group in Argentina, the increase in fees for services related to higher supplier prices, the increase in taxes and fees with the Regulatory Authority, the increase of VAS costs, the increase in bad debt expenses, higher provisions costs, higher agents commissions and higher depreciation and amortization of PP&E and intangible assets.

In 2015, operating expenses (including depreciation and amortization and gain on disposal of PP&E and impairment of PP&E) totaled P\$34,311 million, representing an increase of P\$6,366 million, or 23%. The increase in costs is mainly a consequence of higher revenues, higher expenses related to competition in mobile and Internet businesses, higher direct and indirect labor costs on the cost structure of the Telecom Group in Argentina, the increase in fees for services related to higher supplier prices, the increase in taxes and fees with the Regulatory Authority, cost of equipment and handsets, the increase of VAS costs, the increase in bad debt expenses and higher depreciation and amortization of PP&E and intangible assets.

Our regulated fixed telephony service was 8% of the consolidated revenue in 2016 vs. 7% in 2015.

Table of Contents**(A.1) 2016 Compared to 2015**

| | Years Ended December 31, | | | | Change by segment (1) | | |
|--|-----------------------------|---------------|--------------|--------------|-----------------------|--------------------|--------------------|
| | 2016 | 2015 | Total Change | | Fixed | Personal | Núcleo |
| | (P\$ million) | | % | | Services | Mobile Services | Mobile Services |
| Revenues | 53,240 | 40,496 | 31 | 12,744 | 4,278 | 7,530 | 936 |
| Other Income | 83 | 44 | 89 | 39 | 27 | 11 | 1 |
| Operating expenses (without depreciation and amortization) | (38,899) | (29,674) | 31 | (9,225) | (3,637) | (4,933) | (655) |
| Operating income before depreciation and amortization (2) | 14,424 | 10,866 | 33 | 3,558 | 668 | 2,608 | 282 |
| Depreciation and amortization | (6,198) | (4,438) | 40 | (1,760) | (371) | (1,094) | (295) |
| Impairment of PP&E | (383) | (199) | 92 | (184) | 92 | (275) | (1) |
| Operating income | 7,843 | 6,229 | 26 | 1,614 | 389 | 1,239 | (14) |
| Financial results, net | (2,244) | (1,102) | 104 | (1,142) | 35 | (1,213) | 36 |
| Income tax expense | (1,594) | (1,692) | (6) | 98 | 96 | 16 | (14) |
| Net income | 4,005 | 3,435 | 17 | 570 | 520 | 42 | 8 |
| Net income attributable to: | | | | | | | |
| <i>Telecom Argentina (Controlling Company)</i> | <i>3,975</i> | <i>3,403</i> | <i>17</i> | <i>572</i> | | | |
| <i>Noncontrolling interest</i> | <i>30</i> | <i>32</i> | <i>(6)</i> | <i>(2)</i> | | | |

(1) Includes the effect of eliminations of Intersegment transactions.

(2) Although it is not specifically defined, this is a permitted measure under IFRS.

Revenues

| | Years Ended December 31, | | | | Change by segment (1) | | |
|-------------------------|-----------------------------|---------------|--------------|---------------|-----------------------|--------------------|--------------------|
| | 2016 | 2015 | Total Change | | Fixed | Personal | Núcleo |
| | (P\$ million) | | % | | Services | Mobile Services | Mobile Services |
| Voice | 17,566 | 13,854 | 27 | 3,712 | 1,671 | 1,733 | 308 |
| Data | 9,984 | 9,249 | 8 | 735 | 1,139 | (520) | 116 |
| Internet | 17,804 | 11,377 | 56 | 6,427 | 1,438 | 4,578 | 411 |
| Service Revenues | 45,354 | 34,480 | 32 | 10,874 | 4,248 | 5,791 | 835 |
| Equipment (2) | 7,886 | 6,016 | 31 | 1,870 | 30 | 1,739 | 101 |
| Revenues | 53,240 | 40,496 | 31 | 12,744 | 4,278 | 7,530 | 936 |

-
- (1) Net of the Intersegment revenues effect.
 - (2) This item is composed of voice, data and Internet equipment in each year.

During 2016, total consolidated revenues increased by 31% to P\$53,240 million from P\$40,496 million in 2015, mainly fueled by the mobile services provided by Personal, Broadband and data transmission businesses.

Consolidated revenues for 2016 and 2015 are comprised as follows:

Voice

Revenues from voice services increased 27% to P\$17,566 million in 2016 from P\$13,854 million in 2015. Revenues from voice services represented 33% of our total consolidated revenues for 2016 compared to 34% of our total consolidated revenues for 2015.

Fixed services

Revenues from voice services represented 40% of our total Fixed Services segment revenues attributable to third parties for 2016 and 2015, respectively.

Voice services mainly include revenues from monthly basic charges, charges for supplementary services, measured service (national and international calls) and public telephone service. Charges for supplementary services include call waiting, call forwarding, three-way calling, caller ID, direct inwards dialing, toll-free service and voicemail, among others. Measured service charges are based on the number and duration of calls. Measured service revenues depend on the number of lines in service, the volume of usage, the number of new lines installed and applicable rates. They also include interconnection services

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(which primarily include Access, termination and long-distance transport of calls), international long-distance service (which reflect payments made under bilateral agreements between Telecom Argentina and foreign telecommunications carriers covering inbound international long-distance calls) and revenues related to billing and collection services charged to other operators.

Revenues from voice-retail increased 41% to P\$4,654 million. Revenues from regulated services represented 27% of our total segment revenues in 2016 compared with 26% in 2015.

Monthly basic charges and supplementary services increased P\$1,074 million or 76% to P\$2,480 million in 2016 from P\$1,406 million in 2015. Such growth was mainly due to an increase of residential monthly basic charges prices since May 2016 and an increase of supplementary services prices.

Measured service charges increased 15% to P\$2,073 million in 2016 from P\$1,800 million in 2015. The increase was mainly due to the increase in plans prices (both in local and national long - distance).

Voice-wholesale revenues (including fixed and mobile interconnection revenues and lease of circuits, together with the revenues generated by the subsidiary Telecom Argentina USA amounting to P\$265 million) amounted to P\$1,356 million in 2015 (+31% vs. 2015). Interconnection services reached P\$845 million in 2016, an increase of P\$156 million or 23% vs. 2015. Other wholesale revenues reached P\$511 million in 2016, an increase of P\$165 million or 48% compared to 2015. The increase was mainly due to higher prices related to cell sites rentals and lease of circuits due to the variation of the P\$/US\$ exchange rate.

Personal Mobile services

Revenues from voice services represented 30% of our total Personal Mobile Services segment revenues attributable to third parties for 2016 compared to 32% for 2015.

Voice services mainly include revenues from monthly basic charges, airtime usage charges and roaming charges to our customers for their use of our and other carriers' networks, CPP, TLRD and roaming charges to other mobile service providers whose customers use our network.

Voice-retail revenues reached P\$8,503 million in 2016 (+22% vs. 2015). The increase was mainly due to the increase in monthly charges prices in the post-paid and *Cuentas Claras* subscribers and prepaid services, net of the variation of the subscriber's base.

Voice-wholesale revenues to third parties reached P\$2,078 million in 2016 (+10% vs. 2015). The increase was mainly due to an increase in interconnection prices, partially offset by a decrease in interconnection traffic (mainly TLRD and CPP).

In *Núcleo Mobile Services segment*, voice revenues increased 46% to P\$975 million in 2016 compared to P\$667 million in 2015.

Data and Internet

Revenues from data and Internet services increased 35% to P\$27,788 million in 2016 from P\$20,626 million in 2015. Revenues from data and Internet represented 52% of our total consolidated revenues for 2016 compared to 51% of our total consolidated revenues for 2015.

In the Mobile Services segments, data and Internet services mainly include SMS, contents via SMS, Browsing and Internet. Revenues from data and Internet in the Personal Mobile segment increased 30% to P\$17,468 million in 2016 from P\$13,410 million in 2015.

As a consequence of the increase in VAS consumption (Internet and data), the ARPU increased to P\$112.3 per month in 2016 (vs. P\$91.5 per month in 2015) in the Personal Mobile Segment.

Data

Revenues from data services in the Fixed segment increased 64% to P\$2,919 million in 2016 from P\$1,780 million in 2015. These revenues were generated focusing on Telecom Argentina's position as an integrated ICT provider (Datacenter, VPN, among others) for wholesale and government segments. The increase was primarily due to higher prices of these services related to the variation of the P\$/US\$ exchange rate and to the increase in the number of customers of *Innovation* services (that generated an increase of P\$812 million vs. 2015).

Mobile data revenues reached P\$7,065 million in 2016 (-5% vs. 2015). The decrease was due to lower revenues from the principal item of VAS revenues, SMS consumption in Personal Mobile Services Segment, which decreased 27%. Notwithstanding, this effect was partially offset with a constant increase of the SMS with content sales, as a result of several campaigns launched by Personal (where its inter-annual variation amounted to +P\$438 million or +14%).

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Internet

Internet revenues in the Fixed segment increased 32% to P\$5,994 million in 2016 from P\$4,556 million in 2015. The increase was mainly due to an increase in average prices resulting in an improvement in the ARPU amounted to P\$270.9 per month in 2016 vs. P\$207.4 per month in 2015, partially offset by a decrease in Broadband service access lines (-4% of access lines vs. 2015). As of December 31, 2016 the number of Internet accesses reached approximately 1.7 million (of which 1,298,000 correspond to +3Mb access vs. 1,010,000 in 2015) equivalent to 44% of fixed lines in service of Telecom Argentina (vs. 45% in 2015), compared to approximately 1.8 million as of December 31, 2015.

Mobile Internet revenues in the Personal Mobile segment increased 73% to P\$10,832 million in 2016 from P\$6,254 million in 2015. This increase is mainly explained by the increase in browsing services consumption of Personal s subscribers, which was mainly fueled by the increase in the offer of services, plans and packs (including VAS) launched by Personal. This growth was fueled by new subscribers, the migration of existing ones to higher-value plans and the increase in subscribers that acquired 3G and 4G handsets, which facilitate Internet browsing.

Equipment

Revenues from equipment increased 31% to P\$7,886 million in 2016 from P\$6,016 million in 2015. Personal Mobile Services segment shows an increase of P\$1,739 million vs. 2015 due to an increase in handset s average sale price (+34% vs. 2015), partially offset by a decrease in handset units sold (-4% vs. 2015), resulting in a higher operating margin. Núcleo Mobile Services segment reached an increase of P\$101 million (+64% vs. 2015) due to an increase in handset s average sale prices (+12% vs. 2015), partially offset by a decrease in handset units sold (-8% vs. 2015).

Other Income

Other income mainly includes penalties and indemnities collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided and gains on disposal of PP&E since 2016. During 2016, other income increased 89% to P\$83 million from P\$44 million in 2015.

Operating expenses (without depreciation and amortization)

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Total operating expenses (without depreciation and amortization and impairment of PP&E) increased by P\$9,225 million totaling P\$38,899 million in 2016, representing a 31% increase as compared to 2015.

| | Years Ended December 31, | | Total Change % | Change by segment (1) | | | |
|---|-----------------------------|---------------|-------------------|------------------------------------|--------------------------------|------------------------------|------------|
| | 2016 (P\$ million) | 2015 | | Fixed Services (P\$ million) | Personal Mobile Services | Núcleo Mobile Services | |
| Employee benefit expenses and severance payments | 9,800 | 7,253 | 35 | 2,547 | 1,952 | 525 | 70 |
| Interconnection costs and other telecommunications charges | 2,553 | 2,170 | 18 | 383 | 235 | 110 | 38 |
| Fees for services, maintenance, materials and supplies | 5,006 | 3,919 | 28 | 1,087 | 532 | 478 | 77 |
| Taxes and fees with the Regulatory Authority | 5,125 | 3,943 | 30 | 1,182 | 300 | 854 | 28 |
| Commissions | 3,849 | 3,193 | 21 | 656 | 59 | 501 | 96 |
| Cost of equipment and handsets | 6,188 | 4,595 | 35 | 1,593 | 54 | 1,421 | 118 |
| Advertising | 874 | 814 | 7 | 60 | 18 | 16 | 26 |
| Cost of VAS | 1,499 | 1,256 | 19 | 243 | 15 | 193 | 35 |
| Provisions | 187 | 113 | 65 | 74 | 61 | 13 | - |
| Bad-debt expense | 1,228 | 564 | 118 | 664 | 73 | 489 | 102 |
| Other operating expense | 2,590 | 1,854 | 40 | 736 | 338 | 333 | 65 |
| Total operating expenses (without depreciation and amortization) | 38,899 | 29,674 | 31 | 9,225 | 3,637 | 4,933 | 655 |

(1) Net of the Intersegment transactions effect.

Employee benefit expenses and severance payments

During 2016, employee benefit expenses and severance payments were P\$9,800 million, representing a 35% increase from 2015. This was primarily due to salary increases that Telecom implemented with

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several trade unions with respect to the unionized employees and also to non-unionized employees, together with related social security charges.

With a total headcount of 15,970 at the end of 2016 (-2% vs. 2015), lines in service per employee reached 360 in the Fixed Services segment (-3% vs. 2015), 4,187 customers by employee in the Personal mobile services segment (+5% vs. 2015) and 6,317 customers by employee in the Núcleo mobile services segment (+1.5% vs. 2015).

Interconnection costs and other telecommunications charges

Interconnection costs and other telecommunication charges (including charges for TLRD, Roaming, cost of international outbound calls and lease of circuits) amounted to P\$2,553 million in 2016 compared to P\$2,170 million in 2015. The increase was mainly due to an increase in international outbound calls and Roaming traffic, and higher TLRD costs.

Fees for services, maintenance, materials and supplies

Expenses related to fees for services, maintenance, materials and supplies increased 28% to P\$5,006 million in 2016 from P\$3,919 million in 2015. Maintenance, material and supplies costs increased 48% vs. 2015 (including obsolescence of inventories) and fees for services increased 11% vs. 2015. The increase was mainly due to higher maintenance costs of radio bases in the mobile services segments, as a result of the variation in the \$/US\$ exchange rate, an increase in corrective and preventive technical assistance cost of radio bases, higher system licenses costs, higher costs of sites location and higher storage costs. There were also increases in other maintenance costs and fees for services, mainly due to higher costs recognized to suppliers in all segments.

Taxes and fees with the Regulatory Authority

Taxes and fees with the Regulatory Authority (including turnover tax, tax on deposits and withdrawals from bank accounts, municipal and other taxes) increased 30% to P\$5,125 million in 2016 from P\$3,943 million in 2015, mainly influenced by the increase in revenues of fixed and mobile services in Argentina and due to higher tax on deposits and withdrawals from bank accounts related to higher collections and payments to suppliers.

Commissions

Commissions (including agent, distribution of prepaid cards and other commissions) increased 21%, to P\$3,849 million in 2016 from P\$3,193 million in 2015. The increase was mainly due to the increase in agents' commissions (associated with higher revenues) as a result of higher customer's acquisition and retention costs recognized to them and to an increase of outsourced sales commissions and collection commissions.

Commissions are net of agents' commissions capitalized as SAC, which totaled P\$1,403 million in 2016 (+P\$231 million or 20% vs. 2015), and it's directly related to the increase in the *Cuentas* subscribers' base mainly in the Personal Mobile Services segment and to the increase in the commissions prices.

Cost of equipment and handsets

During 2016, the cost of equipment and handsets increased to P\$6,188 million from P\$4,595 million in 2015, mainly due to an increase in the average unit cost of sales (+39% vs. 2015) partially offset by a decrease in units of handsets sold (-4% vs. 2015) in the Personal Mobile Services Segment.

Cost of equipment and handsets are net of handset costs capitalized as SAC, which amounts to P\$130 million in 2016, P\$37 million or 40% higher than 2015.

