

TELECOM ARGENTINA SA
Form 6-K
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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 January 2016

Commission File Number: 001-13464

Telecom Argentina S.A.

(Translation of registrant's name into English)

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Buenos Aires, Argentina

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**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2015**

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(In millions of Argentine pesos or as expressly indicated)

1. General considerations

As required by CNV regulations, the Company has prepared its consolidated financial statements as of September 30, 2015 under IFRS. Additional information is given in Note 1 to the consolidated financial statements.

2. Telecom Group's activities for the nine-month periods ended September 30, 2015 (9M15) and 2014 (9M14)

Total revenues and other income for 9M15 amounted to \$28,605 (+18.1% vs. 9M14), operating costs including depreciations, amortizations and gain on disposal of PP&E and impairment of PP&E amounted to \$24,146 (+18.5% vs. 9M14), operating income before depreciation and amortization amounted to \$7,664 (+23.9% vs. 9M14) representing 26.8% of consolidated revenues, operating income amounted to \$4,459 (+16.0% vs. 9M14) and net income amounted to \$2,778 (+3.5% vs. 9M14). Net income attributable to Telecom Argentina amounted to \$2,757 in 9M15 (+4.3% vs. 9M14).

| | 9M15 | 9M14 | Variation | |
|--|--------------|--------------|------------------|-------------|
| | | | \$ | % |
| Revenues | 28,590 | 24,183 | 4,407 | 18.2 |
| Other income | 15 | 40 | (25) | (62.5) |
| Operating costs without depreciation and amortization | (20,941) | (18,037) | (2,904) | 16.1 |
| Operating income before depreciation and amortization | 7,664 | 6,186 | 1,478 | 23.9 |
| Depreciation and amortization | (3,154) | (2,354) | (800) | 34.0 |
| Gain on disposal of PP&E and impairment of PP&E | (51) | 11 | (62) | n/a |
| Operating income | 4,459 | 3,843 | 616 | 16.0 |
| Financial results, net | (192) | 230 | (422) | n/a |
| Income before income tax expense | 4,267 | 4,073 | 194 | 4.8 |
| Income tax expense | (1,489) | (1,389) | (100) | 7.2 |
| Net income | 2,778 | 2,684 | 94 | 3.5 |

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| | | | | |
|--|--------------|--------------|-----------|------------|
| Telecom Argentina (Controlling Company) | 2,757 | 2,644 | 113 | 4.3 |
| Non-controlling interest | 21 | 40 | (19) | (47.5) |
| | 2,778 | 2,684 | 94 | 3.5 |
| Basic and diluted earnings per share attributable to Telecom Argentina (in pesos) | 2.84 | 2.73 | | |

• **Total revenues and other income**

During 9M15 consolidated total revenues increased 18.2% (+\$4,407 vs. 9M14) amounting to \$28,590 mainly fueled by the mobile services provided by Personal, Broadband and data transmission businesses.

| | 9M15 | 9M14 | \$ | Variation | % |
|----------------------------------|--|---------------|--------------|-----------|-------------|
| <u>Services</u> | | | | | |
| Retail Voice | | | | | |
| Monthly Charges | 992 | 895 | 97 | | 10.8 |
| Measured Services | 1,315 | 1,131 | 184 | | 16.3 |
| Others | 72 | 83 | (11) | | (13.3) |
| Wholesale Voice | | | | | |
| Fixed and mobile interconnection | 484 | 453 | 31 | | 6.8 |
| Others | 250 | 228 | 22 | | 9.6 |
| Data | 1,290 | 1,063 | 227 | | 21.4 |
| Internet | 3,273 | 2,345 | 928 | | 39.6 |
| | Subtotal Fixed Services | 6,198 | 1,478 | | 23.8 |
| Retail Voice | | | | | |
| Monthly Charges | 2,951 | 2,172 | 779 | | 35.9 |
| Measured Services | 1,443 | 1,220 | 223 | | 18.3 |
| Roaming | 209 | 215 | (6) | | (2.8) |
| Others | 506 | 223 | 283 | | 126.9 |
| Wholesale Voice | | | | | |
| Interconnection | 1,144 | 1,196 | (52) | | (4.3) |
| Roaming | 225 | 229 | (4) | | (1.7) |
| Mobile leases | 26 | 31 | (5) | | (16.1) |
| Data | 5,376 | 5,692 | (316) | | (5.6) |
| Internet | 4,283 | 2,294 | 1,989 | | 86.7 |
| | Subtotal Mobile Services - Personal | 13,272 | 2,891 | | 21.8 |

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| | 9M15 | 9M14 | \$ | Variation | % |
|--|---------------|---------------|--------------|------------------|-------------|
| Retail Voice | | | | | |
| Monthly Charges | 174 | 161 | 13 | | 8.1 |
| Measured Services | 201 | 237 | (36) | | (15.2) |
| Roaming | 8 | 7 | 1 | | 14.3 |
| Others | 58 | 26 | 32 | | 123.1 |
| Wholesale Voice | | | | | |
| Interconnection | 57 | 91 | (34) | | (37.4) |
| Roaming | 18 | 3 | 15 | | 500.0 |
| Others | 5 | 4 | 1 | | 25.0 |
| Data | 220 | 248 | (28) | | (11.3) |
| Internet | 388 | 321 | 67 | | 20.9 |
| Subtotal Mobile Services Núcleo | 1,129 | 1,098 | 31 | | 2.8 |
| Revenue from services | 24,968 | 20,568 | 4,400 | | 21.4 |
| <u>Equipment</u> | | | | | |
| Fixed Services | 48 | 44 | 4 | | 9.1 |
| Mobile Services- Personal | 3,468 | 3,515 | (47) | | (1.3) |
| Mobile Services Núcleo | 106 | 56 | 50 | | 89.3 |
| Revenue from equipment sales | 3,622 | 3,615 | 7 | | 0.2 |
| Total Revenues | 28,590 | 24,183 | 4,407 | | 18.2 |

Services revenues amounted to \$24,968 (+21.4% vs. 9M14) and represented 87.3% of consolidated revenues (vs. 85.1% in 9M14). Equipment revenues slightly increased amounting to \$3,622 and represented 12.7% of consolidated revenues (vs. 14.9% in 9M14).

Fixed Services

During 9M15, services revenues generated by this segment amounted to \$7,676 (+\$1,478 or 23.8% vs. 9M14), where Internet revenues have grown the most (+\$928 or +39.6% vs. 9M14), followed by voice retail services (+\$270 or +12.8% vs. 9M14) and data transmission services (+\$227 or +21.4% vs. 9M14).

Ø Voice

Voice retail revenues reached \$2,379 in 9M15 (+12.8% vs. 9M14). These revenues are still affected by tariffs of regulated services. Revenues from regulated services reached approximately 26% of the segment services revenues in 9M15 (vs. 29% in 9M14).

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Monthly Charges and Supplementary Services increased \$97 or +10.8% vs. 9M14, reaching \$992, as a consequence of an increase in supplementary services (not regulated), mainly due to an increase of their prices and, to a lesser extent, to the increase in the subscriber base. It also includes higher monthly charges to commercial, professional and government customers amounting to \$49.

Revenues generated by measured services (Local Measured Service, Domestic Long Distance and International Long Distance services) amounted to \$1,315 (+\$184 or 16.3% vs. 9M14). The increase was mainly due to the increase in plans prices (both in local and long national distance), while customers remain stable. According to this, local measured service revenues increased 24.5% vs. 9M14 and DLD revenues increased 11.4% vs. 9M14. The Average Monthly Revenue per User (ARBU) amounted to \$64.8 pesos per month in 9M15 vs. \$56.5 pesos per month amounted in 9M14, representing an increase of 14.8%. The remaining retail voice revenues amounted to \$72 in 9M15 (-13.3% vs. 9M14). The decrease was mainly due to a decrease in customers and consumption of public telecommunication services and a decrease in customers rehabilitation charges.

Voice wholesale revenues (including fixed and mobile interconnection revenues and lease of circuits, together with the revenues generated by the subsidiary Telecom USA amounting to \$105) amounted to \$734 in 9M15 (+7.8% vs. 9M14). Interconnection fixed and mobile revenues amounted to \$484 and the other wholesale revenues amounted to \$250 in 9M15 (+9.6% vs. 9M14), mainly due to higher prices related to cell sites rentals due to the variation of the \$/US\$ exchange rate.

Ø **Data**

Data revenues (including the revenues generated by the subsidiary Telecom USA amounting to \$4) amounted to \$1,290 (+\$227 or +21.4% vs. 9M14). These revenues were generated focusing on the Company's position as an integrated TIC 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 \$/US\$ exchange rate and to the increase in the number of customers of *Innovation* services (particularly *Integra*, which increased \$15 or +7.1% vs. 9M14).

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Ø **Internet**

Internet revenues amounted to \$3,273 (+\$928 or +39.6% vs. 9M14) mainly due to the expansion of the Broadband customers (+3.1% vs. 9M14) and an increase in average prices resulting in an improvement in the Average Monthly Revenue per User (ARPU), that amounted to \$199 pesos per month in 9M15 vs. \$148.1 pesos per month in 9M14 (+34.6% vs. 9M14). As of September 30, 2015, Telecom Argentina reached approximately 1,804,000 ADSL customers. These connections represent approximately 44.5% of Telecom Argentina s fixed lines in service (vs. 42.6% in 9M14). The churn rate per month amounted to 1.4% in 9M15 (vs. 1.3% in 9M14).

Internet revenues represent 13.1% of consolidated services revenues (vs. 11.4% in 9M14) and 42.6% of Fixed Services segment services revenues (vs. 37.8% in 9M14).

Personal Mobile Services

During 9M15, total services revenues amounted to \$16,163 (+\$2,891 or 21.8% vs. 9M14), being the principal business segment in revenues terms (64.7% and 64.5% of services consolidated revenues in 9M15 and 9M14, respectively). Personal reached 19.4 million subscribers in Argentina (-1.6% vs. 9M14). Approximately 68% of the subscriber base is prepaid subscribers and 32% is postpaid subscribers (including Cuentas claras plans and Mobile Internet dongles). The churn rate per month amounted to 3.1% in 9M15 (vs. 3.0% in 9M14).

Ø **Voice**

Voice retail revenues amounted to \$5,109 in 9M15 (+33.4% vs. 9M14). The increase was mainly due to the increase in monthly charges prices for the postpaid and Cuentas claras subscribers and prepaid services, offset by the net variation of the subscribers base, showing an increase in Cuentas claras subscribers base (+4.5% vs. 9M14) and a decrease in postpaid subscribers base (-6.4% vs. 9M14) and prepaid subscribers base (-2.1% vs. 9M14).

Voice wholesale revenues amounted to \$1,395 in 9M15 (-4.2% vs. 9M14), mainly due to the decrease in interconnection traffic volume (especially TLRD and CPP).

Ø **Data**

Mobile data services revenues amounted to \$5,376 (-\$316 or -5.6% vs. 9M14). The decrease was due to lower revenues from the principal item of VAS revenues, SMS consumption, which decreased \$491 as compared to 9M14 (-14.3%), showing a decrease in TOU (-44.6% vs. 9M14) and an increase in such services prices for Cuentas claras and postpaid subscribers. 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, which represented an inter-annual increase of \$189 or +9%.

Ø **Internet**

Mobile Internet revenues amounted to \$4,283 (+\$1,989 or +86.7% vs. 9M14). 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 the existing ones to higher-value plans and the increase of subscribers that acquired 3G handsets, which facilitate Internet browsing in all subscribers' segments. Internet flat rate services revenues have decreased mainly due to the decrease of Mobile Internet dongles subscribers (-37.7% vs. 9M14).

As a consequence of the increase in monthly charges tariffs and Internet consumption, ARPU increased to \$88.8 pesos per month in 9M15 (vs. \$71.7 pesos per month in 9M14), which represents an increase of 23.8%.

VAS revenues (data and Internet) amounted to \$9,659 (+20.9% vs. 9M14) and represented 59.8% of Personal Mobile Services' services revenues (vs. 60.2% in 9M14).

Núcleo Mobile Services

This segment generated services revenues equivalent to \$1,129 during 9M15 (+\$31 or 2.8% vs. 9M14) mainly due to the Internet revenues increase (+20.9% vs. 9M14), mainly related to the increase of browsing generated by subscribers with mobile equipment prepared for that purpose. As of September 30, 2015, Núcleo's subscriber base reached 2.5 million customers. Prepaid and postpaid subscribers (including Plan Control subscribers and mobile Internet subscribers) represented 80% and 20% in 9M15, respectively.

VAS revenues (data and Internet) amounted to \$608 (+6.9% vs. 9M14) and represented 53.9% of Núcleo Mobile Services segment services revenues (vs. 51.8% in 9M14).

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The Telecom Group's services revenues increased 21.4%. Internet services revenues from all segments have maximized Telecom Group's services revenues showing a 60.2% increase vs. 9M14, increasing the relative weight over total services revenues according to the following table:

| | <u>Nine-month periods ended</u> <u>September 30,</u> | | | | <u>9M15 vs.</u> <u>9M14</u> <u>%</u> <u>variation</u> |
|-------------------------------|---|------------|---------------|------------|--|
| | <u>2015</u> | <u>%</u> | <u>2014</u> | <u>%</u> | |
| Voice Retail | 7,929 | 32 | 6,370 | 31 | 24.5 |
| Voice Wholesale | 2,209 | 9 | 2,235 | 11 | (1.2) |
| Total Voice | 10,138 | 41 | 8,605 | 42 | 17.8 |
| Data | 6,886 | 27 | 7,003 | 34 | (1.7) |
| Internet | 7,944 | 32 | 4,960 | 24 | 60.2 |
| Total service revenues | 24,968 | 100 | 20,568 | 100 | 21.4 |

Equipment

Revenues from equipment amounted to \$3,622, +\$7 or +0.2% vs. 9M14. The Personal Mobile Services segment shows a decrease of \$47 vs. 9M14 due to lower handsets sold (-35% vs. 9M14) but with an increase in handset's average sale prices (+52% vs. 9M14), resulting in a higher operating margin of handsets (+\$350 or +67.8% vs. 9M14). Núcleo Mobile Services segment reached an increase of \$50 (+89.3% vs. 9M14) due to higher sales of handsets (+72% vs. 9M14) but with a decrease in handset's average sale prices (-16% vs. 9M14).

