

TELECOM ARGENTINA SA
Form 20-F
April 26, 2017
Table of Contents

As filed with the Securities and Exchange Commission on April 26, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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Date of event requiring this shell company report

For the transition period from to

Commission file number: 1-13464

TELECOM ARGENTINA S.A.

(Exact name of Registrant as specified in its charter)

Republic of Argentina

(Jurisdiction of incorporation or organization)

Alicia Moreau de Justo 50

(C1107AAB) - Buenos Aires

Argentina

(Address of principal executive offices)

Pedro Insussarry

(Tel: 54-11-4968-3743, Fax: 54-11-4968-3616, E-mail: pinsussa@ta.telecom.com.ar,

Alicia Moreau de Justo 50, 10th Floor, (C1107AAB), Buenos Aires, Argentina)

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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

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

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

None

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Table of Contents

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

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

| | |
|---|-------------|
| Class A Ordinary Shares, nominal value P\$1.00 each | 502,034,299 |
| Class B Ordinary Shares, nominal value P\$1.00 each | 466,890,558 |
| Class C Ordinary Shares, nominal value P\$1.00 each | 234,748 |

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Table of Contents

TABLE OF CONTENTS

| | Page |
|--|-------------|
| <u>PRESENTATION OF FINANCIAL INFORMATION</u> | 1 |
| <u>FORWARD-LOOKING STATEMENTS</u> | 3 |
| <u>GLOSSARY OF TERMS</u> | 5 |
| <u>PART I</u> | |
| <u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u> | 12 |
| <u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u> | 12 |
| <u>ITEM 3. KEY INFORMATION</u> | 12 |
| <u>ITEM 4. INFORMATION ON THE COMPANY</u> | 36 |
| <u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u> | 86 |
| <u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u> | 87 |
| <u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u> | 138 |
| <u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u> | 154 |
| <u>ITEM 8. FINANCIAL INFORMATION</u> | 162 |
| <u>ITEM 9. THE OFFER AND LISTING</u> | 174 |
| <u>ITEM 10. ADDITIONAL INFORMATION</u> | 179 |
| <u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 195 |
| <u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u> | 196 |
| <u>PART II</u> | |
| <u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u> | 197 |
| <u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u> | 197 |
| <u>ITEM 15. CONTROLS AND PROCEDURES</u> | 197 |
| <u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u> | 198 |
| <u>ITEM 16B. CODE OF ETHICS</u> | 198 |
| <u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u> | 199 |
| <u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u> | 200 |
| <u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE COMPANY AND AFFILIATED PURCHASERS</u> | 200 |
| <u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u> | 200 |
| <u>ITEM 16G. CORPORATE GOVERNANCE</u> | 201 |
| <u>ITEM 16H. MINE SAFETY DISCLOSURE</u> | 201 |
| <u>PART III</u> | |
| <u>ITEM 17. FINANCIAL STATEMENTS</u> | 202 |
| <u>ITEM 18. FINANCIAL STATEMENTS</u> | 202 |
| <u>ITEM 19. EXHIBITS</u> | 202 |

Table of Contents

PRESENTATION OF FINANCIAL INFORMATION

Telecom Argentina S.A. is a company incorporated under the laws of Argentina. As used in this Annual Report on Form 20-F (the "Form 20-F" or "Annual Report"), the terms "the Company," "Telecom," "Telecom Group," "we," "us," and "our" refer to Telecom Argentina S.A. and its consolidated subsidiaries as of December 31, 2016. Unless otherwise stated, references to the financial results of "Telecom" are to the consolidated financial results of Telecom Argentina and its consolidated subsidiaries. The Telecom Group is engaged in the provision of fixed and mobile telecommunications services.

The term "Telecom Argentina" refers to Telecom Argentina S.A. excluding its subsidiaries, as of December 31, 2016, Telecom Personal S.A., Núcleo S.A., Personal Envíos S.A. ("Envíos"), Telecom Argentina USA Inc. ("Telecom Argentina USA") and Micro Sistemas S.A. Telecom Argentina is engaged in the provision of fixed telecommunication services in Argentina. The terms "Telecom Personal" or "Personal" refer to Telecom Personal S.A., our subsidiary engaged in the provision of mobile telecommunication services in Argentina. The term "Núcleo" refers to Núcleo S.A., Personal's subsidiary engaged in the provision of mobile telecommunication services in Paraguay. Envíos is Núcleo's subsidiary engaged in the provision of mobile financial services in Paraguay. Telecom Argentina USA Inc. is a Telecom Argentina subsidiary engaged in the provision of telecommunication services in USA and Micro Sistemas is a Telecom Argentina subsidiary whose corporate purpose is the provision of electronic payment services in Argentina which had no activities during 2016.

Our Consolidated Financial Statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014, and the notes thereto (the "Consolidated Financial Statements") are set forth on pages F-1 through F-109 of this Annual Report.

Our Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and have been approved by resolution of the Board of Directors' meeting held on March 8, 2017.

Our Consolidated Financial Statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014, as included in this report, have been audited by an independent registered public accounting firm.

Telecom Argentina and our Argentine subsidiaries maintain their accounting records and prepare their financial statements in Argentine Pesos, which is their functional currency. Our subsidiaries Núcleo, Envíos and Telecom Argentina USA, however, maintain their accounting records and prepare their financial statements in Guaraníes (Núcleo and Envíos) and in U.S. dollars (Telecom Argentina USA). Our Consolidated Financial Statements include the results of these subsidiaries translated into Argentine Pesos. Assets and liabilities are translated at year-end exchange rates and revenue and expense accounts at average exchange rates for each year presented.

Certain financial information contained in this Annual Report has been presented in U.S. dollars. This Annual Report contains translations of various Argentine Peso amounts into U.S. dollars at specified rates solely for convenience of the reader. You should not construe these translations as representations by us that the Argentine Peso amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Except as otherwise specified, all references to "US\$", "U.S. dollars" or "dollars" are to United States dollars, references to "EUR," "euro" or "euros" are to the lawful currency of the member states of the European Union and references to "Argentine Pesos" or "pesos" are to Argentine Pesos. Unless otherwise indicated, we have translated the Argentine Peso

amounts using a rate of P\$15.89 = US\$1.00, the U.S. dollar ask rate published by the Banco de la Nación Argentina (Argentine National Bank) on December 31, 2016. On April 24, 2017, the exchange rate was P\$15.39= US\$1.00. As a result of fluctuations in the Argentine peso/U.S. dollar exchange rate, the exchange rate at such date may not be indicative of current or future exchange rates. Consequently, these translations should not be construed as a representation that the peso amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. See Item 3 Key Information Exchange Rates , and Item 3 Key Information Risk Factors Risks Relating to Argentina Devaluation of the peso may adversely affect our results of operations, our capital expenditure program and the ability to service our liabilities and transfer funds abroad.

For the purposes of this Annual Report, billion means a thousand million.

PRESENTATION OF FINANCIAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

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

The contents of our website and other websites referred to herein are not part of this Annual Report.

This Annual Report contains certain terms that may be unfamiliar to some readers. You can find a Glossary of these terms on page 5 of this Annual Report.

PRESENTATION OF FINANCIAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

FORWARD-LOOKING STATEMENTS

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

- our expectations for our future performance, revenues, income, earnings per share, capital expenditures, dividends, liquidity and capital structure;
- the implementation of our business strategy;
- the changing dynamics and growth in the telecommunications market;
- our outlook for new and enhanced technologies;
- the effects of operating in a competitive environment;
- industry conditions;
- the outcome of certain legal proceedings;
- regulatory and legal developments; and
- other factors identified or discussed under Item 3 Key Information Risk Factors.

This Annual Report contains certain forward-looking statements and information relating to the Telecom Group that are based on current expectations, estimates and projections of our Management and information currently available to the Telecom Group. These statements include, but are not limited to, statements made in Item 3 Key Information Risk Factors, Item 5 Operating and Financial Review and Prospects under the

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captions Critical Accounting Policies and Trend Information, Item 8 Financial Information Legal Proceedings and other statements about the Telecom Group's strategies, plans, objectives, expectations, intentions, capital expenditures, and assumptions and other statements contained in this Annual Report that are not historical facts. When used in this document, the words anticipate, believe, estimate, expect, intend, plan, will, may and should and other similar expressions are generally intended to identify forward-looking statements.

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

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

- our ability to successfully implement our business strategy;
- our ability to introduce new products and services that enable business growth;
- uncertainties relating to political and economic conditions in Argentina and Paraguay;
- inflation, the devaluation of the peso and of the Guaraní and exchange rate risks in Argentina and Paraguay;
- restrictions on the ability to exchange pesos into foreign currencies and transfer funds abroad;
- the way the Argentine government regulates Law No. 27,078, the Argentina Digital Law or LAD, as amended by Decree No. 267/15, as well as the impact of the announced project of new Telecommunications Law, which has not yet been sent to Congress;
- the creditworthiness of our actual or potential customers;

FORWARD-LOOKING STATEMENTS

TELECOM ARGENTINA S.A.

Table of Contents

- nationalization, expropriation and/or increased government intervention in companies;
- technological changes;
- the impact of legal or regulatory matters, changes in the interpretation of current or future regulations or reform and changes in the legal or regulatory environment in which we operate; and
- the effects of increased competition.

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

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

FORWARD-LOOKING STATEMENTS

TELECOM ARGENTINA S.A.

Table of Contents

GLOSSARY OF TERMS

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

2G (second-generation mobile system): Second-generation protocols using digital encoding and includes GSM, D-AMPS (TDMA) and CDMA. These protocols support high bit rate voice and limited data communications.

3G (third-generation mobile system): Third-generation mobile service, designed to provide high speed data, always-on data access, and greater voice capacity. 3G networks allow the transfer of both voice data services (telephony, messaging) and non-voice data (such as downloading Internet information, exchanging email, and instant messaging). The high data speeds, measured in Mbps, are significantly higher than 2G, and 3G networks technology enable full motion video, high-speed Internet access and video-conferencing. 3G technology standards include UMTS, based on WCDMA technology (quite often the two terms are used interchangeably), and CDMA2000.

4G (fourth-generation mobile system): Fourth-generation mobile service using the LTE technology (Long Term Evolution technology).

Access (or Accesses): Connection provided by Telecom Argentina to Internet services.

ADS: American Depositary Shares issued by JP Morgan, listed on the New York Stock Exchange, each representing rights to five (5) Class B Shares under a Deposit Agreement.

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.

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

AFJP (Administradoras de Fondos de Jubilaciones y Pensiones): Private entities that were in charge of managing the funds of the Private Pension and Retirement System established by Law No. 24,241, until its nationalization in November 2008

pursuant to Law No. 26,425.

AFTIC (Autoridad Federal de Tecnologías de la Información y de las Comunicaciones): The decentralized and autonomous agency in the scope of the PEN appointed as the Regulatory Authority in the LAD. AFTIC was replaced by the ENACOM.

AMBA (Area Metropolitana Buenos Aires): An area comprising the city of Buenos Aires and the greater Buenos Aires area. Telephone calls within the area are considered local.

Analog: A mode of transmission or switching that is not digital, e.g., the representation of voice, video or other not in digital form.

ANSES: The Argentine administrator of social security pension and retirement benefits.

Argentina: Republic of Argentina.

Argentine GAAP: Generally Accepted Accounting Principles in Argentina, which we used before the adoption of IFRS.

ARBU (Average Revenue Billed per User): Calculated by dividing total monthly basic charges and traffic revenue excluding public telephone revenue by weighted-average number of fixed lines in service during the period.

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

ARSAT: Empresa Argentina de Soluciones Satelitales Sociedad Anónima, a state-owned company which offers satellite and wholesale services.

Auction Terms and Conditions: Terms and Conditions approved by SC Resolution No. 38/14 for the awarding of frequency bands.

Backbone: Main connection network (mainly by fiber optics) that connect local areas.

BADLAR: Buenos Aires Deposits of Large Amount Rate.

GLOSSARY OF TERMS

TELECOM ARGENTINA S.A.

Table of Contents

Basic Telephone Services: The supply of fixed telecommunications links that form part of the public telephone network, or are connected to such network, and the provision of local and long-distance telephone service (domestic and international).

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

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

Broadband: Services characterized by a transmission speed of 2 Mbps or more. These services include interactive services such as video telephone/video conferencing (both point-to-point and multipoint); video monitoring; interconnection of local networks; file transfer; high-speed fax; e-mail for moving images or mixed documents; Broadband videotext; video on demand and retrieval of sound programs or fixed and moving images.

Broadcasting: Simultaneous transmission of information to all Nodes and terminal equipment of a network.

Carrier: Company that makes available the physical telecommunication network.

CAT: Compañía Argentina de Teléfonos S.A.

CDMA (Code Division Multiple Accesses): A digital wireless technology used in radio communication for transmission between a mobile handset and a radio base station. It enables the simultaneous transmission and reception of several messages, each of which has a coded identity to distinguish it from the other messages.

Cell: Geographical portion of the territory covered by a base transceiver station.

Cellular: A technique used in mobile radio technology to use the same spectrum of frequencies in one network multiple times. Low power radio transmitters are used to cover a Cell (i.e., a limited area) so that the frequencies in use can be reused without interference for other parts of the network.

CEO: Chief Executive Officer.

CFO: Chief Financial Officer.

Channel: The portion of a communications system that connects a source to one or more destinations. Also called circuit, line, link or path.

CNC (Comisión Nacional de Comunicaciones): The Argentine National Communications Commission, which was replaced by the AFTIC, which was replaced by the ENACOM (in December 2015).

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

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

CONATEL: National Communications Commission of Paraguay.

Convertibility Law: Law No. 23,928 and its Regulatory Decree No. 529/91. The Convertibility Law fixed the exchange rate at one peso per U.S. dollar during the period from April 1, 1991 through January 6, 2002. The Convertibility Law was partially repealed on January 6, 2002 by the enactment of the Public Emergency Law.

COO: Chief Operating Officer.

COSO: Committee of Sponsoring Organizations of the Treadway Commission.

CPP (Calling Party Pays): The system whereby the party placing a call to a mobile handset rather than the mobile subscriber pays for the air time charges for the call.

D-AMPS (Digital-Advanced Mobile Phone Service): It is a digital version of AMPS (Advanced Mobile Phone Service), the original Analog standard for mobile telephone service in the United States.

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Decreto No. 267/15: Decree that modifies some aspects of the LAD and Audiovisual Communication Services Law published in the Official Gazette on January 4, 2016. This Decree was subsequently amended by Decree No. 1,340/16 issued by PEN and published in the Official Gazette on January 2, 2017.

GLOSSARY OF TERMS

TELECOM ARGENTINA S.A.

Table of Contents

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

DWDM (Dense Wavelength Division Multiplexing): Technology for multiplying and transmitting different wavelengths along a single optical fiber contemporaneously.

ENACOM (Ente Nacional de Comunicaciones): Argentine Communications Body within the scope of the Ministry of Communications, acting as Regulatory Authority as of the date of this Annual Report. ENACOM absorbed the functions of AFTIC.

ENTel (Empresa Nacional de Telecomunicaciones): National Telecommunications Company which operated the telecommunications system in Argentina prior to the Transfer Date.

Envíos: Personal Envíos S.A.

FCR: France Cables et Radio S.A.

Fiber Optic: Thin glass, silica or plastic wires, building the infrastructure base for data transmission. A Fiber Optic cable contains several individual fibers, and each of them is capable of driving a signal (light impulse) at unlimited bandwidth. Fiber Optics are usually employed for long-distance communication: it can transfer heavy data loads, and the signal reaches the recipient, protected from possible disturbances along the way. The driving capacity of Fiber Optics is higher than the traditional copper cable ones.

Fintech: Fintech Telecom LLC.

FTTH, FTTC, FTT (Fiber to the): It is the term used to indicate any network architecture that uses fiber optic cables in partial or total substitution of traditional copper cables used in telecommunications access networks. The various technological solutions differ in the point of the distribution network where the fiber connection is made, with respect to the end-user's location. In the case of FTTC (Fiber to the Curb or Fiber to the Cabinet), the fiber connection reaches

the equipment (distribution cabinet) located on the pavement, from where copper connections are run to the customer; in the case of FTTH (Fiber to the Home), the fiber connection terminates inside the customer premises.

GCL: General Corporations Law.

GDP: Gross Domestic Product.

GPON: Gigabit-capable Passive Optical Network. A flexible optical fiber access network capable of supporting the bandwidth requirements of business and residential services. GPON systems are characterized, in general, by an optical line termination (OLT) system and an optical network unit (ONU) or optical network termination (ONT) with a passive optical distribution network interconnecting them. There is, in general, a one-to-many relationship between the OLT and the ONU/ONTs, respectively.

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

GSM (Global System for Mobile Communications): A standard for digital mobile technology used worldwide, which works on 900 MHz and 1,800 MHz band.

IASB: International Accounting Standards Board.

ICT (Information and Communication Technology): Broad area concerned with information technology, telecommunications networking and services and other aspects of managing and processing information, especially in large organizations.

ICT services (Information and Communication Technology services): Services to transport and distribute signals or data, such as voice, text, video and images, provided or requested by third-party

Table of Contents

users, through telecommunications networks. Each service is subject to its specific regulatory framework.

IFC: International Finance Corporation

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

INDEC (Instituto Nacional de Estadísticas y Censos): The Argentine National Statistics and Census Institute.

Internet: The world's best-known data network. Initially used by the U.S. Department of Defense, the Internet now provides an interface for networks based on different technologies (LANs, WANs, data networks, etc.), but with the use of the TCP/IP protocol platform.

IP (Internet Protocol): A set of communications protocols for exchanging data over the Internet.

ISP (Internet Service Provider): A vendor who provides access to the Internet and World Wide Web.

IT: Information Technology.

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

Law No. 25,561 (Ley de Emergencia Económica y Reforma del Régimen Cambiario): See Public Emergency Law.

Law No. 26,831 (Ley de Mercado de Capitales): Argentine Capital Markets Law.

List of Conditions: The Privatization Regulations, including the *Pliego de Bases y Condiciones*, was approved by Decree No. 62/90, as amended. Pursuant to the List of Conditions, Telecom Argentina was required to comply with rate

regulations and meet certain minimum annual standards regarding the expansion of its telephone system and improvements in the quality of its service to maintain and extend the exclusivity of its non-expiring license to provide fixed-line public telecommunications services and Basic Telephone Services in the Northern Region of Argentina. After the market was opened to competition, the outstanding obligations that continue in force were the rate regulations and those related to the quality of service; the obligations related to the expansion of the network are no longer required.

Merval (Mercado de Valores de Buenos Aires S.A.): Securities Market of Buenos Aires S.A. On April 17, 2017, Bolsas y Mercados Argentinos S.A. (BYMA), a stock market authorized by CNV who shall succeed to the Mercado de Valores de Buenos Aires S.A. or Merval, started the automatic transfer of all the species listed in the Merval to BYMA. BYMA was created after the merger of the Merval and the capital contribution of the BCBA, with the purpose of incorporating the Argentine Stock Exchange System (SBA) under Law No. 26,831 of the Capital Markets.

Micro Sistemas: Micro Sistemas S.A.

M2M: Machine to Machine, information exchange between two remote machines.

MMS (Mobile Multimedia Services): Represent an evolution of the SMS and the Enhanced Messaging Service (EMS) using various mono-medial elements (text, design, photos, video-clips and audio), which are synchronized and combined allowing them to be packed together and sent to GSM-GPRS platforms.

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

Modem: Modulator/Demodulator. A device that modulates digital data to allow their transmission on Analog channels, generally consisting of telephone lines.

Multimedia: A service involving two or more communications media (e.g., voice, video, text, etc.) and hybrid products created through their interaction.

NDF (Non Deliverable Forward) Agreement: A generic term for a set of derivatives that covers national currency transactions including foreign exchange forward swaps, cross currency swaps and coupon swaps in nonconvertible or highly restricted currencies. The common characteristics of these contracts are that they involve no exchange of principal, are fixed at a predetermined price and are

Table of Contents

typically settled in U.S. dollars (or sometimes in Euros) at the prevailing spot exchange rate taken from an agreed source, time, and future date.

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

Node: Topological network junction, commonly a switching center or station.

Nortel: Nortel Inversora S.A., the parent company of Telecom Argentina S.A.

Northern Region: the Argentine government's privatization program as set forth in the State Reform Law approved in August 1989 and subsequent decrees, the Privatization Regulations provided for the division of the Argentine telecommunications network operated by ENTel into two regions, the northern region (the Northern Region) and the southern region (the Southern Region) of Argentina. Additionally, these two regions are set forth in Decree No. 1,461/93, which ratified the Resolution No. 575/93 which approved the list of conditions for the public offer for the provision of mobile telecommunication services.

OTT (Over the Top): Over the Top applications or services are those services that bypass traditional network distribution approaches and run over, or on top of, internet networks. OTT refers, in general, to content from a third-party that is delivered to an end-user over the internet that is not provided directly by end-user Internet Service Provider.

Outsourcing: Hiring outsiders to perform various telecommunications services, which may include planning, construction, or hosting of a network or specific equipment belonging to a company.

Packs: Packages integrated by SMS and minutes that can be purchased or added to those plans that recharge credit.

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

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

Penetration: The measurement of the take-up of services. As of any date, the penetration is calculated by dividing the number of subscribers by the population to which the service is available and expressed as a percentage.

Personal: Telecom Personal S.A.

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

Platform: The total input, including hardware, software, operating equipment and procedures, for producing (production platform) or managing (Management platform) a particular service (service platform).

POPs of contents: *Point Of Presence* , Netflix, Google or other Internet content providers traffic cache servers where Internet contents are stored locally.

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

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

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

Public Emergency Law: The Public Emergency and Foreign Exchange System Reform Law No. 25,561 adopted by the Argentine government on January 6, 2002, as amended by Law No. 25,790, Law No. 25,820, Law No. 25,972, Law No. 26,077, Law No. 26,204, Law No. 26,339, Law No. 26,456, Law No. 26,563, Law No. 26,729, Law No. 26,896 and Law No. 27,200. Among others, the Public Emergency Law grants the PEN the power to set the exchange rate between the peso and foreign currencies and to issue regulations related to the foreign exchange market and to renegotiate public service agreements.

Table of Contents

Pulse: Unit on which the rate structure of the regulated fixed line services is based.

Regulatory Bodies: Collectively or individually, the ENACOM, the AFTIC, 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).

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

SBT (Servicio Básico Telefónico): Basic Telephone Service.

SC (Secretaría de Comunicaciones): The Argentine Secretary of Communications, which was replaced by the AFTIC and subsequently by the ENACOM.

SCMA (Servicio de Comunicaciones Móviles Avanzadas): Mobile Advanced Communications Service.

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

SECTIC (Secretariado de Tecnologías de la Información y la Comunicación): Secretariat of Information and Communication Technologies.

Service Provider: The party that provides end users and content providers with a range of services, including a proprietary, exclusive or third-party service center.

SMS (Short Message Service): Short text messages that can be received and sent through GSM-network connected mobile phones. The maximum text length is 160 alpha-numerical characters.

Sofora: Sofora Telecomunicaciones S.A.

Southern Region: See *Northern Region*.

SRMC (Servicios de Radiocomunicaciones Móviles Celular): Cellular Mobile Radiocommunications Service.

STM (Servicio Telefónico Móvil): Mobile Telephone Service.

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

TDMA (Time Division Multiple Accesses): A technology for digital transmission of radio signals between, for example, a mobile handset and a radio base station. TDMA breaks signals into sequential pieces of defined length, places each piece into an information conduit at specific intervals and then reconstructs the pieces at the end of the conduit.

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

Telecom Argentina USA: Telecom Argentina USA, Inc.

Telecom Italia: Telecom Italia S.p.A.

Telecom Italia Group: Telecom Italia and its consolidated subsidiaries.

Telefónica: Telefónica de Argentina S.A.

Telintar: Telecomunicaciones Internacionales de Argentina Telintar S.A.

Terms and Conditions: See *Auction Terms and Conditions*.

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

Transfer Date: November 8, 1990, the date on which Telecom Argentina commenced operations upon the transfer from the Argentine government of the telecommunications system in the Northern Region of Argentina that was previously owned and operated by ENTel.

UBB (Ultra Broad Band): High speed Internet connection with download speed of 15MB or more.

UMTS (Universal Mobile Telecommunications System): Third-generation mobile communication standard.

GLOSSARY OF TERMS

TELECOM ARGENTINA S.A.

Table of Contents

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

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

Value Added Services (VAS): Services that provide a higher level of functionality than the basic transmission services offered by a telecommunications network such as video streaming, Personal Video , Nube Personal (Cloud services), M2M (Machine to Machine communication), social networks, Personal Messenger , content and entertainment (SMS subscriptions and content, games, music, etc.), MMS and voice mail.

VDSL (Very High bit rate Digital Subscriber Line): a superior technology for Internet access connections. VDSL is superior to ADSL, offering connections speed of over 10Mb.

W de Argentina Inversiones: W de Argentina Inversiones S.A.

WAN (Wide Area Network): A private network that covers a wide geographic area using public telecommunications services.

Wi-Fi: A service for mobile Internet connection and high-speed access.

Wi-Max (Worldwide Interoperability for Microwave Access): A technology that allows mobile access to Broadband telecommunications networks. It is defined by the Wi-Max Forum, a global consortium formed by major companies in the field of fixed and mobile telecommunications, which has the purpose to develop, test and promote the interoperability of systems.

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

The following table presents our summary financial data for each of the years in the five-year period ended December 31, 2016.

The selected consolidated income statement data for the years ended December 31, 2016, 2015 and 2014 and the selected consolidated financial position data as of December 31, 2016 and 2015 have been prepared in accordance with IFRS as issued by the IASB and have been derived from our Consolidated Financial Statements included elsewhere in this Annual Report. The selected consolidated income statement data for the years ended December 31, 2013 and 2012 and the selected consolidated financial position data as of December 31, 2014 and 2013 have been prepared in accordance with IFRS and have been derived from our consolidated financial statements as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 included in our Annual Report on Form 20-F for the year ended December 31, 2014, filed on April 24, 2015. The selected consolidated financial position data as of December 31, 2012 prepared in accordance with IFRS have been derived from our Consolidated Financial Statements as of December 31, 2013 and 2012 and for the years then ended included in our Annual Report on Form 20-F for the year ended December 31, 2013, filed on April 14, 2014.

Our Consolidated Financial Statements and the financial information included elsewhere in this Annual Report have been prepared on historical basis in accordance with IFRS. However, due to the high level of inflation prevailing in Argentina in the last few years, the Company's Management engaged in a deep analysis of the conditions established by IAS 29 paragraph 3 to consider an economy as hyperinflationary. Based on the analysis made as of December 31, 2016, the Company's Management considers that the quantitative condition provided in section e) of IAS 29 has been met, while the qualitative conditions of the Argentine economy are mixed (some of them would suggest the existence of a high inflation environment while others have not substantially changed from previous years, when it was concluded that financial statements should not be restated). Under these circumstances, and in order to be objective, the Company's Management gave prominence to the conclusions reached by some international accounting firms that were available to the Company's Management, which considered that as of December 31,

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2016, there was insufficient evidence to consider Argentina's economy as hyperinflationary under IAS 29. Similar conclusions were reached under US GAAP by the International Practices Task Force, according to its memorandum issued on November 17, 2016. See Risk factors Risk Factors Relating to Argentina Inflation could accelerate, causing adverse effects on the economy and negatively impacting Telecom's margins, Item 5 Operating and Financial Review and Prospects Economic and Political Developments in Argentina and Note 1.e) to the Consolidated Financial Statements.