Advertising

Costs related to advertising increased by P\$60 million, or 7%, to P\$874 million in 2016, mainly due to higher media campaigns of Personal related to the launch of 4G services throughout the country.

Cost of VAS

Cost of VAS amounted to P\$1,499 million (+P\$243 million vs. 2015), mainly due to the increase of VAS sales in the Personal Mobile Services segment (mainly due to the Contents via SMS service) as a consequence of several campaigns launched by Personal.

Provisions

During 2016, we recorded P\$187 million in provisions compared to P\$113 million recorded in 2015, representing a 65% increase. The increase was mainly due to higher labor and regulatory claims, partially

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offset by lower civil and commercial claims. See Note 17 to our Consolidated Financial Statements for more information.

Bad debt expense

In 2016, bad debt expense amounted to P\$1,228 million, an increase of 118% as compared to 2015, representing 2.3% and 1.4% of consolidated revenues in 2016 and 2015, respectively. The major increase is observed in the Personal Mobile Services segment as a consequence of higher aging of the accounts receivables and higher incidence of handset sales directly financed by Personal and Núcleo to its post-paid and *Cuentas Claras* subscribers.

Other Operating Expenses

Other operating expenses, which include transportation costs, energy and rentals, among others, increased 40% to P\$2,590 million in 2016 from P\$1,854 million in 2015 primarily as a result of higher prices on related services, especially in transportation, freight and travel expenses (+P\$193 million or 25% vs. 2015), among others, in the operations in Argentina; the increase of rent prices (+P\$225 million or 42% vs. 2015), as a result of new agreements and the renegotiation of some of the existing ones and an increase in the energy consumption (+P\$181 million or +53% vs. 2015).

For a further breakdown of our consolidated operating expenses, see Results of Operations by Segment below.

Operating income before depreciation and amortization

Our consolidated operating income before depreciation and amortization was P\$14,424 million in 2016, (representing an increase of P\$3,558 million or 33% from P\$10,866 million in 2015). It represented 27% of total consolidated revenues, in 2016 and 2015. This growth was mainly fueled by the Fixed Services segment (+P\$760 million or +30% vs. 2015) and Personal Mobile Services segment (+P\$2,529 million or 32% vs. 2015).

Depreciation and Amortization

Depreciation of PP&E and amortization of intangible assets increased by P\$1,760 million, or 40% vs. 2015, to P\$6,198 million during 2016. The increase was mainly due to the increase in PP&E depreciation of P\$1,312 million, the increase in the amortization of SAC and Service connection costs of P\$429 million, and the increase in the amortization of other intangible assets of P\$19 million.

Impairment of PP&E

In 2016, impairment loss of PP&E amounted to P\$383 million mainly related to the mobile access modernization for the introduction of 4G technology.

In 2015, gain on disposal of PP&E amounted to P\$31 million and the impairment loss of PP&E amounted to P\$230 million related to projects of Telecom Argentina of P\$116 million (P\$107 million related to AFA Plus Project), and Telecom Personal of P\$114 million (Telecom Personal has assessed the recoverability of a group of former work in progress, recording an impairment of P\$44 million equivalent to its book value and an impairment of P\$49 million related to the total amount of works related to the discontinuation of the Orga Gold IT project and recorded an impairment of P\$21 million related to the mobile access modernization for the introduction of 4G technology).

Operating income

During 2016, consolidated operating income was P\$7,843 million, representing an increase of P\$1,614 million or 26% from 2015. Operating income represented 15% of consolidated revenues in 2016 and 2015.

| | Years Ended December 31, | | % of Change 2016-2015 Increase/(Decrease) |
|--|--------------------------|---------------|---|
| | 2016 | 2015 | |
| | (P\$ million / %) | | |
| Operating income before depreciation and amortization (1) | 14,424 | 10,866 | 33 |
| <i>As % of revenues</i> | <i>27</i> | <i>27</i> | |
| Depreciation and amortization | (6,198) | (4,438) | 40 |
| <i>As % of revenues</i> | <i>(12)</i> | <i>(11)</i> | |
| Impairment of PP&E | (383) | (199) | 92 |
| Operating income | 7,843 | 6,229 | 26 |
| <i>As % of revenues</i> | <i>15</i> | <i>15</i> | |

(1) Although it is not specifically defined, this is a permitted measure under IFRS.

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Financial results, net

During 2016, the Company recorded a net financial loss of P\$2,244 million compared to a net financial loss of P\$1,102 million in 2015. The variation is mainly due to higher interest on loans of P\$1,047 million, lower interest on time deposits and other investments of P\$272 million, higher interest on provisions of P\$70 million, partially offset by lower foreign currency exchange losses net of NDF agreement of P\$85 million and higher interest on receivables of P\$190 million.

Income tax expense

Income tax expense amounted to P\$1,594 million, and P\$1,692 million in 2016 and 2015, respectively.

The Company's income tax charge includes three effects: (i) the current tax payable for the year pursuant to tax legislation applicable to each company in the Telecom Group; (ii) the effect of applying the deferred tax method on temporary differences arising out of the asset and liability valuation according to tax versus financial accounting criteria; and (iii) tax receivable from the action for recourse filed by Telecom Argentina claiming overpaid for income tax.

(i) Regarding current tax expenses, Telecom Argentina, Telecom Argentina USA, Personal and Núcleo generated tax profit in fiscal year 2016, resulting in an income tax payable of P\$2,091 million versus P\$1,721 million in 2015. Fixed Segment income tax expense in 2016 amounted to P\$476 million as compared to P\$278 million in 2015; Personal's income tax expense, in 2016, amounted to P\$1,586 million compared to P\$1,410 million in 2015; and Núcleo's income tax expense, in 2016, amounted to P\$29 million compared to P\$33 million in 2015.

(ii) Regarding the deferred tax, in 2016 and 2015, the Fixed Segment recorded a deferred tax gain of P\$49 million and P\$25 million, respectively; Personal recorded a deferred tax gain of P\$80 million and a deferred tax loss of P\$112 million (mainly due to an increase in allowance for doubtful accounts) in 2016 and 2015, respectively; and Núcleo generated a P\$18 million gain in 2015.

(iii) Telecom Argentina filed actions for recourse with the AFIP in 2015 and 2016 to claim the full tax overpaid. The income tax determined in excess qualifies as a tax credit in compliance with IAS 12 and the Company recorded a gain of P\$368 million and P\$98 million in 2016 and 2015, respectively. For the determination of the tax credit valuation, the Company has estimated the amount of the tax paid determined in excess for fiscal years 2009-2016 weighting the occurrence probability of certain variables according to the jurisprudential antecedents known until such date. The Company's Management will assess Tax Authority's resolutions related to actions of recourse filed so as the jurisprudence evolution in order to annually measure the tax credit recorded. See Note 14 to our Consolidated Financial Statements.

Net Income

For 2016, we recorded net income of P\$4,005 million (8% of total consolidated revenues), of which P\$3,975 million is attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P\$1,163 million, the Personal Mobile Services segment accounted for a gain of P\$2,750 million and the Núcleo Mobile Services segment accounted for a gain of P\$92 million, representing 7%, 8% and 3% of the total segment revenues, respectively including intercompany transactions.

For 2015, we recorded net income of P\$3,435 million (8% of total consolidated revenues), of which P\$3,403 million is attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P\$564 million, the Personal Mobile Services segment accounted for a gain of P\$2,774 million and the Núcleo Mobile Services segment accounted for a gain of P\$97 million, representing 4%, 10% and 6% of the total segment revenues, respectively including intercompany transactions.

Table of Contents**(A.2) 2015 Compared to 2014**

| | Years Ended December 31, | | | | Change by segment (1) | | |
|--|-----------------------------|--------------|--------------|--------------|-----------------------|--------------------------------|------------------------------|
| | 2015 | 2014 | Total Change | | Fixed Services | Personal Mobile Services | Núcleo Mobile Services |
| | (P\$million) | | % | | (P\$million) | | |
| Revenues | 40,496 | 33,341 | 21 | 7,155 | 2,177 | 4,850 | 128 |
| Other Income | 44 | 47 | (6) | (3) | 13 | (16) | - |
| Operating expenses (without depreciation and amortization) | (29,674) | (24,686) | 20 | (4,988) | (1,814) | (3,031) | (143) |
| Operating income before depreciation and amortization (2) | 10,866 | 8,702 | 25 | 2,164 | 376 | 1,803 | (15) |
| Depreciation and amortization | (4,438) | (3,243) | 37 | (1,195) | (296) | (870) | (29) |
| Gain on disposal of PP&E and impairment of PP&E | (199) | (16) | n/a | (183) | (100) | (84) | 1 |
| Operating income | 6,229 | 5,443 | 14 | 786 | (20) | 849 | (43) |
| Financial results, net | (1,102) | 253 | n/a | (1,355) | (471) | (841) | (43) |
| Income tax expense | (1,692) | (1,967) | (14) | 275 | 248 | 20 | 7 |
| Net income | 3,435 | 3,729 | (8) | (294) | (243) | 28 | (79) |
| Net income attributable to: | | | | | | | |
| <i>Telecom Argentina (Controlling Company)</i> | 3,403 | 3,673 | (7) | (270) | | | |
| <i>Noncontrolling interest</i> | 32 | 56 | (43) | (24) | | | |

(1) Includes the effect of eliminations of Intersegment transactions.

(2) Although it is not specifically defined, this is a permitted measure under IFRS.

Revenues

| | Years Ended December 31, | | | | Change by segment (1) | | |
|-------------------------|-----------------------------|---------------|--------------|--------------|-----------------------|--------------------------------|------------------------------|
| | 2015 | 2014 | Total Change | | Fixed Services | Personal Mobile Services | Núcleo Mobile Services |
| | (P\$million) | | % | | (P\$million) | | |
| Voice | 13,854 | 11,766 | 18 | 2,088 | 557 | 1,565 | (34) |
| Data | 9,249 | 9,467 | (2) | (218) | 310 | (510) | (18) |
| Internet | 11,377 | 7,045 | 61 | 4,332 | 1,302 | 2,919 | 111 |
| Service Revenues | 34,480 | 28,278 | 22 | 6,202 | 2,169 | 3,974 | 59 |
| Equipment (2) | 6,016 | 5,063 | 19 | 953 | 8 | 876 | 69 |
| Revenues | 40,496 | 33,341 | 21 | 7,155 | 2,177 | 4,850 | 128 |

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- (1) Net of the Intersegment revenues effect.
- (2) This item is composed of voice, data and Internet equipment in each year.

During 2015, total consolidated revenues increased by 21% to P\$40,496 million from P\$33,341 million in 2014, mainly driven by our mobile, Broadband and data transmission businesses.

Consolidated revenues for 2015 and 2014 are comprised as follows:

Voice

Revenues from voice services increased 18% to P\$13,854 million in 2015 from P\$11,766 million in 2014. Revenues from voice services represented 34% of our total consolidated revenues for 2015 compared to 35% of our total consolidated revenues for 2014.

Fixed services

Revenues from voice services represented 40% of our total Fixed Services segment revenues attributable to third parties for 2015 compared to 44% for 2014.

Voice services mainly include revenues from monthly basic charges, charges for supplementary services, measured service (national and international calls) and public telephone service. Charges for supplementary services include call waiting, call forwarding, three-way calling, caller ID, direct inwards dialing, toll-free service and voicemail, among others. Measured service charges are based on the number

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and duration of calls. Measured service revenues depend on the number of lines in service, the volume of usage, the number of new lines installed and applicable rates. They also include interconnection services (which primarily include Access, termination and long-distance transport of calls), international long-distance service (which reflect payments made under bilateral agreements between Telecom Argentina and foreign telecommunications carriers covering inbound international long-distance calls) and revenues related to billing and collection services charged to other operators.

Revenues from voice-retail increased 16% to P\$3,304 million and were affected by the freezing of regulated rates in early 2002. Revenues from regulated rate services represented 26% of our total segment revenues in 2015 compared with 28% in 2014.

Monthly basic charges and supplementary services increased P\$203 million or 17% to P\$1,406 million in 2015 from P\$1,203 million in 2014. Such growth was mainly due to an increase of their prices (mainly due to an increase in monthly basic prices in the Business Segment of approximately 55% and an average increase of 14% in the prices of supplementary services).

Measured service charges increased 17% to P\$1,800 million in 2015 from P\$1,541 million in 2014. The increase was mainly due to the increase in plans prices (both in local and national long - distance), while customers remain stable.

Voice-wholesale revenues (including fixed and mobile interconnection revenues, together with the revenues generated by the subsidiary Telecom Argentina USA amounting to P\$151 million) amounted to P\$1,035 million in 2015 (+11% vs. 2014). Interconnection services reached P\$689 million in 2015, an increase of P\$68 million or 11% vs. 2014. Other wholesale revenues reached P\$346 million in 2015, an increase of P\$38 million or 12% compared to 2014. The increase was mainly due to higher prices related to cell sites rentals due to the variation of the P\$/US\$ exchange rate.

Personal Mobile services

Revenues from voice services represented 32% of our total Personal Mobile Services segment revenues attributable to third parties for 2015 compared to 31% for 2014.

Voice services mainly include revenues from monthly basic charges, airtime usage charges and roaming charges to our customers for their use of our and other carriers' networks, CPP, TLRD and roaming charges to other mobile service providers whose customers use our network.

Voice-retail revenues reached P\$6,964 million in 2015 (+31% vs. 2014). The increase was mainly due to the increase in monthly charges prices for the post-paid and *Cuentas Claras* subscribers (+30% vs. 2014) and prepaid

services (+22% vs. 2014), and because of the positive variation of the subscribers base in *Cuentas Claras* (+5.6% vs. 2014).

Voice-wholesale revenues to third parties reached P\$1,884 million in 2015 (-4% vs. 2014). The decrease was mainly due to the decrease in interconnection traffic (TLRD and CPP).

In *Núcleo Mobile Services segment*, voice revenues decreased 5% to P\$667 million in 2015 compared to P\$701 million in 2014.

Data and Internet

Revenues from data and Internet services increased 25% to P\$20,626 million in 2015 from P\$16,512 million in 2014. Revenues from data and Internet represented 51% of our total consolidated revenues for 2015 compared to 50% of our total consolidated revenues for 2014.

In the Mobile Services segments, data and Internet services mainly include SMS, contents via SMS, MMS, Browsing and Internet. Revenues from data and Internet in the Personal Mobile segment increased 22% to P\$13,410 million in 2015 from P\$11,001 million in 2014.

As a consequence of the increase in the usage of VAS (Internet and data), the ARPU increased to P\$91.5 per month in 2015 (vs. P\$74.2 per month in 2014) in the Personal Mobile Segment.

Data

Revenues from data services in the Fixed segment increased 21% to P\$1,780 million in 2015 from P\$1,470 million in 2014. These revenues were generated focusing on the Company's position as an integrated ICT provider (Datacenter, VPN, among others) for wholesale and government segments. The increase was primarily due to higher prices of these services related to the variation of the P\$/US\$ exchange rate (mainly due to an increase in prices of the product Integra of 16% vs. 2014 and in prices of VPN-IP services of +34% vs. 2014) and to the increase in the number of customers of *Innovation* services (mainly due to an increase in the number of customers of Integra of 8% vs. 2014 and in the number of customers of VPN-IP services of 0.2% vs. 2014).

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Mobile data revenues reached P\$7,469 million (-7% vs. 2014). The decrease was due to lower revenues from the principal item of VAS revenues, SMS consumption in Personal Mobile Services Segment, which decreased 15%. Notwithstanding, this effect was partially offset with a constant increase of the SMS with content sales, as a result of several campaigns launched by Personal (where its inter-annual variation amounted to +P\$192 million or +7%).