- Operating costs**

Consolidated operating costs including depreciations, amortizations and gain on disposal of PP&E and impairment of PP&E totaled \$24,146 in 9M15, which represents an increase of \$3,766 or +18.5% vs. 9M14. The increase in costs is mainly a consequence of a 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 agent commissions and higher depreciation and amortization of PP&E and intangible assets, which were partially offset by lower costs of equipment and handsets of \$345.

Variation

Variation in \$ by segment

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| | 9M15 | 9M14 | \$ | % | Fixed Serv. | Personal M. Serv. | Núcleo M. Serv. |
|---|-----------------|-----------------|----------------|-------------|----------------|-------------------|-----------------|
| Employee benefit expenses and severance payments | (5,292) | (4,002) | (1,290) | 32.2 | (950) | (334) | (6) |
| Interconnection costs and other telecommunication charges | (1,559) | (1,536) | (23) | 1.5 | (19) | (41) | 37 |
| Fees for services, maintenance, materials and supplies | (2,860) | (2,482) | (378) | 15.2 | (219) | (152) | (7) |
| Taxes and fees with the Regulatory Authority | (2,841) | (2,399) | (442) | 18.4 | (74) | (363) | (5) |
| Commissions | (2,976) | (2,421) | (555) | 22.9 | (57) | (464) | (34) |
| Agent commissions capitalized as SAC | 781 | 634 | 147 | 23.2 | 17 | 128 | 2 |
| Cost of equipment and handsets | (2,857) | (3,202) | 345 | (10.8) | (14) | 425 | (66) |
| Cost of equipment and handsets capitalized as SAC | 66 | 83 | (17) | (20.5) | - | (28) | 11 |
| Advertising | (591) | (512) | (79) | 15.4 | 27 | (109) | 3 |
| Cost of VAS | (910) | (679) | (231) | 34.0 | (14) | (199) | (18) |
| Provisions | (174) | (102) | (72) | 70.6 | (27) | (45) | - |
| Bad debt expenses | (410) | (327) | (83) | 25.4 | 11 | (99) | 5 |
| Other operating expenses | (1,318) | (1,092) | (226) | 20.7 | (90) | (128) | (8) |
| Subtotal | (20,941) | (18,037) | (2,904) | 16.1 | (1,409) | (1,409) | (86) |
| Depreciation of PP&E | (2,165) | (1,740) | (425) | 24.4 | (166) | (253) | (6) |
| Amortization of SAC and service connection charges | (733) | (596) | (137) | 23.0 | (28) | (106) | (3) |
| Amortization of 3G/4G Licenses | (227) | - | (227) | n/a | - | (227) | - |
| Amortization of other intangible assets | (29) | (18) | (11) | 61.1 | - | - | (11) |
| Gain on disposal of PP&E and impairment of PP&E | (51) | 11 | (62) | n/a | 15 | (77) | - |
| Total operating costs | (24,146) | (20,380) | (3,766) | 18.5 | (1,588) | (2,072) | (106) |

The costs breakdown is as follows:

Employee benefit expenses and severance payments

Employee benefit expenses and severance payments amounted to \$5,292 (+\$1,290 or +32.2% vs. 9M14). The increase was mainly due to increases in salaries agreed by Telecom Argentina with several trade unions for the unionized employees and also to non-unionized employees, together with related social security charges. With a total headcount of 16,269 by the end of 9M15 (vs. 16,540 employees in 9M14), lines in service per employee reached 373 in the Fixed Services segment (+0.8% vs. 9M14), subscribers per employee reached 3,884 in the Personal Mobile Services segment (-1.3% vs. 9M14) and subscribers per employee reached 6,186 (+6.3% vs. 9M14) in the Núcleo Mobile Services segment.

Employee benefit expenses and severance payments represents in 9M15 18.5% of consolidated revenues (vs. 16.5% in 9M14).

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Interconnection costs and other telecommunication 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 \$1,559 (+\$23 or +1.5% vs. 9M14). The increase was mainly due to higher TLRD costs offset by lower traffic volume in roaming vs. 9M14.

Fees for services, maintenance, materials and supplies

Fees for services, maintenance, materials and supplies amounted to \$ 2,860, +\$378 or +15.2% vs. 9M14. The increase was mainly due to higher maintenance costs of radio bases and buildings in the mobile services segments, as a result of the variation in the \$/US\$ exchange rate, an increase in technical assistance cost of radio bases, higher costs of building maintenance, higher costs of sites location and 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, fees with the Regulatory Authority, IDC, municipal and other taxes) amounted to \$2,841 (+18.4% vs. 9M14), influenced mainly by the increase in revenues of fixed and mobile services and by the increase of the IDC related to higher collections and payments to suppliers in 9M15 vs. 9M14.

Commissions

Commissions (including Agent, distribution of prepaid cards and other commissions) amounted to \$2,976 (+\$555 or +22.9% vs. 9M14). The increase was mainly due to the increase in Agents' commissions (associated to higher revenues) as a result of higher customer's acquisition and retention costs recognized to them and the increase of outsourced sales commissions and collection commissions related to higher cash flows as compared to 9M14.

On the other hand, agent commissions capitalized as SAC amounted to \$781, +\$147 or +23.2% vs. 9M14, and it is directly related to the increase in the Cuentas claras subscribers base in the Personal Mobile Services segment and the increase in the commissions prices.

Cost of equipment and handsets

Cost of equipments and handsets amounted to \$2,857 (-\$345 or -10.8% vs. 9M14) mainly due to a decrease in the units of handsets sold (-35% vs. 9M14), partially offset by an increase in the average unit cost of sales (+32% vs. 9M14) in the Personal Mobile Services segment.

On the other hand, SAC deferred costs from handsets sold amounted to \$66, -\$17 or -20.5% vs. 9M14. The lower capitalized amount was mainly due to the significant reduction of subsidies provided to customers in the Personal Mobile Services segment, especially in the postpaid segment.

Advertising

Advertising amounted to \$591 (+\$79 or +15.4% vs. 9M14), mainly due to higher commercial campaigns of Personal related to the launching of the 4G services throughout the country as compared to 9M14, 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 \$910 (+\$231 or +34.0% vs. 9M14). The increase was mainly due to the increase of VAS sales in the Personal Mobile Services segment, especially the SMS with content service, which grew as a consequence of several campaigns launched by Personal. Cost of VAS over its related revenues increased from 30% in 9M14 to 36% in 9M15.

Provisions

Provisions amounted to \$174, +\$72 or +70.6% vs. 9M14. The increase was mainly due to higher labor claims (+\$32 vs. 9M14), higher civil and commercial claims (+\$34 vs. 9M14) and higher regulatory and municipal contingencies (+\$6 vs. 9M14).

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Bad debt expenses

Bad debt expenses amounted to \$410 (+\$83 or +25.4% vs. 9M14), representing approximately 1.4% of the consolidated revenues in 9M15 and 9M14. 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 postpaid and Cuentas claras subscribers. The mentioned increase was partially offset by a \$19 decrease of these expenses in the Government and Corporate segment in Telecom Argentina in 9M15 as a consequence of the collections from some governmental entities.

Other operating costs

Other operating costs amounted to \$1,318 (+\$226 or +20.7% vs. 9M14). The increase was mainly due to higher prices on related services, especially in transportation, freight and travel expenses (+\$122 or +30.4% vs. 9M14), among others, in the operations in Argentina; the increase of rent prices (+\$89 or +29.8% vs. 9M14), as a result of new agreements and the renegotiation of some of the existing ones and the increase of the consumption of electricity (+\$38 or +18.0% vs. 9M14).

• **Operating income before depreciation and amortization**

Operating income before depreciation and amortization amounted to \$7,664 (+\$1,478 or 23.9% vs. 9M14), representing 26.8% of consolidated revenues in 9M15 (vs. 25.6% in 9M14). This growth was mainly fueled by the Fixed Services segment (+\$196 or +12.7% vs. 9M14) and Personal Mobile Services segment (+\$1,286 or +30.5% vs. 9M14).

Operating income before depreciation and amortization generated by equipment and handset sales (including SAC capitalization) amounted to \$831 in 9M15 vs. \$496 in 9M14 (+\$335 or 67.5% vs. 9M14), while operating income before depreciation and amortization generated by services sales amounted to \$6,833 in 9M15 vs. \$5,690 in 9M14 (+\$1,143 or +20.1% vs. 9M14).

Depreciation and amortization

Depreciation and amortization amounted to \$3,154 (+\$800 or +34.0% vs. 9M14). The increase in depreciation and amortization includes \$425 from PP&E depreciation, \$238 from amortization of intangible assets without SAC (mainly 3G/4G Licenses which started their amortization in December 2014 and June 2015 and generated \$227 in 9M15) and \$137 from amortization of SAC and service connection costs. The increase in depreciation and amortization corresponds 24% to the Fixed Services segment and 76% to the mobile services segments.

Gain on disposal of PP&E and impairment of PP&E

Gain on disposal of PP&E increased \$10 vs. 9M14 and an impairment of \$79 related to work in progress was recorded in 9M15 in Personal Mobile Services segment, which includes \$49 mainly related to the mobile pricing system needed for the new management system.

- **Operating income**

Operating income amounted to \$4,459 in 9M15 (+\$616 or 16.0% vs. 9M14). The margin over consolidated revenues represented 15.6% in 9M15 (vs. 15.9% in 9M14). This growth was mainly fueled by the Personal Mobile Services segment (+\$623 or +20.5% vs. 9M14) and the Fixed Services segment (+\$17 or +2.6% vs. 9M14).

- **Financial results, net**

Financial results, net resulted in a net loss of \$192, representing an increase of \$422 vs. 9M14. This net loss is related to the net financial position, which turned into a net financial debt during 2015 as a consequence of the higher Group's investments. The increase was mainly due to higher interests on loans (+\$255 vs. 9M14) and lower financial interest on time deposits and other investments as consequence of the decrease of financial assets (-\$179 vs. 9M14), partially offset by higher interests on receivables (+\$14 vs. 9M14), higher net gains on NDF (+\$9 vs. 9M14) and lower net foreign currency exchange losses (-\$11 vs. 9M14).

- **Net income**

Telecom Argentina reached a net income of \$2,778 in 9M15, +\$94 or +3.5% as compared to 9M14, representing 9.7% of the consolidated revenues in 9M15 (vs. 11.1% in 9M14). Net income attributable to Telecom Argentina amounted to \$2,757 in 9M15, +\$113 or +4.3% as compared to 9M14.

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- Net financial assets**

As of September 30, 2015, net financial debt (Cash and Cash Equivalents plus financial investments minus Financial debt) amounted to \$1,586, showing a decrease of \$5,112 as compared to the net financial asset as of September 30, 2014 (amounting to \$3,526). This variation was mainly due to a decrease in the generation of cash from operating activities of the Telecom Group, mainly by higher CAPEX which include the acquisition of the 3G/4G Licenses amounting \$5,786 as of December 2014 and June 2015 - and cash dividends paid to its shareholders for a total amount of \$861 (including tax withholding on cash dividends). As of September 30, 2015, the Fixed Services segment has a financial asset of \$464 while Personal Mobile Services segment has a net financial debt of \$1,853 and Núcleo Mobile Services segment has a net financial debt of \$197.

- Capital expenditures (CAPEX)**

CAPEX composition for 9M15 and 9M14 is as follows:

| | In millions of \$ | | % of participation | | Variation | |
|------------------------------|-------------------|--------------|--------------------|-------------|--------------|------------|
| | 9M15 | 9M14 | 9M15 | 9M14 | \$ | % |
| Fixed Services | 1,793 | 1,542 | 26% | 40% | 251 | 16% |
| Personal Mobile Services (*) | 4,745 | 2,060 | 70% | 54% | 2,685 | 130% |
| Núcleo Mobile Services | 253 | 217 | 4% | 6% | 36 | 17% |
| Total CAPEX | 6,791 | 3,819 | 100% | 100% | 2,972 | 78% |

(*) Include 4G License for an amount of \$2,256 in 9M15.

PP&E CAPEX amounted to \$3,577 and intangible assets CAPEX amounted to \$3,214 in 9M15, while in 9M14 amounted to \$3,035 and \$784, respectively. The increase in intangible assets CAPEX was mainly due to the acquisition of the last Lot of 4G Licenses for an amount of \$2,256 during June 2015.

In relative terms, CAPEX represented 23.8% of consolidated revenues in 9M15 (15.8% in 9M14), and were intended mainly to the already mentioned 4G License (7.9% of consolidated revenues in 9M15), to the external wiring and network access equipment, to the initial deployment of the new 4G network, transmission and switching equipment, computer equipment and SAC.