You should read the information below in conjunction with our Consolidated Financial Statements and the notes thereto, as well as Presentation of Financial Information and Item 5 Operating and Financial Review and Prospects.

PART I - ITEM 3 KEY INFORMATION SELECTED FINANCIAL DATA

TELECOM ARGENTINA S.A.

Table of Contents**CONSOLIDATED SELECTED INCOME STATEMENT AND FINANCIAL POSITION DATA**

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|---|---------------|---------------|---------------|---------------|
| | (P\$ million, except per share and per ADS data in P\$) | | | | |
| INCOME STATEMENT DATA | | | | | |
| Total revenues and other income | 53,323 | 40,540 | 33,388 | 27,350 | 22,196 |
| Operating expenses (without depreciation and amortization) | (38,899) | (29,674) | (24,686) | (19,786) | (15,626) |
| Operating expenses - depreciation and amortization | (6,198) | (4,438) | (3,243) | (2,873) | (2,612) |
| Gain/(Loss) on disposal of PP&E and impairment of PP&E | (383) | (199) | (16) | (173) | 8 |
| Operating income | 7,843 | 6,229 | 5,443 | 4,518 | 3,966 |
| Other, net (1) | (2,244) | (1,102) | 253 | 528 | 229 |
| Income tax expense | (1,594) | (1,692) | (1,967) | (1,792) | (1,463) |
| Net income | 4,005 | 3,435 | 3,729 | 3,254 | 2,732 |
| Other Comprehensive Income, net of tax | 263 | 257 | 243 | 133 | 91 |
| Total Comprehensive Income | 4,268 | 3,692 | 3,972 | 3,387 | 2,823 |
| <i>Total Comprehensive Income attributable to Telecom Argentina</i> | <i>4,142</i> | <i>3,580</i> | <i>3,837</i> | <i>3,285</i> | <i>2,745</i> |
| <i>Total Comprehensive Income attributable to Non-controlling Interest</i> | <i>126</i> | <i>112</i> | <i>135</i> | <i>102</i> | <i>78</i> |
| Number of shares outstanding at year-end (in millions of shares) (2) | 969 | 969 | 969 | 969 | 984 |
| Net income per share (basic and diluted) (3) | 4.10 | 3.51 | 3.79 | 3.27 | 2.73 |
| Net income per ADS (4) | 20.51 | 17.56 | 18.95 | 16.35 | 13.64 |
| Dividends per share (5) | 2.06 | 0.83 | 1.24 | 1.03 | 0.82 |
| Dividends per ADS (6) | 10.32 | 4.15 | 6.20 | 5.11 | 4.10 |
| FINANCIAL POSITION DATA | | | | | |
| Current assets | 15,562 | 11,492 | 6,393 | 9,751 | 6,986 |
| PP&E and intangible assets | 30,757 | 25,622 | 19,140 | 12,745 | 10,549 |
| Other non-current assets | 1,595 | 1,351 | 784 | 634 | 274 |
| Total assets | 47,914 | 38,465 | 26,317 | 23,130 | 17,809 |
| Current liabilities | 16,511 | 16,914 | 9,097 | 9,050 | 5,883 |
| Non-current liabilities | 11,525 | 3,941 | 2,451 | 2,029 | 1,768 |
| Total liabilities | 28,036 | 20,855 | 11,548 | 11,079 | 7,651 |
| Total equity | 19,878 | 17,610 | 14,769 | 12,051 | 10,158 |
| <i>Equity attributable to Telecom Argentina</i> | <i>19,336</i> | <i>17,194</i> | <i>14,418</i> | <i>11,783</i> | <i>9,959</i> |
| <i>Non-controlling Interest</i> | <i>542</i> | <i>416</i> | <i>351</i> | <i>268</i> | <i>199</i> |
| Total Capital Stock (7) | 984 | 984 | 984 | 984 | 984 |

(1) Other, net includes Finance income and expenses.

(2) Number of ordinary shares outstanding at year-end (as of December 31, 2016, 2015, 2014 and 2013 excludes treasury shares).

(3) Calculated based on the weighted average number of ordinary shares outstanding during each period (969,159,605 ordinary shares for the years 2016, 2015 and 2014, 978,939,079 ordinary shares for the year 2013, and 984,380,978 ordinary shares for the year 2012).

(4) Calculated based on the equivalent in ADSs to the weighted average number of ordinary shares outstanding during each period (193,831,921 ADSs for the years 2016, 2015 and 2014, 195,787,816 ADSs for the year 2013 and 196,876,196 ADSs for the year 2012).

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- (5) Dividends per share translated into U.S. dollars amounts to US\$0.14; US\$0.09; US\$0.15; US\$0.16 and US\$0.17 as of December 31, 2016, 2015, 2014, 2013 and 2012, respectively. The translation into US Dollar was made using the ask rate published by the Banco de la Nación Argentina (National Bank of Argentina) prevailing as of the date when dividends were available to Telecom Argentina shareholders.
- (6) Dividends per ADS translated into U.S. dollars amounts to US\$0.70; US\$0.46; US\$0.75; US\$0.79 and US\$0.83 as of December 31, 2016, 2015, 2014, 2013 and 2012, respectively. The translation into US Dollar was made using the ask rate published by the Banco de la Nación Argentina (National Bank of Argentina) prevailing as of the date when dividends were available to Telecom Argentina shareholders.
- (7) Ordinary shares of P\$1 of nominal value each.

PART I - ITEM 3 KEY INFORMATION SELECTED FINANCIAL DATA

TELECOM ARGENTINA S.A.

Table of Contents**OTHER SELECTED DATA**

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|--------|--------|--------|--------|--------|
| Number of installed fixed lines (thousands)(1) | 4,908 | 4,904 | 4,763 | 4,700 | 4,851 |
| Number of fixed lines in service (thousands)(2) | 3,920 | 4,043 | 4,093 | 4,124 | 4,128 |
| Fixed lines in service per 100 inhabitants(3) | 19 | 19 | 19 | 19 | 20 |
| Lines in service per employee (4) | 360 | 371 | 370 | 375 | 371 |
| ARBU (in P\$/month) (national + international) | 97.9 | 67.7 | 57.4 | 52.5 | 48.2 |
| Fixed Internet access lines (thousands) | 1,738 | 1,814 | 1,771 | 1,707 | 1,629 |
| Arnet subscribers (thousands) | 1,726 | 1,791 | 1,749 | 1,687 | 1,622 |
| ARPU ADSL (access + ISP) (in P\$/month) | 270.9 | 207.4 | 153.0 | 124.7 | 102.3 |
| Mobile subscribers in Argentina (thousands) | 19,514 | 19,656 | 19,585 | 20,088 | 18,975 |
| Subscribers at year-end per employee (4) | 4,187 | 4,005 | 3,950 | 3,897 | 3,612 |
| ARPU (in P\$/month) | 112.3 | 91.5 | 74.2 | 66.8 | 57.7 |
| MOU (in minutes/month) | 89.9 | 93.7 | 99.5 | 111.7 | 112.4 |
| MBOU (in Mb per user/month) (5) | 943.2 | 565.5 | 366.8 | n/a | n/a |
| Mobile subscribers in Paraguay (thousands)(6) | 2,538 | 2,546 | 2,481 | 2,420 | 2,301 |
| Subscribers at year-end per employee (4) (7) | 6,317 | 6,225 | 6,159 | 5,696 | 5,226 |
| ARPU (in P\$/month) | 71.7 | 46.5 | 47.9 | 34.6 | 27.5 |
| MOU (in minutes/month) | 56.0 | 68.5 | 57.5 | 61.3 | 56.1 |
| Telecom Group Headcount(8) | 15,970 | 16,224 | 16,416 | 16,581 | 16,808 |

-
- (1) Reflects total number of lines available in Switches.
- (2) Includes lines customers, own usage, public telephony and Integrated Services Digital Network (ISDN) channels.
- (3) Corresponds to the Northern Region of Argentina.
- (4) Excluding temporary employees, if any.
- (5) Correspond to customers with consumption higher than 10Mb.
- (6) Including Wi-Max Internet customers.
- (7) Excluding Wi-Max Internet customers.
- (8) Including temporary employees, if any.

Exchange Rates

The following tables show, for the periods indicated, certain information regarding the exchange rates for U.S. dollars, expressed in nominal pesos per dollar (ask price). See Item 10 Additional Information Foreign Investment and Exchange Controls in Argentina.

| | High(1) | Low(1) | Average(2) | End of Period |
|-------------------------------------|---------|--------|------------|---------------|
| Year Ended December 31, 2012 | 4.92 | 4.30 | 4.55 | 4.92 |
| Year Ended December 31, 2013 | 6.52 | 4.98 | 5.55 | 6.52 |
| Year Ended December 31, 2014 | 8.55 | 7.87 | 8.23 | 8.55 |
| Year Ended December 31, 2015 | 13.04 | 8.64 | 9.45 | 13.04 |
| Year Ended December 31, 2016 | 15.89 | 13.96 | 14.99 | 15.89 |
| Month Ended October 31, 2016 | 15.23 | 15.07 | 15.17 | 15.15 |
| Month Ended November 30, 2016 | 15.87 | 14.92 | 15.35 | 15.87 |
| Month Ended December 31, 2016 | 16.03 | 15.50 | 15.84 | 15.89 |
| Month Ended January 31, 2017 | 16.08 | 15.81 | 15.91 | 15.90 |
| Month Ended February 28, 2017 | 15.80 | 15.36 | 15.59 | 15.48 |
| Month Ended March 31, 2017 | 15.65 | 15.39 | 15.52 | 15.39 |
| April 2017 (through April 24, 2017) | 15.49 | 15.19 | 15.33 | 15.39 |

(1) Yearly data is based on month-end rates.

(2) Yearly data reflect average of month-end rates.

Sources: Banco de la Nación Argentina

On April 24, 2017, the exchange rate was P\$ 15.39= US\$1.00.

Capitalization and Indebtedness

Not applicable.

Table of Contents

Reasons for the Offer and Use of Proceeds

Not applicable.

PART I - ITEM 3 KEY INFORMATION SELECTED FINANCIAL DATA

TELECOM ARGENTINA S.A.

Table of Contents

Risk Factors

This section is intended to be a summary of more detailed discussions contained elsewhere in this Annual Report. The risks described below are not the only ones that we face. Additional risks that we do not presently consider material, or of which we are not currently aware, may also affect us. Our business, results of operations, financial condition and cash flows could be materially and adversely affected if any of these risks materialize and, as a result, the market price of our shares and our ADSs could decline. You should carefully consider these risks with respect to an investment in Telecom Argentina.

Risks Relating to Argentina

Overview

A substantial majority of our property, operations and customers are located in Argentina, and a portion of our assets and liabilities are denominated in foreign currencies. Accordingly, our financial condition, results of operations and cash flows depend to a significant extent on economic and political conditions prevailing in Argentina and on the exchange rates between the peso and foreign currencies. In the recent past, Argentina has experienced severe recessions, political crises, periods of high inflation and significant currency devaluation. Argentina has experienced economic growth in the last decade, although according to INDEC's official figures, economic activity has been volatile during 2014, 2015 and 2016. Uncertainty remains as to whether the growth is sustainable, as well as how several factors would impact the Argentine economy, including among others, inflation rates, exchange rates, commodity prices, level of BCRA reserves, public debt, tax pressures and healthy trade and fiscal balances.

Devaluation of the peso may adversely affect our results of operations, our capital expenditure program and the ability to service our liabilities and transfer funds abroad.

Since we generate a substantial portion of our revenues in pesos (our functional currency), any devaluation may negatively affect the U.S. dollar value of our earnings while increasing, in peso terms, our expenses and capital expenditures denominated in foreign currency. A depreciation of the Argentine Peso against major foreign currencies may also have an adverse impact on our capital expenditure program and increase the peso amount of our trade liabilities denominated in foreign currencies. Telecom seeks to manage the risk of devaluation of the peso by entering from time to time into certain NDF agreements to partially or completely hedge its exposure to foreign currency fluctuations caused by its liabilities denominated in foreign currencies (mainly U.S. dollars). The Company also has financial assets denominated in U.S. dollars that contribute to reduce the exposure to liabilities denominated in foreign currencies. See **Item 11 Quantitative and Qualitative Disclosures About Market Risk**. Additionally, in October 2016 Personal and the International Finance Corporation signed a loan agreement for an amount of US\$400 million and in November 2016 Personal issued Series IV of its Notes for a nominal value of US\$77.9 million. See **Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Debt Obligations and Debt Service Requirements**.

The Argentine Peso has been subject to significant devaluation against the U.S. dollar in the past and may be subject to fluctuations in the future. According to the exchange rate published by the Banco de la Nación Argentina, in the year ended December 31, 2016 the devaluation of the peso against the U.S. dollar was 21.9% (and 52.5% and 31.1% in the years ended December 31, 2015 and 2014, respectively).

On December 17, 2015, the current administration lifted many of the restrictions to access the foreign exchange markets (FX Markets) and the multiple exchange rate system was unified into a floating rate regime. As a result, the value of the peso depreciated significantly against the dollar. On December 31, 2015 the dollar was worth P\$13.04 per U. S. dollar and on December 31, 2016 the exchange rate was P\$15.89 per U. S. dollar. This measure allowed almost a total unification of the multiple exchange rate system applicable at that time over the commercial and financial transactions in Argentina. See **Item 10 Additional Information Foreign Investment and Exchange Controls in Argentina**

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

Given the economic and political conditions in Argentina, we cannot predict whether, and to what extent, the value of the peso may depreciate or appreciate against the U.S. dollar, the euro or other foreign currencies. We cannot predict how these conditions will affect the consumption of services provided by the Telecom Group or our ability to meet our liabilities denominated in currencies other than the peso. Moreover, we cannot predict whether the Argentine government will further modify its monetary, fiscal, and exchange rate policy. If any of these changes takes place we cannot anticipate the impact these could have on the value of the peso and, accordingly, on our financial condition, results of operations and cash flows, and on our ability to transfer funds abroad in order to comply with commercial or financial obligations or dividend payments to shareholders located abroad.

Inflation could accelerate, causing adverse effects on the economy and negatively impacting Telecom's margins.

In the past, Argentina has experienced periods of high inflation. Inflation has increased since 2005 and has remained relatively high since then. There can be no assurance that inflation rates will not be higher in the future.

In January 2014, a new consumer price index, the National Urban Consumer Price Index (*Indice de Precios al Consumidor Nacional Urbano*, or IPCNu) was published with the aim of improving the accuracy of measurements of the evolution of prices in the Argentine economy. The IPCNu integrates a set of price indexes which allows for the monitoring of the change in several prices in the economy (wholesale, commodities and construction costs, among others) by considering the price information from all the provinces in Argentina. The IPCNu increased by 11.9% over the period from January to October 2015 (according to last available data); and by 23.9% in 2014. During the last few years there had been a substantial disparity between the inflation indexes published by the INDEC and the higher inflation indexes estimated by private consulting firms. The INDEC estimated that the Argentine wholesale price index increased by 13.1% in 2012, 14.8% in 2013, 28.3% in 2014 and 10.6% in the period of January to October 2015 (according to the last available data because INDEC has not yet disclosed figures for November and December 2015). The INDEC resumed publication of the wholesale price index for full year 2016, which increased by 34.6% on a year-over-year comparison.

On January 8, 2016, the current administration issued Decree No. 55/2016 declaring a state of administrative emergency with respect to the national statistical system and the INDEC until December 31, 2016. During this state of emergency, the INDEC had suspended publication of certain statistical data (regarding prices, poverty, unemployment and GDP) until it completed a reorganization of its technical and administrative structure capable of producing sufficient and reliable statistical information. As of the date of this Annual Report, INDEC has resumed publication of mentioned statistical data, although for some indicators it has not yet disclosed or provided reestimated figures for certain time periods.

As a consequence of the mentioned events, the full year 2015 inflation measure for IPCNu index was not disclosed, and according to last available data (from October 2015) the IPCNu registered an increase of 11.9% over the January to October 2015 period. As alternative guidance to IPCNu, the authorities suggested that other measures should be observed, such as those published by the statistical entity of the Buenos Aires City (IPC CABA) and the San Luis Province that registered an annual increase of 26.9% and 31.6%, respectively. IPCNu publication was resumed in June 2016 disclosing May 2016 monthly inflation figures, while data for the months in the period January to April 2016 remains unavailable. Taking this into account, IPCNu variation from May to December 2016 was 16.9% and, as alternative guidance, the indexes published by the Province of San Luis and the City of Buenos Aires from January to April 2016 represented an increase of 13.9% and 19.2%, respectively.

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The Argentine government continued implementing several actions to monitor and control prices for the most relevant goods and services. Despite such actions, the Argentine economy continues to experience high levels of inflation. If the value of the peso cannot be stabilized through fiscal and monetary policies, a significant increase in inflation rates could be expected.

Since the majority of our revenues are denominated in pesos, any further increase in the rate of inflation not accompanied by a parallel increase in our prices would decrease our revenues in real terms and adversely affect our results of operations.

Also, higher inflation leads to a reduction in the purchasing power of the population, thus increasing the risk of a lower level of service consumption from our fixed and mobile customers in Argentina.

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

Future policies of the Argentine government may affect the economy as well as the operations of the telecommunications industry, including Telecom Argentina.

The Argentine government has historically exercised significant influence over the economy, and telecommunications companies in particular have operated in a highly regulated environment. In the past, the Argentine government promulgated numerous, far-reaching regulations affecting the economy and telecommunications companies in particular. In that context, the CNC adopted new interpretations of applicable regulations and imposed fines on telecommunications companies, particularly incumbent operators including our Company. Also, regulations such as SC Resolution No. 5/13 regarding the quality of telecommunication services could further increase penalties imposed by the regulatory authorities. In addition, local municipalities in the regions where we operate have also introduced regulations and proposed various taxes and fees for the installation of infrastructure, equipment and expansion of fixed line and mobile networks. For example, municipalities usually restrict areas where antennas may be deployed; causing negative impact for the mobile service coverage, which in turn affects our quality of services. Provinces have increased, and may continue to increase, their tax rates, particularly the turnover tax rates, resulting in the highest rates in Argentine history. Municipal and provincial tax authorities have also brought an increasing number of claims against us. We disagree with these proceedings and we are contesting them. See Item 8 Financial Information Legal Proceedings Tax Matters for more information.

If claims against us are not resolved in our favor, and changes to the existing laws and regulations lead to adverse consequences for the Company, our business, financial condition, results of operations and cash flows may be adversely affected.

Since assuming office on December 10, 2015, President Macri has announced several economic and policy reforms. As of the date of this Annual Report, the impact that these measures and any future measures taken by the current administration will have on the Argentine economy as a whole and the telecommunication sector in particular cannot be predicted. We believe that the effect of the planned liberalization of the economy, the reduction of the poverty and the integration of Argentina to international markets, will be positive for our business by stimulating economic activity. However, it is not possible to predict such effect with certainty and such liberalization could also be disruptive to the economy and fail to benefit or harm the Argentine economy and our business in particular.

The Argentine government may exercise greater intervention in private sector companies, including Telecom Argentina.

The global economic and financial crisis over the last years has resulted in a significant reduction in global GDP growth and a loss in consumer confidence in the financial sectors of many countries. To improve the countries' financial condition and assist certain troubled industries, some governments have responded with extraordinary intervention in the private sector. Certain governments of the leading industrialized nations have implemented various financial rescue plans outlining new regulatory frameworks that would be expected to remain in effect at least until market conditions and investor and consumer confidence have stabilized.

In November 2008, through Law No. 26,425, Argentina nationalized its private pension and retirement system, which had been previously administered by the AFJP, and appointed ANSES as its administrator. Argentina's nationalization of its pension and retirement system constituted a significant change in the Argentine government's approach towards Argentina's main publicly traded companies. A significant portion of the public float of these companies was owned by the AFJP and is currently held by ANSES, such as the case of Telecom. See Item 7 Major Shareholders and Related Party Transactions. The Argentine government could exercise influence over corporate governance decisions of companies in which it owns shares by combining its ability to exercise its shareholder voting rights to designate board and supervisory committee members with its ability to dictate tax and regulatory matters. Additionally, since the AFJP were significant institutional investors and active market traders in Argentina, the nationalization of the private pension and retirement system affected the access to financing in capital markets for publicly traded companies as well as liquidity within the market.

In addition, during 2012, Decree No. 1,278/12 stated that the Secretary of Economic Policy and Development Planning of the Ministry of Economy and Public Finance was responsible for the implementation of policies and actions regarding the exercise of shareholder rights of the equity shares of companies where the Argentine government is a minority shareholder and approved for that

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

purpose a Regulation of officers and directors appointed by the shares or equity interests of the Argentine government, establishing the rules that they must follow in performing their duties.

In July 2016 Decree No. 894/16, which amends Decree No. 1,278/12, established that in companies whose shares integrate the investment portfolio of the Sustainability Guarantee Fund (Fondo de Garantía de Sustentabilidad del Sistema Integrado Previsional Argentino or FGS), the corporate, political, and economic rights pertaining to such shares shall not be exercised by the Secretary of Economic Policy and Development Planning as previously stated by Decree No. 1,278/12, but they are to be exercised by the ANSES.

In addition, Decree No. 894/16 established that the directors appointed by the ANSES shall have the functions, duties and powers set out by: (i) the GCL, (ii) the Law of Capital Market No. 26,831 and its complementary and regulatory provisions, (iii) all the regulations applicable to the company in which they perform their duties, and (v) the company's bylaws and internal regulations, and shall have all the responsibilities they might be liable for under these regulations.

Moreover, on July 22, 2016, Law No 27,260 (Historical Reparation for Retirees and Pensioners or *Reparación Histórica para Jubilados y Pensionados*) was published in the Official Gazette. Article 35 of this Law revokes Law No. 27,181 Statement of public interest in the protection of National Government's equity interest that is part of the FGS investment portfolio. Moreover, Article 30 of Law No. 27,260 establishes the prohibition of the transfer of the shares of national corporations authorized by the CNV to public offer which integrate the FGS, if as a consequence of such a transfer, ownership of such securities by the FGS is less than 7% of the total assets of the FGS, without prior express authorization of the Argentine National Congress. The Law also sets forth the following exceptions to this provision: (i) public offers addressed to all holders of such assets and at an equitable price authorized by the CNV and (ii) stock swap for other stock of the same or another company in the context of a merger, division or corporate reorganization processes. See Item 4 Information on the Company Regulatory and Legal Framework Legal Framework Law No. 27,260 of Historical Reparation for Retirees and Pensioners.

In January 2013, Law No. 26,831 came into effect, granting new intervention powers to the CNV. In September 2013, the CNV issued regulations pursuant to Law No. 26,831 through Resolution No. 622/13 that approved the new text of the CNV rules. See Item 9 The Offer and Listing The Argentine Securities Market Capital Markets Law Law No. 26,831.

Since assuming office on December 10, 2015, President Macri has announced several economic and policy reforms. As of the date of this Annual Report, the impact that these measures and any future measures taken by the current administration will have on the Argentine economy as a whole and the telecommunication sector in particular cannot be predicted. We believe that the effect of the planned liberalization of the economy, the reduction of the poverty and the integration of Argentina to international markets, will be positive for our business by stimulating economic activity. However, it is not possible to predict such effect with certainty and such liberalization could also be disruptive to the economy and fail to benefit or harm the Argentine economy and our business in particular.

In addition, prior administrations took several steps to re-nationalize the concessions and utilities that were privatized during the 1990s. We cannot predict whether current or future administrations will take similar or further measures, including nationalization, expropriation and/or increased Argentine governmental intervention in companies.

The matters described above could create uncertainties for some investors in public companies in Argentina, including Telecom Argentina.

Argentina's economy may contract in the future due to international and domestic conditions which may adversely affect our operations.

The effects of the global economic and financial crisis in recent years and the general weakness in the global economy may negatively affect emerging economies like Argentina's. Global financial instability may impact the Argentine economy and cause a slowdown in Argentina's growth rate or could lead to a recession with consequences in the trade and fiscal balances and in the unemployment level.

Moreover, Argentine economic growth might be negatively affected by several domestic factors such as an appreciation of the real exchange rate which could affect its competitiveness, reductions and even reversion of a positive trade balance, which, combined with capital outflows could reduce the

Table of Contents

levels of consumption and investment resulting in greater exchange rate pressure. Additionally, abrupt changes in monetary and fiscal policies or foreign exchange regime could rapidly affect local economic output, while lack of appropriate levels of investment in certain economy sectors could reduce long term growth. Access to the international financial markets could be limited. Consequently, an increase in public spending not correlated with an increase in public revenues could affect the Argentina's fiscal results and generate uncertainties that might affect the economy's level of growth.

Moreover, several trading partners of Argentina (such as Brazil, Europe and China) are experiencing significant slowdowns or recession periods in their economies. This may impact the demand for products coming from Argentina and hence affect its economy.

If international and domestic economic conditions for Argentina were to worsen, the Argentine economy could be negatively affected as a result of lower international demand and lower prices for its products and services, higher international interest rates, lower capital inflows and higher risk aversion, which may also adversely affect our business, results of operations, financial condition and cash flows.

Substantially all of our operations, properties and customers are located in Argentina, and, as a result, our business is, to a large extent, dependent upon economic and legal conditions prevailing in Argentina. If economic and legal conditions in Argentina were to deteriorate, they could have an adverse effect on our financial condition, results of operations and cash flows.

Economic and legal conditions in Argentina remain uncertain which may affect our financial condition, results of operations and cash flows.

Although general economic conditions have shown improvement in the last decade, and political protests and social disturbances have diminished considerably since the economic crisis of 2001 and 2002, the nature of the changes in the Argentine political, economic and legal environment over the past several years has given rise to uncertainties about the country's business environment.

In the event of any economic, social or political crisis, companies operating in Argentina may face the risk of strikes, expropriation, nationalization, forced modification of existing contracts, and changes in taxation policies including tax increases and retroactive tax claims. In addition, Argentine courts have issued rulings changing the existing jurisprudence on labor matters and requiring companies to assume greater responsibility for, and assumption of costs and risks associated with, sub-contracted labor and the calculation of salaries, severance payments and social security contributions. Since we operate in a context in which the governing law and applicable regulations change frequently, it is difficult to predict if and how our activities will be affected by such changes.

Argentina's ability to obtain financing from international markets is limited, which could affect its capacity to implement reforms and sustain economic growth.

After Argentina's default on certain debt payments in 2001, the government successfully restructured 92% of the debt through two debt exchange offers in 2005 and 2010. Commencing in 2002, holdout creditors filed numerous lawsuits against Argentina in several jurisdictions, including

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the United States, Italy, Germany and Japan. These lawsuits generally assert that Argentina failed to make timely payments of interest and/or principal on their bonds, and seek judgments for the face value of and/or accrued interest on those bonds. Judgments have been issued in numerous proceedings in the United States and Germany. As of the date of this Annual Report, creditors with favorable judgments have not succeeded, with a few minor exceptions, in executing on those judgments.

During 2014, the Argentine government took a number of steps intended to continue servicing the bonds issued in the 2005 and 2010 exchange offers, which had limited success. Holdout creditors continued to litigate expanding the scope of issues, aiming to include payment by the Argentine government on debt other than the exchange bonds and dispute the independence of the BCRA.