Internet

Internet revenues in the Fixed segment increased 40% to P\$4,556 million in 2015 from P\$3,254 million in 2014. The increase was mainly due to the substantial expansion of the Broadband service (+2% of access lines vs. 2014), and an increase in average prices resulting in an improvement in the ARPU amounted to P\$207 per month in 2015 vs. P\$153 per month in 2014. As of December 31, 2015 the number of Internet accesses reached approximately 1.8 million equivalent to 45% of fixed lines in service of Telecom Argentina (vs. 43% in 2014), compared to approximately 1.8 million as of December 31, 2014.

Mobile Internet revenues in the Personal Mobile segment increased 88% to P\$6,254 million in 2015 from P\$3,335 million in 2014. This increase is mainly explained by the increase in browsing services consumption of Personal's subscribers, which was mainly fueled by the increase in the offer of services, plans and packs (including VAS) launched by Personal. This growth was fueled by new subscribers, the migration of existing ones to higher-value plans and the increase in subscribers that acquired 3G and 4G handsets, which facilitate Internet browsing.

Equipment

Revenues from equipment increased by 19% to P\$6,016 million in 2015 from P\$5,063 million in 2014. The Personal Mobile Services segment shows an increase of P\$876 million vs. 2014 due to an increase in handset's average sale price (+56% vs. 2014), with a decrease in handset units sold (-23% vs. 2014), resulting in a higher operating margin. Núcleo Mobile Services segment reached an increase of P\$69 million (+77% vs. 2014) due to higher sales of handset units and an increase in handset's average sale prices.

Other Income

Other income mainly includes penalties and indemnities collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided. During 2015, other income decreased 6% to P\$44 million from P\$47 million in 2014.

Operating expenses (without depreciation and amortization)

Total operating expenses (without depreciation and amortization and gain on disposal and impairment of PP&E) increased by P\$4,988 million totaling P\$29,674 million in 2015, representing a 20% increase as compared to 2014.

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| | Years Ended | | Change by segment (1) | | | | |
|---|---------------|---------------|-----------------------|--------------|--------------|--------------|------------|
| | December 31, | | Total Change | | Fixed | Personal | Núcleo |
| | 2015 | 2014 | | | | | |
| | (P\$million) | | % | (P\$million) | Services | Services | Services |
| Employee benefit expenses and severance payments | 7,253 | 5,591 | 30 | 1,662 | 1,247 | 404 | 11 |
| Interconnection costs and other telecommunications charges | 2,170 | 2,074 | 5 | 96 | 41 | 89 | (34) |
| Fees for services, maintenance, materials and supplies | 3,919 | 3,333 | 18 | 586 | 352 | 219 | 15 |
| Taxes and fees with the Regulatory Authority | 3,943 | 3,297 | 20 | 646 | 95 | 544 | 7 |
| Commissions | 3,193 | 2,494 | 28 | 699 | 58 | 598 | 43 |
| Cost of equipment and handsets | 4,595 | 4,143 | 11 | 452 | 10 | 369 | 73 |
| Advertising | 814 | 792 | 3 | 22 | (43) | 65 | - |
| Cost of VAS | 1,256 | 936 | 34 | 320 | 22 | 280 | 18 |
| Provisions | 113 | 84 | 35 | 29 | (98) | 127 | - |
| Bad-debt expense | 564 | 424 | 33 | 140 | (10) | 147 | 3 |
| Other operating expense | 1,854 | 1,518 | 22 | 336 | 140 | 189 | 7 |
| Total operating expenses (without depreciation and amortization) | 29,674 | 24,686 | 20 | 4,988 | 1,814 | 3,031 | 143 |

(1) Net of the Intersegment transactions effect.

Employee benefit expenses and severance payments

During 2015, employee benefit expenses and severance payments were P\$7,253 million, representing a 30% increase from 2014. This was primarily due to salary increases that Telecom implemented across all segments with several trade unions with respect to the unionized employees and also to non-unionized employees, together with related social security charges.

With a total headcount of 16,224 at the end of 2015 (-1% vs. 2014), lines in service per employee reached 371 in the Fixed Services segment (slightly higher than 2014), 4,005 in the Personal mobile services segment (+1% vs. 2014) and 6,225 in the Núcleo mobile services segment (+1% vs. 2014).

Interconnection costs and other telecommunications charges

Interconnection costs and other telecommunication charges (including charges for TLRD, Roaming, Interconnection costs, cost of international outbound calls and lease of circuits) amounted to P\$2,170 million in 2015 compared with P\$2,074 million in 2014. The increase was mainly due to higher TLRD costs (an increase of 23% in traffic minutes and an increase of 15% in prices vs. 2014).

Fees for services, maintenance, materials and supplies

Expenses related to fees for services, maintenance, materials and supplies increased 18% to P\$3,919 million in 2015 from P\$3,333 million in 2014. Maintenance, material and supplies costs increased 11% vs. 2014 (including obsolescence of inventories) and fees for services increased 24% vs. 2014. The increase was mainly due to higher maintenance costs of network, systems and buildings mainly due to higher costs recognized to suppliers and, as a result of the variation in the P\$/US\$ exchange rate. Also there was an increase in services, principally Call Center services, because of more calls attended (an increase of P\$156 million vs. 2014).

Taxes and fees with the Regulatory Authority

Taxes and fees with the Regulatory Authority (including turnover tax, tax on deposits and withdrawals from bank accounts, municipal and other taxes) increased 20% to P\$3,943 million in 2015 from P\$3,297 million in 2014, influenced mainly by the increase in revenues of fixed and mobile services and by the increase of equipment revenues in Argentina.

Commissions

Commissions (including agent, distribution of prepaid cards and other commissions) increased 28%, to P\$3,193 million in 2015 from P\$2,494 million in 2014. The increase was mainly due to the increase in agents commissions (associated with higher revenues) as a result of higher customer acquisition and retention costs recognized to them and outsourced sales commissions and collection commissions, especially in relation to equipment revenues and prepaid cards recharge.

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Commissions are net of agents' commissions capitalized as SAC, which totaled P\$1,172 million (+P\$259 million or 28% vs. 2014), and it is directly related to the increase in the *Cuentas Claras* subscribers' base mainly in the Personal Mobile Services segment and the increase in the commissions prices.

Cost of equipment and handsets

During 2015, the cost of equipment and handsets increased to P\$4,595 million from P\$4,143 million in 2014, mainly due to an increase in the average unit cost of sales (+40% vs. 2014) partially offset by a decrease in the units of handsets sold (-23% vs. 2014).

Cost of equipment and handsets are net of handset costs capitalized as SAC, P\$93 million in 2015, P\$10 million or 10% lower than 2014, because of the reduction in subsidies in the Personal Mobile Services segment.

Advertising

Costs related to advertising increased by P\$22 million, or 3%, to P\$814 million in 2015, mainly due to higher commercial campaigns of Personal related to the launching of the 4G services throughout the country as compared to 2014, especially those related to the new slogan *Hagamos que todo suceda* (*Let's make it all happen*).

Cost of VAS

Cost of VAS amounted to P\$1,256 million (+P\$320 million vs. 2014), mainly due to the increase of VAS sales in the Personal Mobile Services segment (mainly the Contents via SMS service) as a consequence of several campaigns launched by Personal

Provisions

During 2015, we recorded P\$113 million in provisions compared to P\$84 million recorded in 2014, representing a 35% increase. The increase was mainly due to higher civil and commercial claims (+P\$27 million vs. 2014). See Note 17 to our Consolidated Financial Statements for more information.

Bad debt expense

In 2015, bad debt expense amounted to P\$564 million, an increase of 33% as compared to 2014, representing 1.4% and 1.3% of consolidated revenues in 2015 and 2014, respectively. The major increase is observed in the Personal Mobile Services segment as a consequence of higher aging of the accounts receivables and higher incidence of handset sales directly financed by Personal to its post-paid and *Cuentas Claras* subscribers.

Other Operating Expenses

Other operating expenses, which include transportation costs, energy and rentals, among others, increased 22% to P\$1,854 million in 2015 from P\$1,518 million in 2014 primarily as a result of higher prices on related services, especially in transportation, freight and travel expenses, net of SAC (+P\$183 million or 37% vs. 2014); and the increase of rent prices (+P\$138 million or 34% vs. 2014), as a result of new agreements and the renegotiation of some of the existing ones.

For a further breakdown of our consolidated operating expenses, see Results of Operations by Segment below.

Operating income before depreciation and amortization

Our consolidated operating income before depreciation and amortization was P\$10,866 million in 2015, (representing an increase of P\$2,164 million or 25% from P\$8,702 million in 2014). It represented 27% and 26% of total consolidated revenues, respectively. This growth was mainly fueled by the Fixed Services segment (+P\$418 million or +20% vs. 2014) and Personal Mobile Services segment (+P\$1,756 million or 29% vs. 2014).

Depreciation and Amortization

Depreciation of PP&E and amortization of intangible assets increased by P\$1,195 million, or 37% vs. 2014, to P\$4,438 million during 2015. The increase was mainly due to the increase in PP&E depreciation of P\$657 million and the increase in the amortization of other intangible assets of P\$304 million (mainly due to 3G/4G licenses, which started their amortization in December 2014 and June 2015), and the increase in the amortization of SAC and Service connection costs of P\$234 million.

Table of Contents**Gain on disposal of PP&E and impairment of PP&E**

Gain on disposal of PP&E amounted to P\$31 million in 2015 and the impairment loss of PP&E amounted to P\$230 million related to projects of Telecom Argentina of P\$116 million (P\$107 million related to AFA Plus Project), and Telecom Personal of P\$114 million (Telecom Personal has assessed the recoverability of a group of former work in progress, recording an impairment of P\$44 million equivalent to its book value and an impairment of P\$49 million related to the total amount of works related to the discontinuation of the Orga Gold IT project and recorded an impairment of P\$21 million related to the mobile access modernization for the introduction of 4G technology).

Gain on disposal of PP&E amounted to P\$9 million in 2014 and the impairment loss of PP&E amounted to P\$25 million (an impairment loss of PP&E for a total amount of P\$61 million relating to certain work in progress recorded in PP&E, and a partial reversal amounting to P\$36 million of the impairment loss recorded in 2013 relating to certain projects entered into by Telecom Argentina and the private sector).

Operating income

During 2015, consolidated operating income was P\$6,229 million, representing an increase of P\$786 million or 14% from 2014. Operating income represented 15% of consolidated revenues in 2015 versus 16% in 2014.

| | Years Ended December 31, | | % of Change 2015-2014 Increase/(Decrease) |
|--|--------------------------|--------------|---|
| | 2015 | 2014 | |
| | (P\$million / %) | | |
| Operating income before depreciation and amortization (1) | 10,866 | 8,702 | 25 |
| <i>As % of revenues</i> | <i>27</i> | <i>26</i> | |
| Depreciation and amortization | (4,438) | (3,243) | 37 |
| <i>As % of revenues</i> | <i>(11)</i> | <i>(10)</i> | |
| Gain on disposal of PP&E and impairment of PP&E | (199) | (16) | n/a |
| Operating income | 6,229 | 5,443 | 14 |
| <i>As % of revenues</i> | <i>15</i> | <i>16</i> | |

(1) Although it is not specifically defined, this is a permitted measure under IFRS.

Financial results, net

During 2015, Telecom recorded a net financial loss of P\$1,102 million compared to a net financial gain of P\$253 million in 2014. This net loss is related to the net financial position, which turned into a net financial debt in 2015 as a consequence of the Group's

higher investments. The variation is mainly due to higher foreign currency exchange losses net of NDF agreement of P\$865 million mainly due to the devaluation of local currency in December 2015 and higher interest on loans of P\$536 million, partially offset by higher interest on time deposits and other investments of P\$53 million.

Income tax expense

Income tax expense amounted to P\$1,692 million, and P\$1,967 million in 2015 and 2014, respectively.

The Company's income tax charge includes four effects: (i) the current tax payable for the year pursuant to tax legislation applicable to each company in the Telecom Group; (ii) the effect of applying the deferred tax method on temporary differences arising out of the asset and liability valuation according to tax versus financial accounting criteria; (iii) the analysis of recoverability of deferred tax assets; and (iv) the action for recourse filed by Telecom Argentina claiming overpaid for income tax with respect to fiscal year 2009.

(i) Regarding current tax expenses, Telecom Argentina, Telecom Argentina USA, Personal and Núcleo generated tax profit in fiscal year 2015, resulting in an income tax payable of P\$1,721 million versus P\$1,749 million in 2014. Fixed Segment income tax expense in 2015 amounted to P\$278 million as compared to P\$422 million in 2014; Personal's tax expense, in 2015, amounted to P\$1,410 million compared to P\$1,302 million in 2014; and Núcleo's tax expense, in 2015, amounted to P\$33 million compared to P\$25 million in 2014.

(ii) Regarding the deferred tax, in 2015 and 2014, the Fixed Segment recorded a deferred tax benefit of P\$25 million and P\$19 million, respectively; Personal recorded a deferred tax expense of P\$112 million and P\$267 million (mainly due to an increase in deferred tax liabilities of Fixed Assets and the deduction of deferred tax assets related to investments in bonds) in 2015 and 2014, respectively; and Núcleo generated a P\$18 million and P\$3 million gain in 2015 and 2014, totaling P\$69 million and P\$245 million expense of deferred tax in 2015 and 2014, respectively.

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(iii) Regarding the analysis of recoverability of deferred tax assets, Personal recorded a recovery of the valuation allowance for deferred tax assets of P\$27 million in 2014, while no charges were recorded for Telecom Argentina, Telecom Argentina USA and Núcleo in such year.

(iv) In December 2015, Telecom Argentina filed an action for recourse claiming P\$98 million of overpaid income tax in 2009, recording a non-current tax receivable. See Note 14 to our Consolidated Financial Statements.

Net Income

For 2015, we recorded net income of P\$3,435 million (8% of total consolidated revenues), of which P\$3,403 million is attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P\$564 million, the Personal Mobile Services segment accounted for a gain of P\$2,774 million and the Núcleo Mobile Services segment accounted for a gain of P\$97 million, representing 4%, 10% and 6% of the total segment revenues, respectively including intercompany transactions.

For 2014, we recorded net income of P\$3,729 million (11% of total consolidated revenues), of which P\$3,673 million is attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P\$742 million, the Personal Mobile Services segment accounted for a gain of P\$2,816 million and the Núcleo Mobile Services segment accounted for a gain of P\$171 million, representing 7%, 12% and 11% of the total segment revenues, respectively including intercompany transactions.

Table of Contents**(B) Results of Operations by Segment****(B.1) Fixed Services Segment**

Results of operations for our Fixed Services segment for 2016, 2015 and 2014 are comprised as follows:

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|-----------------------|--------------|----------------------------------|-------------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Revenues (1) | 16,942 | 12,554 | 10,320 | 35 | 22 |
| Other Income (2) | 85 | 55 | 37 | 55 | 49 |
| Operating expenses (without depreciation and amortization) | (13,758) | (10,100) | (8,266) | 36 | 22 |
| Operating income before depreciation and amortization (3) | 3,269 | 2,509 | 2,091 | 30 | 20 |
| Depreciation and amortization | (1,897) | (1,526) | (1,230) | 24 | 24 |
| Impairment of PP&E | 1 | (91) | 9 | n/a | n/a |
| Operating income | 1,373 | 892 | 870 | 54 | 3 |
| Financial results, net (4) | (151) | (173) | 275 | (13) | n/a |
| Income tax expense | (59) | (155) | (403) | (62) | (62) |
| Net income | 1,163 | 564 | 742 | 106 | (24) |

(1) Includes intersegment revenues of P\$1,928 million, P\$1,818 million, and P\$1,761 million in 2016, 2015 and 2014, respectively.

(2) Includes intersegment other income of P\$19 million, P\$16 million and P\$11 million in 2016, 2015 and 2014, respectively.