PP&E and intangible assets additions (CAPEX plus materials additions) for 9M15 and 9M14 are as follows:

| | In millions of \$ | | % of participation | | Variation | |
|------------------------------|-------------------|--------------|--------------------|-------------|--------------|------------|
| | 9M15 | 9M14 | 9M15 | 9M14 | \$ | % |
| Fixed Services | 2,096 | 1,853 | 26% | 44% | 243 | 13% |
| Personal Mobile Services (*) | 5,503 | 2,168 | 70% | 51% | 3,335 | 154% |
| Núcleo Mobile Services | 302 | 237 | 4% | 6% | 65 | 27% |
| Total additions | 7,901 | 4,258 | 100% | 100% | 3,643 | 86% |

(*) Include 4G License for an amount of \$2,256 in 9M15.

Main PP&E CAPEX projects are related to the expansion of fixed broadband services in order to improve transmission and speed offered to customers; deployment of 3G and 4G services to support the growth of mobile Internet, improvement of the quality service together with the launch of innovative VAS services and the expansion of transmission and transport networks to meet the growing demand of services of our fixed and mobile customers.

3. *Telecom Group s activities for the three-month periods ended September 30, 2015 (3Q15) and 2014 (3Q14)*

Telecom Group s net income amounted to \$800 in 3Q15, -\$48 or -5.7% vs. 3Q14. Net income attributable to Telecom Argentina amounted to \$801 in 3Q15 (-\$38 or -4.5% vs. 3Q14).

Total revenues and other income increased 17.3% vs. 3Q14 and operating income before depreciation and amortization amounted to \$2,529 (+\$462 or 22.4% vs. 3Q14), representing 25.1% of the consolidated revenues (vs. 24.0% in 3Q14). Operating income amounted to \$1,311 (+\$86 or 7.0% vs. 3Q14). Financial results, net amounted to -\$73 (-\$149 vs. 3Q14), while income tax expenses amounted to \$438 (-\$15 or -3.3% vs. 3Q14). Net income amounted to \$800 (-\$48 or -5.7% vs. 9M14).

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF SEPTEMBER 30, 2015

Table of Contents**TELECOM ARGENTINA S.A.**

| | 3Q15 | 3Q14 | Variation | |
|--|--------------|--------------|-------------|--------------|
| | | | \$ | % |
| Revenues | 10,094 | 8,598 | 1,496 | 17.4 |
| Other income | 4 | 10 | (6) | (60.0) |
| Operating costs without depreciation and amortization | (7,569) | (6,541) | (1,028) | 15.7 |
| Operating income before depreciation and amortization | 2,529 | 2,067 | 462 | 22.4 |
| Depreciation and amortization | (1,164) | (843) | (321) | 38.1 |
| Gain on disposal of PP&E and impairment of PP&E | (54) | 1 | (55) | n/a |
| Operating income | 1,311 | 1,225 | 86 | 7.0 |
| Financial results, net | (73) | 76 | (149) | n/a |
| Income before income tax expense | 1,238 | 1,301 | (63) | (4.8) |
| Income tax expense | (438) | (453) | 15 | (3.3) |
| Net income | 800 | 848 | (48) | (5.7) |
| Attributable to: | | | | |
| Telecom Argentina (Controlling Company) | 801 | 839 | (38) | (4.5) |
| Non-controlling interest | (1) | 9 | (10) | n/a |
| | 800 | 848 | (48) | (5.7) |
| Basic and diluted earnings per share attributable to Telecom Argentina (in pesos) | | | | |
| | 0.83 | 0.87 | | |

During 3Q15 consolidated revenues increased 17.4% (+\$1,496 vs. 3Q14) amounting to \$10,094, mainly fueled by mobile services, Broadband and voice retail services in the Fixed Services segment.

| | 3Q15 | 3Q14 | Variation | |
|--|---------------|--------------|--------------|--------------|
| | | | \$ | % |
| <u>Services</u> | | | | |
| Retail Voice | 846 | 723 | 123 | 17.0 |
| Wholesale Voice | 255 | 228 | 27 | 11.8 |
| Data | 451 | 380 | 71 | 18.7 |
| Internet | 1,198 | 842 | 356 | 42.3 |
| Subtotal Fixed Services | 2,750 | 2,173 | 577 | 26.6 |
| Retail Voice | 1,850 | 1,235 | 615 | 49.8 |
| Wholesale Voice | 466 | 480 | (14) | (2.9) |
| Data | 1,763 | 2,015 | (252) | (12.5) |
| Internet | 1,594 | 869 | 725 | 83.4 |
| Subtotal Personal Mobile Services | 5,673 | 4,599 | 1,074 | 23.4 |
| Retail Voice | 148 | 154 | (6) | (3.9) |
| Wholesale Voice | 24 | 41 | (17) | (41.5) |
| Data | 72 | 84 | (12) | (14.3) |
| Internet | 127 | 114 | 13 | 11.4 |
| Subtotal Núcleo Mobile Services | 371 | 393 | (22) | (5.6) |
| Total services revenues | 8,794 | 7,165 | 1,629 | 22.7 |
| <u>Equipment</u> | | | | |
| Fixed Services | 25 | 13 | 12 | 92.3 |
| Personal Mobile Services | 1,235 | 1,400 | (165) | (11.8) |
| Núcleo Mobile Services | 40 | 20 | 20 | 100.0 |
| Total equipment revenues | 1,300 | 1,433 | (133) | (9.3) |
| Total revenues | 10,094 | 8,598 | 1,496 | 17.4 |

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Consolidated operating costs including depreciation, amortization and gain on disposal of PP&E and impairment of PP&E amounted to \$8,787 in 3Q15, which represented an increase of \$1,404 or 19.0% vs. 3Q14. 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 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 depreciation and amortization of PP&E and intangible assets and higher losses related to PP&E impairment, partially offset by lower equipment and handsets cost (-39% of equipment and handset sold).

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF SEPTEMBER 30, 2015

VIII

Table of Contents**TELECOM ARGENTINA S.A.**

| | 3Q15 | 3Q14 | Variation | |
|---|----------------|----------------|------------------|-------------|
| | | | \$ | % |
| Employee benefit expenses and severance payments | (2,034) | (1,465) | (569) | 38.8 |
| Interconnection costs and other telecommunication charges | (558) | (516) | (42) | 8.1 |
| Fees for services, maintenance, materials and supplies | (991) | (883) | (108) | 12.2 |
| Taxes and fees with the Regulatory Authority | (988) | (835) | (153) | 18.3 |
| Commissions | (1,067) | (941) | (126) | 13.4 |
| Agent commissions capitalized as SAC | 268 | 272 | (4) | (1.5) |
| Cost of equipment and handsets | (1,080) | (1,252) | 172 | (13.7) |
| Cost of equipment and handsets capitalized as SAC | 24 | 26 | (2) | (7.7) |
| Advertising | (221) | (171) | (50) | 29.2 |
| Cost of VAS | (313) | (273) | (40) | 14.7 |
| Provisions | (7) | - | (7) | n/a |
| Bad debt expenses | (129) | (94) | (35) | 37.2 |
| Other operating expenses | (473) | (409) | (64) | 15.6 |
| Subtotal | (7,569) | (6,541) | (1,028) | 15.7 |
| Depreciation of PP&E | (774) | (634) | (140) | 22.1 |
| Amortization of SAC and service connection charges | (276) | (203) | (73) | 36.0 |
| Amortization of 3G/4G Licenses | (96) | - | (96) | n/a |
| Amortization of other intangible assets | (18) | (6) | (12) | 200.0 |
| Gain on disposal of PP&E and impairment of PP&E | (54) | 1 | (55) | n/a |
| Total operating costs | (8,787) | (7,383) | (1,404) | 19.0 |

CAPEX amounted to \$2,101 in 3Q15 and amounted to \$1,554 in 3Q14 (+\$547 or +35.2%).

| | |
|-----------|--|
| 4. | <i>Summary of comparative consolidated statements of financial position</i> |
|-----------|--|

| | 2015 | 2014 | September 30, | | 2012 | 2011 |
|--|---------------|---------------|----------------------|---------------|---------------|-------------|
| | | | 2013 | | | |
| Current assets | 9,666 | 8,249 | 10,105 | 5,885 | 4,495 | |
| Non-current assets | 24,360 | 16,423 | 11,845 | 10,266 | 9,086 | |
| Total assets | 34,026 | 24,672 | 21,950 | 16,151 | 13,581 | |
| Current liabilities | 14,503 | 8,829 | 7,639 | 5,118 | 4,654 | |
| Non-current liabilities | 2,887 | 2,129 | 2,052 | 1,727 | 1,391 | |
| Total liabilities | 17,390 | 10,958 | 9,691 | 6,845 | 6,045 | |
| Equity attributable to Telecom Argentina (Controlling Company) | 16,318 | 13,378 | 12,027 | 9,137 | 7,391 | |
| Equity attributable non-controlling interest | 318 | 336 | 232 | 169 | 145 | |
| Total Equity | 16,636 | 13,714 | 12,259 | 9,306 | 7,536 | |
| Total liabilities and equity | 34,026 | 24,672 | 21,950 | 16,151 | 13,581 | |

5. *Summary of comparative consolidated income statements*

| | 3Q15 | 3Q14 | 3Q13 | 3Q12 | 3Q11 | 9M15 | 9M14 | 9M13 | 9M12 | 9M11 |
|--|--------------|--------------|--------------|------------|------------|--------------|--------------|--------------|--------------|--------------|
| Revenues and other income | 10,098 | 8,608 | 7,127 | 5,652 | 4,780 | 28,605 | 24,223 | 19,853 | 16,041 | 13,381 |
| Operating costs | (8,787) | (7,383) | (5,924) | (4,731) | (3,846) | (24,146) | (20,380) | (16,590) | (13,238) | (10,518) |
| Operating income | 1,311 | 1,225 | 1,203 | 921 | 934 | 4,459 | 3,843 | 3,263 | 2,803 | 2,863 |
| Financial results, net | (73) | 76 | 163 | 47 | 21 | (192) | 230 | 377 | 159 | 38 |
| Income before income tax expense | 1,238 | 1,301 | 1,366 | 968 | 955 | 4,267 | 4,073 | 3,640 | 2,962 | 2,901 |
| Income tax expense | (438) | (453) | (480) | (339) | (339) | (1,489) | (1,389) | (1,279) | (1,039) | (1,009) |
| Net income | 800 | 848 | 886 | 629 | 616 | 2,778 | 2,684 | 2,361 | 1,923 | 1,892 |
| Other comprehensive income, net of tax | (37) | - | 54 | 27 | (12) | (86) | 233 | 83 | 48 | 48 |
| Total comprehensive income | 763 | 848 | 940 | 656 | 604 | 2,692 | 2,917 | 2,444 | 1,971 | 1,940 |
| Attributable to Telecom Argentina (Controlling Company) | 781 | 840 | 905 | 634 | 601 | 2,704 | 2,797 | 2,378 | 1,923 | 1,902 |
| Attributable to non-controlling interest | (18) | 8 | 35 | 22 | 3 | (12) | 120 | 66 | 48 | 38 |

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF September 30, 2015

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6. *Statistical data (in physical units)*v *Fixed services**Voice and data services (in thousands, except for lines in service per inhabitants and employees)*

| | 9M15 | | 9M14 | | 9M13 | | 9M12 | | 9M11 | |
|--|--------------|-----------|-------------|---------|-------------|---------|-------------|---------|-------------|---------|
| | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter |
| Equipment lines | 3,552 | - | 3,538 | 10 | 3,575 | (248) | 3,805 | 1 | 3,802 | (2) |
| NGN lines | 1,318 | 24 | 1,195 | 11 | 1,139 | 31 | 1,005 | 18 | 974 | 51 |
| Installed lines (a) | 4,870 | 24 | 4,733 | 21 | 4,714 | (217) | 4,810 | 19 | 4,776 | 49 |
| Lines in service (b) | 4,054 | (10) | 4,106 | 3 | 4,124 | 10 | 4,140 | (8) | 4,132 | 13 |
| Customers lines (c) | 3,980 | (9) | 4,028 | 3 | 4,043 | 10 | 4,056 | (8) | 4,047 | 14 |
| Public phones installed | 27 | (1) | 31 | - | 34 | (1) | 38 | (1) | 41 | (1) |
| Lines in service per 100 inhabitants (d) | 19.2 | - | 20.2 | - | 20.4 | - | 20.7 | - | 20.8 | 0.1 |
| Lines in service per employee (e) | 373 | (2) | 370 | (1) | 373 | - | 369 | (1) | 372 | - |

(a) Reflects total number of lines available in Switches, considered independently of its technology (TDM or NGN).

(b) Includes customers lines, own lines, public telephones and DDE and ISDN channels.

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- (c) The number of customers is measured in relation to the physical occupation of network resources.
- (d) Corresponding to the Northern Region of Argentina.
- (e) Defined as lines in service / number of actual employees.