The current administration engaged in negotiations with holders of defaulted bonds in December 2015 with a view to bringing closure to fifteen years of litigation. Between February and April 2016, the Argentine government entered into an agreement in principle to settle with certain holders of defaulted debt and put forward a proposal to other holders of defaulted debt, including those with pending claims in U.S. courts, subject to two conditions: (i) obtaining approval by the Argentine National Congress and (ii) the lifting of the pari passu injunctions. On March 31, 2016, the Argentine Congress eliminated the

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

legislative obstacles to the settlement and approved the settlement proposal. On April 22, 2016, Argentina performed an issuance of government bonds for US\$16.5 billion, of which US\$9.3 billion were applied to satisfy payments under the agreements reached with non-accepting bondholders. Judge Thomas Griesa ordered the lifting of the precautionary measures that prevented payments to participants from the debt exchange offers of 2005 and 2010, subject to confirmation of the payments indicated above.

As of the date of this Annual Report, litigations initiated by bondholders that have not accepted Argentina's settlement offer continues in several jurisdictions, although the size of the claims involved has decreased significantly.

In addition, foreign shareholders of some Argentine companies have initiated claims for substantial amounts before the International Centre for Settlement of Investment Disputes (ICSID) against Argentina, pursuant to the arbitration rules of the United Nations Commission on International Trade Law. Claimants allege that certain measures of the Argentine government issued during the economic crisis of 2001 and 2002 were inconsistent with the norms or standards set forth in several bilateral investment treaties by which Argentina was bound at the time. To date, a significant number of cases are in process or temporarily suspended due to the agreement of the parties.

Notwithstanding that the lifting of the precautionary measures for bondholders that participated in the debt exchange offers of 2005 and 2010 eliminates an important obstacle for the country's access to international capital markets, there can be no assurance that litigation initiated by non-accepting bondholders as well as pending claims before the ICSID could result in legal procedures against the Argentine government and this could entail embargoes/seizures or precautionary measures in relation to Argentine assets that the Argentine government allocated to other uses. As a result, the Argentine government may not have the financial resources to implement reforms and boost growth, which could have a significant adverse effect on the country's economy and, consequently, on our activities. Likewise, Argentina's inability to obtain credit in international markets could have a direct impact on the Company's ability to access those markets to finance its operations and its growth, including the financing of capital investments, which would negatively affect our financial condition, results of operations and cash flows. In addition, we have investments in sovereign Argentine bonds amounting to P\$2,318 million as of December 31, 2016. Although such bonds are outside the scope of the debt settlement, any new event of default by the Argentine government could negatively affect their valuation and repayment terms.

The Argentine banking system may be subject to instability which may affect our operations.

The Argentine banking system has experienced several crisis in the past. Among those, the Argentine banking system collapsed in 2001 and 2002, when the Argentine government restricted bank withdrawals and required mandatory conversion of dollar deposits to pesos. From 2005 to 2007, a period of economic growth coupled with relative stability of the country's exchange rate and inflation resulted in the restoration of public confidence, a gradual accumulation of deposits in Argentine financial institutions, and improved liquidity of the financial system. However, since 2008 certain events like as internal conflicts with certain sectors of the Argentine economy, the international financial crisis and the increased regulation on the FX Market, have decreased depositors' confidence. In recent years, the Argentine financial system grew significantly with a marked increase in loans and private deposits, showing a recovery of credit activity. In spite of the fact that the financial system's deposits continue to grow, they are mostly short-term deposits and the sources of

medium and long-term funding for financial institutions are currently limited. In 2016, private deposits in pesos rose by 27% year-over-year, helped by the growth of saving accounts and current accounts with a 40% increase, and followed by time deposits with a 13% increase. As a result, interest rates on placements (Private Badlar rate) were in an average rate of 25.8%. In turn, deposits in foreign currency registered important levels of growth, more than doubling the stock as of the end of 2015. Meanwhile, loans granted in pesos continued expanding but at a slower pace, in comparison with previous years, where personal loans and credit cards financing showed the highest increases, while loans in foreign currency also rose notoriously, almost tripling the loan balance as of the end of 2015. Despite improvements in stability since 2002 we cannot be certain that another economic crisis will not occur in the future.

Financial institutions are particularly subject to significant regulation from multiple Regulatory Authorities, all of whom may, among other things, establish limits on commissions and impose sanctions on the financial institutions. The lack of a stable regulatory framework could impose

Table of Contents

significant limitations on the activities of the financial institutions and could induce uncertainty with respect to the financial system stability.

Despite the strong liquidity currently prevailing in the financial system, a new crisis or the consequent instability of one or more of the larger banks, public or private, could have a material adverse effect on the prospects for economic growth and political stability in Argentina, resulting in a loss of consumer confidence, lower disposable income and fewer financing alternatives for consumers. These conditions would have a material adverse effect on us by resulting in lower usage of our services, lower sales of devices and the possibility of a higher level of uncollectible accounts or increase the credit risk of the counterparties regarding the Company investments in local financial institutions.

Exchange controls and restrictions on transfers abroad and capital inflows have limited, and could continue limiting, the availability of international credit.

Shareholders may be liable under Argentine law for actions that are determined to be illegal or ultra vires.

Under Argentine law, a shareholder's liability for losses of a company is limited to the value of his or her shareholdings in the company. However, shareholders who vote in favor of a resolution that is subsequently declared void by a court as contrary to Argentine law or a company's bylaws (or regulations, if any) may be held jointly and severally liable for damages to such company, to other shareholders or to third parties resulting from such resolution. In connection with recommending any action for approval by shareholders, the Board of Directors occasionally obtains and plans to obtain opinions of counsel concerning the compliance of its actions with Argentine law and Telecom Argentina's bylaws (or regulations if any). Although, based on advice of counsel, Telecom Argentina believes that a court in Argentina in which a case has been properly presented would hold that a non-controlling shareholder voting in good faith and without a conflict of interest in favor of such a resolution and based on the advice of counsel that such resolution is not contrary to Argentine law or the Company's bylaws or regulations, would not be liable under this provision, we cannot assure you that such a court would in fact rule in this manner.

Risks Relating to Telecom and its Operations

Current or future regulatory policies could affect the operations of the telecommunications industry, including the Company.

In Argentina, the telecommunications markets have developed within an increasingly regulated framework in recent years.

The Regulatory Authorities have imposed increasing burdens and new regulations on companies that could increase the penalties they can impose for breaches of the regulatory framework.

According to SC Resolution No. 5/13 regarding the quality of telecommunication services could further increase penalties imposed by the Regulatory Bodies as it sets higher compliance standards than international standards, especially, considering the difficulties in obtaining

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municipal authorization to install antennas in the mobile business. Telecom Argentina, Personal and other telecommunications operators have submitted technical comments for a review of the standards. On March 3, 2017, SECTIC Resolution No. 3-E/17 was issued declaring the opening of the consultation procedure regarding the quality of services of ICT networks, with the aim of ruling a new quality of service framework.

If the technical comments submitted by the Company are not taken into account or changes in the parameters of Resolution No.5/13 do not occur, compliance with the current standards could be difficult which may result in penalties for telecommunications operators, including Telecom Argentina and Personal, affecting our ability to execute our business plan since such penalties could impose increased operation costs, among other effects.

Additionally, according to the Auction Terms and Conditions for the awarding of frequency bands approved by SC Resolution No. 38/14 for mobile operators, repeated or persistent breaches of obligations related to quality indicators of services provided under the terms of the Regulation for the Quality of Telecommunications Services approved by SC Resolution No. 5/13, qualifies as one of the

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

circumstances under which the authorization to use radio electric spectrum (as defined in the Auction) could be revoked.

Furthermore, the new ICT services law, the LAD, which became effective on December 19, 2014, incorporated numerous modifications to the regulatory framework applicable to telecommunications services in Argentina. Since the law requires the enactment of new regulations most of which have not been issued to date, there is uncertainty regarding how certain aspects, such as the sanctions regime, the provision of infrastructure to other providers and the asymmetries that may be imposed on the dominant operator, among others, will be regulated as well as uncertainty regarding the impact that any new regulations may have on Telecom Argentina and Personal. Recently, some public consultation documents procedures were opened with the aim to rule new standards, such as SECTIC Resolution No. 2-E/17 which opened the consultation document related to the project for the interconnection and access regime, whose provisions could generate a negative effect in the Company's operations. See **Item 4 Information on the Company Regulatory and Legal Framework Regulatory Framework Other Regulations.**

In turn, through Decree No. 267/15 a new Regulatory Body for ICT services, the ENACOM was created, and some aspects of the LAD (and of the Law of Audiovisual Communication Services) were amended, imposing regulatory asymmetries regarding to the development of subscription-based broadcasting services by subscription to the detriment of the business development of Telecom Argentina and Personal.

Specifically, the Decree No. 267/15 restricted Telecom Argentina and Personal from providing broadcasting services by subscription, whether through physical and/or radioelectric means, for a period of 2 years beginning January 1, 2016. This period may be extended for another year by ENACOM. However, Decree No.1,340/16 established that operators included in section 94 of the LAD (among them, Telecom Argentina and Personal), may register the broadcasting service by subscription, by physical or radio connection as of the enforcement of Decree No.1,340/16, setting January 1, 2018 as the initial date for the provision of such service in the AMBA (and extended AMBA), and in the cities of Rosario and Córdoba in the Province of Santa Fe and the Province of Córdoba, respectively. The decree also provides that, for the rest of the Argentine Territory, the initial date for the provision of the services of these operators shall be determined by the ENACOM.

Decree No. 267/15 puts the Telecom Group at a disadvantage with respect to other providers and could negatively affect the future development of Telecom Argentina's and Personal's operations.

Article 28 of Decree No. 267/15 created the Commission for the Development of the Draft Bill for the Reform, Update and Unification of Laws No. 26,522 and No. 27,078 within the Ministry of Communications. This commission could further modify the regulatory framework for ICT services in Argentina, causing uncertainty as to the impact any potential modifications might have on the development of Telecom Argentina's and Personal's business and operations, as well as that of its competitors, in the coming years.

Additionally, the LAD (as amended by Decree No. 267/15), under Article 48 of Title VI, established that licensees of ICT services may set their prices which shall be fair and reasonable, to offset the costs of exploitation and to tend to the efficient supply and reasonable margin of operation. However, the Regulatory Authority is entitled to observe the prices set by the Company if it understands that such prices do not comply with Article 48 of the LAD. If prices are observed as imposing restrictions on our prices our operating margins may be negatively affected.

We must comply with conditions in our license, and regulations and laws related thereto, and such compliance may at times be outside of our control.

We are subject to a complex series of laws and regulations with respect to most of the telecommunications or ICT services that we provide. Such laws and regulations are often governed by considerations of public policy. We provide telecommunications services pursuant to licenses that are subject to regulation by various Regulatory Bodies. Any partial or total revocation of our licenses would likely have a material adverse impact on our financial condition, results of operations and cash flows. Our dissolution and the declaration of bankruptcy, among others, are events that may lead to a revocation of our licenses.

Certain conditions of our licenses are not within the scope of our control. For example, any transfer of shares resulting in a direct or indirect loss of control in Telecom Argentina without prior approval of the Regulatory Authorities may result in the revocation of Telecom Argentina's licenses.

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

See Item 7 Major Shareholders and Related Party Transactions Major Shareholders Shareholders of Nortel. The provisions of Telecom Argentina's List of Conditions (later amended by SC Resolutions No. 111/03, No. 29/04 and ENACOM Resolution No. 277/16) stated that: (i) any reduction of ownership of Nortel in our capital stock to less than 51% without prior approval of the Regulatory Bodies; or (ii) any reduction of ownership of currently common shareholders in the capital stock with voting power of Nortel to less than 51% without prior approval of the Regulatory Bodies, may result in the revocation of Telecom Argentina's telecommunications license. More precisely, SC Resolution No. 111/03 established that 15% of the share capital of Sofora owned by W de Argentina Inversiones was to be maintained as part of the principal nucleus (núcleo principal) of the bidding consortium in the privatization of the former Sociedad Licenciataria Norte S.A. (currently, Telecom Argentina S.A.).

Nortel owns all of Telecom Argentina's Class A Ordinary Shares (51% of our total capital stock) and approximately 7.64% of our Class B Ordinary Shares (3.74% of our total capital stock) which, in the aggregate, represents approximately 54.74% of our total capital stock as of the date of this Annual Report. Because Telecom Argentina owns 15,221,373 of its own Class B Shares as of the date of this Annual Report, Nortel's ownership of the outstanding shares amounts to 55.60% (51.80% consists of Telecom Argentina Class A Ordinary Shares and 3.80% of Telecom Argentina Class B Ordinary Shares). We are directly controlled by Nortel by virtue of Nortel's ownership of a majority of our capital stock; however, Nortel's controlling interest is subject to certain agreements among Sofora's shareholders and it is also subject to obligations and limitations defined by the Regulatory Authorities.

On March 28, 2017, Sofora's shareholders' meeting approved the amortization of all of W de Argentina Inversiones' shares in Sofora in two (2) tranches (17% on or before May 2, 2017 and 15% subject to the ENACOM's release from the obligation to be maintained as part of the principal nucleus (núcleo principal)). Subsequently, on March 31, 2017, the Boards of Directors of Sofora, Personal and Nortel (together, the Absorbed Companies) and the Board of Directors of Telecom Argentina approved a Preliminary Reorganization Agreement (as defined below) by which they agreed that the Absorbed Companies will be absorbed by Telecom, ad referendum of the corporate and regulatory approvals established in the Preliminary Reorganization Agreement. See Item 4 Information on the Company Introduction Organizational Structure Recent Developments The Reorganization.

Compliance with conditions in our license and related regulations and laws may be affected by events or circumstances outside of our control, and therefore we cannot predict whether such events or circumstances will occur and if any do occur, this could result in an adverse effect on our financial condition, our operations and cash flows.

We operate in a competitive environment that may result in a reduction in our market share in the future.

We compete with licensed provider groups, composed of, among others, independent fixed line service providers, mobile and cable operators, as well as individual licensees, some of which are affiliated with major service providers outside Argentina.

Internet and mobile services, which we expect will continue to account for an increasing percentage of our revenues in the future, are characterized by rapidly changing technology, evolving industry standards, changes in customer preferences and the frequent introduction of new services and products. To remain competitive in the fixed telecommunications market, we must invest in our fixed-line network and information technology. Specifically, in the Internet services market, we must constantly upgrade our access technology and software in order to increase the speed, embrace emerging transmission technologies and improve the commercial offers and the user experience. Also, to remain competitive in the mobile telecommunications market, we must continue to enhance our mobile networks by expanding our 3G network and deploying our 4G network. See Item 4 Information on the Company Regulatory and Legal Framework Regulatory Framework Spectrum. Future technological developments may result in decreased customer demand for certain of our services or even render them obsolete. In addition, as

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new technologies develop, equipment may need to be replaced or upgraded or network facilities (in particular, mobile and Internet network facilities) may need to be rebuilt in whole or in part, at substantial cost, to remain competitive. These enhancements and the implementation of new technologies will continue requiring increased capital expenditures.

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

We also anticipate that we will have to devote significant resources to the refurbishment and maintenance of our existing network infrastructure to comply with regulatory obligations and to remain competitive with respect to the quality of our services. In addition, we must comply with the obligations arising from the acquisition of the 4G spectrum. We also expect to continue to devote resources to customer retention and loyalty in such segments.

The deployment of our wireless network requires authorizations from municipalities to enable the installation of new sites throughout the country, which if not obtained in a timely manner and form, limit the growth of our business and affect the quality of services provided by Personal. If Personal is not successful in obtaining those permissions and if its competitors do obtain them, this could result in a competitive disadvantage for Personal.

The macroeconomic situation in Argentina may adversely affect our ability to successfully invest in, and implement, new technologies, coverage and services in a timely fashion. Accordingly, we cannot assure you that we will have the ability to make needed capital expenditures and operating expenses. If we are unable to make these capital expenditures, or if our competitors are able to invest in their businesses to a greater degree and/or faster than we are, our competitive position will be adversely impacted.

Moreover, the products and services that we offer may fail to generate revenues or attract and retain customers. If our competitors present similar or better responsiveness, functionality, services, speed, plans or features, our customer base and our revenues may be materially affected.

Competitiveness is and will continue to be affected by our competitors' business strategies and alliances. Recently, through ENACOM Resolution No. 1,299/17, Nextel Communications de Argentina SRL (Nextel) was authorized to provide SCMA services resulting in the entrance of a new competitor into the market for these services. In addition, we may face additional competition from other operators under the Mobile Virtual Operator (MVO) figure in accordance with Ministry of Communications Resolution No. 38/16. Accordingly, we may face additional pressure on the prices that we charge for our services or experience a loss of market share of fixed and mobile services. In addition, the general business and economic climate in Argentina may affect us and our competitors differently; thus our ability to compete in the market could be adversely affected.

Even though the Company grew and developed in recent years in a highly competitive market, because of the range of regulatory, business and economic uncertainties we face, as discussed in Risk Factors , it is difficult for us to predict with precision and accuracy our future market share in relevant geographic areas and customer segments, the possible drop in our customer s consumption that could result in a reduction of our revenue market share, the speed with which such change in our market share or prevailing prices for services may occur or the effects of competition. Those effects could be material and adverse to our overall financial condition, results of operations and cash flows.

See Item 4 Information on the Company The Business Competition.

The Auction Terms and Conditions approved by Resolution SC No. 38/14 established strict coverage and network deployment commitments which will require significant capital expenditures on the part of Personal in the near future.

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The Auction Terms and Conditions approved by Resolution SC No. 38/14 established strict coverage and network deployment commitments which will require significant capital expenditures on the part of Personal. Additionally, many municipal governments have issued regulations that exceed their authority, many of which limit, hinder or restrict the installation of the infrastructure required to comply with such commitments. Therefore, such legislation negatively impacts on Personal and its competitors obligations they assumed pursuant to the requirements set out in Resolution SC No. 5/13 and related regulations (Regulation for the Quality of Telecommunications Services).

Similarly, Resolution SC No. 25/15 passed on June 11, 2015 awarded to Personal the SCMA 713-723 MHz and 768-778 MHz frequency bands that make up Lot 8 and that were previously pending assignment by the SC. These frequency bands were partially occupied by third parties (broadcasting licensees prior to the public auction). SC Resolutions No. 17/14 and No. 18/14 granted a two-year period for the migration of systems operated in these frequency bands. Personal has informed the regulator of the interference caused by these third parties and has requested state action to halt these activities. Pursuant to Decree No. 1,340/16 the term of authorizations for the use of all the frequencies that make up Lot 8 for the provision of SCMA, as well as the corresponding deployment obligations,

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

shall be computed since the effective migration of services currently operating in these bands in the scope of Area II, defined according to the provisions of Decree No 1,461/93 and its amendments.

However, the permanence of such interference and of the subsequent occupation of the frequency bands have a negative impact on the performance of SCMA and may significantly affect investments made for their purchase and projections of planned deployment for their use in the committed terms, such as optimization of the use of other frequency bands acquired jointly to provide the SCMA.

Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.

The effects of, and any damage caused by, exposure to an electromagnetic field were and are the subject of careful evaluations by the international scientific community, but until now there is no scientific evidence of harmful effects on health. We cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future.

Personal complies with the international security standards established by the World Health Organization and Argentine regulations -which are similar- and mandatory for all Argentine mobile operators. Our mobile business may be harmed as a result of any future alleged health risk. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability.

Operational risks could adversely affect our reputation and our profitability.

Telecom faces operational risks inherent in its business, including those resulting from inadequate internal and external processes, fraud, inability to perform certain operations required by the judiciary due to inadequate technology, employee errors or misconduct, failure to comply with applicable laws and regulations, failure to document transactions properly or systems failures. In addition, unauthorized access to the Company's information systems or institutional sites could cause the loss or improper use of confidential information, unauthorized changes in the Company's information and network systems or alterations to the information that the Company publishes on these sites. These events could result in direct or indirect losses, technical failures in the Company's ability to provide its services, inaccurate information for decision making, adverse legal and regulatory proceedings, and harm our reputation and operational effectiveness, among others.

Telecom's suppliers of goods and services are contractually obliged to comply with laws and regulations (including tax, labor, social security, anti-corruption, money laundering standards, etc.). Additionally, our suppliers shall comply with a set of conduct standards, such as the Code of Ethics, established by the Telecom Group and must require similar compliance by their employees and subcontractors. Despite these legal safeguards and monitoring efforts made in the Telecom Group in relation to its suppliers, we cannot ensure that they will comply with all applicable standards. As a result, Telecom could be adversely affected in a monetary, criminal or reputational way, despite our contractual rights to claim for compensations for damages that they could cause to us.

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Telecom has Risk Management practices at the highest levels including a Risk Management Committee designed to detect, manage and monitor the evolution of operational risks.

However, the Company can give no assurances that these measures will be successful in effectively mitigating the operational risks that Telecom faces and such failures could have a material adverse effect on its results of operations and could harm its reputation.

Nortel, as our controlling shareholder, and Sofora, as Nortel's controlling shareholder, exercise control over significant matters affecting us.

Nortel is our direct controlling shareholder. Sofora owns 100% of the common stock of Nortel, which represents 78.38% of the total capital stock of Nortel as of the date of this Annual Report. Sofora is 68% owned by Fintech and 32% owned by W de Argentina Inversiones.

Through their ownership of Sofora and the Shareholders' Agreement among them, Fintech and W de Argentina Inversiones have, as a general matter, the ability to determine the outcome of any action requiring our shareholders' approval, including the ability to elect a majority of directors and members.

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

of the Supervisory Committee. In addition, we have been informed that the Shareholders Agreement provides for the election of our directors and those of Nortel and Sofora and has given W de Argentina Inversiones veto power with respect to certain matters relating to us. See Item 7 Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreement.

In March 2017, W de Argentina Inversiones offered to Sofora and Sofora accepted with the consent of Fintech, the controlling shareholder of Sofora, an offer to amortize, in two tranches, all of the shares of capital stock issued by Sofora and owned by W de Argentina Inversiones, equal to 140,704,640 shares. As a result of the amortization, Sofora agreed to pay W de Argentina Inversiones an amount equal to the par value of W de Argentina Inversiones shares of capital stock issued by Sofora, such amount being equivalent to P\$140,704,640, and issue in the name of W de Argentina Inversiones one or more dividend certificates (any such certificate, a Bono de Goce) evidencing W de Argentina Inversiones' rights to dividends up to an aggregate amount of up to US\$470 million less the amounts paid to amortize the shares of Sofora owned by W de Argentina Inversiones, plus certain incremental amounts, with preference over the Telecom Argentina Class A Shares to be received by the shareholders of Sofora in the Reorganization. The amortization of the first tranche of shares of capital stock of Sofora owned by W de Argentina Inversiones and representing 17% of the issued and outstanding capital stock of Sofora is scheduled to occur on May 2, 2017, after which a Bono de Goce in the amount of US\$249,687,500 less the U.S. dollar equivalent of P\$74,749,340 will be issued to W de Argentina Inversiones. The amortization of the second tranche of shares of capital stock of Sofora owned by W de Argentina Inversiones and representing an additional 15% of the issued and outstanding capital stock of Sofora as of the date of this Annual Report is subject to the approval of ENACOM. If this second amortization occurs, an additional Bono de Goce will be issued in an amount equal to US\$220,312,500 less the U.S. dollar equivalent of P\$65,955,300. Upon the completion of the amortizations, Fintech will be the sole shareholder of Sofora. See Item 4 Information on the Company Introduction Organizational Structure Recent Developments The Reorganization.

We have engaged in and may continue to engage in transactions with the shareholders of Nortel and/or Sofora, and their affiliates. Certain decisions concerning our operations or financial structure may present conflicts of interest between these shareholders as indirect owners of Telecom Argentina's capital stock and as parties with interests in these related-party contracts.

Nevertheless, all related-party transactions are made on an arm's-length basis. Related-party transactions involving Telecom Argentina that exceed 1% of its shareholders' equity are subject to a prior approval process established by Law No. 26,831 and require involvement of the Audit Committee and/or an opinion of two independent valuation firms as well as subsequent approval by the Board of Directors to verify that the agreement could reasonably be considered to be in accordance with normal and habitual market practice. See Item 7 Major Shareholders and Related Party Transactions Related Party Transactions.

The businesses of Telecom Argentina and Personal and the Telecom Argentina Class B Shares may be adversely impacted if the Reorganization is not consummated.

There can be no assurance that the Reorganization (as defined below) will occur, as the Reorganization is subject to certain conditions including shareholders', regulatory and administrative approvals, among others. We cannot guarantee that these conditions will be satisfied and that the Reorganization will be successfully completed. The failure to consummate the Reorganization will prevent Telecom from reaping the expected benefits of the Reorganization, which could adversely affect its results of operations and financial condition and could adversely affect the price of the Telecom Argentina Class B Shares. For information on the Reorganization, see Item 4 Information on the Company Introduction Organizational Structure Recent Developments The Reorganization.

Our operations and financial condition could be affected by union negotiations.

In Argentina, labor organizations have substantial support and considerable political influence. In recent years, the demands of our labor organizations have increased mainly as a result of the increase in the cost of living, which was affected by increased inflation, higher tax pressure over salaries and the consequent decline in the population's purchasing power.

If labor organization claims continue or are sustained, this could result in increased costs, greater conflict in the negotiation process and strikes (including general strikes and strikes by the Company's employees and the contractors and subcontractors' employees) that may adversely affect our

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

operations. See Item 6 Directors, Senior Management and Employees Employees and Labor Relations.

In addition, certain telecommunication unions have initiated claims to the Company alleging non-compliance of certain conditions provided for in the collective bargaining agreements that could allow them to negotiate the inclusion of some suppliers employees in their collective bargaining agreements. See Item 8 Financial Information Legal Proceedings Labor Claims.

We are involved in various legal proceedings which could result in unfavorable decisions and financial penalties for us.

We are party to a number of legal proceedings, some of which have been pending for several years. We cannot be certain that these claims will be resolved in our favor. Responding to the demands of litigation may divert Management's time attention and financial resources. As of December 31, 2016, the Company recorded provisions that it estimates are sufficient to cover those contingencies considered probable. See Notes 2 and 17 to our Consolidated Financial Statements.

The treatment of employment matters under Argentine law incentivizes individuals to pursue employment-related litigation.

The Company is also exposed to claims of employees of suppliers, contractors and commercial agents claiming direct or indirect responsibility of Telecom based on a broad interpretation of the rules of labor law.

Also, the Company is subject to various lawsuits initiated by some employees and former employees who claim wage differences. Certain judicial rulings have created a negative precedent in these matters and could increase our labor costs.

Personal was and is subject to claims by former representatives (commercial agents) who end their business relationship by making claims for reasons that are not always justified by contractual terms.

Customers and consumers trade unions brought up different claims against Personal regarding improperly billed charges. See Item 8 Financial Information Legal Proceedings Consumer Trade Union Proceedings. Although Personal has taken certain actions in order to reduce risks in connection with these claims, we cannot assure that new claims will not be filed in the future.

The Company has sanctions imposed by the Regulatory Bodies for technical reasons, mainly related to the delay in repairing defective lines, installing new lines and/or service failures. The Company has recorded provisions for the amounts of sanctions that it estimates are probable. Although sanctions are appealed in the administrative stage, if the appeals are not resolved in our favor in administrative or judicial stage or if they are resolved for amounts larger than those recorded, it could have an adverse effect on our financial situation, results of our operations and cash flows. See Note 2 to the Consolidated Financial Statements.