(3) Although it is not specifically defined, this is a permitted measure under IFRS.

(4) Includes intersegment financial income of P\$77 million, P\$90 million and P\$67 million in 2016, 2015 and 2014, respectively.

Revenues

During 2016, revenues from our Fixed Services segment increased by 35% to P\$16,942 million from P\$12,554 million in 2015. During 2015, revenues from our Fixed Services segment increased by 22% to P\$12,554 million from P\$10,320 million in 2014. The increase in each year was mainly due to an increase in data and Internet services. Also in 2016 Voice Sales have a substantial increase, in particular, due to the monthly charges to commercial customers since 2015 and to residential customers since

May 2016.

Revenues from our Fixed Services segment for 2016, 2015 and 2014 are comprised as follows:

| | Years Ended December 31, | | | % of Change | |
|--------------------------------------|--------------------------|-----------------------|---------------|----------------------------------|----------------------------------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 Increase/(Decrease) |
| Voice-retail | 4,654 | 3,304 | 2,853 | 41 | 16 |
| Voice-wholesale | 1,356 | 1,035 | 929 | 31 | 11 |
| Data | 2,919 | 1,780 | 1,470 | 64 | 21 |
| Internet | 5,994 | 4,556 | 3,254 | 32 | 40 |
| Service Revenues | 14,923 | 10,675 | 8,506 | 40 | 25 |
| Equipment (1) | 91 | 61 | 53 | 49 | 15 |
| Subtotal third party revenues | 15,014 | 10,736 | 8,559 | 40 | 25 |
| Intersegment | 1,928 | 1,818 | 1,761 | 6 | 3 |
| Total Fixed Services revenues | 16,942 | 12,554 | 10,320 | 35 | 22 |

(1) This item is composed of voice, data and Internet equipment in each year.

Voice-retail

Revenues from voice-retail represented 27% of our total segment revenues for 2016 compared to 26% of our total segment revenues for 2015 and 28% of our total segment revenues for 2014. Revenues from voice-retail increased 41% to P\$4,654 million in 2016 from P\$3,304 million in 2015 and increased 16% in 2015 from P\$2,853 million in 2014.

Voice-retail mainly includes revenues from monthly basic charges (which differ for residential, professional and commercial customers), charges for supplementary services, measured service (national

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and international calls) and public telephone service. Charges for supplementary services include call-waiting, call-forwarding, three-way calling, caller ID, direct inwards dialing, toll-free service and voicemail, among others. Measured service charges are based on the number and duration of calls. Measured service revenues depend on the number of lines in service, the volume of usage, the number of new lines installed and applicable rates. Most of our customers are billed monthly.

Monthly basic charges increased 76% to P\$2,480 million in 2016 from P\$1,406 million in 2015 and increased 17% from P\$1,203 million in 2014. Such growth is mainly due to an increase of residential monthly basic charges prices since May 2016 and an increase of supplementary services mainly due to an increase in their prices.

Measured service charges increased 15% to P\$2,073 million in 2016 from P\$1,800 million in 2015 and increased 17% in 2015 from P\$1,541 million in 2014. The increase in both 2016 and 2015 was mainly due to the increase in plans prices (both in local and national long - distance).

Voice-wholesale

Revenues from voice-wholesale represented 8% of our total segment revenues for 2016 compared to 8% in 2015 and 9% in 2014. Revenues from voice-wholesale increased 31% to P\$1,356 million in 2016 from P\$1,035 million in 2015 and increased 11% from P\$929 million in 2014.

Voice-wholesale mainly includes interconnection services (which primarily include Access, termination and long-distance transport of calls), international long-distance services (which reflect payments made under bilateral agreements between Telecom Argentina and foreign telecommunications carriers covering inbound international long-distance calls) and revenues related to billing and collection services charged to other operators.

Interconnection services increased 23% to P\$845 million in 2016 from P\$689 million in 2015 and increased 11% in 2015 from P\$621 million in 2014.

Data and Internet

Revenues from data and Internet represented 53% of our total segment revenues in 2016 compared to 50% and 46% in 2015 and 2014, respectively. Revenues from data and Internet services increased 41% to P\$8,913 million in 2016 from P\$6,336 million in 2015 and increased 34% in 2015 from P\$4,724 million in 2014.

Data

Revenues from data services increased 64% to P\$2,919 million in 2016 from P\$1,780 million in 2015 and increased 21% in 2015 from P\$1,470 million in 2014. These revenues were generated focusing on Telecom Argentina's position as an integrated ICT provider (Datacenter, VPN, among others) for wholesale and government segments. The increase was primarily due to higher prices of these services related to the variation of the P\$/US\$ exchange rate and to the increase in the number of customers of *Innovation* services.

Internet

Revenues from Internet increased 32% to P\$5,994 million in 2016 from P\$4,556 million in 2015 and increased 40% in 2015 from P\$3,254 million in 2014. The increases were mainly due to the increase in average prices. ARPU amounted to P\$270.9 per month in 2016 vs. P\$207.4 per month in 2015. As of December 31, 2016, the number of Internet accesses decreased by approximately 4% to 1.74 million (of which 1,298,000 correspond to +3Mb access vs. 1,010,000 in 2015) from 1.81 million as of December 31, 2015 and increased approximately 2% from 1.77 million as of December 31, 2014.

Equipment

Revenues from equipment amounted to P\$91 million in 2016 compared to P\$61 million in 2015 and P\$53 million in 2014. Equipment revenues include revenues on construction contracts recognized in 2014 that amounted to P\$7 million.

Intersegment

Intersegment revenues mainly includes interconnection services, which primarily include Access, termination and transportation of calls, leases of circuits, revenues related to billing and collection services charged.

During 2016, our intersegment revenues increased 6% to P\$1,928 million from P\$1,818 million in 2015 which increased 3% from P\$1,761 million in 2014. The intersegment revenues are eliminated at the consolidated level.

Table of Contents**Other Income**

Other income mainly includes penalties and indemnities collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided and gains on disposal of PP&E since 2016. During 2016, other income increased 55% to P\$85 million from P\$55 million in 2015. During 2015, other income increased 49% from P\$37 million in 2014.

Operating Expenses (without depreciation and amortization)

During 2016, total operating expenses (without depreciation and amortization) for the Fixed Services segment increased 36% to P\$13,758 million from P\$10,100 million in 2015 and increased 22% from P\$8,266 million in 2014. The increases were mainly due to increases in employee benefit expenses and severance payments, fees for services, maintenance, materials and supplies and taxes and fees with the Regulatory Authority.

Detailed below are the major components of our operating expenses for the years ended December 31, 2016, 2015 and 2014 related to our Fixed Services segment:

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|---------------|--------------|---------------------|-----------|
| | 2016 | 2015 | 2014 | 2016-2015 | 2015-2014 |
| | (P\$ million) | | | Increase/(Decrease) | |
| Employee benefit expenses and severance payments | 7,220 | 5,268 | 4,021 | 37 | 31 |
| Interconnection costs and other telecommunications charges | 961 | 719 | 676 | 34 | 6 |
| Fees for services, maintenance, materials and supplies | 2,311 | 1,769 | 1,402 | 31 | 26 |
| Taxes and fees with the Regulatory Authority | 1,118 | 818 | 723 | 37 | 13 |
| Commissions | 327 | 268 | 210 | 22 | 28 |
| Cost of equipment | 136 | 82 | 72 | 66 | 14 |
| Advertising | 126 | 108 | 151 | 17 | (28) |
| Cost of VAS | 53 | 38 | 16 | 39 | 138 |
| Provisions | 78 | 17 | 115 | 359 | (85) |
| Bad debt expenses | 152 | 79 | 89 | 92 | (11) |
| Other operating expenses | 1,276 | 934 | 791 | 37 | 18 |
| Total Fixed Services (1) | 13,758 | 10,100 | 8,266 | 36 | 22 |

(1) Includes intersegment cost of P\$158 million, P\$137 million and P\$117 million in 2016, 2015 and 2014, respectively. These costs are eliminated at the consolidated level.

Employee benefit expenses and severance payments

During 2016, employee benefit expenses and charges for severance payments were approximately P\$7,220 million, representing a 37% increase from P\$5,268 million in 2015. In 2015, employee benefit expenses and charges for severance payments increased 31% from P\$4,021 million in 2014. The increases were mainly due to salary increases that Telecom implemented with several trade unions with respect to the unionized employees and also to non-unionized employees, together with related social security charges. The Fixed Services segment had 10,901, 10,903 and 11,056 employees as of December 31, 2016, 2015 and 2014, respectively.

Interconnection costs and other telecommunications charges

Interconnection costs and other telecommunications charges includes interconnection costs, lease of circuits and costs of international outbound calls, which reflect payments made under bilateral agreements between Telecom Argentina and international carriers in connection with outgoing calls made by our customers. Interconnection costs and other telecommunications charges included intersegment costs of P\$103 million, P\$96 million and P\$94 million in 2016, 2015 and 2014, respectively, that are eliminated at the consolidated level.

In 2016 interconnection costs and other telecommunications charges amounted to P\$961 million, representing an increase of 34% from P\$719 million in 2015. In 2015 increased 6% from P\$676 million in 2014.

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Fees for services, maintenance, materials and supplies

During 2016, fees for services, maintenance, materials and supplies increased 31% to P\$2,311 million from P\$1,769 million in 2015 and increased 26% from P\$1,402 million in 2014.

The increase was mainly due to higher maintenance costs of network, systems and buildings and to higher costs recognized to suppliers, mainly as a result of the variation in the P\$/US\$ exchange rate.

Fees for services, maintenance, materials and supplies are net of service connection fees capitalized (P\$55 million, P\$50 million and P\$37 million in 2016, 2015 and 2014, respectively).

Fees for services, maintenance, materials and supplies expenses included intersegment costs of P\$35 million, P\$25 million and P\$10 million in 2016, 2015 and 2014, respectively that are eliminated at the consolidated level.

Taxes and fees with the Regulatory Authority

Expenses related to taxes and fees with the Regulatory Authority increased 37% to P\$1,118 million in 2016 from P\$818 million in 2015 and increased 13% in 2015 from P\$723 million in 2014. The increase in 2016 and 2015 was mainly due to the increase in revenues. Also, in 2016, the increase in tax is due to higher tax on deposits and withdrawals from bank accounts related to higher collections and payments to suppliers.

Commissions

During 2016, costs related to commissions amounted to approximately P\$327 million, representing an increase of 22% as compared to P\$268 million in 2015. In 2015, these charges increased 28% from P\$210 million in 2014. The increase during both years was mainly due to the increase in agents commissions (associated with higher revenues) and the increase of collection commissions.

Cost of equipment

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During 2016, 2015 and 2014 we recorded P\$136 million, P\$82 million and P\$72 million in cost of equipment, respectively. Cost of equipment includes P\$6 million related to equipment construction contract costs in 2014.

Advertising

During 2016, we recorded P\$126 million in costs of advertising representing an increase of 17% as compared to P\$108 million recorded in 2015. In 2015, these charges decreased 28% from P\$151 million in 2014. Telecom Argentina continued its advertising campaigns as a result of competition in the Internet services market.

Cost of VAS

Cost of VAS increased to P\$53 million in 2016 from P\$38 million in 2015 and P\$16 million in 2014.

Provisions

During 2016, we recorded P\$78 million in provisions compared to P\$17 million recorded in 2015 and P\$115 million recorded in 2014. The increase in 2016 was mainly due to higher labor claims for approximately P\$53 million. The decrease in 2015 was mainly due to lower regulatory and tax claims for approximately P\$75 million.

Bad debt expenses

In 2016, bad debt expenses amounted to P\$152 million, P\$79 million in 2015 and P\$89 million in 2014. In 2016 these charges increased 92%. In 2015 these charges decreased 11%. The increase in 2016 was mainly due to higher aging of accounts receivables.

Other Operating Expenses

Other operating expenses include accrued expenses such as transportation costs, insurance, international and satellite connectivity, energy and rentals.

During 2016, our other operating expenses amounted to P\$1,276 million compared to P\$934 million in 2015 and P\$791 million in 2014. The increase in 2016 was mainly due to higher prices on related services, especially in transportation, freight and travel expenses; the increase of rent prices, as a result of new agreements and the renegotiation of some of the existing ones and an increase in the energy consumption. The increase in 2015 was primarily due to the increase in prices of transportation, freight, energy, water and others to

provide Telecom Argentina s services and rental expenses.

Table of Contents**Operating Income before depreciation and amortization**

Our operating income before depreciation and amortization from the Fixed Services segment was P\$3,269 million in 2016, P\$2,509 million in 2015 and P\$2,091 million in 2014, representing 19%, 20% and 20% of total segment revenues, respectively. The increase in each year was mainly due to higher growth in revenues, partially offset by increases in operating costs (before depreciation and amortization).

Depreciation and amortization

Depreciation and amortization expenses were P\$1,897 million in 2016, P\$1,526 million in 2015 and P\$1,230 million in 2014. The increase was mainly due to assets acquired and transferred during 2016 and 2015, partially offset by a reduction in the level of depreciation due to the end of the useful life of certain assets.

Impairment of PP&E

Impairment of PP&E amounted to P\$1 million gain in 2016 and P\$116 million loss in 2015 mainly due to the AFA Plus project..

Operating Income

Operating income represented 8%, 7% and 8% of total segment revenues in 2016, 2015 and 2014, respectively. In 2016, the operating income from our Fixed Services segment increased 54% to P\$1,373 million from P\$892 million in 2015. In 2015, the operating income from our Fixed Services segment increased 3% from P\$870 million in 2014.

The following table shows our operating income from the Fixed Services segment in 2016, 2015 and 2014 and its percentage of revenues in each year.

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|--------------|--------------|-----------------------|-----------|
| | 2016 | 2015 | 2014 | 2016-2015 | 2015-2014 |
| | (P\$ million / %) | | | Increase / (Decrease) | |
| Operating income before depreciation and amortization (1) | 3,269 | 2,509 | 2,091 | 30 | 20 |
| <i>As % of revenues</i> | <i>19</i> | <i>20</i> | <i>20</i> | | |

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| | | | | | |
|-------------------------------|--------------|-------------|-------------|-----------|----------|
| Depreciation and amortization | (1,897) | (1,526) | (1,230) | 24 | 24 |
| <i>As % of revenues</i> | <i>(11)</i> | <i>(12)</i> | <i>(12)</i> | | |
| (Impairment of PP&E) | 1 | (91) | 9 | n/a | n/a |
| Operating income | 1,373 | 892 | 870 | 54 | 3 |
| <i>As % of revenues</i> | <i>8</i> | <i>7</i> | <i>8</i> | | |

(1) Although it is not specifically defined, this is a permitted measure under IFRS.

Financial results, net

During 2016, there was a net loss of P\$151 million compared to P\$173 million loss in 2015. The decrease in the net financial loss compared to 2015 was mainly due to lower foreign currency exchange net losses (-P\$198 million), partially offset by higher interest on loans (+P\$117 million), and higher interest on provisions (+P\$61 million).

During 2015, there was a net loss of P\$173 million. The net financial loss compared to 2014 net financial income of P\$275 million was mainly due to higher foreign currency exchange net losses (+P\$470 million vs. 2014).

Income tax expense

As previously mentioned, the income tax charge includes four effects (See Years ended December 31, 2016, 2015 and 2014 (A.1) Income tax expense).

During 2016, our Fixed Services segment recorded an income tax expense of P\$59 million compared to P\$155 million in 2015 and P\$403 million in 2014. The decrease in 2016 was mainly due to the recognition of P\$368 million gain in relation to the action for recourse filed (vs. P\$98 million in 2015), partially offset by an increase in the current tax expense. The decrease in 2015 was mainly due to the decrease in our pre-tax income compared to previous year.