Internet (in thousands)

| | 9M15 | | 9M14 | | 9M13 | | 9M12 | | 9M11 | |
|------------------------|-------------|---------|-------------|---------|-------------|---------|-------------|---------|-------------|---------|
| | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter |
| Total ADSL subscribers | 1,804 | 18 | 1,750 | 24 | 1,669 | 35 | 1,612 | 18 | 1,505 | 4 |

v **Mobile services**

Personal (in thousands, except for subscriber per employee disclosed in units)

| | 9M15 | | 9M14 | | 9M13 | | 9M12 | | 9M11 | |
|---------------------------|---------------|-----------|---------------|------------|---------------|------------|---------------|------------|---------------|-----------|
| | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter |
| Post-paid subscribers (i) | 2,069 | 6 | 2,210 | (93) | 2,450 | 12 | 2,353 | 57 | 2,093 | 10 |
| Cuentas claras plans (i) | 4,092 | 82 | 3,915 | 62 | 3,749 | 106 | 3,341 | 109 | 2,978 | 9 |
| Prepaid subscribers (ii) | 13,164 | (49) | 13,451 | 44 | 13,374 | 469 | 12,731 | 17 | 12,282 | 15 |
| Dongles (iii) | 119 | (13) | 191 | (22) | 282 | (39) | 484 | 3 | 433 | 4 |
| Total subscribers | 19,444 | 26 | 19,767 | (9) | 19,855 | 548 | 18,909 | 186 | 17,786 | 35 |

| | | | | | | | | | | |
|--------------------|-------|---|-------|---|-------|---|-------|---|-------|---|
| Lines per employee | 3,884 | - | 3,935 | - | 3,839 | - | 3,682 | - | 3,779 | - |
|--------------------|-------|---|-------|---|-------|---|-------|---|-------|---|

Núcleo (in thousands, except for subscriber per employee disclosed in units)

| | 9M15 | | 9M14 | | 9M13 | | 9M12 | | 9M11 | |
|---------------------------|-------------|---------|-------------|---------|-------------|---------|-------------|---------|-------------|---------|
| | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter | Accumulated | Quarter |
| Post-paid subscribers (i) | 29 | - | 30 | 1 | 30 | 1 | 29 | - | 28 | - |

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| | | | | | | | | | |
|------------------------------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|
| Plan control subscribers (i) | 361 | 16 | 311 | 3 | 290 | 12 | 249 | 11 | 213 |
| Prepaid subscribers (ii) | 2,020 | (1) | 1,943 | 39 | 1,925 | 19 | 1,860 | 11 | 1,739 |
| Dongles (iii) | 114 | (4) | 136 | (5) | 157 | (5) | 125 | 6 | 90 |
| Subtotal mobile | 2,524 | 11 | 2,420 | 38 | 2,402 | 27 | 2,263 | 28 | 2,070 |
| Internet subscribers - Wimax | 6 | - | 5 | - | 5 | (1) | 7 | - | 8 |
| Total subscribers | 2,530 | 11 | 2,425 | 38 | 2,407 | 26 | 2,270 | 28 | 2,078 |

| | | | | | | | | | | |
|--------------------------------|--------------|----------|--------------|----------|--------------|----------|--------------|----------|--------------|----------|
| Lines per employee (iv) | 6,186 | - | 5,817 | - | 5,547 | - | 5,214 | - | 4,917 | - |
|--------------------------------|--------------|----------|--------------|----------|--------------|----------|--------------|----------|--------------|----------|

- (i) Lines which are paid through customer billing.
- (ii) Prepaid lines which were refilled at least once in the last 13 months.
- (iii) Corresponds to mobile Internet subscribers with post-paid, Cuentas claras, Plan control and prepaid contracts.
- (iv) Internet Wimax subscribers are not included.

7. Consolidated ratios

| | 9M15 | 9M14 | 9M13 | 9M12 | 9M11 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Liquidity (1) | 0.67 | 0.93 | 1.32 | 1.15 | 0.97 |
| Solvency (2) | 0.96 | 1.25 | 1.26 | 1.36 | 1.25 |
| Locked-up capital (3) | 0.72 | 0.67 | 0.54 | 0.64 | 0.67 |

- (1) Current assets/Current liabilities.
- (2) Total equity/Total liabilities.
- (3) Non-current assets/Total assets.

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8. Outlook

In 4Q15, the evolution of the fixed services segment is expected to continue in line with the trend experienced over the past years and shall be influenced by the level of maturity of the market with focus on increasing the value of the customers' base. In the Broadband business, Arnet continued capturing the growth opportunities the market offers, extending the offer of services with higher speeds and with proposals of overall integrated offers for customers (Internet, the fixed services segment and cellular mobile calls).

As regards pricing in the Fixed Services segment, the Company will continue the correspondent proceedings pursuant to the new rules proposed by the LAD to reach the readjustment of the prices of the regulated services, and with them, of the economic-financial equation of Telecom Argentina (Note 10.k to the consolidated financial statements). The growing pressures over the cost structure of the Company and its investment plans seeking to modernize its infrastructure to provide next-generation services emphasize this need.

Personal's leadership will continue to strengthen by providing new added value services especially in mobile broadband, based on the deployment of the new 4G networks which multiply tenfold the speed of mobile Internet speed in mobility. In this way, as the LTE infrastructure continues to be deployed on a national level, it is expected that our customers will increase their access to content, among others, of the Personal Play platform (music, games and videos), the latter being one of the highest factors for revenue growth.

At the same time, and following with the commitment with quality, the Company expects to continue working to optimize the experience of customers who use the 3G/HSPA+ network, by means of improvements in the network infrastructure made possible as from December 2014 with the acquisition of additional spectrum. In this way, the third generation services will also expand, continuing with the technological reconversion and extension of the capacity of the network.

The infrastructure improvements and the availability of a wide portfolio of advanced devices within the offer will continue to be drivers of higher revenues based on innovative and convenient commercial proposals for those who choose Personal as mobile operator. This assumes favorable conditions for foreign trading, access to the exchange market and financing of LTE equipment, 4G handsets, hardware and software by the Telecom Group and its technological suppliers.

It is foreseen a moderate expansion of the subscribers' base due to the level of maturity and the high penetration of mobile services in the market.

The Telecom Argentina's corporate purpose change authorized by the AFTIC, by adapting it to the LAD provisions (Note 10.i to the consolidated financial statements) will allow the Company to expand its products and a service offer and provides the Company with a better background to improve its position in ICTs and Audiovisual Communication markets.

The strategy implemented by the Management of the Company lays out the basic necessary fundamentals for the Telecom Group to pursue its objectives of continuous improvement of the quality of its services, to strengthen its market position and to improve its operating efficiency in order to satisfy the growing needs of the dynamic telecommunications market, all in compliance with the correspondent laws and regulations. The ambitious investment plans of the Telecom Group are based on this forward-looking vision and on the commitment of the Telecom Group with our country and its people.

Oscar Cristianci
Chairman of the Board of Directors

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF SEPTEMBER 30, 2015

Table of Contents**TELECOM ARGENTINA S.A.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In millions of Argentine pesos)

| | Note | <u>September 30,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|---|-------------|---|--|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 2 | 644 | 825 |
| Investments | 2 | 1,175 | 53 |
| Trade receivables | 2 | 4,772 | 4,124 |
| Other receivables | 2 | 846 | 670 |
| Inventories | 2 | 2,229 | 721 |
| Total current assets | | 9,666 | 6,393 |
| Non-Current Assets | | | |
| Trade receivables | 2 | 150 | 143 |
| Deferred income tax assets | 2 | 170 | 140 |
| Other receivables | 2 | 226 | 200 |
| Investments | 2 | 369 | 301 |
| Property, plant and equipment (PP&E) | 2 | 15,895 | 13,809 |
| Intangible assets | 2 | 7,550 | 5,331 |
| Total non-current assets | | 24,360 | 19,924 |
| TOTAL ASSETS | | 34,026 | 26,317 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade payables | 2 | 7,881 | 6,072 |
| Deferred revenues | 2 | 553 | 507 |
| Financial debt | 2 | 3,221 | 179 |
| Salaries and social security payables | 2 | 1,243 | 1,022 |
| Income tax payables | 2 | 640 | 247 |
| Other taxes payables | 2 | 721 | 824 |
| Other liabilities | 2 | 46 | 47 |
| Provisions | 6 | 198 | 199 |
| Total current liabilities | | 14,503 | 9,097 |
| Non-Current Liabilities | | | |
| Trade payables | 2 | 37 | - |
| Deferred revenues | 2 | 445 | 465 |
| Financial debt | 2 | 552 | 254 |
| Salaries and social security payables | 2 | 154 | 150 |
| Deferred income tax liabilities | 2 | 384 | 417 |
| Income tax payables | 2 | 7 | 9 |
| Other liabilities | 2 | 101 | 76 |
| Provisions | 6 | 1,207 | 1,080 |
| Total non-current liabilities | | 2,887 | 2,451 |
| TOTAL LIABILITIES | | 17,390 | 11,548 |
| EQUITY (see Unaudited Condensed Consolidated Statement of Changes in Equity) | | | |
| Equity attributable to Telecom Argentina (Controlling Company) | | 16,318 | 14,418 |
| Equity attributable to non-controlling interest | | 318 | 351 |

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| | | | |
|-------------------------------------|----------|---------------|---------------|
| TOTAL EQUITY | 7 | 16,636 | 14,769 |
| TOTAL LIABILITIES AND EQUITY | | 34,026 | 26,317 |

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

Adrián Calaza
Chief Financial Officer

Oscar Cristianci
Chairman of the Board of Directors

Table of Contents**TELECOM ARGENTINA S.A.****UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS**

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

| | | <u>Three-month periods</u> | | <u>Nine-month periods</u> | |
|---|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|
| | | <u>ended September 30,</u> | | <u>ended September 30,</u> | |
| | <u>Note</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Revenues | 2 | 10,094 | 8,598 | 28,590 | 24,183 |
| Other income | 2 | 4 | 10 | 15 | 40 |
| Total revenues and other income | | 10,098 | 8,608 | 28,605 | 24,223 |
| Employee benefit expenses and severance payments | 2 | (2,034) | (1,465) | (5,292) | (4,002) |
| Interconnection costs and other telecommunication charges | 2 | (558) | (516) | (1,559) | (1,536) |
| Fees for services, maintenance, materials and supplies | 2 | (991) | (883) | (2,860) | (2,482) |
| Taxes and fees with the Regulatory Authority | 2 | (988) | (835) | (2,841) | (2,399) |
| Commissions | 2 | (799) | (669) | (2,195) | (1,787) |
| Cost of equipments and handsets | 2 | (1,056) | (1,226) | (2,791) | (3,119) |
| Advertising | 2 | (221) | (171) | (591) | (512) |
| Cost of VAS | 2 | (313) | (273) | (910) | (679) |
| Provisions | 6 | (7) | - | (174) | (102) |
| Bad debt expenses | 2 | (129) | (94) | (410) | (327) |
| Other operating expenses | 2 | (473) | (409) | (1,318) | (1,092) |
| Depreciation and amortization | 2 | (1,164) | (843) | (3,154) | (2,354) |
| Gain on disposal of PP&E and impairment of PP&E | 2 | (54) | 1 | (51) | 11 |
| Operating income | | 1,311 | 1,225 | 4,459 | 3,843 |
| Finance income | 2 | 303 | 246 | 573 | 1,309 |
| Finance expenses | 2 | (376) | (170) | (765) | (1,079) |
| Income before income tax expense | | 1,238 | 1,301 | 4,267 | 4,073 |
| Income tax expense | 2 | (438) | (453) | (1,489) | (1,389) |
| Net income for the period | | 800 | 848 | 2,778 | 2,684 |
| Attributable to: | | | | | |
| Telecom Argentina (Controlling Company) | | 801 | 839 | 2,757 | 2,644 |
| Non-controlling interest | | (1) | 9 | 21 | 40 |
| | | 800 | 848 | 2,778 | 2,684 |
| Earnings per share attributable to Telecom Argentina basic and diluted | 1.d | 0.83 | 0.87 | 2.84 | 2.73 |

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

Adrián Calaza
Chief Financial Officer

Oscar Cristianci
Chairman of the Board of Directors

Table of Contents**TELECOM ARGENTINA S.A.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In millions of Argentine pesos)

| | <u>Three-month periods</u> <u>ended September 30.</u> | | <u>Nine-month periods</u> <u>ended September 30.</u> | |
|---|--|-------------|---|--------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Net income for the period | 800 | 848 | 2,778 | 2,684 |
| Other components of the Statements of Comprehensive Income | | | | |
| Currency translation adjustments (non-taxable) | (40) | (1) | (89) | 232 |
| NDF effects classified as hedges (Note 10.b) | 4 | 1 | 4 | 1 |
| Income tax from NDF effects classified as hedges | (1) | - | (1) | - |
| Other components of the comprehensive income, net of tax | (37) | - | (86) | 233 |
| Total comprehensive income for the period | 763 | 848 | 2,692 | 2,917 |
| Attributable to: | | | | |
| Telecom Argentina (Controlling Company) | 781 | 840 | 2,704 | 2,797 |
| Non-controlling interest | (18) | 8 | (12) | 120 |
| | 763 | 848 | 2,692 | 2,917 |

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

Adrián Calaza
Chief Financial Officer

Oscar Cristianci
Chairman of the Board of Directors

Table of Contents**TELECOM ARGENTINA S.A.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In millions of Argentine pesos)

| | Equity attributable to Telecom Argentina (Controlling Company) | | | | | | | | | | Def res |
|--|--|-------------------------|--|--------------------------------|--|------------------|--|--|---|---|------------|
| | Outstanding shares | | Owners Contribution Treasury shares | | Treasury shares acquisition cost (2) | Legal reserve | Special reserve for IFRS implemen- tation | Voluntary reserve for capital investments | Voluntary reserve for future investments | Voluntary reserve for future dividends payments | |
| | Capital nominal value (1) | Inflation adjustment | Capital nominal value (1) (2) | Inflation adjustment (2) | | | | | | | |
| Balances as of January 1, 2014 | 969 | 2,646 | 15 | 42 | (461) | 725 | 351 | 1,200 | 2,904 | - | |
| 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 period | - | - | - | - | - | - | - | - | - | - | - |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - | - |
| Total Comprehensive Income | - | - | - | - | - | - | - | - | - | - | - |
| Balances as of September 30, 2014 | 969 | 2,646 | 15 | 42 | (461) | 734 | 351 | 3,191 | 2,904 | - | |
| Balances as of January 1, 2015 | 969 | 2,646 | 15 | 42 | (461) | 734 | 351 | 3,191 | 2,904 | - | |
| Dividends from Núcleo (5) | - | - | - | - | - | - | - | - | - | - | - |
| Dividends (6) | - | - | - | - | - | - | - | - | - | - | - |
| Voluntary reserve for future dividends payments (6) | - | - | - | - | - | - | - | - | - | - | 2,869 |

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Comprehensive

income:

| | | | | | | | | | | |
|-----------------------------------|---|---|---|---|---|---|---|---|---|---|
| Net income for the period | - | - | - | - | - | - | - | - | - | - |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - |
| Total Comprehensive Income | - | - | - | - | - | - | - | - | - | - |

Balances as of September 30, 2015

| | | | | | | | | | |
|------------|--------------|-----------|-----------|--------------|------------|------------|--------------|--------------|--------------|
| 969 | 2,646 | 15 | 42 | (461) | 734 | 351 | 3,191 | 2,904 | 2,869 |
|------------|--------------|-----------|-----------|--------------|------------|------------|--------------|--------------|--------------|

(1) As of September 30, 2015 and 2014, total shares (984,380,978), of \$1 Argentine peso of nominal value each, were issued and fully paid. As of September 30, 2015 and 2014, 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 7 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 Ordinary Shareholders Meeting of the Company held on May 21, 2014 (second tranche).