As of the date of this Annual Report there are still pending administrative appeals filed by Telecom Argentina in 2012 against several resolutions that rendered deductions in the payments to the Universal Service (SU) ineffective with reference to several programs provided by Telecom Argentina in the play mode of the SU. Moreover, a response is still pending with respect to the presentation made by Telecom Argentina and Personal to the Regulatory Authority exposing the need to introduce amendments to the affidavit forms approved by ENACOM Resolution No. 6.981-E/16 in order to continue deducting the SU services that both companies are providing. Although the Company s Management, with the assistance of its legal advisors, considers that there are compelling legal arguments for defending the criteria that the Company has held and holds with regard to the SU scheme, if a resolution of the appeals and presentations made by the Company is not favorable, such resolution could have an adverse effect on our results of operations, financial condition and cash flows. See Item 4 Information on the Company Regulatory and Legal Framework Regulatory Framework Universal Service Regulation.

Recently, certain content providers filed administrative and judicial claims against Personal requesting that contracts be considered under the interconnection regulation. Notwithstanding the request made by the content providers, the ENACOM through Resolution No. 2017-1122-APN-ENACOM # MCO, which we believe to be unclear, established specific rules that apply to the content providers who initiated the claims against Personal as follows: (i) mobile operators may receive, for

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

every service they provide, a percentage that should not exceed 40% of the services invoiced by the content providers, and (ii) the application of the same rules for providers of audiotext and mass calling value added services. On March 22, 2017, Personal filed an appeal requiring that ENACOM revoke Resolution No. 2017-1122-APN-ENACOM # MCO. However, if the recourse is not successful Personal's revenues could be negatively impacted. If this occurs, we cannot guarantee that it will not have an adverse effect on our results of operations, financial condition and cash flows.

In 2009, the Argentine national environmental agency (Secretaría de Medioambiente y Desarrollo Sustentable) required that Telecom Argentina register before the National Registry of Generators and Operators of Hazardous Waste as a result of alleged problems with our liquid drainage in an underground chamber. Such registration would require Telecom Argentina to pay an annual fee calculated in accordance with a formula that takes into consideration the hazard's extent effect and the quantity of the waste. Telecom Argentina filed a request for administrative review seeking the rejection of the environmental agency's ordinance. We cannot guarantee that the ordinance will be rejected. In addition, changes in environmental legislation or the evolution of products and services we offer could require Telecom Argentina to be registered in the National Registry of Generators and Operators of Hazardous Waste. In that case or if the ordinance of the environmental agency is not rejected, Telecom Argentina would face increased costs which may include retroactive fees.

Telecom Argentina and Personal may face increased risk of employment, commercial, regulatory, tax, consumer trade union and customers proceedings, among others. If this occurs, we cannot guarantee that it will not have an adverse effect on our results of operations, financial condition and cash flows, despite the provisions that the Company has recorded to cover these matters.

See Item 8 Financial Information Legal Proceedings for a detail of the legal proceedings in which the Company is a party.

The enforcement of the Law for the Promotion of Registered Labor and Prevention of Labor Fraud may have a material adverse effect on us.

On June 2, 2014 Law No. 26,940 for the Promotion of Registered Labor and Prevention of Labor Fraud (*Ley de Promoción del Trabajo Registrado y Prevención del Fraude Laboral*) was published in the Official Gazette. This law, among other things, establishes a Public Record of Employers subject to Labor Sanctions (Repsal) and defines a series of labor and social security infringements as a result of which an employer shall be included in the Repsal.

The employers included in the Repsal shall be subject to sanctions, such as: the inability to access public programs, benefits, subsidies or credit from state-owned banks, the inability to enter into contracts and licenses of property owned by the Argentine government, or the inability to participate in the awarding of concessions of public services and licenses. Employers commit the same infringement for which they were added to the Repsal within a 3-year period after the final first decision imposing sanctions, shall not be able to deduct from the Income Tax the expenses related to their employees while the employers are included in the Repsal. This new regulation applies both to Telecom and its contractors and subcontractors, who could initiate claims to Telecom for direct or indirect responsibility.

As of the date of this Annual Report, Telecom Argentina and Personal have no sanctions registered in the Repsal, however if sanctions are applied in the future it could have a significant impact on the Group's financial position, result of operations and cash flows.

The BCRA has imposed restrictions on the transfer of funds outside of Argentina in the past; some restrictions may be reimposed in the future, which could prevent us from making payments on dividends and liabilities.

In the past, the Argentine government has imposed a number of monetary and currency exchange control measures, including temporary restrictions on the free availability of funds deposited with banks and restrictions or limitations on the access to foreign exchange markets and transfers of funds abroad for purposes of paying principal and interest on debt, trade liabilities to foreign suppliers and dividend payments to foreign shareholders. Between the end of 2001 and 2002, the Argentine

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

government implemented a unified exchange market (Mercado Único y Libre de Cambios or MULC) with significant regulations and restrictions for the purchase and transfer of foreign currency.

Since late 2011 the Argentine government has implemented a series of measures aimed to increase procedures and controls on the foreign trade and capital flows. To that effect, certain measures were implemented to control and limit the purchase of foreign currency, such as the prior approval of the AFIP for any purchase of foreign currency made by private companies and individuals for saving purposes among others. In addition, the BCRA expanded the controls and measures to make payments abroad accessing the local foreign exchange market, regarding trade payables and financial debt, and also established demanding procedures that must be met to pay certain trade payables with related parties. Although there are no regulations that prohibit making dividend payment to foreign shareholders, in practice authorities have substantially limited any purchase of foreign currency to pay dividends since these exchange controls were implemented.

In addition, starting in February 2012 all import operations of goods and services must be filed and approved in advance by AFIP.

On December 22, 2015 the AFIP published in the Official Gazette the General Resolution No. 3,823/15 by which the Comprehensive Import Monitoring System (SIMI) was established, replacing the Affidavit of Import Advance (DJAI) and leaving resolutions No. 3,252/12, 3,255/12 and 3,256/12 which regulated this matter without effect.

SIMI establishes the obligation for importers to submit certain electronic information via AFIP 's website. Resolution No. 3,823/15 states that this information is to be made available to the agencies that adhere to SIMI, who will have a period no longer than ten days to submit their observations. The AFIP will inform the importers of any observations made by the agencies, and importers must present themselves to the agency in the event of a regularization. Once approved, the statements under SIMI shall be valid for 180 days.

Resolution No. 3,823/15 became functional on December 23, 2015. However, DJAI 's that had been registered prior to this date remain valid.

While this new resolution was issued in order to promote competitiveness and facilitate foreign trade, we cannot guarantee that the new procedure would not adversely affect our supply chain and would not negatively impact the import of materials and equipment.

In December 2015, the current administration announced certain reforms to the FX Market that are expected to provide greater flexibility and easier access to the foreign exchange market. The principal measures adopted included (i) the elimination of the requirement to register foreign exchange transactions in the AFIP 's Exchange Transactions Consultation Program (Programa de Consulta de Operaciones Cambiarias), (ii) the elimination of the requirement to transfer the proceeds of new financial indebtedness transactions into Argentina and settle such proceeds through the MULC, (iii) the reestablishment of the US\$2.0 million monthly limit per resident on the creation of offshore assets, (iv) a decrease to 0% (from 30%) of the registered, non-transferable and non-interest-bearing deposit required in connection with certain transactions involving foreign currency inflows, (v) the reduction of the required period during which the proceeds of any new financial indebtedness incurred by residents, held by foreign creditors and transferred through the MULC must be kept in Argentina from 365 calendar days to 120 calendar days from the date of the transfer of the relevant amount and (vi) the elimination of the requirement of a minimum holding period (of 72 business hours) for purchases and subsequent sales of the securities. In addition, on April 21, 2016 the BCRA published Communication A 5955, which eliminated the limits for access to the MULC for payments of foreign accounts payable related to goods and services and established that (starting that following day) access to the market for such payments is unlimited,

subject to the compliance of the foreign exchange norms in force. In addition, during August 2016 the aforementioned monthly limit in (iii) was eliminated for Argentine residents, and during January 2017 the minimum required period of 120 days mentioned in (v) was also eliminated. See Item 10 Additional Information Foreign Investment and Exchange Controls in Argentina.

The Company contracts financial debt and trade payables in foreign currency with suppliers abroad, which in the past required complex approval procedures to access the FX Market to make payments abroad. Moreover, as a result of the payment of the frequency bands awarded to Personal in the public auction at the end of 2014 and during June 2015, the Company reduced significantly the financial assets in foreign currency that it maintained abroad, thus reducing our capacity to use those assets to make direct payments to foreign suppliers and shareholders, if needed.

Table of Contents

There can be no assurance that the BCRA or other government agencies will not increase controls and restrictions for making payments to foreign creditors or dividend payments to foreign shareholders, which would limit our ability to comply in a timely manner with payments related to our liabilities to foreign creditors or non-resident shareholders. See Item 10 Additional Information Foreign Investment and Exchange Controls in Argentina.

Risks Relating to Telecom Argentina's Shares and ADSs

Fluctuations in Telecom Argentina's share price depend on various factors, some of which are outside of our control.

The market price of our shares is subject to change due to various factors which are outside of our control such as: (i) changes in market expectations; (ii) changes in the economic, financial and political situation in Argentina; (iii) the way the ANSES will exercise its corporate, political, and economic rights and will manage its share ownership in Telecom Argentina; and (iv) changes in measures used by investors or analysts to value our stock or market trends unrelated to our performance and operations. We cannot predict when such external factors will affect our stock price or whether their effects will be positive or negative.

In addition, currency fluctuations could impact the value of an investment in Telecom Argentina. Although Telecom Argentina's ADSs listed on the New York Stock Exchange are U.S. dollar-denominated securities, they do not eliminate the currency risk associated with an investment in an Argentine company.

In addition, on March 16, 2017, the Company's Board of Directors approved the submission to the SEC of a Shelf Registration Statement with the aim, once the SEC declares it effective, of permitting the secondary sale of Class B Shares issued by Telecom Argentina and the underlying ADSs of such Class B Shares in the United States. Future sales of substantial amounts of Telecom Argentina Class B Shares and ADSs, or the perception that such future sales may occur, may depress the price of Telecom Argentina Class B Shares and ADSs.

Trading of Telecom Argentina's Class B Shares in the Argentine securities markets is limited and could experience further illiquidity and price volatility.

Argentine securities markets are substantially smaller, less liquid and more volatile than major securities markets in the U.S. In addition, Argentine securities markets may be materially affected by developments in other emerging markets, particularly other countries in Latin America. Our Class B Shares underlying ADSs are less actively traded than securities in more developed countries and, consequently, an ADS holder may have a limited ability to sell the Class B Shares underlying ADSs upon withdrawal from the ADSs facility in the amount and at the price and time that it may desire. This limited trading market may also increase the price volatility of Telecom Argentina Class B Shares underlying the ADSs.

Holders of ADSs may be adversely affected by currency devaluations and foreign exchange fluctuations.

If the peso exchange rate falls relative to the U.S. dollar, the value of the ADSs and any distributions made thereon from the depositary could be adversely affected. Cash distributions made in respect of the ADSs may be received by the depositary (represented by the custodian bank in Argentina) in pesos, which will be converted into U.S. dollars and distributed by the depositary to the holders of the American Depositary Receipts (ADRs) evidencing those ADSs if in the judgment of the depositary such amounts may be converted on a reasonable basis into U.S. dollars and transferred to the United States on a reasonable basis, subject to such distribution being impermissible or impracticable with respect to certain ADR holders. In addition, the depositary will incur foreign currency conversion costs (to be borne by the holders of the ADRs) in connection with the foreign currency conversion and subsequent distribution of dividends or other payments with respect to the ADSs.

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

The relative volatility and illiquidity of the Argentine securities markets may substantially limit your ability to sell the Class B Shares underlying the ADSs on the Merval at the price and time desired by the shareholder.

Investing in securities that trade in emerging markets, such as Argentina, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Argentine securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States, and is not as highly regulated or supervised as some of these other markets. There is also significantly greater concentration in the Argentine securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 94% of the aggregate market capitalization of the Merval as of December 31, 2016. Accordingly, although shareholders are entitled to withdraw the Class B Shares underlying the ADSs from the depositary at any time, the ability to sell such shares on the Merval at a price and time shareholders might want may be substantially limited.

We are traded on more than one market and this may result in price variations; in addition, investors may not be able to easily move shares for trading between such markets.

Trading in the Class B Shares underlying ADSs or ADSs in the United States and Argentina, respectively, will use different currencies (U.S. dollars on the New York Stock Exchange (NYSE) and pesos on the Merval), and take place at different times (resulting from different trading platforms, different time zones, different trading days and different public holidays in the United States and Argentina). The trading prices of the Class B Shares underlying ADSs on these two markets may differ due to these and other factors. Any decrease in the price of the Class B Shares underlying ADSs on the Merval could cause a decrease in the trading price of the ADSs on the NYSE. Investors could seek to sell or buy the Class B Shares underlying ADSs to take advantage of any price differences between the markets through a practice referred to as arbitrage. Any arbitrage activity could create unexpected volatility in both our share prices on one exchange, and the ADSs available for trading on the other exchange. In addition, holders of ADSs will not be immediately able to surrender their ADSs and withdraw the underlying Class B Shares for trading on the other market without effecting necessary procedures with the depositary. This could result in time delays and additional cost for holders of ADSs.

As a foreign private issuer, we will not be subject to U.S. proxy rules and will be exempt from filing certain reports under the Securities Exchange Act of 1934.

As a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act of 1934 (the Exchange Act) related to the furnishing and content of proxy statements, and our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual and current reports and financial statements with the SEC as frequently or as promptly as domestic companies whose securities are registered under the Exchange Act, and we are generally exempt from filing quarterly reports with the SEC under the Exchange Act.

In addition, if a majority of our directors or executive officers are U.S. citizens or residents, we would lose our foreign private issuer status and we would fail to meet additional requirements necessary to avoid such loss. Although we have elected to comply with certain U.S. regulatory provisions, our loss of foreign private issuer status would make such provisions mandatory for us. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly higher for us. If we are not a foreign private issuer, we will be required

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to file periodic reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. We would have to present our financial statements under US GAAP and may also be required to modify certain of our policies to comply with corporate governance practices applicable to U.S. domestic issuers. Such conversion and modifications will involve additional costs. In addition, we may lose our ability to rely upon exemptions from certain corporate governance requirements on U.S. stock exchanges that are available to foreign private issuers.

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

If we do not file or maintain a registration statement and no exemption from the Securities Act of 1933 (Securities Act) registration is available, U.S. holders of ADSs may be unable to exercise preemptive rights granted to our holders of Class B Shares underlying ADSs.

Under the GCL, if we issue new shares as part of a capital increase, our shareholders may have the right to subscribe to a proportional number of shares of the same class to maintain their existing ownership percentage. Rights to subscribe for shares in these circumstances are known as preemptive rights. In addition, shareholders are entitled to the right to subscribe for the unsubscribed shares remaining at the end of a preemptive rights offering on a *pro rata* basis, known as accretion rights.

According to our By-laws, in the case of an issuance of any among our three classes of common stock (class A ordinary shares, Class B Shares and class C ordinary shares), preemptive rights shall be limited to the shares of the same class for which there has been no subscription. If, once preemptive rights have been exercised and remains Class B Shares or Class C ordinary Shares for which to subscribe, the same shares may be subscribed by shareholders of any of our three classes of common stock, with no distinction, in proportion to the shares of common stock for which such shareholder has subscribed on such occasion.

Upon the occurrence of any future increase in our Class B Shares, U.S. persons (as defined in Regulation S under the Securities Act) holding our Class B Shares underlying ADSs or ADSs may be unable to exercise preemptive and accretion rights granted to our holders of Class B Shares underlying ADSs in connection with any future issuance of our Class B Shares underlying ADSs unless a registration statement under the Securities Act is effective with respect to both the preemptive rights and the new Class B Shares underlying ADSs, or an exemption from the registration requirements of the Securities Act is available.

We are not obligated to file or maintain a registration statement relating to any preemptive rights offerings with respect to Telecom Argentina's Class B Shares underlying ADSs, and we cannot assure that we will file or maintain any such registration statement or that an exemption from registration will be available. Unless those Class B Shares underlying ADSs or ADSs are registered or an exemption from registration applies, a U.S. holder of Telecom Argentina's Class B Shares underlying ADSs or ADSs may receive only the net proceeds from those preemptive rights and accretion rights if those rights can be assigned by the ADS depositary. If the rights cannot be sold, they will be allowed to lapse. Furthermore, the equity interest of holders of shares or ADSs located in the U.S. may be diluted proportionately upon future capital increases.

Our status as a foreign private issuer allows us to follow alternate standards to the corporate governance standards of the NYSE, which may limit the protections afforded to investors.

We are a foreign private issuer within the meaning of the New York Stock Exchange (NYSE) corporate governance standards. Under NYSE rules, a foreign private issuer may elect to comply with the practices of its home country and not comply with certain corporate governance requirements applicable to U.S. companies with securities listed on the exchange. We currently follow certain Argentine practices concerning corporate governance and intend to continue to do so. For example, according to Argentine securities law, our audit committee, unlike the audit committee of a U.S. issuer, will only have an advisory and/or supervisory role, such as assisting our board of directors with the evaluation the performance and independence of the external auditors and exercising the function of our internal control. Accordingly, holders of our ADSs will not have the same protections afforded to shareholders of U.S. companies that are subject to all of the NYSE corporate governance requirements.

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If we were a passive foreign investment company for U.S. federal income tax purposes for any taxable year, U.S. holders of our ADSs could be subject to adverse U.S. federal income tax consequences.

If we were a passive foreign investment company, (a PFIC) within the meaning of Section 1297 of the Internal Revenue Code of 1986, as amended, for any taxable year during which a U.S. holder (as defined in Item 10 Additional Information Taxation United States Federal Income Taxes) holds our ADSs or Class B Shares underlying ADSs, certain adverse U.S. federal income tax

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

consequences may apply to the U.S. holder. We do not expect to be a PFIC for U.S. federal income tax purposes for our current taxable year or the reasonably foreseeable future, although there can be no assurance in this regard. Our possible status as a PFIC must be determined annually and therefore may be subject to change. This determination will depend on the composition of our income and assets, the market valuation of our assets (including, among others, our goodwill) from time to time, and our spending schedule for cash balances and the proceeds of any offering, as well as on the application of complex statutory and regulatory rules that are subject to potentially varying or changing interpretations. Accordingly, there can be no assurance that we will not be considered a PFIC for any taxable year. If we were a PFIC, U.S. holders of our ADSs or Class B Shares underlying ADSs may be subject to adverse U.S. federal income tax consequences, such as taxation at the highest marginal ordinary income tax rates on gains recognized and on certain actual or deemed distributions, interest charges on certain taxes treated as deferred, and additional reporting requirements.

Changes in Argentine tax laws may adversely affect the tax treatment of our Class B Shares underlying ADSs or ADSs.

On September 23, 2013, the Argentine income tax law was amended by the passage of Law 26,893 (the Argentine Income Tax Law). The Argentine Income Tax Law establishes that the sale, exchange or other transfer of shares and other securities is subject to a capital gain tax at a rate of 15% for Argentine resident individuals and foreign beneficiaries. There is an exemption for Argentine resident individuals if certain requirements are met. However, there is no such exemption for non-Argentine residents. See Item 10 Additional Information Taxation Material Argentine Tax Considerations. As of the date of this Annual Report many aspects of the Argentine Income Tax Law remain unclear and, they are subject to further regulation and interpretation, which may adversely affect the tax treatment of our Class B Shares underlying ADSs and/or ADSs. The income tax treatment of income derived from the sale of ADSs or exchanges of shares from the ADS facility may not be uniform under the revised Argentine Income Tax Law. The possibly varying treatment of source income could impact both Argentine resident holders as well as non-Argentine resident holders.

In addition, should a sale of ADSs be deemed to give rise to Argentine source income, as of the date of this Annual Report no regulations have been issued regarding the mechanism for paying the Argentine capital gains tax when the sale exclusively involves non-Argentine parties. However, as of the date of this Annual Report, no administrative or judicial rulings have clarified the ambiguity in the law. Conversely, if the sale of ADSs were deemed to give rise to foreign source income, no income tax would apply.

Consequently, holders of our Class B Shares, including in the form of ADSs, are encouraged to consult their tax advisors as to the particular Argentine income tax consequences under their specific facts.

We are organized under the laws of Argentina and holders of the ADSs may find it difficult to enforce civil liabilities against us, our directors, officers and certain experts.

We are organized under the laws of Argentina. A significant portion of our and our subsidiaries' assets are located outside the U.S. Furthermore, almost all of our directors and officers and some advisors named in this prospectus reside in Argentina. Investors may not be able to effect service of process within the U.S. upon such persons or to enforce against them or us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the U.S. Likewise, it may also be difficult for an investor to enforce in U.S. courts judgments obtained against us or these persons in courts located in jurisdictions outside the U.S., including judgments predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for an investor to bring an original action in an Argentine court predicated upon the civil liability provisions of the U.S. federal securities laws against us or these persons.

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Prior to any enforcement in Argentina, a judgment issued by a U.S. court will be subject to the requirements of Article 517 through 519 of the Argentine Federal Civil and Commercial Procedure Code if enforcement is sought before federal courts or courts with jurisdiction in commercial matters of the City of Buenos Aires. Those requirements are: (1) the judgment, which must be valid and final in the jurisdiction where rendered, was issued by a competent court in accordance with the Argentine

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

principles regarding international jurisdiction and resulted from a personal action, or an in rem action with respect to personal property which was transferred to Argentine territory during or after the prosecution of the foreign action; (2) the defendant against whom enforcement of the judgment is sought was personally served with the summons and, in accordance with due process of law, was given an opportunity to defend against foreign action; (3) the judgment must be valid in the jurisdiction where rendered, and its authenticity must be established in accordance with the requirements of Argentine law; (4) the judgment does not violate the principles of public policy of Argentine law; and (5) the judgment is not contrary to a prior or simultaneous judgment of an Argentine court. Any document in a language other than Spanish, including, without limitation, the foreign judgment and other documents related thereto, requires filing with the relevant court of a duly legalized translation by a sworn public translator into the Spanish language.

Future sales of substantial amounts of Telecom Argentina's Class B Shares and ADSs may depress the price of Telecom Argentina's Class B Shares and ADSs.

Future sales of substantial amounts of our Class B Shares and ADSs, or the perception that such future sales may occur, may depress the price of our Class B Shares and ADSs. Any such sale may lead to a decline in the price of our Class B Shares and ADSs. We cannot assure you that the price of our Class B Shares and ADSs would recover from any such decline in value.

PART I - ITEM 3 KEY INFORMATION - RISK FACTORS

TELECOM ARGENTINA S.A.

Table of Contents

ITEM 4. INFORMATION ON THE COMPANY

INTRODUCTION

The Company

Telecom is one of the largest private-sector companies in Argentina in terms of revenues, net income, capital expenditures and number of employees. Telecom Argentina has a non-expiring license (the License) to provide fixed-line telecommunications services in Argentina, and it also provides other telephone-related services such as international long-distance service, data transmission, IT solutions outsourcing and Internet services. Through our subsidiaries, we also provide mobile telecommunications services and international wholesale services.

At Telecom Argentina's Ordinary and Extraordinary Shareholders Meeting held on June 22, 2015, the shareholders approved amendments to Telecom Argentina's corporate purpose to include the provision of Audiovisual Communication Services. Telecom Argentina obtained authorization for the amendments from the AFTIC, the CNV and the General Agency of Corporations (Inspección General de Justicia or IGJ). IGJ registered the amendment to Telecom Argentina's bylaws on September 26, 2015. In addition, at Personal's Extraordinary Shareholders Meeting held on November 26, 2015, the shareholders also approved amendments to Personal's corporate purpose to include the provision of Audiovisual Communication Services. The amendment to Personal's bylaws was registered by IGJ on January 25, 2016.

As of December 31, 2016, we had approximately 4 million fixed lines in service. This is equivalent to approximately 19 lines in service per 100 inhabitants in the Northern Region of Argentina and 360 lines in service per employee.

As of December 31, 2016, our Internet business reached approximately 1.7 million Accesses and our mobile business had approximately 19.5 million subscribers in Argentina and approximately 2.5 million subscribers in Paraguay.

Business Strategy

On March 8, 2016 Fintech took indirect control of the Company, which resulted in the appointment of a new management team that has worked to design and implement a new business strategy for the Telecom Group, taking into consideration its existing positioning, reputational and operational strengths and the challenges that face the ICT market within the context of deep changes in rules applicable for the industry.

Below are described the outstanding aspects of the new business strategy of the Telecom Group, where the convergence of multiple services and the intensification of competition among operators is deemed to become deeper in the coming years.

The Telecom Group strategy and their stakeholders

In the Telecom Group, our priority is to generate value for our customers, investors, suppliers, employees and, in broad terms, for the communities in which we operate, providing services and solutions to improve life quality of people, their education, their opportunities for personal development and the improvement of the productivity of the economy as a whole. The Group's focus is to be key players in the country's digital transformation for its habitants.

To achieve these objectives, we develop and execute business plans consistent with the microeconomic and macroeconomic environment of Argentina and the telecommunications and technology market, investing both in the development of innovative products and services, as well as in the professional development of our employees, with the aim of adding value to the user experience with content, interactivity and convenience in communication.

In addition, our approach prioritizes the digital transformation of our industry, focusing on people, organizational culture, general and transformational processes, technological tools and key factors for achieving competitiveness and ensuring the long-term sustainability of the business. All of the above is achieved by applying the best practices in corporate governance, and compliance with laws and regulations applicable to us.

Table of Contents

We also strategically focus on being a facilitating tool for our customers, both in their corporate and business segments, as well as developing, providing and prioritizing solutions and digital services in our *nube* (cloud services), which is provided through our four state of the art data centers and serves as an essential node of our next-generation networks, fulfilling our customers' quality, safety and availability requirements. Our portfolio of solutions will evolve with the incorporation of new services like *big data*, *video-on-demand* and IoT (Internet of things), which will focus on industry pillars such as agroindustry, finance, manufacturing, health and government, among others.

Incubating and accelerating new business development, investing in projects led by Argentine entrepreneurs and transforming ideas into real businesses to make available technology solutions to help in the development of Argentine small- and medium-sized companies, all these are part of our commitment to this sector of the economy.

Home, the traditional ambit of our services, is today the strategic environment for the convergence of solutions where we focus on providing devices and sensors services, and, at the same time, VAS in every time and every place. Access to applications, value-added services, social networks, content in different formats, e-commerce and entertainment are the focus of home services.

Investments in technology are one of the fundamental pillars of our strategy, as we are focused on (i) the coverage and capacity of our infrastructure and (ii) new service platforms to meet, with higher quality, the increasing needs created by traffic and bandwidth generated by changes in consumer habits and by the expansion of our customer base. Investments in cutting-edge technologies ensure that we provide products and services that are developed for the future. These investments further ensure that we are always at the forefront, improving timing and reducing implementation costs, and being more efficient in the use of our resources and allocation of the underlying benefits to those who decide to choose us as their supplier of communications solutions, infrastructure, entertainment and any other service that we may offer in the future.

Strategic priorities and their implementation: customer-centered , innovation and operational excellence

The aspiration of the Telecom Group is to be the leading company in solutions and convergent connectivity services with an agile organization focused on our customers. This implies that the Telecom Group becomes the preferred company in user experience in the markets where we operate. We aim to provide our customers with solutions, technology, connectivity and entertainment, leveraging customer satisfaction with a focus on the interest of our customers, and the value contribution of our suppliers and employees, positively impacting our business results and adequately remunerating the investors that trust us (e.g., financial creditors and shareholders).