The income tax expense in 2016 was mainly attributable to the recognition of current income tax expense (amounting to P\$476 million), partially offset by income generated by deferred tax on temporary

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differences (amounting to P\$49 million), and by the action for recourse filed by Telecom Argentina by P\$368 million of income tax. See Note 14 to our Consolidated Financial Statements.

The income tax expense in 2015 was mainly attributable to the recognition of current income tax expense (amounting to P\$278 million), partially offset by income generated by deferred tax on temporary differences (amounting to P\$25 million), and by the action for recourse filed by Telecom Argentina claiming P\$98 million of overpaid income tax in 2009. See Note 14 to our Consolidated Financial Statements.

The income tax expense in 2014 was mainly attributable to the recognition of current income tax expense (amounting to P\$422 million), partially offset by income generated by deferred tax on temporary differences arising out of the asset and liability valuations due to tax versus financial accounting criteria (amounting to P\$19 million).

Net Income

For 2016, 2015 and 2014, the Fixed Services segment recorded net income of P\$1,163 million, P\$564 million and P\$742 million, respectively. The increase in 2016 was mainly due to an increase in our operating income, and a decrease in income tax expense, as detailed above. The decrease in 2015 was mainly due to a decrease in financial results, net partially offset by a decrease in income tax expense.

(B.2) Personal Mobile Services Segment

Results of operations from our Personal Mobile Services segment for 2016, 2015 and 2014 are comprised as follows:

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|-----------------------|--------------|----------------------------------|-----------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Revenues (1) | 35,750 | 28,198 | 23,332 | 27 | 21 |
| Other Income | 16 | 5 | 21 | 220 | (76) |
| Operating expenses (without depreciation and amortization) | (25,448) | (20,414) | (17,320) | 25 | 18 |
| Operating income before depreciation and amortization (2) | 10,318 | 7,789 | 6,033 | 32 | 29 |
| Depreciation and amortization | (3,614) | (2,520) | (1,650) | 43 | 53 |
| Impairment of PP&E | (384) | (109) | (25) | 252 | 336 |
| Operating income | 6,320 | 5,160 | 4,358 | 22 | 18 |
| Financial results, net (3) | (2,064) | (864) | - | 139 | n/a |
| Income tax expense | (1,506) | (1,522) | (1,542) | (1) | (1) |

| | | | | | |
|-------------------|--------------|--------------|--------------|------------|------------|
| Net income | 2,750 | 2,774 | 2,816 | (1) | (1) |
|-------------------|--------------|--------------|--------------|------------|------------|

(1) Includes intersegment revenues of P\$166 million, P\$144 million and P\$128 million in 2016, 2015 and 2014, respectively.

(2) Although it is not specifically defined, this is a permitted measure under IFRS.

(3) Includes intersegment financial loss of P\$77 million, P\$90 million and P\$67 million in 2016, 2015 and 2014, respectively.

Revenues

During 2016, revenues from our Personal Mobile Services segment increased by 27% to P\$35,750 million from P\$28,198 million in 2015 and increased by 21% from P\$23,332 million in 2014. The increase in each year was mainly due to the increase in prices of our services and the increase in the monthly consumption of the offered services, primarily Internet services.

An important monthly operational measure used in the Personal Mobile Services segment is ARPU, which we calculate by dividing adjusted total service revenues excluding outcollect wholesale roaming, cell site rental and reconnection fee revenues and others (divided by 12 months) by the average number of subscribers during the period. ARPU is not a measure calculated in accordance with IFRS and our measure of ARPU may not be calculated in the same manner as similarly titled measures used by other companies. In particular, certain components of service revenues are excluded from Personal's ARPU calculations presented in this Annual Report. Our Management believes that this measure is helpful in assessing the development of the subscriber base in the Personal Mobile Services segment. The following table shows the reconciliation of total service revenues to such revenues included in the ARPU calculations:

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| | Years Ended December 31, | | |
|---|--------------------------|-----------------------|---------------|
| | 2016 | 2015 (P\$ million) | 2014 |
| Total service revenues | 28,215 | 22,402 | 18,412 |
| Components of service revenues not included in the ARPU calculation: | | | |
| Outcollect wholesale roaming | (287) | (288) | (304) |
| Cell sites rental | (88) | (54) | (43) |
| Reconnection fees and others | (1,171) | (730) | (407) |
| Adjusted total service revenues included in the ARPU calculation (1) | 26,669 | 21,330 | 17,658 |
| Average number of subscribers during the year (thousands) | 19,798 | 19,436 | 19,821 |

(1) Certain components of service revenues are not included in the ARPU calculation. Includes Intersegment revenues for P\$166 million in 2016, P\$144 million in 2015 and P\$128 million in 2014.

During 2016, ARPU increased 23% to approximately P\$112.3 per customer per month compared to approximately P\$91.5 per customer per month in 2015. ARPU reached P\$74.2 per customer per month in 2014.

The total number of Personal s subscribers decreased approximately 0.7% to 19.5 million as of December 31, 2016 from 19.7 million as of December 31, 2015 and increased 0.4% from 19.6 million as of December 31, 2014. As of December 31, 2016, the subscriber base amounted to approximately 13 million prepaid subscribers (customers that made at least one recharge in the last thirteen months as of December 31, 2016), or 67% of the total subscriber base, approximately 2.3 million post-paid subscribers, or 11% of the total subscriber base and approximately 4.2 million *Cuentas Claras* plan subscribers, or 22% of the total subscriber base.

At least a 65% of prepaid customers made a recharge in the last 180 days.

Revenues from our Personal Mobile Services segment for 2016, 2015 and 2014 are comprised as follows:

| | Years Ended December 31, | | | % of Change | |
|--------------------------------------|--------------------------|-----------------------|---------------|----------------------------------|-----------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Voice-retail | 8,503 | 6,964 | 5,330 | 22 | 31 |
| Voice-wholesale | 2,078 | 1,884 | 1,953 | 10 | (4) |
| Data | 6,636 | 7,156 | 7,666 | (7) | (7) |
| Internet | 10,832 | 6,254 | 3,335 | 73 | 88 |
| Services Revenues | 28,049 | 22,258 | 18,284 | 26 | 22 |
| Equipment | 7,535 | 5,796 | 4,920 | 30 | 18 |
| Subtotal third party revenues | 35,584 | 28,054 | 23,204 | 27 | 21 |

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| | | | | | |
|--|---------------|---------------|---------------|-----------|-----------|
| Intersegment | 166 | 144 | 128 | 15 | 13 |
| Total Personal Mobile Services Revenues | 35,750 | 28,198 | 23,332 | 27 | 21 |

Voice-retail

Revenues from voice-retail represented 24% of our total segment revenues in 2016 compared to 25% and 23% of our total segment revenues in 2015 and 2014, respectively. Revenues from voice-retail increased 22% to P\$8,503 million in 2016 from P\$6,964 million in 2015 and increased 31% from P\$5,330 million in 2014.

Voice-retail mainly includes revenues from monthly basic charges, airtime usage charges and roaming charges billed to our customers for their use of our and other carriers' networks.

Monthly basic charges increased 28% to P\$5,113 million in 2016 from P\$4,009 million in 2015 and increased 30% in 2015 from P\$3,074 million in 2014. Airtime usage charges increased 2% to P\$2,007 million in 2016 from P\$1,977 million in 2015 and increased 20% in 2015 from P\$1,654 million in 2014. Roaming charges and other services increased 41% to P\$1,383 million in 2016 from P\$978 million in 2015 and increased 62% in 2015 from P\$602 million in 2014.

The increase in 2016 was mainly due to the increase in monthly charges prices for the post-paid and *CuentaClaras* subscribers and prepaid services, net of the variation of the subscribers' base.

The increase in 2015 was mainly due to the increase in monthly charges prices for the post-paid and *CuentaClaras* subscribers and prepaid services, and by the positive variation of the subscriber base.

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Voice-wholesale

Revenues from voice-wholesale represented 6% of our total segment revenues in 2016 compared to 7% and 8% of our total segment revenues in 2015 and 2014, respectively. Revenues from voice-wholesale increased 10% to P\$2,078 million in 2016 from P\$1,884 million in 2015 and decreased 4% in 2015 from P\$1,953 million in 2014.

Voice-wholesale mainly includes revenues from CPP, TLRD and roaming charges to other mobile service providers whose customers use our network.

CPP and TLRD increased 11% to P\$1,711 million in 2016 from P\$1,548 million in 2015 and decreased 4% in 2015 from P\$1,611 million in 2014. Roaming charges and other services increased 9% to P\$367 million in 2016 from P\$336 million in 2015, and decreased 2% from P\$342 million in 2014.

Data and Internet

Data and Internet services mainly include SMS, Browsing and Internet. Data and Internet represented 49%, 48% and 47% of our total segment revenues for 2016, 2015, and 2014, respectively.

Data

Revenues from data mainly include contents via SMS, and other Value Added Services. Revenues from data decreased 7% to P\$6,636 million in 2016 from P\$7,156 million in 2015. Revenues from data decreased 7% in 2015 from P\$7,666 million in 2014. The decrease in 2016 and 2015 was due to lower revenues from the principal item of VAS revenues, SMS consumption, partially offset by an increase in Content via SMS revenues.

Internet

Revenues from Internet increased 73% to P\$10,832 million in 2016 from P\$6,254 million in 2015 and increased 88% in 2015 from P\$3,335 million in 2014. This increase is mainly explained by the increase in browsing services consumption of Personal s subscribers, which was mainly fueled by the increase in the offer of services, plan and packs (including VAS) launched by Personal. This growth was fueled by the migration of the existing ones to higher-value plans and the increase of subscribers that acquired 3G and 4G handsets, which facilitate Internet browsing.

Equipment

Equipment revenues consist primarily of revenues from the mobile handsets sold to new and existing subscribers and to agents and other third-party distributors. The revenues associated with the sale of mobile handsets and related expenses are recognized when the products are delivered and accepted by the subscribers, agents and other third-party distributors.

During 2016, handset revenues increased 30% to P\$7,535 million from P\$5,796 million in 2015 and increased 18% in 2015 from P\$4,920 million in 2014. This increase in 2016 was due to a mix between the increase in the average price of handsets of 34% and the decrease of 4% in the handset units sold, resulting in a higher operating margin.

Intersegment

Intersegment revenues mainly include services rendered to Telecom Argentina and primarily consist in monthly basic charges, airtime usage charges and Value Added Services. During 2016, our intersegment revenues increased 15% to P\$166 million from P\$144 million in 2015 and increased 13% in 2015 from P\$128 million in 2014. The intersegment revenues are eliminated at the consolidated level.

Other Income

Other income mainly includes penalties collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided and gains on disposal of PP&E since 2016. During 2016, other income was P\$16 million, compared to P\$5 million in 2015 and P\$21 million in 2014.

Operating Expenses (without depreciation and amortization)

Total operating expenses (without depreciation and amortization) in our Personal Mobile Services segment increased 25% to P\$25,448 million in 2016 from P\$20,414 million in 2015 and increased 18% in 2015 from P\$17,320 million in 2014. In line with our increases in revenues, during 2016 and 2015, all items in the cost structure of the Personal Mobile Services segment experienced increases. This trend reflects increases in certain costs related to acquiring and retaining customers, taxes, commissions.

Detailed below are the major components of the operating expenses for the years ended December 31, 2016, 2015 and 2014 in the Personal Mobile Services segment:

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| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|-----------------------|---------------|----------------------------------|-----------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Employee benefit expenses and severance payments | 2,381 | 1,856 | 1,452 | 28 | 28 |
| Interconnection costs and other telecommunications charges | 2,721 | 2,686 | 2,592 | 1 | 4 |
| Fees for services, maintenance, materials and supplies | 2,975 | 2,417 | 2,145 | 23 | 13 |
| Taxes and fees with the Regulatory Authority | 3,925 | 3,071 | 2,527 | 28 | 22 |
| Commissions | 3,286 | 2,774 | 2,181 | 18 | 27 |
| Cost of equipment and handsets | 5,749 | 4,328 | 3,959 | 33 | 9 |
| Advertising | 644 | 628 | 563 | 3 | 12 |
| Cost of VAS | 1,329 | 1,136 | 856 | 17 | 33 |
| Provisions | 109 | 96 | (31) | 14 | n/a |
| Bad debt expenses | 951 | 462 | 315 | 106 | 47 |
| Other operating expenses | 1,378 | 960 | 761 | 44 | 26 |
| Total Personal Mobile Services(1) | 25,448 | 20,414 | 17,320 | 25 | 18 |

(1) Includes intersegment costs of P\$1,929 million, P\$1,829 million and P\$1,766 million in 2016, 2015 and 2014, respectively. These costs are eliminated at the consolidated level.

Employee benefit expenses and severance payments

During 2016, employee benefit expenses and severance payments charges increased 28% to P\$2,381 million from P\$1,856 million in 2015 and increased 28% in 2015 from P\$1,452 million in 2014. The increase was mainly due to increases in salaries agreed by Telecom Personal with several trade unions for the unionized employees and also non-unionized employees, together with related social security charges.

The Personal Mobile Services segment had 4,661, 4,908 and 4,958 employees as of December 31, 2016, 2015 and 2014, respectively.

Interconnection costs and other telecommunications charges

During 2016, interconnection costs and other telecommunications charges increased 1% to P\$2,721 million from P\$2,686 million in 2015 and increased 4% in 2015 from P\$2,592 million in 2014. The increase in 2016 was mainly due to an increase in Roaming traffic and higher TLRD costs. The increase in 2015 was mainly due to higher TLRD costs.

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Interconnection costs and other telecommunications charges includes P\$1,200 million, P\$1,275 million and P\$1,274 million in 2016, 2015 and 2014, respectively, that are eliminated at the consolidated level.

Fees for services, maintenance, materials and supplies

In 2016, fees for services, maintenance, materials and supplies expenses increased 23% to P\$2,975 million from P\$2,417 million in 2015 and increased 13% from P\$2,145 million in 2014.

The increase in 2016 was mainly due to higher maintenance costs of radiobases, network, identification sites costs, and storage costs. There was an increase of maintenance and fees for services mainly due to higher costs recognized to suppliers.

The increase in 2015 was mainly due to higher maintenance costs of network, systems and buildings mainly due to higher costs recognized to suppliers and, as a result of the variation in the P\$/US\$ exchange rate. Also there was an increase in services, principally Call Center services, because of more calls attended.

Fees for services, maintenance, materials and supplies expenses includes intersegment costs of P\$468 million, P\$389 million and P\$332 million in 2016, 2015 and 2014, respectively, that are eliminated at the consolidated level.

Taxes and fees with the Regulatory Authority

During 2016, taxes and fees with the Regulatory Authority increased 28% to P\$3,925 million from P\$3,071 million in 2015 and increased 22% in 2015 from P\$2,527 million in 2014. The increase in 2016 was influenced mainly by the increase in revenues and due to higher tax on deposits and withdrawals from bank

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accounts related to higher collections and payments to suppliers. The increase in 2015 was influenced mainly by the increase in revenues and the increase in equipment sales.

Commissions

In 2016, commissions increased 18% to P\$3,286 million from P\$2,774 million in 2015 and increased 27% in 2015 from P\$2,181 million in 2014. The increase was mainly due to the increase in agents' commissions of P\$122 million (associated with higher revenues) and the increase of collection commissions of P\$273 million.

Commissions include intersegment cost of P\$59 million, P\$48 million and P\$53 million in 2016, 2015, and 2014, respectively, that are eliminated at the consolidated level.

Cost of equipment and handsets

During 2016, the cost of equipment and handsets sold increased 33% to P\$5,749 million from P\$4,328 million in 2015 and increased 9% from P\$3,959 million in 2014. The increase in cost of mobile handsets in 2016 is related to the increase in the average unit cost of sales (+39% vs. 2015), partially offset by a decrease in units of handsets sold (-4% vs. 2015). The increase in cost of mobile handsets in 2015 is related to the increase in the average unit cost of sales (+40% vs. 2014), partially offset by a decrease in units of handsets sold (-23% vs. 2014). Cost of equipment and handsets are net of costs capitalized as SAC (P\$83 million in 2016, +P\$46 million or +124% higher than 2015).