(5) As approved by the Ordinary Shareholders Meeting of Núcleo held on March 26, 2015.

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

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

Adrián Calaza
Chief Financial Officer

Oscar Cristianci
Chairman of the Board of Directors

Table of Contents**TELECOM ARGENTINA S.A.****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions of Argentine pesos)

| | | <u>Nine-month periods</u> | |
|---|--------------------|-----------------------------------|--------------------|
| | | <u>ended September 30,</u> | |
| | <u>Note</u> | <u>2015</u> | <u>2014</u> |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | |
| Net income for the period | | 2,778 | 2,684 |
| Adjustments to reconcile net income to net cash flows provided by operating activities | | | |
| Bad debt expenses and other allowances | | 440 | 402 |
| Depreciation of PP&E | 2 | 2,165 | 1,740 |
| Amortization of intangible assets | 2 | 989 | 614 |
| Consumption of materials | 2 | 216 | 161 |
| Gain on disposal of PP&E | 2 | (21) | (11) |
| Impairment of PP&E | 2 | 72 | - |
| Provisions | 6 | 287 | 202 |
| Interest and other financial losses | | 293 | (415) |
| Income tax expense | 2 | 1,489 | 1,389 |
| Income tax paid | 3 | (1,202) | (1,783) |
| Net increase in assets | 3 | (3,114) | (1,509) |
| Net increase in liabilities | 3 | 492 | 146 |
| Total cash flows provided by operating activities | | 4,884 | 3,620 |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | |
| PP&E acquisitions | 3 | (3,192) | (3,793) |
| Acquisition of 4G License | 3 | (2,256) | - |
| Intangible assets acquisitions | 3 | (894) | (774) |
| Proceeds from the sale of PP&E | | 20 | 12 |
| Investments not considered as cash and cash equivalents | 3 | (997) | (1,032) |
| Total cash flows used in investing activities | | (7,319) | (5,587) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | |
| Proceeds from financial debt | 3 | 3,468 | - |
| Payment of financial debt | 3 | (25) | (10) |
| Payment of interest and related costs | 3 | (238) | (24) |
| Payment of cash dividends and related tax withholdings | 3 | (823) | (1,262) |
| Total cash flows provided by (used in) financing activities | | 2,382 | (1,296) |
| <u>NET FOREIGN EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS</u> | | 13 | 447 |
| DECREASE IN CASH AND CASH EQUIVALENTS | | (40) | (2,816) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 684 | 5,224 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | | 644 | 2,408 |

See Note 3 for additional information on the consolidated statements of cash flows.

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

Adrián Calaza
Chief Financial Officer

Oscar Cristianci
Chairman of the Board of Directors

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TELECOM ARGENTINA S.A.

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF
SEPTEMBER 30, 2015 AND 2014**

(In millions of Argentine pesos, except as otherwise indicated)

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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 unaudited 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 type of digital subscriber line technology (DSL); a data communications technology that enables faster data transmission over copper lines than a conventional voiceband modem can provide.

ARSAT (Empresa Argentina de Soluciones Satelitales S.A.): a state-owned company.

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

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.

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Company or Telecom Argentina: Telecom Argentina S.A.

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.

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

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

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.

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

LGS (Ley de Sociedades Comerciales): Argentine Corporations Law. Since the enforcement of the new Civil and Commercial Code its name was changed to *Ley General de Sociedades* .

Micro Sistemas: Micro Sistemas S.A.

NDF: Non-Deliverable Forward.

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

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TELECOM ARGENTINA S.A.

Núcleo: Núcleo S.A.

NYSE: New York Stock Exchange.

PEN (Poder Ejecutivo Nacional): The executive branch of the Argentine government.

Personal: Telecom Personal S.A.

PP&E: Property, plant and equipment.

Regulatory Bodies: Collectively, the SC and the CNC.

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.

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.

SMS: Short message systems.

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

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.

Telefónica: Telefónica de Argentina S.A.

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

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**TELECOM ARGENTINA S.A.****NOTE 1 BASIS OF PREPARATION OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES****a) Basis of preparation and significant accounting policies**

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

For the preparation of these consolidated financial statements, the Company has elected to make use of the option provided by IAS 34, so, these consolidated financial statements do not include all the information required in an annual financial statement, and must be read jointly with the 2014 annual consolidated financial statements which can be consulted at the Company's website (www.telecom.com.ar/inversores).

As of September 30, 2015, 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 4) |
|-----------------------|--|---------------------------------|----------------------------|---|
| Telecom USA | 100.00% | | 09.12.00 | Fixed Services |
| Micro Sistemas (ii) | 99.99% | | 12.31.97 | 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 September 30, 2015 and December 31, 2014 and for the nine-month periods ended September 30, 2015 and 2014.

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

For the preparation of these consolidated financial statements, the Company followed the same accounting policies applied in the most recent annual consolidated financial statements except for Government bonds acquired during 9M15 which are valued at fair

value (Note 2.b)).

The preparation of these consolidated financial statements in conformity with IFRS requires the Company's Management to use certain critical accounting estimates. Actual results could differ from those estimates.

These 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 perceived 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.

These consolidated financial statements have also 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).

Publication of these consolidated financial statements for the period ended September 30, 2015 was approved by resolution of the Board of Directors' meeting held on November 2, 2015.

b) 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 within twelve months after the period-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 representative of the specific business of the Telecom Group as evaluated by the Management, and are in line with the industrial sector of telecommunications;

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TELECOM ARGENTINA S.A.

- the consolidated statements of comprehensive income include the profit or (loss) for the period 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 period, (ii) other comprehensive income (loss) for the period, and (iii) transactions with shareholders (controlling and non-controlling);
- 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 IAS 34. 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 2 and 6 to these consolidated financial statements, as admitted by IFRS.

c) 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 Regulatory Bodies. The accounting policies applied for segment information are the same for all operating segments.

Information regarding segment reporting is included in Note 4.

d) Net income per share

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The Company computes net income per common share by dividing net income for the period attributable to Telecom Argentina (Controlling Company) by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of common and dilutive potential common shares then outstanding during the period. Since the Company has no dilutive potential common stock outstanding, there are no dilutive earnings per share amounts.

For the nine-month periods ended September 30, 2015 and 2014, the weighted average number of shares outstanding totaled 969,159,605 shares.

NOTE 2 BREAKDOWN OF THE MAIN ACCOUNTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CURRENT ASSETS

a) Cash and cash equivalents

| | <u>September 30,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|---------------|-------------------------------------|------------------------------------|
| Cash | 18 | 14 |
| Banks | 118 | 370 |
| Time deposits | 140 | 1 |
| Mutual funds | 368 | 440 |
| | 644 | 825 |

b) Investments

| | | |
|---|--------------|-----------|
| Government bonds at fair value (Note 10.b) | 616 | - |
| Government bonds at fair value dollar linked | 514 | - |
| Government bonds at amortized cost | 1 | 1 |
| Provincial government bonds at amortized cost | 44 | 24 |
| Argentine companies notes | - | 28 |
| | 1,175 | 53 |

Table of Contents**TELECOM ARGENTINA S.A.**

| | <u>September 30,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|---------------------------------|-------------------------------------|------------------------------------|
| c) Trade receivables | | |
| Fixed Services | 1,329 | 1,220 |
| Personal Mobile Services | 3,641 | 3,076 |
| Núcleo Mobile Services | 142 | 120 |
| | Subtotal | 4,416 |
| Allowance for doubtful accounts | (340) | (292) |
| | 4,772 | 4,124 |

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

| | <u>September 30,</u> <u>2015</u> <u>(9 months)</u> | <u>December 31,</u> <u>2014</u> <u>(12 months)</u> |
|--------------------------------------|--|--|
| At the beginning of the year | (292) | (239) |
| Additions Bad debt expenses | (410) | (421) |
| Uses | 362 | 370 |
| Currency translation adjustments | - | (2) |
| At the end of the period/year | (340) | (292) |

| | <u>September 30,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|---|-------------------------------------|------------------------------------|
| d) Other receivables | | |
| Prepaid expenses | 367 | 331 |
| Prepaid expenses related parties (Note 5.c) | 40 | 52 |
| Tax credits | 163 | 108 |
| Insurance company (handsets) related party (Note 5.c) | 64 | 46 |
| NDF (Note 10.b) | 46 | - |
| Advertisement reimbursement | 38 | 40 |
| Unionized employees advances | 29 | - |
| Restricted funds | 23 | 21 |
| Tax on personal property on behalf of shareholders | 10 | 12 |
| Receivables for suppliers indemnities | - | 6 |
| Other | 91 | 77 |
| | Subtotal | 693 |
| Allowance for other receivables | (25) | (23) |
| | 846 | 670 |

Movements in the allowance for other receivables are as follows:

| | <u>September 30,</u> <u>2015</u> <u>(9 months)</u> | <u>December 31,</u> <u>2014</u> <u>(12 months)</u> |
|-------------------------------------|--|--|
| At the beginning of the year | (23) | (18) |

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| | | | |
|--------------------------------------|--------------------------|-------------|-------------|
| Additions | Bad debt expenses | - | (3) |
| Additions | Other operating expenses | (3) | (3) |
| Uses | | 1 | 1 |
| At the end of the period/year | | (25) | (23) |

| | <u>September 30,</u> | <u>December 31,</u> |
|---|----------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| e) Inventories | | |
| Mobile handsets | 1,639 | 781 |
| Advances for mobile handsets acquisitions | 659 | - |
| Fixed telephones and equipment | 18 | 13 |
| | Subtotal | 794 |
| Allowance for obsolescence of inventories | (87) | (73) |
| | 2,229 | 721 |

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

| | <u>September 30,</u> | <u>December 31,</u> |
|--|----------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| | <u>(9 months)</u> | <u>(12 months)</u> |
| At the beginning of the year | (73) | (85) |
| Additions Fees for services, maintenance and materials | (23) | (81) |
| Uses | 8 | 94 |
| Currency translation adjustments | 1 | (1) |
| At the end of the period/year | (87) | (73) |

Table of Contents**TELECOM ARGENTINA S.A.**

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

| | <u>Three-month periods</u> | | <u>Nine-month periods</u> | |
|---|----------------------------|-----------------|----------------------------|---------------------|
| | <u>ended September 30,</u> | | <u>ended September 30,</u> | |
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| | | | Profit (loss) | |
| Sales of equipment and handsets - Fixed Services | 25 | 13 | 48 | 44 |
| Cost of equipment and handsets - Fixed Services | (31) | (15) | (64) | (50) |
| Total equipment loss - Fixed Services | (6) | (2) | (16) | (6) |
| Sales of equipment and handsets - Personal Mobile Services | 1,235 | 1,400 | 3,468 | 3,515 |
| Cost of equipment and handsets - Personal Mobile Services | (990) | (1,202) | (2,627) | (3,052) |
| Deferred Costs SAC - Personal Mobile Services | 11 | 17 | 25 | 53 |
| Total equipment income - Personal Mobile Services | 256 | 215 | 866 | 516 |
| Sales of equipment and handsets - Núcleo Mobile Services | 40 | 20 | 106 | 56 |
| Cost of equipment and handsets - Núcleo Mobile Services | (59) | (35) | (166) | (100) |
| Deferred Costs SAC - Núcleo Mobile Services | 13 | 9 | 41 | 30 |
| Total equipment loss - Núcleo Mobile Services | (6) | (6) | (19) | (14) |
| Total equipment and handsets sale | 1,300 | 1,433 | 3,622 | 3,615 |
| Total cost of equipment and handsets (net of SAC capitalization) | (1,056) | (1,226) | (2,791) | (3,119) |
| Total income for sale of equipment and handsets | 244 | 207 | 831 | 496 |
| | | | <u>September 30,</u> | <u>December 31,</u> |
| | | | <u>2015</u> | <u>2014</u> |
| NON-CURRENT ASSETS | | | | |
| f) Trade receivables | | | | |
| Fixed Services | | | 20 | 22 |
| Personal Mobile Services | | | 44 | 88 |
| Núcleo Mobile Services | | | 86 | 33 |
| | | | 150 | 143 |
| g) Other receivables | | | | |
| Prepaid expenses | | | 145 | 101 |
| Prepaid expenses related parties (Note 5.c) | | | 9 | 36 |
| Credit on SC Resolution No. 41/07 and IDC | | | 84 | 85 |
| Restricted funds | | | 33 | 28 |
| Tax on personal property - on behalf of shareholders | | | 18 | 18 |
| Tax credits | | | 11 | 9 |
| Guarantee deposits | | | 8 | 8 |
| Other | | | 20 | 18 |
| | | Subtotal | 328 | 303 |
| Allowance for regulatory matters | | | (84) | (85) |
| Allowance for doubtful accounts (tax on personal property) | | | (18) | (18) |
| | | | 226 | 200 |