The growth of our business will be supported by excellent management, transforming processes by focusing on customer-centered and innovation as the pillar of self-improvement and creativity to transform our traditional businesses as well as to capture new service opportunities for individuals and businesses.

In order to implement of the aforementioned strategy, the development of new forms of work, projects or initiatives is a priority where creativity will serve our customers and multidisciplinary teams work will enrich our value proposition. We will strive to turn this process into a competitive advantage sustainable over time. Strategic initiatives will be implemented through the following business initiatives:

Table of Contents

Technological convergence generates both opportunities and threats. The digital transformation and a connected world enable us to participate in new businesses. However, there are also new players in the services market: the digital giants (OTT) and the new *startups*. The exploitation of these opportunities and the mitigation of the risks posed by these new players are key elements of our strategic planning process.

In addition, and in line with the new regulatory framework, the concept of convergence is understood as the challenge our customer requires when we supply them with services and solutions and new services, such as paid TV and distribution of content, business consulting, outsourcing of hardware and software services, technology and managed services, each case for the local, international and/or regional markets. New services and offerings will result in a balanced cost-benefit analysis, ensuring profitability for shareholders and suitability for different customer segments.

Our professionals, as a differential element, are one of the strategic assets of Telecom Group. The professionalization of human capital and the strict compliance with the best practices of corporate governance are basic and indispensable transformational pillars of the new ecosystem of collaborative connection with customers, suppliers, government, companies and communities.

In this ecosystem, we aim to be the leading company in the markets where we operate in using analytical intelligence and strategic vision, with a deep understanding of leadership, based on:

- Prioritizing attention and understanding the needs of our current and potential customers;
- Investing in technology, infrastructure and our professionals;

- Designing a convenient and segmented commercial offering according to customer behavior;
- Developing capabilities for data processing and analysis;
- Enhancing the skills and internal knowledge utilized for different solutions and business;
- Increasing the speed of process execution and innovation in services;
- Increasing operational efficiency; and
- Complying with the applicable laws and regulations.

For the abovementioned reasons, the new strategies designed and the processes of implementation set out, the necessary foundation to achieve in a sustainable manner our objectives for enriching our offering of products and services, quality improvement, market position and operational efficiency that our stakeholders are demanding and to allow the Telecom Group to become the leader of ICT services of Argentina in the years to come.

Table of Contents

Organizational Structure

The following chart shows our subsidiaries as of December 31, 2016, and jurisdiction of organization.

(*) Dormant entity as of December 31, 2016.

(**) As of the date of this Annual Report, Telecom Argentina owns 100% of Telecom Personal.

Revenues generated by each company in the Telecom Group

The following table presents information relating to the percentage of revenues and other income, net of intercompany transactions, generated by each company in the Telecom Group during the year ended as of December 31, 2016:

| Company (1) | Activity | Segment | Percentage of Telecom's Total Revenues and other income (5) |
|-------------|----------|---------|---|
|-------------|----------|---------|---|

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| | | | |
|----------------------------|----------------------------------|--------------------------|---------------|
| Telecom Argentina S.A. | Fixed services | Fixed services | 27.76 |
| Telecom Personal S.A. | Mobile Services | Personal Mobile Services | 66.76 |
| Núcleo S.A. (2) | Mobile Services | Núcleo Mobile Services | 4.91 |
| Personal Envíos S.A. (3) | Financial Mobile Services | Núcleo Mobile Services | 0.05 |
| Telecom Argentina USA Inc. | International Wholesale Services | Fixed Services | 0.52 |
| Micro Sistemas S.A. (4) | | Fixed Services | |
| Total | | | 100.00 |

(1) Personal and Micro Sistemas are incorporated in Argentina, Núcleo and Envíos are incorporated in Paraguay and Telecom Argentina USA is incorporated in the United States.

(2) Interest held indirectly through Personal. The non-controlling interest of 32.50% is held by ABC Telecomunicaciones S.A. (a Paraguayan company).

(3) Interest held indirectly through Núcleo. The non-controlling interest of 32.50% is held by ABC Telecomunicaciones S.A.

(4) Dormant entity as of December 31, 2016.

(5) Includes service revenues, equipment sales and other income with third parties.

Our principal executive offices are located at Alicia Moreau de Justo 50, C1107AAB, Buenos Aires, Argentina, telephone number: 54-11-4968-4000.

Our authorized agent in the United States for SEC reporting purposes is Puglisi & Associates, 850 Library Avenue, Suite 204, P.O. Box 885, Newark, Delaware 19711.

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

Recent Developments

Telecom Argentina's Board of Directors called for the Annual Shareholders Meeting

Telecom Argentina's Board of Directors, at its meeting held on March 16, 2017, called an Ordinary and Extraordinary Shareholders meeting to be held on April 27, 2017, to consider among other issues the allocation of Telecom Argentina's retained earnings as of December 31, 2016, (P\$3,975 million). The proposal of the Board of Directors is to allocate the total amount of said retained earnings to the Voluntary Reserve for Future Dividend Payment. In addition the Board of Directors proposed the withdrawal of P\$2,730 million from the Voluntary Reserve for Capital Investments and the withdrawal of the Voluntary Reserve for Future Investments (P\$2,904 million), increasing in turn the Reserve for Future Cash Dividends by P\$5,634 million.

Personal Annual Shareholders Meeting

Personal's ordinary and extraordinary shareholders meeting held on April 7, 2017, approved, among other items, the allocation of P\$2,812 million of retained earnings as of December 31, 2016 to the Reserve for Future Cash Dividends. The shareholders also approved to withdraw the total amount of the Voluntary Reserve for Financing of Working Capital and Investments in Capital Expenditures in the Country (P\$1,470 million), increasing the Reserve for Future Cash Dividends with this withdrawal.

The Reorganization

On March 31, 2017, each of Sofora, Personal and Nortel (together, the Absorbed Companies) and Telecom Argentina entered into a preliminary reorganization agreement (*Compromiso Previo de Fusión*) (the Preliminary Reorganization Agreement). Under the terms of the Preliminary Reorganization Agreement, the Absorbed Companies and Telecom Argentina have, subject to the approval of the relevant extraordinary general shareholders meetings in the case of Telecom Argentina, Personal, Nortel and Sofora and special shareholders meetings in the case of Nortel and to other authorizations, agreed to a corporate reorganization in which the Absorbed Companies will be absorbed by Telecom Argentina, with Telecom Argentina being the surviving entity (the Reorganization). Telecom Argentina will assume, by universal succession, all of the assets, liabilities, operations and activities, and will succeed to all of the rights and obligations, of each of the Absorbed Companies. As a consequence of the Reorganization, Nortel will: (i) distribute a portion of Nortel's Telecom Argentina Class A Shares to the holders of Sofora Common Shares, (ii) convert Nortel's remaining Telecom Argentina Class A Shares to Telecom Argentina Class B Shares, (iii) distribute all of Nortel's Telecom Argentina Class B Shares (including all of Nortel's Telecom Argentina Class B Shares that will be converted from Telecom Argentina Class A Shares) to the holders of Nortel Preferred Shares, and (iv) cancel all of Nortel's shares (preferred and ordinary). Telecom Argentina will not issue any new Class B Shares or Class A Shares in connection with the Reorganization. The Reorganization is subject to the approval of ENACOM.

If the Reorganization is approved at the shareholders meetings of the Absorbed Companies and Telecom Argentina, such companies expect to enter into a definitive reorganization agreement (the Final Reorganization Agreement), which will be subject to the approval of ENACOM and filed with the relevant Argentine administrative authorities in accordance with applicable corporate procedures. We expect that obtaining the necessary regulatory, corporate and administrative approval in connection with the Reorganization will take several months. The surviving company will continue to be known as Telecom Argentina S.A. Since each of the Absorbed Companies is either (i) a holding company with no operations or assets other than direct and indirect interests in Telecom Argentina or (ii) a wholly-owned subsidiary of Telecom Argentina, Telecom Argentina does not expect any material changes in its statement of financial position or income statement. The Reorganization will be accounted for under the predecessor basis of accounting, using historical cost as permitted by IFRS as issued by the IASB. Under the historical cost method, assets and liabilities of the Absorbed Companies will be consolidated into Telecom Argentina at their respective book values.

Conditions to Effectiveness and Completion of the Reorganization

As of the date of this annual report, the effectiveness of the Reorganization is subject to the satisfaction of the following conditions:

- approval of the Reorganization on the terms and conditions set forth in the Preliminary Reorganization Agreement by the shareholders of the Absorbed Companies and Telecom

Table of Contents

Argentina at each of their respective general shareholders' meetings (in the case of Telecom Argentina, Personal, Nortel and Sofora) and special shareholders' meetings in the case of Nortel;

- the execution of the Final Reorganization Agreement;
- the receipt of certain regulatory approvals by ENACOM;
- the amortization in full of 140,704,640 common shares of Sofora representing 32.0% of Sofora's outstanding capital stock; and
- Telecom Argentina has prepared its technical and operational systems with the capacity to absorb the operations of Personal, Nortel and Sofora.

In addition, the completion of the Reorganization's corporate and administrative procedures is subject to the following conditions: (i) obtaining the administrative consent (*conformidad administrativa*) of the CNV with respect to the Reorganization and (ii) the registration of the Final Reorganization Agreement with the Public Registry of the City of Buenos Aires (*Inspección General de Justicia*), among others.

No assurance can be given as to when or whether any of these approvals and consents will be obtained or conditions satisfied, the terms and conditions that may be imposed in connection with the consents and approvals, or the consequences of failing to obtain the consents and approvals.

Amortization of Sofora shares

In March 2017, W de Argentina Inversiones offered to Sofora and Sofora accepted with the consent of Fintech, the controlling shareholder of Sofora, an offer to amortize, in two tranches, all of the shares of capital stock issued by Sofora and owned by W de Argentina Inversiones, equal to 140,704,640 shares. As a result of the amortization, Sofora agreed to pay W de Argentina Inversiones an amount equal to the par value of W de Argentina Inversiones's shares of capital stock issued by Sofora, such amount being equivalent to P\$140,704,640, and issue in the name of W de Argentina Inversiones one or more dividend certificates (any such certificate, a *Bono de Goce*) evidencing W de Argentina Inversiones's rights to dividends up to an aggregate amount of up to US\$470 million less the amounts paid to amortize the shares of Sofora owned by W de Argentina Inversiones plus certain incremental amounts, with preference over the Telecom Argentina Class A Shares to be received by the shareholders of Sofora in the Reorganization. The amortization of the first tranche of shares of capital stock of Sofora owned by W de Argentina Inversiones and representing 17% of the issued and outstanding capital stock of Sofora is scheduled to occur on May 2, 2017, after which a *Bono de Goce* in the amount of US\$249,687,500 less the U.S. dollar equivalent of P\$74,749,340 will be issued to W de Argentina Inversiones. The amortization of the second tranche of shares of capital stock of Sofora owned by W de Argentina Inversiones and representing an additional 15% of the issued and outstanding capital stock of Sofora as of the date of this Annual Report is subject to the approval of ENACOM (See Item

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7 Major Shareholders and Related Party Transactions Major Shareholders Shareholders of Nortel). If this second amortization occurs, an additional Bono de Goce will be issued in an amount equal to US\$220,312,500 less the U.S. dollar equivalent of P\$65,955,300. Upon the completion of the amortizations, Fintech will be the sole shareholder of Sofora.

The principal terms and conditions of each Bono de Goce provide that: (i) dividend payments of up to the maximum amount under the Bono de Goce will be made only if and when Sofora resolves to pay a dividend, (ii) dividend payments made by Sofora shall be paid to the holder of the Bono de Goce with priority over all other shareholders of Sofora, (iii) all dividends to be paid under the Bono de Goce will be paid by Sofora with liquid and realized profits (*ganancias realizadas y líquidas*), (iv) the maximum amount of dividends to be collected under the Bono de Goce shall accrete every year on June 1 on the amount of dividends that remain unpaid by Sofora as of May 31 of the relevant year at a rate that will be set by the Board of Directors of Sofora and W de Argentina Inversiones, (v) Sofora has a right to redeem the Bono de Goce at any time after the later of (x) 36 months from the date of issuance or (y) the payment of 60% of the maximum amount of dividends under the Bono de Goce and (vi) in the event that Sofora is absorbed by Telecom Argentina pursuant to the Reorganization, the preference over dividends provided in the Bono de Goce will extend only to the shares received by Fintech as a result of the Reorganization which will be Telecom Argentina Class A Shares (which will be distributed exclusively to Fintech) but not to the Telecom Argentina Class B Shares.

If the Reorganization is consummated, Telecom Argentina will assume, by universal succession, all of the assets, liabilities, operations and activities, and will succeed to all of the rights and obligations, of Sofora as issuer of the Bono de Goce. In no event shall the dividend rights under the Bono de Goce affect the dividend rights of holders of Telecom Argentina Class B Shares.

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

Sale of Nortel's interest in Telecom Personal

On March 31, 2017, the Board of Directors of Nortel approved a proposal regarding the sale of its interest of 120,000 shares of Telecom Personal to Telecom Argentina (representing 0.008% of Telecom Personal). As of the date of this Annual Report the transaction was fulfilled by an amount of P\$4 million. As a result of this transaction, Telecom Argentina owns 100.00% of Telecom Personal.

Registration Statement on Form F-3

On March 22, 2017, Telecom Argentina filed a registration on Form F-3 (File No. 333-216890) through which the selling shareholder to be identified in a prospectus supplement may offer and sell from time to time Telecom Argentina Class B Shares underlying ADSs or ADSs. As of the date of this Annual Report, this registration statement has not been declared effective by the SEC.

History

Telecom Argentina was created by Decree No. 60/90 of the PEN dated January 5, 1990, and incorporated as Sociedad Licenciataria Norte S.A. on April 23, 1990. In November 1990, its legal name was changed to Telecom Argentina STET-France Telecom S.A. and on February 18, 2004, it was changed to Telecom Argentina S.A.

Telecom Argentina is organized as a corporation (*sociedad anónima*) under Argentine law. The duration of Telecom Argentina is 99 years from the date of registration with the Public Registry of the City of Buenos Aires (July 13, 1990). Telecom Argentina conducts business under the commercial name Telecom.

Telecom Argentina commenced operations on November 8, 1990 (the Transfer Date), upon the transfer from the Argentine government of the telecommunications system in the Northern Region previously owned and operated by ENTel. This transfer was made pursuant to the Argentine government's privatization program as set forth in the State Reform Law approved in August 1989 and subsequent decrees (the Privatization Regulations), which specified the privatization procedure for ENTel.

The Privatization Regulations provided for:

- the division of the Argentine telecommunications network operated by ENTel into two regions, the Northern Region and the Southern Region of Argentina;

- the granting to Telecom Argentina and Telefónica of non-expiring licenses to provide basic telecommunication services in the Northern Region and Southern Region, respectively;
- the granting to Telintar and Startel, each joint subsidiaries of Telecom Argentina and Telefónica, of non-expiring licenses to provide international long-distance and data transmission, respectively; and
- the transfer by ENTel of substantially all of its assets and certain contracts into Telecom Argentina, Telefónica, Telintar and Startel.

On the Transfer Date, pursuant to the terms and conditions of a transfer contract (the Transfer Agreement), the Argentine government sold 60% of the common stock of Sociedad Licenciataria Norte S.A. to Nortel, a holding company formed by a consortium of investors including Telecom Italia, among others.

Pursuant to the Privatization Regulations, 10% of Telecom Argentina's common stock was transferred as Class C Shares to a Share Ownership Plan for certain former employees of ENTel and CAT by the Argentine government, and the remaining 30% of Telecom Argentina's common stock was sold to investors, principally in Argentina, the United States and Europe, in an offering completed in March 1992. A portion of the shares in the Share Ownership Plan has been sold in the public market, and the remaining shares resulting from the Share Ownership Plan are being gradually converted into Class B Shares. See Item 6 Directors, Senior Management and Employees Share Ownership Share Ownership Plan.

In 2003, Nortel's common stock was transferred to an Argentine company named Sofora. The provisions of Telecom Argentina's List of Conditions (later amended by SC Resolutions No. 111/03, No. 29/04 and ENACOM Resolution No. 277/16) stated that: (i) any reduction of ownership by Nortel of our capital stock to less than 51% without prior approval of the Regulatory Bodies; or (ii) any

Table of Contents

reduction of ownership by current common shareholders in the capital stock with voting power of Nortel to less than 51% without prior approval of the Regulatory Bodies, may each result in the revocation of Telecom Argentina's telecommunications license.

On November 14, 2013, Telecom Italia S.p.A. and Telecom Italia International N.V. (collectively, the Sellers) and Tierra Argentea S.A. (Tierra Argentea, a company controlled by the Sellers) announced their acceptance of the offer made by Fintech to acquire Telecom Italia's controlling stake in Telecom Argentina owned by the Sellers through their subsidiaries Sofora, Nortel and Tierra Argentea.

On December 10, 2013, Tierra Argentea completed the transfer to Fintech of (i) Class B Shares of Telecom Argentina, representing 1.58% of the capital stock of such company, and (ii) Nortel's ADRs representing 8% of the aggregate Series B Preferred Shares of Nortel.

On October 25, 2014, Telecom Italia S.p.A. announced the acceptance of an offer made by Fintech to amend and restate the agreement announced on November 14, 2013. Within the frame of this amendment agreement: (i) on October 29, 2014, Telecom Italia International N.V. transferred 17% of the capital stock of Sofora to Fintech; and (ii) it was confirmed that the transfer of the 51% controlling interest in Sofora was subject to the approval of the telecommunications regulatory body (formerly, SC, subsequently, AFTIC and currently, ENACOM).

On October 16, 2015 AFTIC's Resolution No. 491/15 was published in the Official Gazette, denying the requested authorization for the transfer to Fintech of the controlling interest that the Telecom Italia Group held in Sofora. Fintech, the Telecom Italia Group, W de Argentina Inversiones S.A., Telecom Argentina and Personal filed an appeal against such Resolution requesting AFTIC to reconsider it.

On February 17, 2016 Telecom Argentina was notified of ENACOM Resolution No. 64/16 pursuant to which ENACOM partially granted the abovementioned requests revoking the denial in AFTIC Resolution No. 491/15 and deciding to continue the analysis of the transfer of Telecom Italia's interest in Sofora to Fintech.

On February 24, 2016, Telecom Argentina was notified of Fintech's intention to launch a Mandatory Tender Offer (the OPA) resulting from a change of control event for all Class B Shares of Telecom Argentina which are traded on the Buenos Aires Securities Market, or Mercado de Valores de Buenos Aires S.A., promoted and formulated by Fintech.

On March 7, 2016, ENACOM Resolution No. 277/16 authorized the transfer of Sofora's majority shareholder stake to Fintech, and on March 8, 2016, the transfer of Telecom Italia Group's 51% stake in Sofora to Fintech was completed. As a result, Fintech replaced the Telecom Italia Group as the indirect controlling shareholder of Telecom Argentina.

On March 8, 2016, the new members of the Board of Directors for both, Telecom Argentina and Personal, appointed by Fintech, replaced the members of such Boards of Directors appointed by the Telecom Italia Group. The Personal's Unanimous General Ordinary and Extraordinary Shareholders Meeting held on March 29, 2016 and the Telecom Argentina's General Ordinary and Extraordinary Shareholders Meeting held on April 8, 2016 each approved, among other items, the performance of duties of the directors and alternate directors and the members of the

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Supervisory Committee appointed by the Sellers in such companies and appointed new directors and alternate directors and members of the Supervisory Committee to cover the vacancy generated by those appointed by the Sellers. These new directors and alternate directors and members of the Supervisory Committee would hold their positions until the next Shareholders Meetings that would consider the financial statements as of December 31, 2015.

On March 8, 2016 the change of Sofora's controlling shareholder became effective and, accordingly, the Telecom Italia Group ceased to be Telecom Argentina's indirect controlling shareholder (position assumed by Fintech). Based on such facts, on April 15, 2016 Telecom Argentina and Personal notified the CNCJ that the Telco and TI-W Commitments have become moot and have completely lost its cause and purpose. See Item 7 Major Shareholders and Related Party Transactions Major Shareholders Telco and TI-W Commitments.

On July 22, 2016, Fintech informed Telecom Argentina of the modifications to certain terms of the OPA announced previously by Fintech, including the offering price. The offered price was amended from P\$46 per share to US\$3.925 per share from which US\$0.050 (five cents) per share should be

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

deducted as cash dividends paid on May 13, 2016, together with any other cash dividend to be paid by Telecom Argentina from the OPA's announcement date to the OPA's payment date.

On September 6, 2016, the CNV's Board of Directors approved the formal terms of the OPA. Subsequently, on September 14, 15 and 16 of 2016, Fintech published in *El Cronista Comercial* newspaper the notice required under the CNV Rules (modified by complementary notices published in the same newspaper on October 5, 6 and 7, the first time, and on October 26, 27 and 28, the second time) setting the opening and closing dates of the OPA and the amendments to the OPA Notice published on February 24, 2016. The end of the OPA and its additional deadline took place on November 4, 2016 for Argentina.

On November 7, 2016, Fintech informed Telecom Argentina that, having ended the OPA's offers reception period in Argentina, a total of 12,337,723 Class B Shares acceptances were received, representing 1.253% of Telecom Argentina's total capital.

Simultaneously, Fintech launched an OPA in the United States, which offers' reception period expired on November 23, 2016. This OPA did not affect in any way the OPA launched by Fintech in Argentina. According to Fintech, 5,549,209 ADSs and 3,695 Class B Shares entered into the OPA launched in the United States.

On the other hand, on November 25, 2016, Fintech informed that it was notified of the Resolution No. 356/16 of the Secretary of Commerce of the Ministry of Production, which authorized the economic concentration operation consisting on the acquisition by Fintech of 68% of the common shares of Sofora.

As of the date of this Annual Report, Sofora's shares belong to Fintech (68%) and to W de Argentina Inversiones S.A. (32%). Additionally, Fintech has 58,173,522 Class B Shares that represent 5.91% of Telecom Argentina's total capital stock.

However, as explained in previous paragraphs, in March 2017, W de Argentina Inversiones offered and Fintech, the controlling shareholder of Sofora, and Sofora accepted an offer to amortize, in two tranches, all of the shares of capital stock issued by Sofora and owned by W de Argentina Inversiones, equal to 140,704,640 shares. See **Recent Developments The Reorganization Amortization of Sofora Shares**.

However, as detailed in **Item 7 Major Shareholders and Related Party Transactions Major Shareholders Shareholders of Nortel**, on March 28, 2017 Sofora's Shareholders' Meeting approved the amortization of all of W de Argentina Inversiones' shares in Sofora in two tranches (17% on or before May 2, 2017 and 15% subject to the ENACOM's release from the obligation to be maintained as part of the principal nucleus (*núcleo principal*)).

Fintech, a Delaware (United States) limited liability company, is a wholly-owned direct subsidiary of Fintech Advisory Inc. and its primary purpose is to hold, directly and indirectly, the securities of Telecom Argentina. Fintech Advisory Inc., a Delaware (United States) corporation, is directly controlled by Mr. David Martínez, a former member of the Board of Directors of Telecom Argentina who submitted his resignation on

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April 5, 2017. Fintech Advisory Inc. is an investor and investment manager in equity and debt securities of sovereign and private entities primarily in emerging markets.

Additional information regarding the transaction between the Telecom Italia Group and Fintech as well as the OPA promoted by Fintech is available in the Relevant Facts section of the CNV at www.cnv.gob.ar, and in the Company filings section (Telecom Italia S.p.A and Telecom Argentina) of the SEC at www.sec.gov. Unless specifically incorporated by reference herein, the information contained or accessible through such websites should not be considered a part of this Annual Report.

THE BUSINESS

Liberalization of the Argentine Telecommunications Industry

In March 1998, the Argentine government issued Decree No. 264/98, introducing a plan for the liberalization of the Argentine telecommunications industry, (or the Plan). Decree No. 264/98 provided for the extension of the period of exclusivity with respect to the provision of Basic Telephone Services until sometime between October 8, 1999, and November 8, 1999, depending on the particular region. The Plan also provided for: (i) the immediate liberalization of paid telephone services and (ii) during July 1998, the liberalization of telephone service in rural areas. In addition, the Plan

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

contemplated that in January 1999, data transmission services within the countries included in Mercosur would be open to competition, subject to the following conditions: (i) each of the Mercosur countries enters into agreements providing for the liberalization of these services and establishing similar regulatory bodies and (ii) reciprocity exists between countries with respect to the granting of licenses. Beginning in late 1999, two new operators, formed by independent operators, mobile operators and cable television operators were permitted to offer services. These new operators, together with the existing licensees of Basic Telephone Services, allowed customers to choose from four operators until the full liberalization of services occurred. The Plan also granted data transmission operators existing before the privatization of ENTel the right to operate domestic and international long-distance services by the end of 2000. Finally, the full liberalization of local, domestic and international long-distance services took place in November 2000.

During the Transition Period (1998-1999), new regulatory obligations were also introduced with respect to quality and service targets applicable to both Telecom Argentina and Telefónica.

As long-distance services were liberalized, competition was introduced by pre-subscription of long-distance service for locations with more than 5,000 clients. Following the introduction of Presubscription of Long-Distance Service, a call-by-call selection service will be installed. These requirements obligated the telephone companies to make significant investments and modifications to their networks.

During 1999, competition in local, national and international long-distance services was established among Telecom Argentina and Telefónica and Compañía Telefónica del Plata (CTP, Movicom Bell South) and Compañía de Telecomunicaciones Integrales S.A. (CTI, now Claro), the two new national operators permitted to offer services by Decree No. 264/98. Some provisions of Decree No. 264/98 and related resolutions were modified by Decree No. 764/00, mainly provisions related to licensing conditions, interconnection and Universal Service. Decree No. 764/00 established the general regulation of licenses and provided that each licensed company was allowed to launch its services in November 2000 when the full liberalization of the telecommunications market began. As of the date of this Annual Report, the main licensees providing local and/or fixed long-distance telephone service are Telmex, Level 3 Communications (formerly Impsat), IPlan, Telecentro, CPS Comunicaciones (Metrotel), Telefónica, Telecom Argentina and many other small independent operators.

Pursuant to the Plan, the liberalization of public telephone services began. On December 9, 1998, Telecom Argentina was granted (upon the subsequent issuance of SC General Resolution No. 2,627/98) a license to provide public telephone services in the Southern Region.

General

As of the date of this Annual Report, we conduct our business through six legal entities, each representing a distinct operating segment. We aggregate these operating segments into three segments – Fixed Telecommunications Services (Fixed Services), Personal Mobile Telecommunications Services (Personal Mobile Services) and Núcleo Mobile Telecommunications Services (Núcleo Mobile Services) according to the type of products and services provided and taking into account the regulatory and economic framework under which each entity operates.

The companies we aggregated to create the segments are as follows:

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| Segment | Consolidated Company/Operating Segment |
|--------------------------|--|
| Fixed Services | Telecom Argentina Telecom Argentina USA Micro Sistemas (1) |
| Personal Mobile Services | Personal |
| Núcleo Mobile Services | Núcleo Envíos |

(1) Dormant entity as of December 31, 2016.