Advertising

During 2016, advertising expenses including media, promotional and institutional campaigns, amounted to P\$644 million, representing an increase of 3% from P\$628 million in 2015. During 2015, advertising expenses increased 12% from P\$563 million in 2014.

Cost of VAS

Cost of VAS amounted to P\$1,329 million in 2016 (+17% vs. 2015), mainly due to the increase of VAS (mainly the Contents via SMS service) as a consequence of several campaigns launched by Personal. Such costs were P\$1,136 million and P\$856 million in 2015 and 2014, respectively.

Provisions

During 2016, we recorded a loss of P\$109 million in provisions compared with a loss of P\$96 million and a gain of P\$31 million recorded in 2015 and 2014, respectively. The increase in 2016 was mainly due to higher regulatory, tax and municipal claims (+P\$40 million vs. 2015). The increase in 2015 was mainly due to higher regulatory and municipal claims (+P\$70 million vs. 2014) and higher civil and commercial claims (+P\$44 million vs. 2014).

Bad debt expenses

In 2016 bad debt expenses amounted to P\$951 million (+106% vs. 2015). In 2015, bad debt expenses amounted to P\$462 million representing an increase of 47% from P\$315 million in 2014. The major increase in 2016 as compared with 2015 was a consequence of higher aging of the accounts receivables and higher incidence of handset sales directly financed by Personal to its post-paid and *Cuentas Claras* subscribers.

Other operating expenses

Other operating expenses include accrued expenses such as costs associated with the provision of transportation costs, insurance, energy and costs of site leases.

Other operating expenses increased 44% to P\$1,378 million in 2016 from P\$960 million in 2015 and increased 26% from P\$761 million in 2014. The increase in 2016 was primarily as a result of higher prices on related services, especially in transportation, freight and travel expenses; and the increase of rent prices, as a result of new agreements and the renegotiation of some of the existing ones. Other operating expenses include intersegment costs of P\$202 million, P\$117 million and P\$107 million in 2016, 2015, and 2014, respectively, that are eliminated at the consolidated level.

Operating Income before depreciation and amortization

Our operating income before depreciation and amortization from the Personal Mobile Services segment reached P\$10,318 million in 2016, P\$7,789 million in 2015 and P\$6,033 million in 2014, representing 29%, 28% and 26% of total segment revenues in 2016, 2015 and 2014, respectively. The increase in each year was mainly due to higher growth in revenues, partially offset by increases in operating costs (before depreciation and amortization).

Table of Contents**Depreciation and Amortization**

During 2016 depreciation of PP&E and amortization of intangible assets increased 43% to P\$3,614 million from P\$2,520 million in 2015 and increased 53% from P\$1,650 million in 2014. During 2016, the increase in PP&E depreciation amounted to P\$709 million, the increase in amortization of SAC amounted to P\$370 million and the increase in amortization of other intangible assets amounted to P\$15 million.

Impairment of PP&E

Impairment loss of PP&E amounted to P\$384 million in 2016, mainly related to the mobile access modernization for the introduction of 4G technology. Impairment of PP&E amounted to P\$114 million in 2015 related to the assessment of recoverability of a group of former work in progress, recording an impairment of P\$44 million equivalent to its book value; an impairment of P\$49 million related to the total amount of works related to the discontinuation of the Orga Gold IT project and the impairment of P\$21 million related to the mobile access modernization for the introduction of 4G technology.

Operating Income

In 2016, our operating income from the Personal Mobile Services segment was P\$6,320 million, representing an increase of 22% from P\$5,160 million in 2015, and increased of 18% from P\$4,358 million in 2014. Operating income represented 18% of revenues in 2016 and 2015 for this segment, and 19% of revenues in 2014. The increase in operating income was mainly due to the growth in service and equipment revenues, partially offset by increases in operating expenses and depreciation and amortization costs as explained above.

The following table shows our operating income from the Personal Mobile Services segment in 2016, 2015 and 2014 and its percentage of revenues in each year:

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|----------------|----------------|-----------------------|------------|
| | 2016 | 2015 | 2014 | 2016-2015 | 2015-2014 |
| | (P\$ million / %) | | | Increase / (Decrease) | |
| Operating income before depreciation and amortization (1) | 10,318 | 7,789 | 6,033 | 32 | 29 |
| <i>As % of revenues</i> | <i>29</i> | <i>28</i> | <i>26</i> | | |
| Depreciation and amortization | (3,614) | (2,520) | (1,650) | 43 | 53 |
| <i>As % of revenues</i> | <i>(10)</i> | <i>(9)</i> | <i>(7)</i> | | |
| Impairment of PP&E | (384) | (109) | (25) | 252 | 336 |
| Operating income | 6,320 | 5,160 | 4,358 | 22 | 18 |

| <i>As % of revenues</i> | <i>18</i> | <i>18</i> | <i>19</i> |
|-------------------------|-----------|-----------|-----------|
|-------------------------|-----------|-----------|-----------|

(1) Although it is not specifically defined, this is a permitted measure under IFRS.

Financial results, net

During 2016, the Personal Mobile Services segment financial results, net amounted to a loss of P\$2,064 million. The loss is mainly attributable to higher interest on loans of P\$1,437 million (+P\$897 million vs. 2015), higher foreign currency exchange losses, net that amounted to P\$929 million (+P\$180 million vs. 2015) and lower interest on time deposits and other investments (-P\$244 million vs. 2015), partially offset by higher interest on receivables of P\$124 million.

During 2015, the Personal Mobile Services segment financial results, net amounted to a loss of P\$864 million. The loss is mainly attributable to higher foreign currency exchange losses, net of P\$749 million (+P\$340 million vs. 2014) and interest on loans of P\$540 million (+P\$537 million vs. 2014), and lower interest on time deposits of P\$209 million, partially offset by gains on other investments of P\$519 million (+P\$255 million vs. 2014).

Income Tax Expense

During 2016, our Personal Mobile Services segment recorded an income tax expense of P\$1,506 million compared to P\$1,522 million in 2015 and P\$1,542 million in 2014. The decrease was mainly due to lower pre-tax income. The income tax expense in 2016 was mainly attributable to the recognition of current income tax expense amounting to P\$1,586 million, and by the gain generated by the deferred tax on the temporary differences amounting to P\$80 million.

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The income tax expense in 2015 was mainly attributable to the recognition of current income tax expense amounting to P\$1,410 million, and by the loss generated by the deferred tax on the temporary differences amounting to P\$112 million.

The income tax expense in 2014 was mainly attributable to the recognition of current income tax expense amounting to P\$1,302 million, and by the loss generated by the deferred tax on the temporary differences amounting to P\$267 million (mainly due to an increase in deferred tax liabilities of Fixed Assets and the deduction of deferred tax assets related to investments in bonds), and P\$27 million of an allowance recovery.

Net Income

During 2016, our Personal Mobile Services segment reported net income of P\$2,750 million as compared to P\$2,774 million during 2015 and P\$2,816 million in 2014. The decrease in net income in 2016 and 2015 was mainly due to higher financial losses, partially offset by higher operating income, as explained above.

(B.3) Núcleo Mobile Services Segment

Núcleo Mobile Services Segment includes Núcleo and Personal Envíos, which is a company controlled by Núcleo that was authorized by the Central Bank of Paraguay to operate as an Electronic Payment Company (EMPE) through Resolution No.6 issued on March 30, 2015 and its corporate purpose is restricted to such service.

Results of operations from our Núcleo Mobile Services segment for 2016, 2015 and 2014 are comprised as follows:

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|---------------------------|------------|------------------------------------|-------------|
| | 2016 (3) | 2015 (4) (P\$ million) | 2014 | 2016-2015 Increase / (Decrease) | 2015-2014 |
| Revenues (1) | 2,648 | 1,717 | 1,588 | 54 | 8 |
| Other Income | 1 | - | - | 100 | - |
| Operating expenses (without depreciation and amortization) | (1,812) | (1,149) | (1,010) | 58 | 14 |
| Operating income before depreciation and amortization (2) | 837 | 568 | 578 | 47 | (2) |
| Depreciation and amortization | (687) | (392) | (363) | 75 | 8 |
| Gain on disposal of PP&E | - | 1 | - | (100) | n/a |
| Operating income | 150 | 177 | 215 | (15) | (18) |
| Financial results, net | (29) | (65) | (22) | (55) | 195 |
| Income tax expense | (29) | (15) | (22) | 93 | (32) |
| Net income | 92 | 97 | 171 | (5) | (43) |

-
- (1) Includes intersegment revenues of P\$6 million, P\$11 million and P\$10 million in 2016, 2015 and 2014, respectively.
 - (2) Although it is not specifically defined, this is a permitted measure under IFRS.
 - (3) Includes Personal Envíos operations that are not material (Revenues P\$25 million, Operating income before D&A (P\$7 million), Operating income (P\$9 million) and Net loss (P\$9 million)).
 - (4) Includes Personal Envíos operations. Its operations are not material (Revenues P\$9 million, Operating income before D&A (P\$2 million), Operating income (P\$4 million) and Net loss (P\$4 million)).

Revenues and Other Income

During 2016, total revenues from Núcleo increased by 54% to P\$2,648 million from P\$1,717 million in 2015. This increase was mainly due to an increase of internet revenues (+72% vs. 2015) as a consequence of subscribers that acquired 3G and 4G handsets, which facilitate Internet browsing, and an increase in voice retail revenues (+50% vs. 2015) fueled by a 46% appreciation of Guaraní vs. P\$. As of December 31, 2016, Núcleo had approximately 2.1 million prepaid subscribers, representing 82% of Núcleo's total mobile subscriber base.

Value Added Services sales (included in Data and Internet services) grew by 60% in 2016 as compared to 2015.

During 2015, total revenues from Núcleo increased by 8% to P\$1,717 million from P\$1,588 million in 2014. This increase was mainly due to an increase of 3% in Núcleo's subscriber base that reached

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approximately 2.5 million mobile subscribers as of December 31, 2015. As of December 31, 2015, Núcleo had approximately 2 million prepaid subscribers, representing 80% of Núcleo's total mobile subscriber base.

Value Added Services sales (included in Data and Internet services) grew by 12% in 2015 as compared to 2014.

During 2016, handset revenues increased 64% to P\$260 million from P\$159 million in 2015 and increased 77% from P\$90 million in 2014.

Revenues from our Núcleo Mobile Services segment for 2016, 2015 and 2014 are comprised as follows:

| | Years Ended December 31, | | | % of Change | |
|--------------------------------------|--------------------------|-----------------------|--------------|----------------------------------|-----------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Voice | 975 | 667 | 701 | 46 | (5) |
| Data | 429 | 313 | 331 | 37 | (5) |
| Internet | 978 | 567 | 456 | 72 | 24 |
| Service revenues | 2,382 | 1,547 | 1,488 | 54 | 4 |
| Equipment | 260 | 159 | 90 | 64 | 77 |
| Subtotal third party revenues | 2,642 | 1,706 | 1,578 | 55 | 8 |
| Intersegment | 6 | 11 | 10 | (45) | 10 |
| Total revenues | 2,648 | 1,717 | 1,588 | 54 | 8 |

Operating expenses (without depreciation and amortization)

Total operating expenses in our Núcleo Mobile Services segment increased 58% to P\$1,812 million in 2016 from P\$1,149 million in 2015 and increased 14% in 2015 from P\$1,010 million in 2014. In line with our increases in revenues, during 2016 and 2015, all items in the cost structure of the Núcleo Mobile Services segment experienced increases. This trend reflected increases in certain costs of acquiring and retaining subscribers, and commissions directly associated with sales and expansions of the customer service staff. It is also due to the appreciation of the Guaraní vs. P\$ of 46% in 2016. Detailed below are the major components of the operating expenses for the years ended December 31, 2016, 2015 and 2014 related to Núcleo Mobile Services segment:

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|-----------------------|------|----------------------------------|-----------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Employee benefit expenses and severance payments | 199 | 129 | 118 | 54 | 9 |

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| | | | | | |
|--|--------------|--------------|--------------|-----------|-----------|
| Interconnection costs and other telecommunications charges | 200 | 154 | 192 | 30 | (20) |
| Fees for services, maintenance, materials and supplies | 229 | 152 | 137 | 51 | 11 |
| Taxes and fees with the Regulatory Authority | 82 | 54 | 47 | 52 | 15 |
| Commissions | 295 | 199 | 156 | 48 | 28 |
| Cost of equipment and handsets | 303 | 185 | 112 | 64 | 65 |
| Advertising | 104 | 78 | 78 | 33 | - |
| Cost of VAS | 117 | 82 | 64 | 43 | 28 |
| Bad debt expense | 125 | 23 | 20 | 443 | 15 |
| Other operating expenses | 158 | 93 | 86 | 70 | 8 |
| Total Núcleo Mobile Services(1) | 1,812 | 1,149 | 1,010 | 58 | 14 |

(1) Includes intersegment cost of P\$32 million, P\$23 million and P\$27 million in 2016, 2015 and 2014, respectively. These costs are eliminated at the consolidated level.

Employee benefit expenses and severance payments

During 2016, employee benefit expenses and severance payments increased 54% to P\$199 million from P\$129 million in 2015. During 2015, these costs increased 9% from P\$118 million in 2014. Núcleo had 408 employees as of December 31, 2016. As of December 31, 2015 and 2014 it had 413 and 402, respectively.

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Interconnection costs and other telecommunication charges

During 2016, interconnection costs and other telecommunication charges increased 30% to P\$200 million from P\$154 million in 2015 and decreased 20% in 2015 from P\$192 million in 2014. The increase in 2016 was mainly due to an increase in TLRD costs. The decrease in 2015 was mainly due to a decrease in TLRD costs.

Fees for services, maintenance, materials and supplies

During 2016, fees for services and maintenance, materials and supplies totaled P\$229 million, representing an increase of 51% from P\$152 million in 2015. During 2015, they increased 11% from P\$137 million in 2014.

Taxes and fees with the Regulatory Authority

During 2016, taxes and fees with the Regulatory Authority increased 52% to P\$82 million from P\$54 million in 2015 and increased 15% from P\$47 million in 2014. The increase in each year was mainly attributable to the increase in total segment revenues.

Commissions

During 2016, commissions increased 48% to P\$295 million from P\$199 million in 2015. During 2015, commissions increased 28% from P\$156 million in 2014. The increase in 2016 was mainly due to an increase in agent commissions and commissions for distribution of prepaid cards. The increase in 2015 was mainly due to the growth in the subscriber base and an increase in the commissions for distribution of prepaid cards.

Cost of equipment and handsets

During 2016, the cost of equipment and handsets increased to P\$303 million from P\$185 million in 2015, representing an increase of 64%. During 2014, the cost of equipment and handsets was P\$112 million. The increase in 2016 and 2015 was mainly due to the increase of the customer upgrade of mobile handsets as a result of technological advances and new service offerings.

Advertising

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During 2016, advertising expenses including media, promotional and institutional campaigns, increased 33% vs. 2015 and amounted to P\$104 million.

During 2015 and 2014, advertising expenses including media, promotional and institutional campaigns, amounted to P\$78 million.

Cost of VAS

Cost of VAS increased 43% million to P\$117 million in 2016 from P\$82 million in 2015. Such costs were P\$64 million in 2014.

Bad debt expenses

In 2016 bad debt expenses amounted to P\$125 million, representing an increase of 443% from P\$23 million in 2015 and an increase of 15% in 2015 from P\$20 million in 2014. The major increase in 2016 as compared with 2015 was a consequence of higher incidence of handset sales directly financed by Núcleo to its post-paid and *Cuentas Claras* subscribers.