Movements in the allowance for regulatory matters are as follows:

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| | <u>September 30,</u> <u>2015</u> <u>(9 months)</u> | <u>December 31,</u> <u>2014</u> <u>(12 months)</u> |
|--------------------------------------|--|--|
| At the beginning of the year | (85) | (85) |
| Uses | 1 | - |
| At the end of the period/year | (84) | (85) |

Movements in the allowance for doubtful accounts (tax on personal property) are as follows:

| | <u>September 30,</u> <u>2015</u> <u>(9 months)</u> | <u>December 31,</u> <u>2014</u> <u>(12 months)</u> |
|--------------------------------------|--|--|
| At the beginning of the year | (18) | (17) |
| Additions | - | (1) |
| At the end of the period/year | (18) | (18) |

| | <u>September 30,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|---|-------------------------------------|------------------------------------|
| h) Investments | | |
| Government bonds at amortized cost | 282 | 257 |
| Provincial and municipal government bonds at amortized cost | 86 | 43 |
| 2003 Telecommunications Fund | 1 | 1 |
| | 369 | 301 |

Table of Contents**TELECOM ARGENTINA S.A.**

| | <u>September 30,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|---|-------------------------------------|------------------------------------|
| i) PP&E | | |
| Land, buildings and installations | 1,051 | 1,045 |
| Computer equipment and software | 1,604 | 1,558 |
| Switching and transmission equipment (i) | 3,632 | 3,585 |
| Mobile network access and external wiring | 4,732 | 4,273 |
| Construction in progress | 2,834 | 2,184 |
| Other tangible assets | 438 | 416 |
| Subtotal PP&E | 14,291 | 13,061 |
| Materials | 1,763 | 872 |
| Valuation allowance for materials | (29) | (24) |
| Impairment of PP&E | (130) | (100) |
| Total PP&E | 15,895 | 13,809 |

(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 PP&E (without allowance for materials and impairment of PP&E) are as follows:

| | <u>September 30,</u> <u>2015</u> <u>(9 months)</u> | <u>December 31,</u> <u>2014</u> <u>(12 months)</u> |
|--------------------------------------|--|--|
| At the beginning of the year | 13,933 | 11,403 |
| CAPEX | 3,577 | 4,304 |
| Materials | 1,110 | 590 |
| Total PP&E additions | 4,687 | 4,894 |
| Currency translation adjustments | (124) | 315 |
| Consumption of materials | (216) | (227) |
| Decrease | (60) | (62) |
| Depreciation of the period/year | (2,166) | (2,390) |
| At the end of the period/year | 16,054 | 13,933 |

Movements in the valuation allowance for materials are as follows:

| | <u>September 30,</u> <u>2015</u> <u>(9 months)</u> | <u>December 31,</u> <u>2014</u> <u>(12 months)</u> |
|---|--|--|
| At the beginning of the year | (24) | (21) |
| Additions - Fees for services, maintenance, and materials | (5) | (6) |
| Uses | - | 3 |

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At the end of the period/year

(29)

(24)

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

| | <u>September 30,</u> <u>2015</u> <u>(9 months)</u> | <u>December 31,</u> <u>2014</u> <u>(12 months)</u> |
|---|--|--|
| At the beginning of the year | (100) | (156) |
| Additions Impairment of PP&E | (72) | (25) |
| Additions Fees for services, maintenance, and materials | (8) | - |
| Depreciation | 1 | 1 |
| Uses | 49 | 80 |
| At the end of the period/year | (130) | (100) |

| | <u>September 30,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|--|-------------------------------------|------------------------------------|
| j) Intangible assets | | |
| 3G/4G Licenses | 5,540 | 3,511 |
| PSC license, Band B, Internet and Data transmission (Paraguay) | 6 | - |
| Other licenses | 588 | 588 |
| SAC mobile services | 999 | 820 |
| SAC fixed services | 109 | 93 |
| Rights of use and exclusivity | 202 | 218 |
| Service connection or habilitation charges | 104 | 99 |
| Other intangible assets | 2 | 2 |
| | 7,550 | 5,331 |

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Movements in Intangible assets are as follows:

| | <u>September 30,</u> <u>2015</u> <u>(9 months)</u> | <u>December 31,</u> <u>2014</u> <u>(12 months)</u> |
|--------------------------------------|--|--|
| At the beginning of the year | 5,331 | 1,519 |
| 3G/4G Licenses CAPEX | 2,256 | 3,530 |
| Other CAPEX | 958 | 1,123 |
| Currency translation adjustments | (6) | 13 |
| Amortization of the period/year | (989) | (854) |
| At the end of the period/year | 7,550 | 5,331 |

CURRENT LIABILITIES**k) Trade payables**

| | <u>September 30,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|--|-------------------------------------|------------------------------------|
| For the acquisition of PP&E | 3,460 | 1,964 |
| For the acquisition of other assets and services | 2,459 | 1,966 |
| For the acquisition of inventory | 1,465 | 1,734 |
| | Subtotal suppliers | 5,664 |
| NDF (Note 10.b) | 25 | 90 |
| Agent commissions | 472 | 318 |
| | 7,881 | 6,072 |

l) Deferred revenues

| | | |
|-------------------------------------|------------|------------|
| On prepaid calling cards | 383 | 339 |
| On international capacity rental | 55 | 55 |
| On connection fees Fixed Services | 35 | 33 |
| On customer loyalty programs | 76 | 76 |
| From CONATEL Núcleo Mobile Services | 4 | 4 |
| | 553 | 507 |

m) Financial debt

| | | |
|---|--------------|------------|
| Bank overdrafts principal (Personal) | 3,122 | 140 |
| Bank overdrafts accrued interests (Personal) | 39 | 1 |
| Bank loans accrued interests (Personal Note 10.a) | 7 | - |
| Bank loans principal (Núcleo) | 51 | 32 |
| Bank loans accrued interest (Núcleo) | 2 | 6 |
| | 3,221 | 179 |

n) Salaries and social security payables

| | | |
|---|--------------|--------------|
| Annual complementary salaries, vacation and bonuses | 886 | 690 |
| Social security payables | 246 | 255 |
| Termination benefits | 111 | 77 |
| | 1,243 | 1,022 |

o) Income tax payables

| | | |
|---|------------|------------|
| Income tax payables | 1,550 | 1,769 |
| Income tax retentions and payments in advance | (913) | (1,525) |
| Law No. 26,476 Tax Regularization Regime | 3 | 3 |
| | 640 | 247 |

p) Other taxes payables

| | | |
|------------------|-----|-----|
| VAT, net | 187 | 316 |
| Tax withholdings | 127 | 132 |
| Internal taxes | 98 | 86 |

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| | | |
|---|------------|------------|
| Tax on SU | 88 | 97 |
| Turnover tax | 85 | 68 |
| Regulatory fees | 70 | 67 |
| Municipal taxes | 38 | 31 |
| Perception Decree No.583/10 ENARD | 18 | 15 |
| Tax on personal property on behalf of shareholders | 10 | 12 |
| | 721 | 824 |
| q) Other liabilities | | |
| Compensation for directors and members of the Supervisory Committee | 28 | 28 |
| Guarantees received | 10 | 11 |
| Other | 8 | 8 |
| | 46 | 47 |

Table of Contents**TELECOM ARGENTINA S.A.**

| | <u>September 30,</u> <u>2015</u> | <u>December 31,</u> <u>2014</u> |
|---|-------------------------------------|------------------------------------|
| NON-CURRENT LIABILITIES | | |
| r) Trade payables | | |
| For the acquisition of PP&E | 37 | - |
| | 37 | - |
| s) Deferred revenues | | |
| On international capacity rental | 283 | 307 |
| On connection fees - Fixed Services | 75 | 67 |
| On customer loyalty programs | 84 | 82 |
| From CONATEL - Núcleo Mobile Services | 3 | 9 |
| | 445 | 465 |
| t) Financial debt | | |
| Bank loans - principal (Personal - Note 10.a) | 368 | - |
| Bank loans - principal (Núcleo) | 184 | 254 |
| | 552 | 254 |
| u) Salaries and social security payables | | |
| Termination benefits | 126 | 122 |
| Bonuses | 28 | 28 |
| | 154 | 150 |
| v) Income tax payables | | |
| Law No. 26,476 Tax Regularization Regime | 7 | 9 |
| | 7 | 9 |
| w) Other liabilities | | |
| Pension benefits | 93 | 68 |
| Legal fees | 5 | 5 |
| Suppliers guarantees on third parties claims | 2 | 2 |
| Other | 1 | 1 |
| | 101 | 76 |
| x) Deferred income tax asset and liability | | |

Telecom Group's deferred income tax asset and liability consist of the following:

| <u>As of September 30, 2015</u> | Deferred tax assets | | | Deferred tax liabilities | | |
|----------------------------------|----------------------|-------------|----------------|--------------------------|--------------|--------------|
| | Telecom Argentina | Núcleo | Telecom USA | Total | Personal | Total |
| Allowance for doubtful accounts | (58) | (6) | (1) | (65) | (126) | (126) |
| Provisions | (342) | - | - | (342) | (133) | (133) |
| PP&E | - | (13) | - | (13) | - | - |
| Inventory | - | - | - | - | (67) | (67) |
| Termination benefits | (69) | - | - | (69) | - | - |
| Deferred revenues | (68) | - | - | (68) | - | - |
| Pension benefits | (33) | - | - | (33) | - | - |
| Other deferred tax assets, net | (71) | (3) | - | (74) | (4) | (4) |
| Total deferred tax assets | (641) | (22) | (1) | (664) | (330) | (330) |
| PP&E | 407 | - | 1 | 408 | 190 | 190 |
| Intangible assets | 81 | - | - | 81 | 430 | 430 |

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| | | | | | | |
|---------------------------------------|--------------|-------------|----------|--------------|------------|------------|
| Cash dividends from foreign companies | - | 5 | - | 5 | 80 | 80 |
| Investments | - | - | - | - | 14 | 14 |
| Other deferred tax liabilities, net | - | - | - | - | - | - |
| Total deferred tax liabilities | 488 | 5 | 1 | 494 | 714 | 714 |
| Total | (153) | (17) | - | (170) | 384 | 384 |

| <u>As of December 31, 2014</u> | Telecom Argentina | Deferred tax assets | | | Deferred tax liabilities | |
|---------------------------------------|----------------------|---------------------|----------------|--------------|--------------------------|--------------|
| | | Núcleo | Telecom USA | Total | Personal | Total |
| Allowance for doubtful accounts | (53) | (6) | (1) | (60) | (70) | (70) |
| Provisions | (313) | - | - | (313) | (122) | (122) |
| PP&E | - | (17) | - | (17) | - | - |
| Inventory | - | - | - | - | (61) | (61) |
| Termination benefits | (64) | - | - | (64) | - | - |
| Deferred revenues | (61) | - | - | (61) | - | - |
| Pension benefits | (24) | - | - | (24) | - | - |
| Other deferred tax assets, net | (63) | - | - | (63) | - | - |
| Total deferred tax assets | (578) | (23) | (1) | (602) | (253) | (253) |
| PP&E | 382 | - | 1 | 383 | 189 | 189 |
| Intangible assets | 74 | - | - | 74 | 348 | 348 |
| Cash dividends from foreign companies | - | 5 | - | 5 | 87 | 87 |
| Investments | - | - | - | - | 37 | 37 |
| Other deferred tax liabilities, net | - | - | - | - | 9 | 9 |
| Total deferred tax liabilities | 456 | 5 | 1 | 462 | 670 | 670 |
| Total | (122) | (18) | - | (140) | 417 | 417 |

Table of Contents**TELECOM ARGENTINA S.A.****y) Aging of assets and liabilities as of September 30, 2015**

| Date due | Cash and cash equivalents | Investments | Trade receivables | Deferred income tax assets | Other receivables |
|---|---------------------------|--------------|-------------------|----------------------------|-------------------|
| Total due | - | - | 1,026 | - | - |
| Not due | | | | | |
| Fourth quarter 2015 | 644 | 157 | 3,092 | - | 535 |
| First quarter 2016 | - | 978 | 371 | - | 108 |
| Second quarter 2016 | - | 39 | 208 | - | 128 |
| Third quarter 2016 | - | 1 | 75 | - | 75 |
| October 2016 thru September 2017 | - | 143 | 140 | - | 127 |
| October 2017 thru September 2018 | - | 202 | 8 | - | 47 |
| October 2018 and thereafter | - | 23 | 2 | - | 44 |
| Not date due established | - | 1 | - | 170 | 8 |
| Total not due | 644 | 1,544 | 3,896 | 170 | 1,072 |
| Total | 644 | 1,544 | 4,922 | 170 | 1,072 |
| Balances bearing interest | 507 | 1,543 | 1,034 | - | - |
| Balances not bearing interest | 137 | 1 | 3,888 | 170 | 1,072 |
| Total | 644 | 1,544 | 4,922 | 170 | 1,072 |
| Average annual interest rate (%) | (a) | (b) | (c) (d) | - | - |

(a) 411 are assets in Argentine pesos (42 bear at an average rate of 24.3% and 369 bear 29.7%) and 96 are assets in foreign currency bearing 0.17%.