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

Fixed Services. Telecom Argentina owns a local telephone line network, public long-distance telephone transmission facilities and a data transmission network in the Northern Region. Since the market was open to competition, Telecom Argentina expanded its network in the Southern Region of Argentina providing nationwide services. Fixed services are comprised of the following:

- *Basic Telephone Services.* Telecom Argentina provides Basic Telephone Services, including local, domestic and international long-distance telephone services and public telephone services. As of December 31, 2016, Telecom Argentina had approximately 4 million of lines in service;

- *Interconnection services.* Telecom Argentina provides interconnection services, which primarily include Access, termination and long-distance transport of calls;

- *Data transmission and Internet services.* Telecom Argentina provides data transmission and Internet services, including traditional Broadband, Internet dedicated lines, private networks, national and international video streaming, transportation of radio and TV signals and videoconferencing services. As of December 31, 2016, Telecom Argentina had approximately 1.7 million Internet subscribers;

- *Information and Communication Technology Services.* Telecom Argentina provides ICT services, datacenter services, telecommunications consulting and value-added solutions;

- *Other telephone services.* Other services provided by Telecom Argentina include supplementary services such as call waiting, call forwarding, conference calls, caller ID, voice mail, itemized billing and maintenance services; and

- *Sale of equipment.*

Personal Mobile Services and Núcleo Mobile Services.

We provide mobile services through our subsidiaries in Argentina and Paraguay.

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Personal's service offerings include voice communications, high-speed mobile Internet content and applications download, MMS, SMS, online streaming, corporate e-mail and social network access, among others; and sale of mobile communication devices (handsets, Modems mifi and wingles, smart watches). The services are supported in the different technologies of the mobile network (2G/3G/4G).

We also provide mobile services in Paraguay through Núcleo, a subsidiary of Personal.

As of December 31, 2016, Personal had approximately 19.5 million mobile subscribers in Argentina and Núcleo had approximately 2.5 million subscribers in Paraguay.

See Note 28 to our Consolidated Financial Statements and Item 5 Operating and Financial Review and Prospects Years ended December 31, 2016, 2015 and 2014 (B) Results of Operations by Segment for additional information as to our results of operations by segment.

Fixed Services

Telecom Argentina is the principal provider of Basic Telephone Services in the Northern Region, and since late 1999 has also provided Basic Telephone Services in the Southern Region.

Since November 2000, the telecommunications sector in Argentina is completely open to competition. Our operations are subject to a complex series of laws and regulations. In addition, we are subject to the supervision of the Regulatory Bodies. See Regulatory and Legal Framework Regulatory Framework below.

Telecom Argentina's Telephone Network

Telecom Argentina's fixed-line telephone network includes installed telephones and switchboards, a network of access lines connecting customers to exchanges and trunk lines connecting exchanges and long-distance transmission equipment.

The following table illustrates the deployment of Telecom Argentina's telephone network:

Table of Contents

| | December 31, 2016 | December 31, 2015 | December 31, 2014 | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Number of installed lines (1) | 4,908,102 | 4,903,700 | 4,763,336 | 4,699,254 | 4,850,554 |
| Net lines installed (during each year) | 4,402 | 140,364 | 64,082 | (151,300) | 58,024 |
| Net lines installed cumulative (2) | 3,337,138 | 3,332,736 | 3,192,372 | 3,128,290 | 3,279,590 |
| Number of lines in service (3) | 3,919,577 | 4,042,624 | 4,093,038 | 4,123,795 | 4,127,858 |
| Net (Reductions)/Additions in lines in service for the year | (123,047) | (50,414) | (30,757) | (4,063) | (13,277) |
| Net (Reductions)/Additions in lines in service cumulative | 2,517,608 | 2,640,655 | 2,691,069 | 2,721,826 | 2,725,889 |
| Lines in service per 100 inhabitants (4) | 19 | 19 | 19 | 19 | 20 |
| Pending applications (5) | 75,300 | 64,093 | 75,213 | 91,950 | 152,210 |

-
- (1) Reflects total number of lines available in Switches.
 - (2) Cumulative net lines installed since the Transfer Date.
 - (3) Includes lines customers, own usage, public telephony and ISDN channels.
 - (4) Corresponds to the Northern Region of Argentina.
 - (5) Corresponds to lines requested by clients, but not yet installed.

The following table illustrates the evolution of Internet services:

| | 2016 | 2015 | December 31, 2014 | 2013 | 2012 |
|-----------------------------|-----------|-----------|----------------------|-----------|-----------|
| Fixed Internet access lines | 1,737,534 | 1,813,590 | 1,771,050 | 1,706,787 | 1,629,294 |
| Arnet subscribers | 1,725,609 | 1,791,030 | 1,749,111 | 1,686,982 | 1,621,643 |

Arnet customer base decreased by 4% in 2016 while it increased by 2%, 4% and 4% in 2015, 2014 and 2013, respectively.

Revenues

Fixed services include, among other charges, monthly charges, measured service charges, installation charges, public telephone services and interconnection services related to essential facilities. The prices for these services were regulated by rules governing our license, which established maximum prices that could be charged to clients. Telecom Argentina was able to charge prices below the maximum regulated prices as long as the discount was applied equally to clients who share the same characteristics (under the so-called principle of non-discrimination). In accordance with this ability, Telecom Argentina charged lower prices than the maximum regulated prices for certain of the services offered. Since the enactment of the LAD it was established that licensees of ICT services may set their prices. See Regulatory and Legal Framework Regulatory Framework Law No. 27,078 Argentine Digital Law.

The remaining services included in the Fixed Services segment, such as data transmission services and Internet services, were not subject to regulation and, as a result, Telecom Argentina was able to set the corresponding prices. Market conditions could limit price increases.

a) *Retail Residential and SME (Small and Medium Enterprises)*

Monthly Charges. Telecom Argentina bills a monthly charge to its customers. As of December 31, 2016 and 2015 approximately 82% of lines in service were for residential customers and public telephony and approximately 18% were for professional, commercial and government customers. Additionally, due to the regulatory regime, Telecom Argentina is obligated to offer discounts to certain retired individuals and low-consumption residential customers.

Measured Service Charges. In addition to a monthly charge, Telecom Argentina bills to a portion of its customers for a monthly measured service charge, which is based on telephone usage. Measured service is billed at the price per unit of time. Charges for local and domestic long-distance measured service vary with the price per unit of usage. The number of units of usage depends on the time of day, the day of the week, the distance and the duration of calls. Additionally, due to

Table of Contents

competition, Telecom Argentina offers discounts to customers mainly for domestic long-distance service as semi-flat rate plans that include a set quantity of minutes for a fixed charge.

During 2016 and 2015, the volume of local minutes decreased by approximately 13.9% and 9.9%, respectively, due to the strong growth in mobile telephony and the resulting migration of traffic to mobile service. Although the traffic volume decreased during 2016, revenues from local traffic continued to increase leveraged by the increase in prices of the semiflat rate plans.

Total volume of domestic long-distance minutes decreased by approximately 13.2% and 8.6% in 2016 and 2015, respectively. Ever since the Northern Region was opened to competition in 1999, Telecom Argentina has maintained its position as the regional market leader for domestic long-distance traffic. During 2016, deploying a similar strategy to that which was adopted for local traffic, we maintained sales of targeted and selective flat-rate plans positioned to maintain average revenues generated by customers.

International Long-Distance Service. International long-distance traffic minutes decreased approximately 48.6% in 2016 and 19.6% in 2015. Since 1992, international rates have been reduced annually as a consequence of the application of the Price Cap described in Regulatory and Legal Framework Regulatory Framework Dollarization and pesification of rates Telecom Argentina also has reduced international long-distance prices in order to compete with the new providers of long-distance calling services.

Installation Charges. Revenues from installation charges consist primarily of fees levied for installation of new fixed lines. Telecom Argentina offers discounts in multiple localities to reduce the rates, with the aim of stimulating demand in those areas. The penetration of fixed-line telephony has been affected by the maturity of the Argentine market.

Other Domestic Telephone Services. Telecom Argentina provides other domestic telephone services including charges for supplementary services such as call waiting, call forwarding, conference calls, caller ID, voicemail and itemized billing.

Internet. Telecom Argentina has been providing residential Internet services under the brand name Arnet since 1998. Telecom Argentina mainly offers this service in the major cities of Argentina. In recent years, Telecom Argentina's Internet service has experienced higher demand and usage in less populated areas of the country. The Internet services include Access and Arnet service.

Broadband can be delivered through three technologies: cable Modem, ADSL and wireless; cable Modem and ADSL being the most widely used. In the local market, ADSL connections exceeded the number of cable Modem and wireless connections. Telecom Argentina markets its ADSL service through its Arnet brand and in partnership with other Internet services providers.

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As of December 31, 2016, we reached approximately 1.7 million accesses. During 2016, our efforts to communicate effectively with our customers and special offers with competitive prices according to segment helped us to maintain the leadership of our products under the brand Arnet. In November 2016, Telecom launched the new offer Arnet + Voz providing Internet and unlimited local and national calls, as part of a bundled package. At the end of 2016, the Company announced the first convergent offer of the market, offering a bundle, including Internet services, fixed line telephony and mobile connectivity, with a differential and convenient price.

Continuing the evolution of Internet access services, during the year 2016 services focused on offering higher speed access to customers. The number of customers with UBB has grown 40% in 2016, increasing the average speed of the customer base.

Internet revenues include both Internet access services and the provision of Internet service.

A small portion of Internet access services is provided by Telecom Argentina's 0610, 0611 and 0612 services. Internet dial-up service represents a marginal percentage of Telecom Argentina's revenues, we continue to provide this service to a small market where Broadband service is not available.

b) Corporate Customers

The large customer segment includes leading companies in the Argentine market as well as the National government, provincial governments and municipalities. These customers demand cutting-edge technology and solutions tailored to their needs, including voice, data, Internet and Value Added Services.

Table of Contents

In response to the constant changes demanded by the market, Telecom Argentina maintained its strategy to position itself as the integrated provider for large customers through the offer of convergence of ICT solutions, including fixed and mobile voice, data, Internet, Multimedia, ICT, datacenter and application services through sales, consulting, management and specialized and targeted post-sale customer services.

The data services business includes nationwide data transmission services, virtual private networks, symmetric Internet access, national and international signal transport and videoconferencing services. These services are provided mainly to corporations and governmental agencies. Telecom Argentina also provides certain Value Added Services, including electronic standard documents telecommunication software exchange and fax storage and delivery service. The data services business also includes the lease of networks to other providers, telecommunications consulting services, operation and maintenance of telecommunications systems, supply of telecommunications equipment and provision of related services. Corporate data transmission services are mainly Ethernet and IP services.

During 2016, we maintained our efforts in ICT solutions and the sale of data services and dedicated Internet accesses. This strategy is supported by the world class multi-site network of datacenters focused on communications, with over 7,000 square meters used to keep computer technology services throughout Argentina. Through this infrastructure, we offer a broad services portfolio including dedicated hosting and housing, connectivity, cloud services which enable our customers to optimize their costs by increasing the security of their information and avoiding hardware and software obsolescence issues. All the services are provided with support, security, connectivity and the ability to engage further management, professional, monitoring, storage and backup services.

In addition, we continued making additional investments at the major datacenter in Pacheco, consolidating its position as leader in the market and enhancing the level of services supplied. Such investments will enable Telecom Argentina to support business growth in the next few years with the highest market standards.

The main solutions and businesses developed in recent years and which continued during 2016 included:

- Renovation and maintenance of infrastructure and terminals of the truncated communications system for Buenos Aires City Police force.
- Extension and renegotiation of 911 systems for public safety management in a province of the Litoral region.
- A datacenter solution in alliance with Oracle, to optimize operation in databases for an important industrial company.
- Implementation of datacenter and VPD (Virtual Private Datacenter) solutions, and development of Managed Services and NOC (Network Operations Centers) in main clients of the private sector.

- A DWDM (Dense Wavelength Division Multiplexing) solution for a relevant customer in the financial industry
- Integrated fleet management and monitoring system for a customer that provides assistance service in the Mediterranean region.
- Implementation of a unified communications solution with redundancy in sites of high criticality in Municipality, Mediterranean Region.

c) *Wholesale*

Interconnection Revenues: Telecom Argentina collects fees from other operators for interconnection services. These fees primarily include local Access, termination and long-distance transport of calls, rentals of network capacity and commissions on calling party pays fees. These fees are payable by mobile operators as well as fixed-line operators. Additionally, Telecom Argentina remained one of the leading providers of wholesale telecommunications solutions for various fixed and mobile operators, independent operators, local operators, public telephony licensees, cable operators, ISP, TV and radio channels, production companies and other service providers. The services marketed by Telecom Argentina include, among others, traffic and interconnection resources, third-

Table of Contents

party billing, dedicated Internet access services, transport of video signals in standard definition and high definition, streaming audio and video, dedicated links, backhaul links for mobile operators, Internet Protocol Virtual Private Network and data center hosting services.

Telecom Argentina continued to strengthen its position as a provider of solutions for the broadcasting segment by offering transportation solutions for audio and video signals both as dedicated private links and on the Internet. We provide solutions to cable operators and TV channels for the distribution of video signals.

International Long-Distance Service: Telecom Argentina holds a non-expiring license to provide international telecommunications services in Argentina, including voice and data services and international point-to-point leased circuits.

Revenues from wholesale international long-distance service reflect payments under bilateral agreements between Telecom Argentina and foreign telecommunications carriers, covering virtually all international long-distance calls into or out of Argentina using our network. Revenues from international long-distance service therefore consist mainly of:

- amounts earned from foreign telecommunications carriers for connection to the Argentine telephone network;
- bandwidth capacity under an Indefeasible Right of Use (IRU) basis;
- international point-to-point leased circuits; and
- international data and IP transit services.

Operating revenues from international long-distance service depend on the volume of traffic and the prices charged by each party under agreements between the Argentine provider and foreign telecommunications carriers. Settlements among carriers are usually made on a net basis. Incoming traffic with carriers measured in minutes accounted for 329 million minutes in 2016 and 455 million minutes in 2015.

Telecom Argentina is connected to international telecommunications networks, mainly through the following submarine Fiber Optic cables: Americas 2 (USA), Columbus 3 (Europe), Atlantis 2 (Brazil Europe), Sea-Me-We (Europe Asia), Bicentenario (Uruguay), Latin American Nautilus (LAN), a company in the Telecom Italia Group, and other minor cables.

In order to meet the growth in our Internet access base, Telecom Argentina has acquired some IRUs on a submarine facility of Latin America Nautilus (LAN) (a subsidiary of Telecom Italia), which connects Argentina with the U.S. (Miami) in a submarine fiber optic ring. These rights, which last for 15 years, allow the interconnection of the IP backbone of Telecom Argentina with IP Transit providers in Miami. Telecom Argentina has also contracted international capacity under lease modality (Transit IP) in Buenos Aires to ensure better performance regarding regional traffic.

Through our wholly owned subsidiary in the United States, Telecom Argentina USA, a corporation organized under the laws of the State of Delaware, we focus mainly on wholesale long-distance international traffic, video and data services.

Telecom Argentina USA, routes the majority of its wholesale traffic through its own switching capabilities. In 2016, Telecom Argentina USA, continued operating a Node of high-definition video in Miami, thus extending the Telecom video matrix to the international market.

Network and Equipment

The network strategy focuses on medium and long-term guidelines in line with technological developments, the demand for new services and the customer experience. In that sense, the core network seeks to provide the capacity, improve the closeness and increase the availability of our services toward to the end user, together with the standardization of protocols and network architectures, allowing for us to reduce the related operating costs and operate more efficiently.

In access networks, our strategy is based on continuing to meet the growing bandwidth needs that require the services requested by our customers, mainly Internet access to Multimedia content and video. The increased deployment of fiber optic infrastructure for access to different architectures and technologies continued, optimized according to demands and geographic areas. On the other hand, progress was achieved with enhancements of capacity and the inclusion of new POPs of

Table of Contents

content, providing a better user-experience when it comes to accessing the network and, in particular, OTT services.

Personal Mobile Services and Núcleo Mobile Services

We provide mobile services through our subsidiaries in Argentina and Paraguay.

Mobile Telecommunication Services in Argentina Personal

The market for mobile telecommunications services in Argentina is characterized by intense competition. Operators are generally free from regulation to determine the pricing of services. There are currently three mobile operators offering nationwide service. According to the statistics published by the national telecommunications regulatory agency (ENACOM), the penetration of mobile service in Argentina has increased from approximately 138.9% of the population in 2014, to approximately 141.9% in 2015 and to approximately 142.4% in the first half of 2016. This information regarding penetration of mobile service is an estimate, based on demographic data from 2010 national census as there are no official statistics published in Argentina, and only considers lines serviced by the three operators providing nationwide mobile telecommunications services (i.e., it does not include Nextel providing trunking telephony and other telecommunication services in Buenos Aires and cities in the interior).

Service providers in Argentina are making significant capital expenditures in new network infrastructure for the enhancement and deployment of 3G and 4G technology, which allows for the higher transmission speeds required for Value Added Services such as data transfer, video calling and Internet browsing.

Our mobile telecommunications services in Argentina are provided through our subsidiary, Personal. We provide mobile services on the 850 MHz and 1,900 MHz, through GSM and 3G technology (by STM/SRMC y PCS networks). In addition, since December 2014, Personal has offered LTE technology service (by SCMA network) through the frequency bands awarded to Personal in 2014 and 2015 (1730-1745 MHz; 2130-2145; 713-723 MHz and 768-778 MHz). See Regulatory and Legal Framework Regulatory Framework Spectrum.

a) ***Residential and Business Customers***

We offer to Personal subscribers a variety of flexible pricing options for mobile services. These options include prepaid, post-paid and mixed (*Abono Fijo*) plans.

Prepaid Plans. Under prepaid plans, subscribers pay in advance for their services, using prepaid credit. Since there are no monthly bills, prepaid plans allow subscribers to communicate with maximum flexibility while maintaining control

over their consumption. Prepaid credit can be purchased through prepaid cards or virtual credit on Personal's website, by phone, at ATMs and drugstores, or through authorized agents. This credit allows subscribers to use data to browse on the Internet, make and receive local, national and international calls and buy multimedia content.

Personal offers a variety of packs which enable customers to use the abovementioned services at a lower price. These packs may include a fixed amount of minutes to make national or international calls, SMS, a daily quota of megabytes to access the Internet during 1, 7 or 30 days or different combinations of these services.

In addition, customers can buy multimedia contents, or subscriptions to these contents, in order to receive them periodically.

Prepaid customers can access different benefits according to their monthly credit charges, such as days of free Whatsapp access, credit gifts, and two telephone numbers to communicate for free, one for calls and the other for SMS.

Post-Paid Plans. Under post-paid plans, a subscriber pays a monthly fee, plus charges for additional services not included in its plan. According to Personal's current offer, most of the plans include a quota of megabytes for browsing Internet, unbounded airtime for on-net calls and SMS. Some plans include an amount of free seconds for off net calls. Once the free seconds have been used, they can continue using the mobile service at a set price per second. They can also buy packs of additional megabytes to continue browsing Internet after they have consumed the megabytes included in the monthly fee. The charges for additional airtime, megabytes or multimedia contents, will

Table of Contents

be added to the next month's bill. The plans offer Personal digital invoicing, enabling subscribers to view, download and print their invoices from the web.

Under post-paid plans, we also offer M2M plans, based on the *Internet of Things* (IoT) concept, which refers to the digital interconnection of everyday objects with the Internet, and are specially focused on customers of the business segment. These plans include solutions such as geolocation and fleet monitoring, refrigeration control, information security solutions, sales management solutions, and cloud solutions for information storage and protection, among others.

Abono Fijo. Under the *Abono Fijo* plans, a subscriber pays a set monthly bill. Like in post-paid plans, most of these plans include a quota of megabytes for browsing in the Internet, unbounded airtime for on-net calls, SMS and a fixed amount of credit that can be used to buy packs or multimedia contents. Once the free seconds have been used or Internet quota has been met, the subscriber can obtain additional credit by recharging its line through the prepaid system. With this new credit, customers can buy packs of 100 MB, 500 MB or 1 GB to continue browsing Internet or packs of seconds for off net calls. The plans offer Personal digital invoicing, enabling subscribers to view, download and print their invoices from the web.

The following table presents information regarding Personal's post-paid, prepaid, *Abono Fijo* and Mobile Internet dongle subscribers bases for the periods indicated:

| | 2016 | | As of December 31, 2015 | | 2014 | |
|----------------------------|------------|------------|----------------------------|------------|------------|------------|
| | | % of Total | | % of Total | | % of Total |
| <i>Mobile subscribers:</i> | | | | | | |
| Prepaid (1) | 13,007,221 | 66.7 | 13,187,958 | 67.1 | 13,262,265 | 67.7 |
| Post-paid (2) | 2,159,797 | 11.1 | 2,134,376 | 10.9 | 2,155,258 | 11.0 |
| <i>Abono Fijo</i> (2) | 4,248,050 | 21.8 | 4,216,519 | 21.4 | 3,993,349 | 20.4 |
| Mobile Internet dongles | 98,906 | 0.4 | 117,802 | 0.6 | 174,711 | 0.9 |
| Total | 19,513,974 | 100.0 | 19,656,655 | 100.0 | 19,585,583 | 100.0 |

-
- (1) Lines with at least one recharge in the last thirteen months as of December 31 of each year.
 - (2) Lines with payment modality through the billing to the customer.

New products and services. In 2016, Personal continued boosting its strategy with a customer-centric approach based on the concept *Hagamos que todo suceda* (Let's make it all happen). This concept stands for Personal placing technology at the center of relationships, allowing interaction to take place as something real that is beyond the virtual scope.

The loyalty program Club Personal continued throughout 2016 providing important benefits, such as discounts on gastronomy, shows, shopping, leisure and tourism, and the possibility of exchanging accumulated points for consumption, to maintain the satisfaction of the members and

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incorporate new ones. Club Personal is one of the most important benefit programs in the country with more than 4.4 million members.

Finally, Personal continued its strategy of repositioning its brand by holding the 12th annual Personal Fest, one of the most important international music festival in Buenos Aires, and also its summer edition in five of the major cities of Argentina.

Personal's ARPU was approximately P\$112.3 per month for 2016 and P\$91.5 per month for 2015.

b) *Wholesale*

International Business: During 2016, Personal continued to strengthen its position in the international roaming services market, expanding 3G and 4G LTE agreements, in order to provide a better user's experience to its subscribers.

Personal entered into five (5) GPRS and 13 3G agreements during 2016, reaching an overall total of 366 commercial agreements of international roaming, which provide service in more than 166 countries.

Personal has increased its voice and data roaming destinations, through the implementation of new agreements under CAMEL standard (*Customized Applications for Mobile networks Enhanced Logic*), which expand the roaming services for pre-paid subscribers of other carriers that use our network.

Also, Personal enhanced destination's coverage reached by the International SMS service adding a third SMS Hub, which will enable greater flexibility and reliability of the service.

Table of Contents

In order to improve the customer's roaming service experience, Personal has launched nine LTE agreements in the modality Outbound (4G services for our foreign customers). These agreements allowed customers to use a higher Internet navigation speed, especially at La Copa América Centenario USA 2016 and the Rio 2016 Olympic Games, both major international sports events in 2016.

Domestic Business: The main national wholesale revenues are composed by TLRD, CPP, and to a lesser extent, national roaming sold to other operators in connection with the use of Personal's network, as well as by leasing of infrastructure sites.

During 2016, Personal continued to strengthen its relationship with operators and telecommunication services providers, cooperative's federations, and clearing house services suppliers, renewing the existing contracts or entered into new ones.

Personal also signed new agreements with cooperatives for installing new cell sites in their local area with the purpose of achieving or improving the mobile coverage in their influence areas and in accordance with the Company's deployment plan.

Personal expanded agreements to contract resources and facilities of other operators (data links, interconnection resources, origination, termination, and transport minutes, conventional and non-conventional site leases and domestic roaming) that contributed to continue the mobile network development and its 4G evolution improving the offer to customers.

Personal's Network and Equipment

In 2016, the Company continued with the strategy of improving the coverage and capacity of the mobile access network. To that end, an important deployment plan for 4G (LTE) technology was held that has synergistically continued the modernization of the 2G/3G network using the new spectrum acquired in the auction process carried out in 2014. This deployment essentially allows increasing Internet access speed, thus improving customer's user experience, in particular their experience related to accessing Multimedia content.

From the beginning of their deployment, the 700 MHz band where there is no interference, and 1,700/2,100 MHz bands, were enabled at the same time allowing the optimal use of both spectrums through the carrier aggregation functionality (functionality that enables adding carriers to increase bandwidth). In accordance with the abovementioned, the capacity of existing sites continued to increase after the activation of the reassigned spectrum of the 2G network and the new PCS/SRMC spectrum acquired in the auction process of 2014.

In addition, the plan to increase the number of base stations linked through optic fiber and full IP connectivity continued, aimed at ensuring the availability of bandwidth for current and future needs.

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To strengthen the use of new frequency bands, Personal has continued selling 4G smartphones to new and existing clients with the aim to promote a faster adoption of the new technology. As of December 31, 2016 the customers using 4G handsets were approximately 5.5 million.

Finally, the start-up and migration of the Core Mobile platform on a virtual infrastructure were initiated. This new platform includes the migration of all the existing features of the current core and adds features in the IMS (Internet Map System) architecture, oriented toward the convergence and evolution of services such as VoLTE (Voice over LTE), VoWiFi (Voice-over-WiFi), etc.

Mobile Telecommunications Services in Paraguay Núcleo

We provide nationwide mobile telecommunications services in Paraguay through our subsidiary, Núcleo, under the commercial name of Personal. Núcleo is 67.5% owned by Personal and 32.5% owned by ABC Telecomunicaciones S.A., a Paraguayan corporation. Núcleo has been granted licenses to provide commercial mobile services, Internet access and videoconference and data transmission services in Paraguay.

At the end of 2015, Núcleo decided to launch LTE services on its available 1,900 MHz frequency bands, implementing an aggressive investment plan for the deployment of the new technology. See Núcleo's Network and Equipment.

The communication strategy of Núcleo in 2016 for post-paid customers was an aggressive proposal that enabled us to increase the capture of customers, to ensure base loyalty and to boost data use. As of the second quarter, the strategic focus for prepaid customers was based on the growth of 0-30 customers (customers that regularly recharge within the last 30 days) and on the recharge

Table of Contents

processes. With these objectives in mind, tactical actions for the customer base were implemented, with segmented campaigns, new recharge services, special Packs by cell and geographic area and additional benefits with recharges, among others.

In order to further enhance the penetration of 4G smartphones, Núcleo strengthened smartphone benefits by holding two Smart fairs, one in October 2016 and one in December 2016. It also launched new smartphone signing-financing alliances with two financial institutions.

In relation to the SVA, a promotional platform was implemented to increase engagement of customers who participate in promotions via SMS, consequently improving the participation of SVA in prices and sales.

Finally, with respect to brand and institutional campaigns, as of the second quarter of 2016, the focus on communication was the dissemination of the new brand purpose *Hagamos que todo suceda*. Núcleo launched a new campaign to convey the way in which the company seeks to improve people's lives through technology.

Envíos, Núcleo's subsidiary, is engaged in the provision of mobile financial services in Paraguay. Envíos commenced its operations in January 2015 but has not had significant result of operations for the Group in 2016.