Other operating expenses

Other operating expenses include accrued expenses such as costs associated with the provision of transportation costs, insurance, energy and costs of site leases.

Other operating expenses increased 70% to P\$158 million in 2016 and increased 8% in 2015 to P\$93 million from P\$86 million in 2014.

Operating income before depreciation and amortization

Operating income before depreciation and amortization was P\$837 million in 2016, P\$568 million in 2015 and P\$578 million in 2014, representing 32%, 33% and 36% of total revenues, respectively. The increase was mainly due to growth in service revenues, partially offset by increases in costs, such as employee benefit expenses and severance payments, fees for services and maintenance, materials and supplies, cost of equipment and handsets and commissions.

Depreciation and Amortization

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During 2016, depreciation of PP&E and amortization of intangible assets increased 75% to P\$687 million from P\$392 million in 2015. During 2015, depreciation of PP&E and amortization of intangible assets

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increased 8% from P\$363 million in 2014. The increase was the result of higher investment in PP&E and intangible assets, partially offset by a reduction in the level of depreciation due to the end of the amortization period for certain assets. It is also due to the appreciation of the Guaraní of 46% vs. P\$ in 2016.

Operating Income

In 2016, our operating income from the Núcleo Mobile Services segment was P\$150 million, representing a decrease of 15% from P\$177 million in 2015, which represent 6% and 10% of total revenues for this segment in 2016 and 2015, respectively. In 2014, our operating income was P\$215 million, representing 14% of total revenues for this segment.

The following table shows our operating income from the Núcleo Mobile Services segment in 2016, 2015 and 2014 and its percentage of total revenues in each year:

| | 2016 | Years Ended December 31, 2015 (P\$ million / %) | 2014 | % of Change 2016-2015 2015-2014 Increase / (Decrease) | |
|--|--------------|---|--------------|--|-------------|
| Operating income before depreciation and amortization (1) | 837 | 568 | 578 | 47 | (2) |
| <i>As % of total revenues</i> | <i>32</i> | <i>33</i> | <i>36</i> | | |
| Depreciation and amortization | (687) | (392) | (363) | 75 | 8 |
| <i>As % of total revenues</i> | <i>(26)</i> | <i>(23)</i> | <i>(23)</i> | | |
| Gain on disposal of PP&E | - | 1 | - | (100) | n/a |
| Operating income | 150 | 177 | 215 | (15) | (18) |
| <i>As % of total revenues</i> | <i>6</i> | <i>10</i> | <i>14</i> | | |

(1) Although it is not specifically defined, this is a permitted measure under IFRS.

Financial results, net

During 2016, the Núcleo Mobile Services segment recorded a net financial loss of P\$29 million, compared to a net financial loss of P\$65 million in 2015 and P\$22 million in 2014. The decrease in the loss in 2016 was mainly due to lower foreign currency exchange losses. The increase in the loss in 2015 was mainly due to higher foreign currency exchange losses.

Income Tax Expense

During 2016, our Núcleo Mobile Services segment recorded an income tax expense of P\$29 million compared to P\$15 million in 2015 and P\$22 million in 2014. The income tax expense in 2016 was attributable to the recognition of current income tax expense amounting to P\$29 million.

The income tax expense in 2015 was mainly attributable to the recognition of current income tax expense amounting to P\$16 million partially offset by the gain generated by the deferred tax on the temporary differences arising out of the asset and liability valuations according to tax versus financial accounting criteria amounting to P\$1 million.

The income tax expense in 2014 was mainly attributable to the recognition of current income tax expense amounting to P\$25 million partially offset by the gain generated by the deferred tax on the temporary differences arising out of the asset and liability valuations according to tax versus financial accounting criteria amounting to P\$3 million.

Net Income

During 2016, our Núcleo Mobile Services segment reported net income of P\$92 million as compared to P\$97 million during 2015, representing 3% and 6% of total revenues in 2016 and 2015, respectively. In 2014, our net income was P\$171 million, representing 11% of total revenues. The decrease in 2016 was mainly due to a decrease in the operating income and an increase in income tax expense, partially offset by a decrease in the net financial losses. The decrease in 2015 was mainly due to a decrease in the operating income and higher net financial losses, partially offset by lower income tax expense.

Liquidity and Capital Resources

Sources and Uses of Funds

We expect that the principal source of Telecom Argentina's liquidity in the near term will be cash flows from Telecom Argentina's operations and the dividends that Personal may pay to it. Telecom Argentina's

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principal uses of cash flows are expected to be for capital expenditures, operating expenses and dividends to its shareholders. Telecom Argentina expects working capital, funds generated from operations, dividends payments from its subsidiaries and financing from third parties to be sufficient for its present requirements.

We expect that the principal source of Personal's liquidity in the near term will be cash flows from operations, dividends that Núcleo may pay to it and cash flow from financing from third parties. During 2014 and 2015, Personal's working capital was impacted by 3G and 4G licenses acquisitions. Personal's principal uses of cash flows are expected to be for capital expenditures, operating expenses, dividend payments to its shareholders and payment of financial debt, interests and related expenses.

The Ordinary and Extraordinary Shareholders Meeting of Telecom Argentina held on December 15, 2011, approved the creation of a Medium-Term Notes Global Program for a maximum outstanding amount of US\$500 million or its equivalent in other currencies for a term of five years.

Also, the Ordinary and Extraordinary Shareholders Meeting of Personal held on December 2, 2010, approved the creation of a Medium-Term Notes Global Program for a maximum outstanding amount of US\$500 million or its equivalent in other currencies for a term of five years. On October 13, 2011, the CNV approved this program. Personal's Ordinary Shareholders Meeting held on May 26, 2016 authorized to extend the due date of the Program and to expand the Program's maximum circulation amount to US\$ 1,000 million or its equivalent in other currencies. On October 20, 2016, the CNV authorized the extension and expansion of the mentioned Program through Resolution No. 18,277.

Under this program, on December 10, 2015, Telecom Personal has successfully completed the issuance of two series of notes for a total nominal value of P\$ 720.5 million. Additionally, on November 16, 2016 Telecom Personal also completed the issuance of two series of notes for a total nominal value of almost P\$ 722.0 million and US\$ 77.9 million.

In addition on October 5, 2016 Personal and the IFC signed the loan agreement for an amount of US\$ 400 million and for a six year period, payable in 8 equal half-yearly installments since the 30th month, with a 6 month LIBOR rate + 400bp. This loan will be used to deploy the 4G network and refinance short-term financial liabilities.

On March 17, 2017, Sofora Telecomunicaciones S.A. informed that its shareholders have expressed their wish that its Board of Directors, as well as the Board of Directors of its subsidiaries, Nortel Inversora S.A., Telecom Argentina S.A. and Telecom Personal S.A., evaluate a corporate reorganization, with Telecom Argentina S.A. as the surviving company, with the aim of concluding such reorganization during Fiscal Year 2017. This project seeks to simplify the shareholding structure of Telecom Argentina S.A. in line with international standards and market practices. However, we do not expect any implications on the sources of liquidity and the sources of funds.

The table below summarizes, for the years ended December 31, 2016, 2015 and 2014, Telecom's consolidated cash flows:

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| | 2016 | Years Ended December 31, 2015 (P\$ million) | 2014 |
|---|--------------|---|----------------|
| Cash flows provided by operating activities | 11,365 | 6,812 | 5,721 |
| Cash flows used in investing activities | (11,340) | (9,651) | (9,426) |
| Cash flows provided by (used in) financing activities | 2,828 | 2,950 | (1,340) |
| Net foreign exchange differences on cash and cash equivalents | 222 | 75 | 505 |
| Increase/(Decrease) in cash and cash equivalents | 3,075 | 186 | (4,540) |
| Cash and cash equivalents at the beginning of the year | 870 | 684 | 5,224 |
| Cash and cash equivalents at the end of the year | 3,945 | 870 | 684 |

As of December 31, 2016, 2015 and 2014, we had P\$3,945 million, P\$870 million and P\$684 million in cash and cash equivalents, respectively.

Cash flows from operating activities: The breakdown of the net cash flow provided by operating activities is as follows:

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| | Years ended December 31, | | |
|--|--------------------------|-----------------------|-----------------|
| | 2016 | 2015 (P\$ million) | 2014 |
| Collections | | | |
| Collections from customers | 55,928 | 41,930 | 34,396 |
| Interests from customers | 366 | 182 | 160 |
| Interests from investments | 59 | 190 | 400 |
| Mobile operators collections | 885 | 843 | 330 |
| Subtotal | 57,238 | 43,145 | 35,286 |
| Payments | | | |
| For the acquisition of goods and services and others | (17,120) | (12,784) | (7,821) |
| For the acquisition of inventories | (5,383) | (6,343) | (4,167) |
| Salaries and social security payables and severance payments | (9,113) | (6,885) | (5,146) |
| CPP payments | (393) | (413) | (475) |
| Income taxes (includes tax returns and payments in advance) | (1,700) | (1,631) | (2,277) |
| Other taxes and taxes and fees with the Regulatory Authority | (10,731) | (7,775) | (8,902) |
| Foreign currency exchange differences related to the payments to suppliers | (1,433) | (502) | (777) |
| <i>of which: Inventory suppliers</i> | <i>(295)</i> | <i>(182)</i> | <i>(343)</i> |
| <i>PP&E suppliers</i> | <i>(1,467)</i> | <i>(188)</i> | <i>(311)</i> |
| <i>Other suppliers</i> | <i>(144)</i> | <i>(31)</i> | <i>(154)</i> |
| <i>NDF</i> | <i>473</i> | <i>(101)</i> | <i>31</i> |
| Subtotal | (45,873) | (36,333) | (29,565) |
| Net cash flow provided by operating activities | 11,365 | 6,812 | 5,721 |

Cash flows used in investing activities were P\$11,340 million, P\$9,651 million and P\$9,426 million in 2016, 2015 and 2014, respectively, and includes the payment for the acquisition of 4G licenses of P\$2,256 million and P\$3,091 million in 2015 and 2014, respectively. The increase of P\$1,689 million in 2016 was mainly due to an increase in PP&E capital expenditures.

Cash flows provided by financing activities were P\$2,828 million and P\$2,950 million in 2016 and 2015, respectively while cash flows used in financing activities were P\$1,340 million in 2014. The decrease in 2016 was mainly due to higher payments of loans and dividends, partially offset by higher proceeds of financial debts. The positive cash flows from financing activities in 2015 vs. 2014 were mainly due to the increases in proceeds of financial debt to acquire, among others, 4G licenses by P\$2,256 million.

NDF and US Dollar bonds

Due to the existence of commitments denominated in US Dollars as of December 31, 2016, the Telecom Group entered into several NDF agreements during 2016 to purchase a total amount of US\$ 7 million. The purpose of these NDF is to eliminate the risks associated to the fluctuation of the future exchange rate and to align the payment currency of Telecom Argentina's and Personal's commitments (hedged item) to its functional currency. As the effect of the fluctuation of the exchange rate over the hedged items is recognized in the Income Statement, changes in the fair value of NDF in 2016 (net gain of approximately P\$2 million) have also been recognized in the Income Statement, within Finance expenses Exchange Differences with counterpart in current assets (Other receivables), maturing in February 2017.

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During 2016, Personal entered into several NDF agreements for US\$9 million, maturing in March 2017 in order hedge the first interest installment of the IFC Loan. These NDF agreements were qualified as effective cash flow hedges for accounting purposes. The Telecom Group recognizes the hedging instruments results, distinguishing between gains and losses of such agreements that generate assets and liabilities, as appropriate, without offsetting balances with different counterparties. As of December 31, 2016, the Telecom Group has a current liability amounting to P\$2 million, negative deferred results amounting to P\$1 million (before income tax) and a net loss amounting to P\$1 million included in Finance expenses Exchange Differences related to the US\$9 million outstanding NDF to such date, which will mature in March 2017.

During 2016 Personal also settled U\$S 159 million of NDF agreements in US dollars that had as of December 31, 2015, which resulted in a gain of P\$2 million recognized in the Income Statement, within Other operating costs. The purpose of these NDF was also to eliminate the risks associated to the fluctuation of the future exchange rate and to align the payment currency of Personal s commercial commitments (hedged item) to its functional currency.

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As part of their financial risk management and reduction of exchange rate risk policies, during 2016 Personal acquired National Government bonds denominated in US dollars (Discount 2033) for a total cost of P\$715 million, which bear interest at a rate of 8.28% per annum, also in US dollars. These bonds were valued at fair value and generated a P\$5 million gain recognized in the Income Statement, within Finance profits Investments. In addition, in 2016, Personal acquired National Government bonds denominated in US dollars, Global 2021 and Bonar 2024, for a total cost of P\$255 million, bearing interest at annual rates of 6.875% and 8.75%, respectively, also in US dollars. These bonds were valued at amortized cost and generated a P\$1 million gain recognized in the Income Statement, within Finance profits Investments.

Additional information regarding Financial Instruments is set forth in Note 20 to our Consolidated Financial Statements.

Debt Obligations and Debt Service Requirements

Telecom Argentina has no indebtedness as of December 31, 2016, except for bank overdrafts amounting to P\$41 million.

The *Indebtedness of Telecom Argentina's* subsidiaries as of December 31, 2016 was as follows:

Telecom Personal:

On January 28, 2015, Personal entered into a loan with a foreign bank for a total amount of US\$40.8 million (equivalent to P\$353 million at such date). This loan is a 27-month bullet loan with quarterly interest payments at a weighted average rate of three-month LIBOR plus 8.75% (total rate of 9.6309% as of December 31, 2016). The funds were totally used for the acquisition of inventories. Subsequently, on February 7, 2017, with the maturity of the interest service, Personal proceeded to fully prepay the loan, paying US\$ 40.8 million of capital (equivalent to P\$643 million), US\$ 1 million of interest (equivalent to P\$16 million) and US\$ 0.3 million of pre-cancellation fee (equivalent to P\$5 million).

On July 5, 2016, Personal accepted an offer from the International Finance Corporation (IFC) for the assessment and transfer of funds for purposes of financing investment needs, working capital and debt refinancing for an amount of up to US\$ 400 million.

On October 5, 2016 Personal and the IFC signed the loan agreement (IFC Loan) for an amount of US\$ 400 million and for a six year period, payable in 8 equal half-yearly installments beginning on the 30th month, with a 6 month LIBOR rate + 400bp. This loan will be used to deploy the 4G network and refinance short-term financial liabilities. The loan terms include standard commitments and limitations for this type of financial transactions.

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On October 26, 2016 Personal received the loan proceeds for an amount of US\$ 392.5 million (net of expenses of US\$ 7.5 million), equivalent to P\$5,956 million.

The balance of these loans as of December 31, 2016 amounted to approximately P\$6,953 million.

In addition, on December 10, 2015 Personal issued notes in two series for a total nominal amount of P\$720.5 million, under the Medium Term Notes Global Program, with the following terms and conditions:

- Series I: with a maturity of 18 months from the date of issuance and settlement for a nominal value of P\$571.5 million, at a combined rate (fixed rate of 28.5% up to the 6th month and variable rate as from the 7th month, BADLAR Privada rate + 375bps).
- Series II: with a maturity of 36 months from the date of issuance and settlement, with a nominal value of P\$149 million, at a combined rate (fixed rate of 28.75% up to the 9th month and variable rate as from the 10th month, BADLAR Privada rate + 400bps).

The funds arising from the Series I and II notes were used for the partial settlement of bank overdrafts that Personal had taken to finance the acquisition of 3G and 4G frequencies bands.

In addition, on November 16, 2016 Personal issued notes in two additional series for a nominal amount of P\$722 million and US\$77.9 million, under the Medium Term Notes Global Program mentioned in Sources and Uses of Funds above, with the following terms and conditions:

- Series III: with a maturity of 18 months from the date of issuance and settlement for a nominal value of P\$722 million, at a variable rate (BADLAR Privada rate + 290bps).
- Series IV: with a maturity of 24 months from the date of issuance and settlement, with a nominal value of US\$77.9 million, at a nominal fixed annual rate equivalent to 4.85%.