(b) 927 are assets in Argentine pesos (33 bearing interests between 15% and 27% and 894 are dollar-linked bonds bearing interests between 0.40% and 2.48%) and 616 are assets in foreign currency bearing 7%.

(c) From due trade receivables 74 bear 50% over the Banco de la Nación Argentina 30-day interest rate paid by banks, 410 bear 50% over the Banco de la Nación Argentina notes payable discount rate, 4 bear 8.3%, 468 bear 37.5% and 30 bear 36%.

(d) From not due trade receivables 17 bear 37%, 4 bear 34.2% and 27 are assets in foreign currency bearing 8.3%.

| Date due | Trade payables | Deferred revenues | Financial debt | Salaries and social security payables | Income tax payables | Deferred income tax liabilities | Other taxes payables | Other liabilities |
|---------------------|----------------|-------------------|----------------|---------------------------------------|---------------------|---------------------------------|----------------------|-------------------|
| Total due | (e) 581 | - | - | - | - | - | - | - |
| Not due | | | | | | | | |
| Fourth quarter 2015 | 7,252 | 417 | 3,176 | 535 | 1 | - | 711 | 18 |

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| | | | | | | | | |
|---|--------------|------------|--------------|--------------|--------------|------------|------------|------------|
| First quarter 2016 | 30 | 47 | 16 | 428 | 1 | - | - | - |
| Second quarter 2016 | 13 | 46 | 8 | 132 | 637 | - | 10 | 28 |
| Third quarter 2016 | 5 | 43 | 21 | 148 | 1 | - | - | - |
| October 2016 thru September 2017 | 27 | 144 | 469 | 81 | 3 | - | - | 14 |
| October 2017 thru September 2018 | 10 | 63 | 83 | 34 | 3 | - | - | 4 |
| October 2018 and thereafter | - | 238 | - | 39 | 1 | - | - | 83 |
| Not date due established | - | - | - | - | - | 384 | - | - |
| Total not due | 7,337 | 998 | 3,773 | 1,397 | 647 | 384 | 721 | 147 |
| Total | 7,918 | 998 | 3,773 | 1,397 | 647 | 384 | 721 | 147 |
| Balances bearing interest | 65 | - | 3,773 | - | 13 | - | - | - |
| Balances not bearing interest | 7,853 | 998 | - | 1,397 | 634 | 384 | 721 | 147 |
| Total | 7,918 | 998 | 3,773 | 1,397 | 647 | 384 | 721 | 147 |
| Average annual interest rate (%) | 6.00% | - | (f) | - | 9.00% | - | - | - |

(e) From due trade payables 441 correspond to foreign suppliers. As of the date of these consolidated financial statements, 159 of the due trade payables were cancelled.

(f) 3,161 are liabilities in Argentine pesos bearing 20.89%, 375 are liabilities in foreign currency bearing three-month LIBOR plus 8.75% and 237 are liabilities in guaraníes bearing 9.3%.

z) Foreign currency assets and liabilities

The following table shows a breakdown of Telecom Group's net assessed financial position exposure to currency risk as of September 30, 2015 and December 31, 2014.

| 09.30.15 | | |
|-----------------------------------|---------------|-------------------------------------|
| Amount of foreign currency (i) | Exchange rate | Amount in local currency (ii) |
| Assets | | |
| US\$ | 94 | (iii) 1,064 |
| G | 214,090 | 353 |
| EURO | 3 | 32 |
| Total assets | | 1,449 |
| Liabilities | | |
| US\$ | (554) | (5,218) |
| G | (119,365) | (434) |
| EURO | (9) | (99) |
| SDR | - | (6) |
| Total liabilities | | (5,757) |
| Net liabilities | | (4,308) |

(i) US\$ = United States dollar; G= Guaraníes; SDR = Special Drawing Rights.

(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 616 corresponding to Government bonds valued 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 September 30, 2015, holds investments adjustable to the variation of the US\$/ exchange rate (dollar linked) by \$894 and mutual funds whose main underlying asset are financial assets dollar linked for a total amount of \$279. So, the net liability position in foreign currency amounted to \$3,135 as of September 30, 2015 (equivalent to US\$ 350 million). Additionally, the Group has entered into several NDF contracts to purchase a total amount of US\$ 183 million (Note 10.b) and the portion of the net liability position in foreign currency not covered amounted to US\$ 167 million as of September 30, 2015.

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| 12.31.14 | | | |
|---------------------------------------|--------------------------|----------------------|--------------------------------------|
| Amount of foreign currency (i) | | Exchange rate | Amount in local currency (ii) |
| Assets | | | |
| US\$ | 67 | 8.451 | 567 |
| G | 141,182 | 0.002 | 256 |
| EURO | 1 | 10.265 | 13 |
| | Total assets | | 836 |
| Liabilities | | | |
| US\$ | (436) | 8.551 | (3,725) |
| G | (276,621) | 0.002 | (503) |
| EURO | (9) | 10.407 | (97) |
| SDR | (1) | 12.240 | (8) |
| | Total liabilities | | (4,333) |
| | Net liabilities | | (3,497) |

(i) US\$ = United States dollar; G= Guaraníes; SDR = Special Drawing Rights.

(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.

In order to partially reduce this net liability position in foreign currency the Telecom Group, as of December 31, 2014, holds investments adjustable to the variation of the US\$/ exchange rate (dollar linked) by \$332 and mutual funds whose main underlying asset are financial assets dollar linked for a total amount of \$359. So, the net liability position in foreign currency amounted to \$2,806 as of December 31, 2014 (equivalent to US\$ 328 million). Additionally, the Group has entered into several NDF contracts to purchase a total amount of US\$ 149 million (Note 10.b) and the portion of the net liability position in foreign currency not covered amounted to US\$ 179 million as of December 31, 2014.

aa) Information on the fair value of investments in Government bonds and Argentine companies notes valued at amortized cost

Below are shown the investments in Government bonds and Argentine companies notes valued at amortized cost and their respective fair value as of September 30, 2015 and December 31, 2014:

| Investments | As of September 30, 2015 | | As of December 31, 2014 | |
|---|---------------------------------|-----------------------|--------------------------------|-----------------------|
| | Book value | Fair value (*) | Book value | Fair value (*) |
| Government bonds (dollar linked) | 283 | 337 | 258 | 258 |
| Provincial and municipal government bonds (dollar linked) | 96 | 101 | 56 | 51 |
| Provincial government bonds in pesos | 34 | 36 | 11 | 11 |

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| | | | | |
|---|------------|------------|------------|------------|
| Argentine companies notes (dollar linked) | - | - | 18 | 18 |
| Argentine companies notes in pesos | - | - | 10 | 10 |
| Total | 413 | 474 | 353 | 348 |

(*) According to IFRS selling costs are not deducted.

ab) Offsetting of financial assets and financial liabilities

The information required by the amendment to IFRS 7 as of September 30, 2015 and December 31, 2014 is as follows:

| | As of September 30, 2015 | | | |
|--|--------------------------|-----------------------|----------------|-----------------------|
| | Trade receivables | Other receivables (1) | Trade payables | Other liabilities (1) |
| Current and non-current assets (liabilities) - Gross value | 6,512 | 278 | (9,508) | (61) |
| Compensation | (1,590) | (7) | 1,590 | 7 |
| Current and non-current assets (liabilities) Book value | 4,922 | 271 | (7,918) | (54) |

| | As of December 31, 2014 | | | |
|--|-------------------------|-----------------------|----------------|-----------------------|
| | Trade receivables | Other receivables (1) | Trade payables | Other liabilities (1) |
| Current and non-current assets (liabilities) - Gross value | 5,524 | 182 | (7,329) | (65) |
| Compensation | (1,257) | (10) | 1,257 | 10 |
| Current and non-current assets (liabilities) Book value | 4,267 | 172 | (6,072) | (55) |

(1) Only includes financial assets and financial liabilities according to IFRS 7.

Table of Contents**TELECOM ARGENTINA S.A.**

| <u>CONSOLIDATED INCOME STATEMENTS</u> | <u>Three-month periods ended</u> | | <u>Nine-month periods</u> | |
|--|---|--------------------|-----------------------------------|--------------------|
| | <u>September 30,</u> | | <u>ended September 30,</u> | |
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| ac) Total revenues and other income | | | Profit (loss) | |
| <u>Services</u> | | | | |
| Voice Retail | 846 | 723 | 2,379 | 2,109 |
| Voice Wholesale | 255 | 228 | 734 | 681 |
| Data | 451 | 380 | 1,290 | 1,063 |
| Internet | 1,198 | 842 | 3,273 | 2,345 |
| Subtotal Fixed Services | 2,750 | 2,173 | 7,676 | 6,198 |
| Voice Retail | 1,850 | 1,235 | 5,109 | 3,830 |
| Voice Wholesale | 466 | 480 | 1,395 | 1,456 |
| Data | 1,763 | 2,015 | 5,376 | 5,692 |
| Internet | 1,594 | 869 | 4,283 | 2,294 |
| Subtotal Personal Mobile Services | 5,673 | 4,599 | 16,163 | 13,272 |
| Voice Retail | 148 | 154 | 441 | 431 |
| Voice Wholesale | 24 | 41 | 80 | 98 |
| Data | 72 | 84 | 220 | 248 |
| Internet | 127 | 114 | 388 | 321 |
| Subtotal Núcleo Mobile Services | 371 | 393 | 1,129 | 1,098 |
| Total service revenues (a) | 8,794 | 7,165 | 24,968 | 20,568 |
| <u>Equipment</u> | | | | |
| Fixed Services | 25 | 13 | 48 | 44 |
| Personal Mobile Services | 1,235 | 1,400 | 3,468 | 3,515 |
| Núcleo Mobile Services | 40 | 20 | 106 | 56 |
| Total equipment revenues (b) | 1,300 | 1,433 | 3,622 | 3,615 |
| Total revenues (a) + (b) | 10,094 | 8,598 | 28,590 | 24,183 |
| <u>Other income</u> | | | | |
| Fixed Services | 4 | 7 | 12 | 24 |
| Personal Mobile Services | - | 3 | 3 | 16 |
| Total other income (c) | 4 | 10 | 15 | 40 |
| Total revenues and other income (a)+(b)+(c) | 10,098 | 8,608 | 28,605 | 24,223 |

Telecom Group's service revenues by type of service (regardless of the segment originates) are as follows:

| | <u>Nine-month periods ended</u> | | | |
|-------------------------------|--|-----------------|--------------------|-----------------|
| | <u>2015</u> | <u>%</u> | <u>2014</u> | <u>%</u> |
| Voice Retail | 7,929 | 32 | 6,370 | 31 |
| Voice Wholesale | 2,209 | 9 | 2,235 | 11 |
| Total Voice | 10,138 | 41 | 8,605 | 42 |
| Data | 6,886 | 27 | 7,003 | 34 |
| Internet | 7,944 | 32 | 4,960 | 24 |
| Total service revenues | 24,968 | 100 | 20,568 | 100 |

ad) Operating costs

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Operating expenses disclosed by nature of expense amounted to \$24,146 and \$20,380 for the nine-month periods ended September 30, 2015 and 2014, respectively.

The main components of the operating expenses are the following:

| | <u>Three-month periods ended</u> | | <u>Nine-month periods</u> | |
|---|----------------------------------|----------------|----------------------------|----------------|
| | <u>September 30,</u> | | <u>ended September 30,</u> | |
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| | <u>Profit (loss)</u> | | | |
| <u>Employee benefit expenses and severance payments</u> | | | | |
| Salaries | (1,429) | (1,034) | (3,760) | (2,839) |
| Social security expenses | (463) | (324) | (1,207) | (890) |
| Severance indemnities and termination benefits | (105) | (82) | (240) | (204) |
| Other employee benefits | (37) | (25) | (85) | (69) |
| | (2,034) | (1,465) | (5,292) | (4,002) |
| <u>Interconnection costs and other telecommunication charges</u> | | | | |
| Fixed telephony interconnection costs | (85) | (66) | (236) | (203) |
| Cost of international outbound calls | (39) | (43) | (121) | (143) |
| Lease of circuits and use of public network | (88) | (86) | (249) | (221) |
| Mobile services - charges for roaming | (96) | (93) | (288) | (330) |
| Mobile services - charges for TLRD | (250) | (228) | (665) | (639) |
| | (558) | (516) | (1,559) | (1,536) |