Additionally, on October 4, 2016, Núcleo's Board of Directors authorized the execution of the shares purchase option that TU VES S.A (Chile) granted to Núcleo in order to acquire the controlling interest in Tuves. Tuves is a company engaged in the broadcasting supplied by subscription. On October 6, 2016 Tuves' shareholders accepted Núcleo's proposal for executing the shares purchase option (70% Tuves' total capital), which was approved by the *Comisión Nacional de Telecomunicaciones* (CONATEL) on April 21, 2017.

Núcleo's Network and Equipment

In December, 2015 Núcleo decided not to participate in the auction of the license for the supply of mobile telephone services, Internet access and data transmission in the 1,700/2,100 MHz (4G - LTE) frequency bands in the Republic of Paraguay, because it assessed more convenient launching 4G services in its available 1,900 MHz frequency bands where it has vacancy. As a result, during 2016 Núcleo implemented an aggressive investment plan for the deployment of the new technology, thus enhancing its LTE capacity and coverage in Paraguay. As of December 31, 2016, 610 LTE Nodes that provide coverage to 67 locations throughout Paraguay were installed.

In addition, Núcleo has continued its *Dream 2* project for the modernization of the access network after the swap or replacement of 180 sites in the mobile network. Additionally, Núcleo has expanded and improved the quality and capacity of its network, setting into operation 118 new cell sites in Paraguay (an increase of 12% of the total amount of its mobile network) in order to absorb the data traffic growth. Also, as part of the *Dream 2* project, the expansion

of the Packet Core PS (Packet Switch) was carried out

With respect to growing its transport network, Núcleo expanded its coverage of FFTH Gigabit-capable Passive Optical Network (GPON) network, aimed at providing Internet access services to the corporate segment.

Moreover, Núcleo has successfully completed the exchange process across the DWDM network replacing the existing hardware and, thus, successfully obtaining equipment with increased capacity and processing speeds that are able to support the demand for increased data traffic.

In addition, in order to strengthen the use of data through 4G technology, Núcleo promoted the selling of 4G smartphones to post-paid customers.

Competition

Fixed Services

Basic Telephony and International Long-Distance Services. Before November 1999, Telecom Argentina held an exclusive license to provide Basic Telephone Services to the Northern Region. The Argentine telecommunications market has been open to full competition since November 2000. As of the date of this Annual Report, the main licensees providing local and/or fixed long-distance telephone

Table of Contents

service are Telmex, AMX Argentina (commercially known as Claro), Level 3 Argentina (commercially known as Level 3 Communication formerly Global Crossing), IPlan, Telecentro, Telefónica (principally in the Southern Region) and Telecom Argentina (principally in the Northern Region). Telefónica has the dominant market share for provision of telecommunications service in the Southern Region. Accordingly, if economic conditions in Argentina improve and competitors increase their presence in the Northern Region, Telecom Argentina expects that it will face additional pressure on the prices it charges for its services and experience limited loss in market share in the Northern Region.

Internet and Data Services. We face nationwide competition in the Internet service market in Argentina from Telefónica, Gigared, Cablevisión (Fibertel) and Telecentro (providing a triple-play offer), among others. Our data services business faces competition from Telefónica, AMX Argentina (commercially known as Claro), and from several providers of niche data services such as Level 3 Argentina, IPlan and others.

Mobile Telecommunications Services

Mobile Telecommunications Services in Argentina. The mobile telecommunications market in Argentina has been open to competition since 1993 and was expanded to include PCS services in 1999. In addition, GSM technology has created intense competition for subscribers among the various service providers, including giving rise to severe pricing pressure, significant handset subsidies and increased sales incentives provided to dealers. The introduction of 3G technology since May 2008 and of 4G technology since 2014 has allowed operators to focus competition on Value Added Services.

Currently, there are three operators providing nationwide mobile telecommunications services. These three operators are Personal, Telefónica Móviles Argentina and América Móvil. Nextel competes on a limited level, offering trunking telephony services in Buenos Aires and selected cities in the interior, in addition to offering mobile telecommunication services in those cities.

América Móvil, operating in Argentina under the trade name Claro (formerly CTI), is the country's largest mobile operators in terms of number of subscribers and has provided STM cellular services in the Northern and Southern Regions outside of the AMBA since 1994 through the 850 MHz band (25 MHz in each region). Claro also holds a non-expiring license of 40 MHz license for its PCS services in the AMBA and a 20 MHz license for PCS in each of the Northern and Southern Regions. In addition, as a result of the Spectrum Public Auction, Claro was awarded the 15 year-term PCS frequency bands 1,867.5-1,870 MHz and 1,947.5-1,950 MHz for the Southern Region, 1,892.5- 1,895 MHz and 1,972.5-1,975 MHz for the Northern Region and 1,870-1,875 MHz and 1,950-1,955 MHz for the AMBA and SCMA frequency bands 1,720-1,730 MHz and 2,120-2,130 MHz, while the SCMA 723-738 MHz and 778-793 MHz have been awarded in 2015.

Telefónica Móviles, operating in Argentina under the trade name Movistar, is another of the largest mobile operators in Argentina in terms of number of subscribers. Movistar is the result of Telefónica's merger of Unifón and Movicom in 2005. Movistar operates in the AMBA through the non-expiring license of 850 MHz band with a total of 30 MHz, and a total of 20 MHz for PCS. It also holds a total of 50 MHz for its PCS licenses for the Northern Region, and a total of 25 MHz for its PCS license in the Southern Region. This Southern Region is Unifón's original service area, where it also holds a 25 MHz license for STM. In addition, as a result of the Spectrum Public Auction, Movistar was awarded the 15 year-term SCMA frequency bands 1,710-1,720 MHz, 2,110-2,120 MHz, while the 703-713 MHz and 758-768 MHz have been awarded in 2015.

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Meanwhile Personal holds a non-expiring license to provide mobile telephony services (STM) in the Northern Region of Argentina holding 25MHz in 850MHz frequency bands, and licenses to provide data transmission and VAS throughout the country, as well as registration for national and international long-distance services. In addition, Personal holds non-expiring licenses to provide mobile radio communication services (SRMC), holding 12,5MHz in 850MHz frequency bands in AMBA, and non-expiring licenses to provide PCS services nationwide. To provide PCS Personal holds 30MHz in 1900 frequency band in the AMBA, 20 MHz in the Northern Region, and 40 MHz in the Southern Region.

As a result of the Spectrum Public Auction, Personal was awarded additional frequency bands 830,25-834 MHz and 875,25-879 MHz for SRMC in AMBA (7,5MHz), and PCS frequency bands in 1890-1892,5 MHz and 1970-1972,5 MHz in the Northern Region (5 MHz) and 1862,5-1867,5 MHz and 1942,5-1947,5 MHz in the Southern Region (10MHz). Personal was also awarded 30 MHz for SCMA in 1730-1745 MHz and 2130-2145 MHz frequency bands, and the SCMA bands 713-723 MHz and

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

768-778 MHz have been awarded in 2015. All these frequencies were awarded for the term of 15 years. According with Decree No. 1,340/16 the term of authorizations for the use of all frequencies that make up Lot 8 for the provision of SCMA, as well as the corresponding deployment obligations, shall be computed since the effective migration of services currently operating in these bands in the scope of Area II, defined according to the provisions of Decree No. 1,461/93 and its amendments.

Nextel Argentina provides trunking telephony and other telecommunications services in Buenos Aires and cities in the provinces of Argentina. Nextel Argentina's service currently focuses on business subscribers in the main cities of Argentina.

On March 7, 2017, through Resolution No. 1,299-E/17 ENACOM approved the Refarming Project with financial compensation and shared use of frequencies (the Project) to Nextel Communications Argentina SRL (Nextel), to provide the SCMA (according with ENACOM Resolution No. 171/17), granting this company the registration for the provision of such service, and authorizing it to use frequencies in 900 MHz band and 2.6 GHz, and subject to certain conditions, the use of 700 MHz band for the provision of SCMA. The contract establishing the conditions of the Project has not been approved, nor published by ENACOM as of the date of this Annual Report.

Prior to the provision of the SCMA, Nextel should return the radioelectric spectrum in the localities and areas stated in the Project and should constitute a guarantee in favor of the ENACOM at its satisfaction, under the terms, conditions, goals, commitments and other matters related to the provision of SCMA. See Regulatory and Legal Framework Regulatory Framework New Developments for fiscal year 2016.

On May 5, 2016, the Ministry of Communications issued Resolution No. 38/16 approving the new Regulation of Virtual Mobile Operators (VMO), thus allowing the entrance of new competitors.

The acquisition and retention of high-value customers continues to be a key factor to Personal's strategy, which is focused on maintaining customer's consumption through the launch of new products and services that enable retention of existing customers.

Further, see Regulatory and Legal Framework Regulatory Framework Licenses granted as of December 31, 2016 below for additional details on Personal's license.

Mobile Telecommunications Services in Paraguay. Currently, there are four participants in the mobile telecommunications services market in Paraguay. As of December 31, 2016, Núcleo's major competitor was Tigo (a Millicom International Cellular subsidiary). The operators provide services through 2G, 3G and 4G technology. The Paraguayan market is highly competitive, where Tigo holds a great portion of the market (more than 65% of market share, in terms of revenues). In addition, in August 2012, Tigo acquired the major TV cable operator -which in turn held a portion of the 2,600 MHz band available for 4G services-, thus widening its business and strengthening its position in the industry. In 2015, the governmental authorities called for an auction for the awarding of additional frequency bands to provide 4G services throughout Paraguay, but after assessing the auction's terms and conditions, Núcleo decided not to participate in the auction process. As a result of the auction Claro and Tigo were awarded with 30 MHz in the 1,700/2,100 MHz frequency bands.

Table of Contents

REGULATORY AND LEGAL FRAMEWORK

REGULATORY FRAMEWORK

Regulatory Authority

Telecom Argentina and its domestic subsidiaries are regulated by a set of rules and regulations that comprise the regulatory framework of the telecommunication sector in Argentina.

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

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

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

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

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

The Board of ENACOM is composed of a Chairman and three directors appointed by the PEN, as well as three directors appointed by the Bicameral Commission of Audiovisual Communication and ICT services. **The quorum is met with the attendance of four members.**

No special eligibility conditions are established to be a member of the Board; the only limitation is the non-existence of incompatibilities, under the terms of Law No. 25,188 (Public Ethic). The ENACOM members can be removed directly and without cause by the PEN.

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

Regulatory framework of the services provided by Telecom Argentina and its subsidiaries

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

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

Table of Contents

- The Customer Regulation of Mobile Communication Services and the SBT approved by SC Resolutions No. 490/97 and 10,059, respectively;
- A set of rules that state the payment of fees for the control, oversight and verification as well as the payment of radioelectric fees and rights;
- Regulations governing the CPP system;
- The Number portability regulation for the mobile services;

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

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

Licenses granted as of December 31, 2016

To Telecom Argentina

As of December 31, 2016, Telecom Argentina has been granted the following non-expiring licenses to provide the following services in Argentina:

- Local fixed telephony;

- Public telephony;
- Domestic and international long-distance telephony;
- Domestic and international point-to-point link services;
- Domestic and international telex services;
- VAS, data transmission, videoconferencing and transportation of audio and video signals; and
- Internet access.

To Telecom Argentina s subsidiaries

As of December 31, 2016, Telecom Argentina s subsidiaries have been granted the following licenses:

- Personal has been granted a non-expiring license to provide mobile telecommunication services (STM) in the Northern Region of Argentina and data transmission and Value Added Services throughout the country. In addition, Personal owns licenses to provide mobile radio communication services (SRMC) in the AMBA area, as well as a non-expiring license to provide PCS services throughout the country, and it is registered to provide national and international long-distance telephone services. Additionally, from November 2014 Personal has been granted a license to provide Mobile Advanced Communications Services (SCMA) for 15 years. According with Decree No. 1,340/16 the term of authorizations for the use of all frequencies that make up Lot 8 for the provision of SCMA, as well as the corresponding deployment obligations, shall be computed since the effective migration of services currently operating in these bands in the scope of Area II, defined according to the provisions of Decree No. 1,461/93 and its amendments. (See Spectrum below).
- Núcleo, a company controlled by Personal, has been granted a license to provide mobile telecommunication services (STM and PCS) throughout Paraguay. In addition, Núcleo has been granted a license for the installation and provision of Internet and Data throughout Paraguay. All these licenses have been granted for renewable five-year periods.
- Personal Envíos, a company controlled by Núcleo, was authorized by the Central Bank of

Table of Contents

Paraguay to operate as an Electronic Payment Company (EMPE) through Resolution No. 6 issued on March 30, 2015, and its corporate purpose is restricted to such service.

Events of revocation of the Licenses

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

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

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

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

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

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

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

- repeated or persistent breaches of obligations related to quality indicators of services provided under the terms of the Regulation for the Quality of Telecommunications Services approved by SC Resolution No. 5/13 (See SC Resolution No. 5/13 below);
- repeated or persistent failure of infrastructure sharing obligations and the conditions set for automatic roaming agreements established in the Terms and Conditions;
- repeated or persistent failure of the coverage obligations set in Annex III of the Terms and Conditions;

- assignment, transfer, encumbrance, lease or sale to third parties of the authorization for the use of the awarded bands, without authorization of the Regulatory Authority.

Núcleo s licenses are revocable mainly in the case of:

- repeated interruptions of the services;

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

- any voluntary insolvency proceedings or bankruptcy of Núcleo; and
- non-compliance with certain service obligations.

According to the Resolution No. 6/14 of the Central Bank of Paraguay, Personal Envíos license to provide Electronic Payment services may be revoked by:

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

Law No. 27,078 Argentine Digital Law

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

- a) the recognition as an essential and strategic public service of ICT as regards the use and access to the telecommunications networks, for and between licensees of ICT services (subsequently repealed by Article 22 of Decree No. 267/15);
- b) the rule on prices and rates establishing that the licensees of ICT services shall set their prices which shall have to be fair and reasonable, cover the exploitation costs and tend to the efficient supply and reasonable operation margin;
- c) the exemptions of taxes, establishing that tax exemptions or reductions, prices and encumbrances of ICT in general and in telecommunications in particular may be set on a precarious basis when the nature of certain activities so warrant;

- d) the amendments as regards Universal Service (See Universal Service Regulation below);
- e) the asymmetric regulation as universalization tools towards the development of an effective competition; and
- f) a maximum period for granting each authorization or use of frequencies of the radioelectric spectrum must be established (section 28 *in fine*).

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

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

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

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

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

According to the LAD provisions, the SBT holds its status of public service (section 54), but with a

Table of Contents

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

The LAD introduced substantial changes to the SU regulation established by Decree No. 558/08. Among its provisions the LAD creates a new SU Fund and provides that the investment contributions for the SU programs shall be managed through this fund, which assets, belong to the Federal Government (See Universal Service Regulation below).

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

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

Decree No. 267/15 Amendments to the LAD

On January 4, 2016, Decree No. 267/15 was issued, amending Law No. 26,522 (Audiovisual Communication Services) and Law No. 27,078 (LAD). As mentioned above, ENACOM was created as the Regulatory Authority applicable of these laws. However, many of its provisions were subsequently amended by Decree No. 1,340/16.

The main amendments to the LAD consist of:

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

Broadcasting supplied by subscription licenses (such as Cable TV) issued before the application of Decree No. 267/15 will be considered for all purposes as in compliance with LAD upon the respective registration for such service provision. Furthermore, the Decree states a 10 years extension from January 1, 2016, for the use of frequency spectrum to radio electric link provided by subscription license holders.

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

Decree No.267/15 replaced the LAD's article No. 94, and states that SBT suppliers, fixed telephony license holders within the scope of Decree No.264/98, and mobile telecommunication license holders within the scope of Decree No.1,461/93 are prohibited from providing Broadcasting under subscription services (defined as any form of communication, primarily one-way, for the transmission of signals to be received by a determinable public, either by physical or by radio connection, for example, video cable and IP TV services) until January 1, 2018 (this term can be extended by 1 additional year). Also, the Decree replaces article 95 of the LAD and provides several obligations for fixed telephony licensees granted by Decree No.264/98 and mobile services providers with licenses granted by Decree No.1,461/93, which choose to provide broadcasting under subscription services. This provision was subsequently amended by Decree No. 1,340/16.

In addition, shareholders of a 10% or more interest in companies that provide public services may not be holders of a Subscription Radio Record. However, this will not apply in the following cases: (i) non-profit companies to whom the national, provincial or municipal State has granted the license,

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

concession or permission to provide a public service (such as telecommunications cooperatives); (ii) those mentioned in section 94 (including the Company and Personal) who will be only able to provide the service after the expiration of the period specified therein.

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

- Section 28 of Decree No. 267/15 created, in the field of the Ministry of Communications, the Commission for the Elaboration of the Draft Law for the Reform, Updating and Unification of Laws No. 26,522 and 27,078 (Comisión para la Elaboración del Proyecto de Ley de Reforma, Actualización y Unificación de las Leyes N° 26,522 y 27,078). The Commission is responsible for the study of the reform of both laws under the principles set out herein.

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

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

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

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

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

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

Company's filings to Regulatory Authority

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

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

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

relevant effects on Telecom Argentina's ability to finance the technological updating of its networks and infrastructure, which would finally result in the provision of better services to its customers.

Telecom Argentina has not received any answer related to the filing made before the SC.

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

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

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

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

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

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

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

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

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

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

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

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

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

As of the date of issuance of this Annual Report, ENACOM has not rejected the disclaimer presented by Personal.

Table of Contents

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

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

Among the most relevant provisions, it establishes:

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

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

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

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

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

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

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

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

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

- That within 180 days of the Decree enforcement, the Ministry of Communications will establish the necessary guidelines for the creation of the Public Protection, Defense and Security

Table of Contents

Operations Network (Red de Protección Pública y Operaciones de Socorro, Defensa y Seguridad) under the terms of section 12 of Law No. 27,208 to secure suitable communications for public safety agencies.

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

a) Until the interconnection prices determination systems provided by the National Interconnection Regulation are implemented, averages of regional Latin America prices shall be considered for similar functions and facilities, corrected by parameters which comply with the conditions of the sector, as determined by the Authority of Application;

b) In accordance with section 46 of Law No. 27,078, the National Interconnection Regulation shall provide asymmetric interconnection rates for mobile services for a 3 years period from the effective service implementation, extendable for a maximum of 18 months.

c) The National Interconnection Regulation shall provide rules concerning the automatic national roaming service, forcing mobile services providers, for a maximum period of 3 years, to make such service available to other providers in areas where they do not have their own network coverage.

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

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

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

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

Universal Service Regulation

Decree No. 764/00

Law No. 27,078 states that Decree No. 764/00 and its amendments shall remain in full force to the extent that the provisions of such Decree do not conflict with the law until the Regulatory Bodies have drawn up the regulations concerning the Licensing Framework for ICT Services.

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

On June 8, 2007, the SC issued Resolution No. 80/07 which stipulated that until the SU Fund was effectively implemented, telecommunication service providers, such as Telecom Argentina and Personal, were required to deposit any contributions accrued since the issuance of such Resolution into a special individual account held in their name at Banco de la Nación Argentina. CNC Resolution No. 2,713/07, issued in August 2007, established how these contributions are to be calculated.

Table of Contents

SU Regulation established by Decree No. 558/08

Decree No. 558/08, published on April 4, 2008, introduced certain changes to the SU Fund regime, replacing the Annex III of the Decree No. 764/00. Decree No. 558/08 established that the SC would assess the value of service providers' direct program contributions in compliance with obligations promulgated by Decree No. 764/00. It would also determine the level of funding required in the SU Fund for programs pending implementation. In the same manner, in order to guarantee the continuity of certain projects, the SC was given the choice to consider as SU contributions certain other undertakings made by telecommunication services providers and compensate providers for these undertakings.

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

It also established that the SC would review SU programs which were established under the previous regulation, guaranteeing the continuity of those already being administered and implementing those that had been under review. The financing of SU ongoing programs which were recognized as such were determined by the SC, whereas telecommunications providers appointed to participate in future SU Programs were selected by competitive auction.

The Decree required Telecom Argentina and Telefónica to extend the coverage of their fixed line networks, within their respective original region of activity, within 60 months from the effective date of publication of the Decree.

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

Providers of telecommunications services should rely on the advice of a Technical Committee made up of seven members (two members should be appointed by the SC, one member should be appointed by the CNC, three members should be appointed by the telecommunication services providers—two of which should be appointed by Telecom Argentina and Telefónica and one by the rest of the providers—and another member had to be appointed by independent local operators). This Technical Committee was informed by the SC of the programs to be financed and was responsible for managing and controlling the SU Fund, carrying out technical-economic evaluations of existing projects and supervising the process of competitive auction and adjudication of new SU programs, with the prior approval by the SC.

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

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

On April 4, 2009, by means of SC Resolution No. 88/09, the SC created a program denominated Telephony and Internet for towns without provision of Basic Telephone Services that will be subsidized with funds from the SU Fund. The program sought to provide local telephony, domestic long-distance, international long-distance and Internet in towns that did not provide basic telephone services. The proposed projects approved by the SC would be sent to the Technical Committee of the SU Fund so that availability of funds can be evaluated and they can be included in an auction process provided for in Decree No. 558/08.

On December 1, 2010, the SC issued Resolutions No. 147/10 and 148/10, approving Internet for educational institutions and Internet for public libraries programs, respectively. These programs aimed to reclaim the Broadband service to state-run educational institutions and public libraries, respectively, and were implemented through the use of the SU Fund resources. Telecom Argentina was awarded with the Internet for educational institutions program and is finishing the last project facilities, reaching 1,540 schools. This program represents a billing to the SU Fund of approximately P\$5 million per year for a period of 5 years. On the other hand, the auction Internet for public libraries program was cancelled by the Regulatory Authority for its redefinition. During 2012, the auction Telephony and Internet for towns without provision of Basic Telephone Service took place according

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

to Resolution No. 88/09, which involved the service provision in 430 locations. Personal presented its offer to the auction. As of the date of this Annual Report, the auction is pending of definition.

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

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

Amendments of the LAD to the SU Regulation

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

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

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

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

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

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

As of the date of this Annual Report, Personal has not received any response to its filings.

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

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

In accordance with ENACOM Resolution No. 6,981-E/16 issued on October 19, 2016, the FFSU

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

and the FFSU Investment Contribution Settlement and Interest Report forms were approved and are in force since January 1, 2017, being operationally implemented since March 2017. The new affidavit form does not contemplate any item for the deductions regarding programs provided by Telecom Argentina in the play mode of the SU. Telecom Argentina and Personal made an administrative recourse to the Regulatory Authority exposing the need to introduce amendments to the forms in order to continue deducting the SU services that both companies are providing. At the time Resolution No. 6,981-E/16 had come into force, Telecom Argentina and Personal filed the respective affidavits including a special caption for the deductions corresponding to the play mode.

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

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

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

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

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

As of the date of this Annual Report, there are still pending administrative appeals filed by Telecom Argentina in 2012 against several resolutions that rendered ineffective deductions in the SU payments with reference to several programs provided by Telecom Argentina in the play mode of the SU. The magnitudes of the deductions challenged by the Regulatory Authority are disclosed below in SU Fund in Telecom Argentina, transforming the asset position of Telecom Argentina (P\$2,423 million) into a potential liability position. As a reference Telecom Argentina potential obligation of the SU for the period July 2007 to December 2016 represents approximately P\$628 million, which should be reduced by the periods for which statute of limitations is applicable. However, the Company's Management, with the assistance of its legal advisors, considers that has solid fact and legal arguments to defend the criteria that Telecom Argentina has held and holds with regard to the SU scheme.

SU Fund in Telecom Argentina

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

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

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

Telecom Argentina was notified of SC Resolutions No. 53, 54, 59, 60, 61, 62, 69 and 70/12,

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

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

Telecom Argentina's Management, with the advice of its legal counsel, has filed appeals against SC Resolutions Nos. 53, 54, 59, 60, 61, 62, 69 and 70 presenting the legal arguments based on which such resolutions should be revoked. The deductions that were objected by the SC Resolutions amount to approximately P\$880 million and are included in the credit balance mentioned in the second paragraph. As of the date of issuance of this Annual Report the resolution of this appeal is still pending.

On September 13, 2012, the CNC required Telecom Argentina to deposit approximately P\$208 million. Telecom Argentina has filed a recourse refusing the CNC's request on the grounds that appeals against the SC Resolutions are still pending of resolution. As of the date of this Annual Report, although it cannot be assured that these issues will be favorably resolved at the administrative stage, Telecom Argentina's Management, with the assistance of its legal advisors, considers that it has solid legal and de facto arguments to support the position of Telecom Argentina.

SU Fund in Personal

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

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

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

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

On April 9, 2014 Personal filed an amended proposal for the project within the scope of resolution No. 9/11, pursuant to the SC's request. This new filing consists only of additional detailed information about the project's scope. As of the date of this Annual Report the Project is pending

of approval.

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

Personal has filed an administrative action against SC Resolution No. 50/12 requesting its nullity. As of the date of this Annual Report, this matter is still pending.

On October 1, 2012, responding to an SC's requirement, Personal deposited under protest

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

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

It cannot be assured that this issue would be favorably resolved in the administrative stage, or, later at a judicial stage.

Spectrum*SC Resolution No. 38/14*

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

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

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

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

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

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

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

The full awarding of Lot No. 8 became essential for compliance with the commitments foreseen in the Auction Terms and Conditions. Once the awarding process was completed, Personal had access to SCMA Frequency Bands 713-723/768-778.

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

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

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

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

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

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

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

According to the provisions of Decree No. 1,340/16, the term of the authorizations for the use of frequencies of the SCMA, as well as the corresponding deployment obligations, will be computed from the actual migration of the services currently operating in these bands in Area II (AMBA).

New Developments for fiscal year 2016

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

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

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

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

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

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

- Instructs ENACOM to analyze the technical feasibility and implement the allocation to the mobile service, with primary status, of the 450-470 MHz, 698-960 MHz and 2,300-2,400 MHz frequency

Table of Contents

bands. All of the above is to be used in the provision of SCMA or any other arising from technological developments.

- Provides the preventive suspension of the reception of awarding procedures in 1,427-1,518 and 3,300-3,600 MHz frequency bands.
- Modifies the spectrum cap, setting it in 140 MHz per provider for each area and/or operating location. For such purposes, the spectrum assigned to each company, its subsidiaries or controlling shareholders, directly or indirectly, or subject to common control or those holding more than 30% of the shares of another company, will be considered if, with such equity interest, holds a position of substantial influence in the decisions of such company. Any other subject or body may be included in the calculation of the spectrum awarded to any other subject or entity assigned to that spectrum when it is understood that any contractual linkage has been entered into to circumvent this limit.
- Instructs ENACOM to modify the National Scheme of Attribution of Radio Spectrum Bands (Cuadro Nacional de Atribución de Bandas del Espectro Radioeléctrico - ER) for the purpose of making available for MCS providers frequency bands suitable to that end.
- From the publication of the new bandwidth table and its respective channels, MCS providers will have a maximum of 15 working days to request their express assignment. Such allocations shall be made on equal terms and conditions as those required from other providers of similar service in the same band. This provision is complemented by section 9 of Resolution No. 1,034-E/17.
- The regulatory authority is delegated to ENACOM, who will provide the necessary complementary or explanatory rules for a better application of these provisions.