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The funds arising from the Series III y IV notes were used for local bank overdrafts cancellation (refinancing of liabilities). The balance of Series I, II, III and IV of Personal as of December 31, 2016 amounted to approximately P\$2,690 million.

Finally, as of December 31, 2016 Personal has bank overdrafts amounting to P\$1,672 million.

Núcleo: As of December 31, 2016, *Núcleo* s outstanding debt (bank loans and bank overdrafts) is denominated in Guaraníes and amounted to approximately P\$554 million.

Additional information regarding terms and conditions of the Telecom Group s loans as of December 31, 2016 is set forth in Note 12 to our Consolidated Financial Statements.

Liquidity

The liquidity position for each of Telecom Argentina, Personal and *Núcleo* is and will be significantly dependent on each individual company s operating performance, its indebtedness, capital expenditure programs and receipt of dividends, from its subsidiaries, if any.

The Group s working capital breakdown and its main variations are disclosed below:

| | 2016 | 2015 (P\$ million) | Variation |
|--|----------------|-----------------------|--------------|
| Trade receivables | 7,577 | 5,663 | 1,914 |
| Other receivables | 1,011 | 1,336 | (325) |
| Inventories | 1,278 | 2,193 | (915) |
| Current liabilities (not considering financial debt) | (13,245) | (13,463) | 218 |
| Operative working capital - negative | (3,379) | (4,271) | 892 |
| <i>As % of Revenues</i> | <i>(6.4)%</i> | <i>(10.5)%</i> | |
| Cash and cash equivalents | 3,945 | 870 | 3,075 |
| Investments | 1,751 | 1,430 | 321 |
| Current financial debt | (3,266) | (3,451) | 185 |
| Net Current financial asset / (debt) | 2,430 | (1,151) | 3,581 |
| Negative operating working capital (current assets - current liabilities) | (949) | (5,422) | 4,473 |
| Liquidity rate | 0.94 | 0.68 | 0.26 |

The Telecom Group has a typical working capital structure corresponding to a company with intensive capital that obtains spontaneous financing from its suppliers (especially PP&E) for longer terms than those it provides to its customers. According to this, the negative operating working capital amounted to P\$949 million as of December 31, 2016 (decreasing P\$4,473 million vs.

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December 31, 2015) positioning at higher levels (6.4% of consolidated revenues as of December 31, 2016 vs. 10.5% of consolidated revenues as of December 31, 2015).

During 2016 the Telecom Group incurred additional indebtedness in Argentina what has allowed financing the Group's growth in PP&E and intangible assets at very reasonable rates. The Group has an excellent credit rating (Personal's notes have been rated AA + (arg) by FIX SCR S.A) related to the Group's operating cash flow record and low leverage (net financial debt ratio over company market value amounts only to 9%). All the above mentioned generates that the total working capital (current assets - current liabilities) amounted to a net debt of P\$949 million as of December 31, 2016, resulting from a decrease in negative operating working capital and an increase in current net financial debt amounting to P\$892 million and P\$3,581 million, respectively.

These increases in absolute terms, strengthened the consolidated liquidity ratio (current assets / current liabilities) which amounts to 0.94.

The Group has several financing sources and several offers from first-class international institutions to diversify its current short-term funding structure, which includes accessing to domestic and international capital markets and obtaining competitive bank loans in what relates to terms and financial costs.

The low financial debt of the Group makes it possible to obtain financial resources for longer terms at a reasonable cost. The Group's management evaluates the national and international macroeconomic context to take advantage of market opportunities that allows it to preserve its financial health for the benefit of its investors.

The Telecom Group manages its cash and cash equivalents and its financial assets trying to match the term of investments with those of its obligations. The average term of its investments should not exceed the average term of its obligations. Cash and cash equivalents position is invested in highly-liquid short-term instruments through first-class financial entities.

The Telecom Group maintains a liquidity policy that results into a significant volume of available cash through its normal course of business as it is shown in the consolidated statement of cash flows. The Telecom Group has consolidated cash and cash equivalents amounting to \$3,945 (equivalent to US\$ 250

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million) as of December 31, 2016 (in 2015, P\$870 million, equivalent to US\$ 67 million). Of this amount, approximately P\$244 million of cash and cash equivalents was held by Telecom Argentina on a stand-alone basis. The Telecom Group has approximately P\$66 million of restricted cash in connection with legal proceedings. Such restricted cash has been classified as Other Receivables, net on our balance sheet.

Telecom Argentina's Board of Directors, at its meeting held on March 16, 2017, called an Ordinary and Extraordinary Shareholders meeting to be held on April 27, 2017, to consider among other issues the allocation of Telecom Argentina's retained earnings as of December 31, 2016, (P\$3,975 million). The proposal of the Board of Directors is to allocate all the retained earnings to the Reserve for Future Cash Dividends. In addition the Board proposed the reduction of the Voluntary Reserve for Capital Investments by P\$2,730 million and the release of the Voluntary Reserve for Future Investments (P\$2,904 million), increasing in turn the Reserve for Future Cash Dividends by P\$5,634 million.

Our ability to generate sufficient cash from our operations in order to satisfy our indebtedness and capital expenditure needs may be affected by macroeconomic factors influencing our business, including, without limitation the exchange rate of Argentine Pesos to U.S. dollars and rates of inflation; among others. These factors are not within our control. Certain statements expressed in this section constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties. Actual results may differ materially from our expectations described above as a result of various factors.

Capital Expenditures

We estimate that our capital expenditures for the year 2017 will be approximately 20% of consolidated revenues.

In the Personal Mobile Services segment, the capital expenditures were mainly oriented towards the deployment of the 4G technology and the extension of the coverage and capacity of our network in numerous cities across Argentina. The objectives were reached mainly through new sites, together with replacement plans and the upgrade of the current network. At the same time, new investments were made in connection with the swap of the Core Platform.

In the Fixed Services segment, specifically in the access area, the investment in deployment of new technologies continued to provide higher bandwidth to customers, mainly over Gigabit-capable Passive Optical Network (GPON) technology whose deployment began massively.

Following the strategy of previous years, in the transportation area, investments were made on the deployment of interurban trunk optical fiber, the increase in the capacity and security of the WDM (Dense Wavelength Division Multiplexing) Centurión network, the capacity increase of the Backbone IP and the addition of new POPs of content.

Also, investments continued on the installation of equipment for the Metro Ethernet network and the evolution of the capacity and capillarity of regional transportation, especially on the Packet Transport Network.

In both business segments, major investments were made on IT projects.

We expect to finance our capital expenditures through cash generated through our operations, cash on hand and financing from third parties; therefore, our ability to fund these expenditures is dependent on, among other factors, our ability to generate sufficient funds internally. Our ability to generate sufficient funds for capital expenditures is also dependent on our ability to increase rates, on the increase of our operating costs due to inflation and on the increase of the cost of imported materials as they may increase in peso terms (as a result of the decline in the peso/U.S. dollar exchange rate and higher inflation).

Additional relevant information on the possible application of IAS 29 in the Telecom Group as of 31 December 2016, 2015 and 2014

As explained in Note 1.e) to our Consolidated Financial Statements, we believe that the periodic assessment of the macroeconomic environment of the countries in which the Company operates and the possible restatement of financial statements in accordance to IAS 29, represent an element of care and concern for investors, analysts and regulators of capital markets where Argentine companies list their equity and debt securities, related to the impact that such restatement might have on their financial position and results of operations of Argentine companies, including the Telecom Group.

In Argentina, section 62 of LGS *in fine* [Adjustment] provides that financial statements corresponding to full years or intermediate periods within a same year must be stated in constant currency. This legal requirement was last applied by Argentine companies in February 2003, when PEN Decree No.

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664/03 was issued, preventing Controlling Authorities from receiving financial statements restated or adjusted by inflation. From 2003 to 2015, although inflation levels were increasing, they had not reached levels that required accounting standards to reinstall the accounting inflation adjustment.

Since the mandatory application of IFRS for issuers listed in public offering (2012), year 2016 was the first one to experience inflation rates, which, combined with those of the previous two years, exceeded the expected quantitative indicator stated in section e) of IAS 29. Consequently, since fiscal year 2016, the application of inflation adjustment under IFRS for companies with operations in Argentina and having the Argentine peso as its functional currency has become a significant matter.

By the end of 2016, our Management has acknowledged of certain assessments performed by international audit firms and the IPTF which have agreed that, for 2016, the Argentine economy does not qualify as hyperinflationary in accordance with IAS 29 or highly inflationary in accordance with US GAAP. As a result, and as explained in Note 1.e) to our Consolidated Financial Statements, we continued to prepare its financial statements in historical currency as provided by IFRS in those circumstances.

However, as inflation rates reached high levels in the first half of 2016, the Company prudently estimated the impact of the possible financial information restatement provided by IAS 29 and disclosed it in notes to interim financial statements as of June 30, 2016 and September 30, 2016.

While our Management understands that in 2017 inflation rates will be significantly reduced, IAS 29 and IPTF recommended Argentine issuers to continue monitoring the Argentine economy qualification as highly inflationary (or not). Given the retroactive nature of the potential financial information restatement, we provide to our stakeholders the following aggregate estimation of IAS 29 application for the amounts reported in accordance with IFRS as of December 31, 2016, 2015 and 2014, taking into account that the restatement for inflation should be made from February 2003 only for Argentine entities of the Group and using the IPIM evolution published by the INDEC (which increased approximately 513% in the period February 2003 - December 2016, assuming an inflation rate of 7.8% for November - December 2015 period, as explained in Note 1. e) to our Consolidated Financial Statements.

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The table below shows the evolution of the consolidated shareholders' equity estimating that IAS 29 is applied for the years 2016, 2015 and 2014:

| <u>Consolidated statements of changes in equity restated for inflation according with IAS 29 (*)</u> | 12/31/16 | 12/31/15 | 12/31/14 |
|---|-----------------|-----------------|-----------------|
| (in billions of Argentine pesos and in constant currency as of December 31, 2016) | | | |
| Equity at the beginning of the year | 35.2 | 33.5 | 32.9 |
| Dividends | (2.3) | (1.3) | (2.2) |
| Net income | 1.4 | 2.9 | 2.8 |
| Other Comprehensive Results | (0.2) | 0.1 | - |
| Comprehensive Income | 1.2 | 3.0 | 2.8 |
| Equity at the end of the year applying IAS 29 | 34.1 | 35.2 | 33.5 |
| <i>Capital + Adjustment of Capital</i> | <i>22.5</i> | <i>22.5</i> | <i>22.5</i> |
| <i>Treasury shares acquisition cost</i> | <i>(1.0)</i> | <i>(1.0)</i> | <i>(1.0)</i> |
| <i>Legal Reserve + Special reserve for IFRS implementation</i> | <i>2.9</i> | <i>2.9</i> | <i>2.9</i> |
| <i>Voluntary Reserves + Retained Earnings</i> | <i>9.4</i> | <i>10.3</i> | <i>8.7</i> |
| Other Comprehensive Results | (0.2) | - | (0.1) |
| Attributable to Telecom Argentina (Controlling Company) | 33.6 | 34.7 | 33.0 |
| Attributable to non-controlling interest | 0.5 | 0.5 | 0.5 |

(*) These figures represent the best estimation of the Company's Management as of the date this document. An estimation of restatement of financial statements with more detail and precision as required by IAS 29 could generate different figures. However, the Company's Management believes that figures would be similar to those presented in the table above with the same trends of impacts. The estimation includes the effect of adjustment for inflation not taxable/ deductible under income tax law, which was recorded as a temporary difference resulting in a deferred tax liability.

The table below shows a brief reconciliation of the main differences reported between amounts according to IFRS and those that would be required applying IAS 29 for 2016 and comparative years:

| <u>Equity reconciliation between IFRS and possible application of IAS 29(*)</u> | 12/31/16 | 12/31/15 |
|---|-----------------|-----------------|
| (in billions of Argentine pesos and in constant currency as of December 31, 2016) | | |
| Consolidated equity according to IFRS included in the Statements of Financial Position | 19.9 | 17.6 |
| <u>Eventual Inflation adjustment effects provided by IAS 29</u> | | |
| Inventory restatement | 0.1 | 0.9 |
| PP&E restatement | 15.2 | 19.2 |
| Intangible asset restatement | 6.8 | 7.5 |
| Deferred income tax liability from non-monetary items restatement (non-taxable) | (7.9) | (6.3) |
| Previous year monetary items restatement for comparative purpose | - | (3.7) |
| Total inflation adjustments effects of IAS 29 | 14.2 | 17.6 |

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| | | |
|--|-------------|-------------|
| Consolidated equity as of December 31, 2016 applying IAS 29 | 34.1 | 35.2 |
|--|-------------|-------------|

Consolidated equity would have increased because of the restatement of non-monetary items located in Argentina (Inventories, PP&E and Intangible assets), net of the income tax deferred liability related to the non-deduction of such restatement.

| | | | |
|--|-----------------|-----------------|-----------------|
| <u>Consolidated Net income reconciliation between IFRS and possible application of IAS 29 (*)</u> | 12/31/16 | 12/31/15 | 12/31/14 |
|--|-----------------|-----------------|-----------------|

(in billions of Argentine pesos and in constant currency as of December 31, 2016)

| | | | |
|--|------------|------------|------------|
| Consolidated net income according to IFRS included in the Income Statements | 4.0 | 3.4 | 3.7 |
|--|------------|------------|------------|

Eventual Inflation adjustment effects provided by IAS 29

| | | | |
|--|--------------|--------------|--------------|
| Sales restatement | 4.1 | 20.3 | 24.2 |
| Other income restatement | 0.1 | 0.1 | - |
| Operating costs (without depreciation and amortization) restatement | (3.8) | (15.1) | (18.2) |
| Operating income before D&A effect | 0.4 | 5.3 | 6.0 |
| Depreciation and amortization and PP&E impairment restatement | (4.8) | (5.4) | (5.4) |
| Operating income effect | (4.4) | (0.1) | 0.6 |
| Net Financial income (costs) restatement | (0.2) | (0.4) | 0.2 |
| REI (Inflation adjustment) | 3.9 | 2.4 | 1.6 |
| Income before income tax effect | (0.7) | 1.9 | 2.4 |
| Income tax restatement | (1.9) | (2.4) | (3.3) |
| <i>Of which inflation adjustment accounting effect (non-taxable)</i> | <i>(1.8)</i> | <i>(0.6)</i> | <i>(0.8)</i> |
| Total inflation adjustments effects of IAS 29 | (2.6) | (0.5) | (0.9) |

| | | | |
|---|------------|------------|------------|
| Consolidated net income applying IAS 29 | 1.4 | 2.9 | 2.8 |
| <i>Attributable to Telecom Argentina</i> | <i>1.4</i> | <i>2.9</i> | <i>2.7</i> |
| <i>Attributable to non-controlling shareholders</i> | <i>-</i> | <i>-</i> | <i>0.1</i> |

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Net income for the years reported would be reduced mainly due to depreciation restatement and the consumption of non-monetary assets (which restated value increased considerably) and the non-deduction of income taxes of those higher depreciation and consumption of non-monetary assets. Financial results would instead be benefited from a positive REI (Result from Inflation Exposure) in all years reported since the Group has a net liability position. Operating income before D&A, in margin over sales terms, would face slight declines as compared to historical amounts reported according to IFRS and operating income margin over sales would be deteriorated in 2016 and 2015 as a result of higher restated depreciations.

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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: March 22, 2017

By: /s/ Pedro G. Insussarry
Name: Pedro G. Insussarry
Title: Responsible for Market
Relations