Table of Contents**TELECOM ARGENTINA S.A.**

| | <u>Three-month periods ended</u> | | <u>Nine-month periods</u> | |
|--|----------------------------------|----------------|----------------------------|----------------|
| | <u>September 30.</u> | | <u>ended September 30.</u> | |
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| | Profit (loss) | | | |
| <u>Fees for services, maintenance, materials and supplies</u> | | | | |
| Maintenance of hardware and software | (80) | (101) | (234) | (309) |
| Technical maintenance | (210) | (163) | (598) | (517) |
| Service connection fees for fixed lines and Internet lines | (63) | (61) | (164) | (164) |
| Service connection fees capitalized as SAC | 3 | 2 | 9 | 4 |
| Service connection fees capitalized as Intangible assets | 12 | 8 | 26 | 23 |
| Other maintenance costs | (117) | (84) | (312) | (221) |
| Obsolescence of inventories Personal Mobile Services | (17) | (8) | (23) | (70) |
| Call center fees | (322) | (319) | (972) | (818) |
| Other fees for services | (186) | (149) | (565) | (388) |
| Compensation for Directors and Supervisory Committee members | (11) | (8) | (27) | (22) |
| | (991) | (883) | (2,860) | (2,482) |
| <u>Taxes and fees with the Regulatory Authority</u> | | | | |
| Turnover tax | (522) | (464) | (1,512) | (1,308) |
| Taxes with the Regulatory Authority | (228) | (183) | (651) | (529) |
| Tax on deposits to and withdrawals from bank accounts | (106) | (80) | (293) | (251) |
| Municipal taxes | (68) | (58) | (202) | (163) |
| Other taxes | (64) | (50) | (183) | (148) |
| | (988) | (835) | (2,841) | (2,399) |
| <u>Commissions</u> | | | | |
| Agent commissions | (626) | (592) | (1,777) | (1,446) |
| Agent commissions capitalized as SAC | 268 | 272 | 781 | 634 |
| Distribution of prepaid cards commissions | (152) | (149) | (464) | (430) |
| Collection commissions | (264) | (179) | (661) | (474) |
| Other commissions | (25) | (21) | (74) | (71) |
| | (799) | (669) | (2,195) | (1,787) |
| <u>Cost of equipments and handsets</u> | | | | |
| Inventory balance at the beginning of the period/year | (805) | (1,147) | (794) | (857) |
| Plus: | | | | |
| Purchases | (2,606) | (1,325) | (4,413) | (3,618) |
| Deferred costs from SAC | 24 | 26 | 66 | 83 |
| Decreases from allowance for obsolescence | 4 | 6 | 8 | 39 |
| Mobile handsets lent to customers at no cost | 9 | 6 | 24 | 23 |
| Decreases not charged to material cost | 2 | - | 2 | 3 |
| Less: | | | | |
| Inventory balance at period end | 2,316 | 1,208 | 2,316 | 1,208 |
| | (1,056) | (1,226) | (2,791) | (3,119) |
| <u>Advertising</u> | | | | |
| Media advertising | (153) | (104) | (380) | (294) |
| Fairs and exhibitions | (30) | (28) | (108) | (110) |
| Other advertising costs | (38) | (39) | (103) | (108) |
| | (221) | (171) | (591) | (512) |
| <u>Cost of VAS</u> | | | | |
| Cost of mobile VAS | (303) | (267) | (884) | (667) |
| Cost of fixed VAS | (10) | (6) | (26) | (12) |
| | (313) | (273) | (910) | (679) |
| <u>Other operating costs</u> | | | | |
| Transportation, freight and travel expenses | (206) | (138) | (523) | (401) |
| Delivery costs capitalized as SAC | 23 | 15 | 56 | 38 |
| Rent of buildings and cell sites | (137) | (106) | (388) | (299) |
| Energy, water and others | (82) | (139) | (318) | (322) |

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| | | | | |
|--|----------------|--------------|----------------|----------------|
| International and satellite connectivity | (71) | (41) | (145) | (108) |
| | (473) | (409) | (1,318) | (1,092) |
| D&A | | | | |
| Depreciation of PP&E | (774) | (634) | (2,165) | (1,740) |
| Amortization of SAC and service connection charges | (276) | (203) | (733) | (596) |
| Amortization of 3G/4G Licenses | (96) | - | (227) | - |
| Amortization of other intangible assets | (18) | (6) | (29) | (18) |
| | (1,164) | (843) | (3,154) | (2,354) |

Table of Contents**TELECOM ARGENTINA S.A.**

| | <u>Three-month periods ended</u> | | <u>Nine-month periods</u> | |
|---|----------------------------------|----------------------|----------------------------|-------------|
| | <u>September 30,</u> | | <u>ended September 30,</u> | |
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| | | | | |
| | | Profit (loss) | | |
| <u>Gain on disposal of PP&E and impairment of PP&E</u> | | | | |
| Gain on disposal of PP&E | 8 | 1 | 21 | 11 |
| Impairment of PP&E - construction in progress | (62) | - | (72) | - |
| | (54) | 1 | (51) | 11 |

The operating expenses disclosed by function are as follows:

| | | | | |
|---|----------------|----------------|-----------------|-----------------|
| Operating costs | (5,219) | (4,705) | (14,335) | (12,800) |
| Administration costs | (484) | (366) | (1,333) | (1,014) |
| Commercialization costs | (3,023) | (2,313) | (8,253) | (6,475) |
| Other expenses - provisions | (7) | - | (174) | (102) |
| Gain on disposal of PP&E and impairment of PP&E | (54) | 1 | (51) | 11 |
| | (8,787) | (7,383) | (24,146) | (20,380) |

ae) Financial results**Finance income**

| | | | | |
|--|-----------------------------|------------|------------|--------------|
| Interest on time deposits | 12 | 14 | 19 | 274 |
| Gains on investments (Argentine companies notes and governments bonds) | 131 | 38 | 200 | 111 |
| Gains on Mutual Funds | 39 | 39 | 100 | 113 |
| Interest on receivables | 43 | 39 | 133 | 119 |
| Foreign currency exchange gains | 46 | 113 | 85 | 647 |
| Gain on NDF (Note 10.b) | 32 | - | 36 | 42 |
| Other | - | 3 | - | 3 |
| | Total finance income | 303 | 573 | 1,309 |

Finance expenses

| | | | | |
|---|-------------------------------|--------------|--------------|----------------|
| Interest on loans - Personal | (186) | - | (257) | - |
| Interest on loans - Núcleo | (6) | (8) | (18) | (20) |
| Interest on salaries and social security payable, other taxes payables and accounts payable | (7) | (11) | (19) | (31) |
| Interest on provisions | (24) | (41) | (113) | (111) |
| Present value effect of salaries and social security payable and other taxes payables | (1) | - | (3) | (3) |
| Foreign currency exchange losses (*) | (145) | (96) | (279) | (852) |
| Pension benefits financial cost | (7) | - | (21) | - |
| Losses on NDF (Note 10.b) | 4 | (14) | (47) | (62) |
| Other | (4) | - | (8) | - |
| | Total finance expenses | (376) | (765) | (1,079) |
| | (73) | 76 | (192) | 230 |

(*) Include (228) of foreign currency exchange losses generated by the acquisition of US\$ 100 million of Government bonds in the nine-month period ended September 30, 2014.

af) Income taxes

Income tax expense for the nine-month periods ended September 30, 2015 and 2014 consists of the following:

| | <u>The Company</u> | <u>Telecom USA</u> | <u>Profit (loss) Personal</u> | <u>Núcleo</u> | <u>Total</u> |
|--|------------------------|------------------------|-----------------------------------|---------------|----------------|
| Current tax expense | (305) | (3) | (1,219) | (9) | (1,536) |
| Deferred tax benefit | 29 | - | 18 | - | 47 |
| Income tax expense as of September 30, 2015 | (276) | (3) | (1,201) | (9) | (1,489) |
| Current tax expense | (377) | (4) | (1,314) | (18) | (1,713) |
| Deferred tax benefit | 62 | - | 260 | 2 | 324 |
| Income tax expense as of September 30, 2014 | (315) | (4) | (1,054) | (16) | (1,389) |

Table of Contents**TELECOM ARGENTINA S.A.**

Income tax expense for the periods differed from the amounts computed by applying the Company's statutory income tax rate to pre-tax income as a result of the following:

| | <u>In Argentina</u> | <u>Abroad</u> <u>Profit (loss)</u> | <u>Total</u> |
|--|---------------------|---------------------------------------|----------------|
| Pre-tax income on a separate return basis | 6,463 | 83 | 6,546 |
| Non taxable items Income from investments | (2,279) | 4 | (2,275) |
| Non taxable items Other | 6 | (22) | (16) |
| Subtotal | 4,190 | 65 | 4,255 |
| Weighted statutory income tax rate | 35% | (*) | |
| Income tax expense at weighted statutory tax rate | (1,467) | (12) | (1,479) |
| Income tax on dividends from foreign companies | (10) | - | (10) |
| Income tax expense as of September 30, 2015 | (1,477) | (12) | (1,489) |
| | <u>In Argentina</u> | <u>Abroad</u> <u>Profit (loss)</u> | <u>Total</u> |
| Pre-tax income on a separate return basis | 6,053 | 148 | 6,201 |
| Non taxable items Income from investments | (2,128) | - | (2,128) |
| Non taxable items Other | 9 | (32) | (23) |
| Subtotal | 3,934 | 116 | 4,050 |
| Weighted statutory income tax rate | 35% | (*) | |
| Income tax expense at weighted statutory tax rate | (1,377) | (20) | (1,397) |
| Income tax on dividends from foreign companies | (19) | - | (19) |
| Recovery of valuation allowance | 27 | - | 27 |
| Income tax expense as of September 30, 2014 | (1,369) | (20) | (1,389) |

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

NOTE 3 SUPPLEMENTARY CASH FLOW INFORMATION

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 9M15 bank overdrafts have been part of the permanent short-term financing structure of Personal, so, net funds requests under that method (with maturities less than three months) are included in financing activities.

| | <u>2015</u> | <u>September 30,</u> | <u>2014</u> | <u>2014</u> | <u>December 31,</u> | <u>2013</u> |
|---------------------------|-------------|----------------------|-------------|-------------|---------------------|-------------|
| Cash and cash equivalents | 644 | | 2,408 | 825 | | 5,224 |

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| | | | | |
|--|------------|--------------|------------|--------------|
| Bank overdrafts | - | - | (141) | - |
| Total cash and cash equivalents | 644 | 2,408 | 684 | 5,224 |

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

| | <u>Nine-month periods ended September 30,</u> | |
|--|---|-----------------|
| | <u>2015</u> | <u>2014</u> |
| <u>Collections</u> | | |
| Collections from customers | 30,785 | 25,283 |
| Interests from customers | 133 | 119 |
| Interests from time deposits and investment funds | 118 | 385 |
| CPP collections | 372 | 503 |
| NDF | - | 84 |
| Subtotal | 31,408 | 26,374 |
| <u>Payments</u> | | |
| For the acquisition of goods and services and others | (7,617) | (5,419) |
| For the acquisition of inventories | (4,439) | (3,590) |
| Salaries and social security payables and severance payments | (5,013) | (3,748) |
| NDF | (111) | (48) |
| CPP payments | (540) | (613) |
| Income taxes | (1,202) | (1,783) |
| Other taxes and taxes and fees with the Regulatory Authority | (7,403) | (6,824) |
| Foreign currency exchange differences related to the payments to suppliers | (199) | (729) |
| <i>Inventory suppliers</i> | (104) | (318) |
| <i>PP&E suppliers</i> | (47) | (297) |
| <i>Other suppliers</i> | (48) | (114) |
| Subtotal | (26,524) | (22,754) |
| Net cash flow provided by operating activities | 4,884 | 3,620 |

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

| | <u>Nine-month periods</u> <u>ended September 30,</u> | |
|---|---|----------------|
| | <u>2015</u> | <u>2014</u> |
| Net (increase) decrease in assets | | |
| Investments | (192) | (13) |
| Trade receivables | (1,082) | (1,012) |
| Other receivables | (278) | (85) |
| Inventories | (1,562) | (399) |
| | (3,114) | (1,509) |
| Net (decrease) increase in liabilities | | |
| Trade payables | 395 | 56 |
| Deferred revenues | 33 | 32 |
| Salaries and social security payables | 201 | 87 |
| Other taxes payables | (52) | 32 |
| Other liabilities | 27 | 16 |
| Provisions | (112) | (77) |
| | 492 | 146 |

Income tax paid consists of the following:

| | | |
|-------------------------------------|----------------|----------------|
| Tax returns and payments in advance | (1,057) | (1,646) |
| Other payments | (145) | (137) |
| | (1,202) | (1,783) |

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

| | | |
|---|-----|-----|
| SAC acquisitions offset with trade receivables | 160 | 296 |
| Income tax offset with VAT and internal taxes | 50 | - |
| Tax withholdings on Telecom Argentina's dividends | - | 11 |

- **Most significant investing activities:**

PP&E acquisitions include:

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| | | |
|---|----------------|----------------|
| PP&E additions (Note 2.i) | (4,687) | (3,474) |
| Plus: | | |
| Payments of trade payables originated in prior periods acquisitions | (1,269) | (1,513) |
| Less: | | |
| Acquisition of PP&E through incurrence of trade payables | 2,740 | 1,165 |
| ARO | - | 6 |
| Mobile handsets lent to customers at no cost (i) | 24 | 23 |
| | (3,192) | (3,793) |

(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:

| | | |
|---|----------------|--------------|
| Acquisitions of 4G License (Notes 2.j and 10.g) | (2,256) | - |
| | (2,256) | - |
| Intangible assets additions (Note 2.j) | (958) | (784) |
| Plus: | | |
| Payments of trade payables originated in prior periods acquisitions | (119) | (108) |
| SAC acquisitions offset with trade receivables | (160) | (296) |
| Less: | | |
| Acquisition of intangible assets through incurrence of trade payables | 343 | 414 |
| | (894) | (774) |

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:

| | | |
|---------------------------------------|--------------|----------------|
| Investments over 90 days maturity | - | (164) |
| Argentine companies notes acquisition | - | (16) |
| Public bonds acquisition | (1,051) | (947) |
| Argentine companies notes collection | 28 | 28 |
| Government bonds collection | 26 | 67 |
| | (997) | (1,032) |

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TELECOM ARGENTINA S.A.

• ***Financing activities components:***

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

| | <u>Nine-month periods ended September 30,</u> | | |
|--|---|-------------|----------|
| | <u>2015</u> | <u>2014</u> | |
| Bank overdrafts (Personal) | 3,122 | | - |
| Debt proceeds Personal (Note 10.a) | 346 | | - |
| Total financial debt proceeds | 3,468 | | - |
| Payment of bank loans Núcleo | (25) | | (10) |
| Total payment of financial debt | | | |