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

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

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

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

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

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

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

- Description of the bands
- Area of coverage and affected localities
- Population

Table of Contents

- Bandwidth
- 15-year customer estimate and associated Investment Plan

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

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

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

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

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

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

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

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

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

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

- 900 MHz Band = 0.1841 (US\$/MHz/inhabitant)
- 2,600 MHz Band = 0.0423 (US\$/MHz/inhabitant)

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

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

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

- Discounts:

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

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

- Weighting Factors:

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

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

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

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

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

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

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

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

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

SC Resolution No. 5/13 Telecommunication service quality regulation

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

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

Pursuant to the provisions of CNC Resolution No. 3,797/13, Telecom Argentina and Personal have submitted their respective Technical Reports (detailed technical specifications of the

Table of Contents

measurement process) and have made their submissions providing the required information pursuant to the provisions of SC Resolution No. 5/13.

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

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

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

Regulation of Virtual Mobile Operators

SC Resolution No. 68/14, published in the Official Gazette on October 28, 2014, approved the Regulation of Virtual Mobile Operators (VMO) and the Basic Requirements for VMO Agreements. Among its provisions, the Resolution states that the Network Mobile Operators (NMO) that have spectrum and infrastructure, shall annually file a reference offer for those interested in providing services as VMO, in which they will set forth the technical and economic conditions, which shall be reasonable and non-discriminatory.

The Resolution also provides the modalities and procedures for the provision of such services. According to article 2 of the Annex of the Resolution, the Regulation is applicable to SCMA.

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

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

benefits and services to be provided.

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

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

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

definitively resolved all the claims filed by the users of such band.

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

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

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

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

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

In addition, the ENACOM shall perform measurements of non-ionizing radiations in order to control that these remain within non-harmful levels to human health, and the Administration Agency for State Property (Agencia de Administración de Bienes del Estado - AABE) shall in its role as governing Body of the state property policy, perform procedures and administrative acts and relevant contracts to grant the use for valuable consideration of terraces, roofs, towers, solar and/or any installation, plant or property sector of the State that are suitable for the installation of supporting structures of antennas, equipment and installations associated with telecommunications, information technologies and

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communications and/or audiovisual communication services. The AABE will make available for the licensees of such services and for independent companies sharing passive infrastructure, the listing of state properties potentially suitable for such facilities.

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

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

granted if it is a sharing independent company of passive infrastructure, and the above conditions are met.

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

As of the date of this Annual Report, the issuance of the rules regulating the above mentioned provisions is still pending.

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

Tax Stability principle: impact of variations in social security contributions

On March 23, 2007, the SC issued Resolution No. 41/07 relating to the impact of variations in social security contributions occurring after November 8, 1990 and the proposed use for the resulting savings and increases in contribution rates that have occurred.

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

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

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

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As of December 31, 2016, Telecom Argentina has a net receivable of P\$34 million which, in addition to the receivable of P\$23 million corresponding to the *Impuesto a los Débitos y Créditos bancarios* (IDC) as explained below, is included in under the item Other receivables in our Consolidated Financial Statements.

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

Tax on deposits to and withdrawals from bank accounts charged to customers

On February 6, 2003, the Ministry of Economy and Public Finance, through Resolution No.72/03, defined the method to allow, going forward, rate increases on Basic Telephone Services reflecting the impact of the IDC. The amount of tax charged must be shown separately in customers bills. Telecom Argentina has determined the existence of a remaining unrecovered amount of approximately P\$23 million that arose before the issuance of Resolution No.72/03.

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

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

Dollarization and pesification of rates

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

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

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

Rates pesification: regulated public services rates freezing

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

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

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

Other Regulations

Buy Argentine Act

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

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

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

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

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

Relating to services acquisitions, Decree No.1,600/02 refers to Law No. 18,875, which provides the obligation to hire only companies, consultants and domestic professionals, as defined in the mentioned Law. Any exceptions must be approved by the competent Ministry.

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

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

Regulation Draft for Mobile Communication Service Subscribers

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

Amendment Draft to the Number Portability Regulation

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

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Document on Consultation on Interconnection and ICT Services Network Access

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

Recently through SECTIC Resolution No. 2-E/17 published on March 13, 2017, the ICT Secretary declared the opening of the Public Consultation Document Procedure related to the project for the interconnection and access regime. The submission of opinions and proposals deadline expires on April 27, 2017.

Document on Consultation on ICT Network Service Quality

Through SECTIC Resolution No. 3-E/17 published on March 13, 2017, the ICT Secretary declared the opening of the procedure provided by the General Regulation of Public Hearings and Consultation Documents for ICT Services in relation to the document Consultation on ICT Network Service Quality. On April 12, 2017, Telecom Argentina and Personal submitted to the ICT Secretary its opinions and proposals for the published consultation.

Identification of Users of the Mobile Communications Service

Through Resolution No. 6-E/16, issued on November 10, 2016, the Ministry of Security and MINCOM, decided jointly to instruct ENACOM to adopt, within a period of 15 days, the necessary

Table of Contents

measures to identify all Mobile Communications Service users of the country in a Mobile Communications Service Identity Record.

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

Consultation on ICT Services Licenses Regulation Document

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

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

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

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

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

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

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

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

LEGAL FRAMEWORK

Law No. 27,260 of Historical Reparation for Retirees and Pensioners Reparación Histórica para Jubilados y Pensionados

On July 22, 2016, Law No. 27,260 was published in the Official Gazette Historical Reparation for Retirees and Pensioners, where article 35 revokes Law No. 27,181. Article 30 of Law No. 27,260 establishes the prohibition for the transfer of national corporations shares authorized by the CNV to public offer which integrate the FGS, if as a consequence of such a transfer, ownership of such securities by the FGS is less than 7% of the total assets of the FGS, without prior express authorization of the National Congress, setting the following exceptions to this provision: 1. Public offers addressed to all holders of such assets and at an equitable price authorized by the CNV, in accordance with chapters II, III and IV of Title III of Law No. 26,831. 2. Stock swap for other stock of

Table of Contents

the same or another company in the context of a merger, division or corporate reorganization processes.

Decree No. 894/16: corporate, political, and economic rights in charge of the ANSES

Decree No 1,278/12 established that the Secretary of Economic Policy and Development Planning of the Ministry of Economy and Public Finances was in charge of the implementation of policies and actions related to the performance of the corporate rights on equity interest of companies where the State is a minority partner, and to this end, it approved a Regulation of representatives and directors appointed by the shares or equity interest of the National State.

On July 28, 2016 Decree No. 894/16 was published, which modifies Decree No. 1,278/12, establishing that in those companies whose shares integrate the investment portfolio of the FGS, the corporate, political, and economic rights pertaining to such shares shall not be exercised by the Secretary of Economic Policy and Development Planning, but they are to be exercised by the ANSES.

In addition, Decree No. 894/16 established that the Directors appointed by the ANSES shall have the functions, duties and powers set out by the General Companies Law No. 19,550, the Law of Capital Market No. 26,831 and its complementary and regulatory provisions, all the applicable regulations to the company in which they perform duties, their bylaws and internal regulations, and shall have all the responsibilities they might be liable for under these rules; the provisions of Decrees no. 1,278/12 and 196/15 (the latter in respect of delimitation of responsibility) are not applicable.

Elimination of Income Tax on dividend payment

Law No. 26,893 and Decree No. 2,334/13 set out that dividends and profits, in money or in kind, except in shares or stock, distributed by companies and other entities incorporated in the country made available as of September 23, 2013, were subject to 10% retention, with the exception of dividends received by companies and other local entities which remained non-computable for tax purposes.

Law No. 27,260 repealed the above provision, reason why, as of July 23, 2016, all dividends and profits, in money or in kind, distributed by companies and other entities incorporated in the country (as it is the case for the Company), whoever the beneficiary, are not reached by the aforementioned retention.

Modification to Law No. 24,240 Consumer Protection

On August 17, 2016, Law No. 27,265 was published in the Official Gazette (in force as from August 29, 2016) that incorporates an amendment to Law No. 24,240 of Consumer Protection. This addition (in article 10 quater) establishes the prohibition of collections of advance notice, advance month payment and/or any other concept on the part of the providers of services, including the public utilities, upon the consumer s

request for cancellation of the service in any way, either in person, on the telephone, electronic or similar-shaped . In this sense, as from the last quarter of 2016, the Company abides by this regulation in cases where applicable.

DISCLOSURE PURSUANT TO SECTION 219 OF THE IRAN THREAT REDUCTION AND SYRIA HUMAN RIGHTS ACT OF 2012 (ITRSHRA)

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act. Section 13(r) requires an issuer to disclose in its annual or quarterly reports filed with the SEC whether the issuer or any of its affiliates has knowingly engaged in certain activities, transactions or dealings with the government of Iran, relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the annual or quarterly report. Disclosure is required even when the activities were conducted outside the United States by non-U.S. entities and even when such activities were conducted in compliance with applicable law.

In accordance with our Code of Ethics and Business Conduct, we seek to comply with all applicable laws.

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

Activities relating to Iran

Telecom Group

We have, to our knowledge, two activities relating to Iran: (i) our roaming agreement (mobile services) with Mobile Company of Iran (MCI) (formerly TCI), which allow our mobile customers to use their mobile device on a network outside their subscriber's home network (see Glossary of Terms *Roaming*) and (ii) our international telecommunications services agreements with international carriers (fixed services), which cover delivery of traffic to Iran through non-Iranian carriers.

i. Roaming agreements (mobile services)

Like all major mobile networks, in response to the competition and customers' demands, Personal has entered into roaming agreements with many foreign mobile networks, including MCI, to allow their customers to make and receive calls abroad.

Roaming agreements are entered into using standard terms and conditions including the one relating to Iran. Entering into roaming agreements is an activity carried out in the ordinary course of business by a mobile network operator.

Roaming agreements are generally reciprocal. Pursuant to a roaming agreement, when our mobile customers are in a foreign country covered by the network of an operator with which we have a roaming agreement (the *Foreign Operator*), our mobile customers may make and receive calls on their mobile phone using the *Foreign Operator's* network. Likewise, the *Foreign Operator's* customers may make and receive calls using our networks when these customers are in Argentina.

The *Foreign Operator* bills us for the calls made and received by our roaming customers at the rate agreed upon in the applicable roaming agreement. We then bill these customers according to the specific roaming fees in their subscription agreement. Likewise, we bill the *Foreign Operator* for the calls made and received by its clients using our networks for those calls, at the roaming rate agreed upon in the applicable roaming agreement, and then the *Foreign Operator* bills its clients according to their customer agreements. Roaming agreements do not, generally, contemplate other fees or disbursements.

In 2016, the consolidated impact on net profit (loss) arising from our roaming agreements with MCI was as follows:

- our total revenues under roaming agreements with MCI were approximately P\$1.1 thousand.

- our total charges paid under roaming agreements with MCI were approximately P\$1.8 thousand.

These revenues and charges are immaterial to our consolidated revenues and operating expenses. Because we do not separately allocate costs directly attributable to the service provision or other overhead costs to these transactions, the amount of our consolidated net profits earned under these agreements is not determinable, but it does not exceed our gross revenues from the agreements.

Also, as of December 31, 2016, the amount for receivables for these concepts pending to collect were approximately P\$0.4 thousand.

The purpose of our roaming agreements is to provide our customers with coverage in areas where we do not own networks. For that purpose, we intend to continue maintaining our roaming agreements.

ii. *Commercial Agreements with International Carriers (fixed services):*

We maintain commercial agreements with international carriers from countries other than Iran, which permit those carriers to deliver traffic from Iran to our networks and from our networks to Iran. Telecom Argentina and Telecom USA's total charges paid under commercial agreements with international carriers regarding delivery of traffic to Iran were approximately P\$6,784 thousand.

Regarding incoming traffic, Telecom Argentina and Telecom USA charge the relevant international carrier for their traffic terminated in Telecom's network. Consequently, Telecom Argentina and Telecom USA do not know the country of origin of such traffic.

Telecom Italia Group

We are also required to disclose our affiliates' activities relating to Iran as of December 31, 2016. On March 8, 2016, Telecom Italia ceased to be our affiliate. Telecom Italia has included Iran-related

Table of Contents

disclosure in its annual report on Form 20-F for year ended December 31, 2016, which was filed with the SEC on April 12, 2017.

Activities relating to Syria and Sudan

In addition to the mandatory disclosure regarding the activities related to Iran described above, below we describe our activities that directly or indirectly relate to Syria and Sudan (designated by the U.S. Department of State as state sponsors of terrorism and are subject to U.S. economic sanctions and export controls) (Designated Countries):

i. Roaming agreements (mobile services)

Operators of mobile telecommunications networks, including Telecom Personal and Núcleo, enter into roaming agreements with other operators of mobile telecommunications networks in the ordinary course of business. See Activities relating to Iran Telecom Group for a description of roaming agreements.

We maintain roaming agreements with MTN Sudan Co. Ltd, in Sudan and MTN Syria (formerly Spacetel) in Syria. The purpose of all of these roaming agreements is to provide our customers with coverage in areas where we do not own networks. In order to remain competitive and maintain such coverage, we intend to continue maintaining these agreements.

As of December 31, 2016, the approximate revenues, expenses, receivables and payables from roaming agreements with the Designated Countries were as follows:

| Roaming agreements (mobile services) | Revenues | December 31, 2016 | | Payables |
|---|-------------|---------------------|-------------|---------------|
| | | Expenses | Receivables | |
| | | In thousands of P\$ | | |
| Syria | 0.31 | 6.53 | | 8.81 |
| Sudan | | 0.03 | | 0.16 |
| Total | 0.31 | 6.55 | | 8.98 |
| <i>% of respective consolidated total amounts</i> | <i>(a)</i> | <i>(a)</i> | | <i>0.006%</i> |

(a) Less than 0.001%.

ii. Commercial Agreements with International Carriers (fixed services):

We also maintain commercial agreements with international carriers from countries other than the Designated Countries which permit those carriers to deliver traffic from the Designated Countries to our networks and from our networks to such countries.

Regarding outgoing traffic, during 2016, Telecom has sent traffic to the Designated Countries mainly through Verizon Communications Inc. (United States) and Telekom Malaysia (Malaysia).

As of December 31, 2016, the total approximate expense for delivery of traffic terminated in the Designated Countries was:

| Commercial Agreements with International Carriers (fixed services) | December 31, 2016 In thousands of P\$ |
|---|--|
| Syria | 22.1 |
| Sudan | (a) |
| Total outbound costs | 22.1 |
| <i>% of consolidated operating expenses</i> | <i>(b)</i> |

(a) Less than P\$ 0.5 thousand.

(b) Less than 0.001%.

Regarding incoming traffic, Telecom Argentina and Telecom USA charge the relevant international carrier for their traffic terminated in Telecom's network. Consequently, Telecom Argentina and Telecom USA do not know the country of origin of such traffic.

Accordingly, our total payables and receivables from international carriers include those balances arising from traffic related with the Designated Countries but it is not possible to segregate them.

The outbound costs described in the table above are wholly immaterial with respect to the Company's consolidated operating expenses for the period presented.

Table of Contents**CAPITAL EXPENDITURES**

Capital expenditures (investment in Property, Plant and Equipment PP&E and Intangible Assets) amounted to P\$11,386 million in the year ended December 31, 2016, P\$10,100 million in the year ended December 31, 2015, and P\$8,957 million in the year ended December 31, 2014.

The following table sets forth our Total Additions (Capital Expenditures plus Materials) for the years ended December 31, 2016, 2015 and 2014, amounting to P\$11,860 million, P\$11,162 million and P\$9,547 million, respectively.

| | 2016 | Year ended December 31, 2015 (P\$ million)(1) | 2014 |
|--|---------------|---|--------------|
| Land and buildings | 372 | 238 | 159 |
| Switching and transmission | 2,134 | 1,870 | 1,234 |
| Equipment and infrastructure for special projects | 50 | 11 | 13 |
| Access and outside plant | 4,936 | 2,475 | 1,808 |
| Computer equipment and software | 1,397 | 1,251 | 707 |
| Other | 743 | 551 | 383 |
| Subtotal tangible capital expenditures (2) | 9,632 | 6,396 | 4,304 |
| Rights of use, exclusivity agreements and licenses | 32 | 2,304 | 3,541 |
| Service connection or habilitation costs | 41 | 36 | 30 |
| Subscribers acquisition costs | 1,681 | 1,364 | 1,082 |
| Subtotal intangible capital expenditures | 1,754 | 3,704 | 4,653 |
| Total capital expenditures | 11,386 | 10,100 | 8,957 |
| Materials (3) | 474 | 1,062 | 590 |
| Total additions in PP&E and intangible assets | 11,860 | 11,162 | 9,547 |

(1) The allocation of work in progress among items is estimated.

(2) Includes materials transferred amounting to P\$3,173 million, P\$1,888 million and P\$656 million as of December 31, 2016, 2015 and 2014, respectively.

(3) Each year increase is calculated as the net amount between additions and transfers to work in progress during the year.

In addition, the following table shows capital expenditures for the years ended December 31, 2016, 2015 and 2014 broken down by Fixed Services and Mobile Services:

| | 2016 | Year ended December 31, 2015 (P\$ million) | 2014 |
|----------------------------|-------|--|------|
| Fixed Services | | | |
| Land and buildings | 248 | 177 | 120 |
| Switching and transmission | 1,013 | 820 | 516 |

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| | | | |
|--|--------------|--------------|--------------|
| Equipment and infrastructure for special projects | 50 | 11 | 13 |
| Outside plant | 1,722 | 1,011 | 981 |
| Computer equipment and software | 397 | 510 | 276 |
| Other | 390 | 317 | 206 |
| Subtotal tangible capital expenditures | 3,820 | 2,846 | 2,112 |
| Rights of use, exclusivity agreements and licenses | 19 | 39 | 9 |
| Service connection or habilitation costs | 41 | 36 | 30 |
| Subscribers acquisition costs | 137 | 158 | 126 |
| Subtotal intangible capital expenditures | 197 | 233 | 165 |
| Total Fixed Services capital expenditures | 4,017 | 3,079 | 2,277 |

| | 2016 | Year ended December 31, 2015 | 2014 |
|---|---------------|---------------------------------|--------------|
| Personal Mobile Services and Núcleo Mobile Services | | | |
| Land and buildings | 124 | 61 | 39 |
| Switching and transmission | 1,121 | 1,050 | 718 |
| Mobile network access | 3,214 | 1,464 | 827 |
| Computer equipment and software | 1,000 | 741 | 431 |
| Other | 353 | 234 | 177 |
| Subtotal tangible capital expenditures | 5,812 | 3,550 | 2,192 |
| Rights of use, exclusivity agreements and licenses | 13 | 2,265 | 3,532 |
| Subscribers acquisition costs | 1,544 | 1,206 | 956 |
| Subtotal intangible capital expenditures | 1,557 | 3,471 | 4,488 |
| Total Personal Mobile Services and Núcleo Mobile Services capital expenditures (1) | 7,369 | 7,021 | 6,680 |
| Total capital expenditures | 11,386 | 10,100 | 8,957 |

(1) Includes P\$639 million, P\$469 million and P\$357 million of capital expenditures in Paraguay as of December 31, 2016, 2015 and 2014, respectively

Table of Contents

In the Personal Mobile Services segment, the capital expenditures were mainly oriented towards the deployment of the 4G technology and the extension of the coverage and capacity of our network in numerous cities across Argentina. The objectives were reached mainly through new sites, together with replacement plans and the upgrade of the current network. At the same time, new investments were made in connection with the swap of the Core Platform.

In the Fixed Services segment, specifically in the access area, the investment in deployment of new technologies continued to provide higher bandwidth to customers, mainly over Gigabit-capable Passive Optical Network (GPON) technology whose deployment began massively.

Following the strategy of previous years, in the transportation area, investments were made on the deployment of interurban trunk optical fiber, the increase in the capacity and security of the DWDM (Dense Wavelength Division Multiplexing) Centurión network, the capacity increase of the Backbone IP and the addition of new POPs of content.

Also, investments continued on the installation of equipment for the Metro Ethernet network and the evolution of the capacity and capillarity of regional transportation, especially on the Packet Transport Network. In both business segments, major investments were made on IT projects.

We estimate that our capital expenditures for the year 2017 will be approximately 20% of consolidated revenues. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures.

We expect to finance these expenditures through cash flows generated by our operations and financing provided by third parties.

PROPERTY, PLANT AND EQUIPMENT

As detailed below, our principal physical properties consist of transmission equipment, access facilities, outside plant (external wiring) and switching equipment. These properties are, at present, mainly located throughout the AMBA and Northern Region. We believe that these assets are, and for the foreseeable future will be, adequate and suitable for their respective uses.

| | As of December 31, 2016 | | |
|---|-------------------------|--|--------|
| | Fixed Services | Personal Mobile Services and Núcleo Mobile Services (P\$ million)(*) | Total |
| Land and buildings | 1,208 | 302 | 1,510 |
| Switching and transmission | 3,197 | 3,272 | 6,469 |
| Access and outside plant | 5,220 | 5,024 | 10,244 |
| Equipment & infrastructure for Special Projects | 217 | | 217 |
| Computer equipment and software | 864 | 1,875 | 2,739 |

| | | As of December 31, 2016 | |
|---|----------------|--|---------------------|
| | | Personal Mobile Services and Núcleo Mobile Services (P\$ million)(*) | Total |
| | Fixed Services | | |
| Materials | 514 | 765 | 1,279 |
| Others | 248 | 459 | 707 |
| Total PP&E, net carrying value | 11,468 | (**) 11,697 | (***) 23,165 |

(*) The allocation of work in progress among items is estimated.

(**) Includes P\$2,156 million located in Paraguay.

(***) Net of valuation allowance for materials for P\$68 million and impairment of PP&E for P\$282 million.

All of the above-mentioned assets were used to provide service to our customers as described below.

| | 2016 | 2015 (thousands) | 2014 |
|-----------------------------|--------|---------------------|--------|
| Fixed lines in service | 3,920 | 4,043 | 4,093 |
| Fixed Internet access lines | 1,738 | 1,814 | 1,771 |
| Mobile subscribers(*) | 22,052 | 22,202 | 22,066 |

(*) In 2016, 2015 and 2014, includes 2,538, 2,546 and 2,481 thousand Núcleo mobile subscribers, respectively, of which 5, 6 and 5 thousand were Internet (Wi-Max) customers, respectively.

Table of Contents

As of December 31, 2016, we have entered into purchase commitments relating to PP&E totaling P\$2,866 million primarily for switching equipment, external wiring, network infrastructure, inventory and other goods and services. In general, the contracts are financed, directly or indirectly, by domestic and foreign vendors.

Our current major suppliers of PP&E are Huawei Tech Investment Co. Ltd. Argentina, Huawei International PTE. LTD (Singapore), Italtel Argentina S.A. (Argentina), Cía. Ericson S.A.C.I. (Argentina), Sofrecom Argentina S.A. (Argentina), Alcatel Lucent de Argentina S.A. (Argentina), Alcatel Lucent International (France), Nokia Solution and Networks (Argentina) and Vlocity UK Limited (United Kingdom).

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

PART I - ITEM 4 INFORMATION ON THE COMPANY

TELECOM ARGENTINA S.A.

Table of Contents

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion in conjunction with our Consolidated Financial Statements, including the notes to those financial statements, which appear elsewhere in this Annual Report. Our Consolidated Financial Statements have been prepared in accordance with IFRS. See Item 3 Key Information Selected Financial Data. The following discussion and analysis are presented by the Management of our company and provide a view of our financial condition, operating performance and prospects from Management's perspective. The strategies and expectations referred to in this discussion are considered forward-looking statements and may be strongly influenced or changed by shifts in market conditions, new initiatives that we implement and other factors. Since much of this discussion is forward-looking, you are urged to review carefully the factors referenced elsewhere in this Annual Report that may have a significant influence on the outcome of such forward-looking statements. We cannot provide assurance that the strategies and expectations referred to in this discussion will come to fruition. Forward-looking statements are based on current plans, estimates and projections, and therefore, you should not rely solely on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statements in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. Please refer to Forward-Looking Statements and Item 3 Key Information Risk Factors for descriptions of some of the factors relevant to this discussion and other forward-looking statements in this Annual Report.

Management Overview

Telecom is considered one of the leading companies in the Argentine telecommunications sector. The Telecom Group continued focusing on business growth, especially through the deployment of 4G/LTE technology. This deployment allowed us to provide higher speeds of Internet access, improving the mobile customers' experience, particularly access to Multimedia content. In the fixed services segment we continued to satisfy the demand of higher bandwidth through the deployment of new technologies in the access and transport network.

As of December 31, 2016, the Telecom Group had 22.0 million mobile subscribers (of which 2.5 million came from our subsidiary Núcleo), 3.9 million fixed lines in service and 1.7 million fixed Internet Accesses (equivalent to 44% of fixed lines in service).

To promote the expansion of business, our capital expenditures amounted to P\$11,386 million in 2016, equivalent to 21% of consolidated revenues. Investments made by the Telecom Group and the estimated capital expenditures for 2017 are clear evidence of our commitment to our customers.

The following discussion and analysis summarizes relevant measures of results of operations presenting items by nature. The Company believes that the presentation of the measure operating income before depreciation and amortization provides investors and financial analysts with appropriate information that is relevant to understanding the Company's past and present performance as well as our projections of future performance. Moreover, operating income before depreciation and amortization is one of the key performance measures used by Management for monitoring the Company's profitability and financial position, at each of the segments and consolidated levels.

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Continuing the trend of prior years, revenues in 2016 grew by 31% compared to 2015, reaching P\$53,240 million, and grew by 21% in 2015 compared to 2014, reaching P\$40,496 million. Operating income before depreciation and amortization in 2016 increased by P\$3,558 million as compared to 2015, reaching P\$14,424 million (equivalent to 27% of total revenues), while in 2015 it increased by P\$2,164 million as compared to 2014, reaching P\$10,866 million (equivalent to 27% of total revenues). Operating income increased by P\$1,614 million in 2016 as compared to 2015, reaching P\$7,843 million (equivalent to 15% of total revenues) while in 2015 it increased by P\$786 million as compared to 2014, reaching P\$6,229 million (equivalent to 15% of total revenues). Net income increased by P\$570 million in 2016 as compared to 2015, reaching P\$4,005 million (equivalent to 8% of total revenues), while it decreased by P\$294 million in 2015 as compared to 2014, reaching P\$3,435 million (equivalent to 8% of total revenues). Net income attributable to Telecom Argentina increased by P\$572 million in 2016 as compared to 2015, reaching P\$3,975 million, while it decreased by P\$270 million in 2015 as compared to 2014, reaching P\$3,403 million.

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents

For a discussion of the factors that may affect our results of operations see Item 3 Key Information Risk Factors and Years ended December 31, 2016, 2015 and 2014 Factors Affecting Results of Operations and Trend Information below.

For a detailed analysis of our results of operations for fiscal year 2016, see Years ended December 31, 2016, 2015 and 2014 below.

Economic and Political Developments in Argentina

In the second half of 2001 and through the first half of 2002, Argentina experienced a deep economic recession together with an overwhelming financial and political crisis. The rapid and radical nature of changes in the Argentine social, political, economic and legal environment created a very unstable macroeconomic environment. In January 2002, the Argentine government abandoned the convertibility regime which had fixed the peso/U.S. dollar exchange rate at 1:1 and adopted emergency economic measures which converted and froze the rates for the voice-regulated services in the Fixed Services segment into pesos at a 1:1 peso/U.S. dollar ratio (referred to herein as Pesification), among other measures. Capital outflows increased sharply, leading to a massive devaluation of the peso and an upsurge in inflation. By the end of 2002, the peso had devalued by 237% (having devalued 280% as of June 30, 2002) while the wholesale price index increased 118% and the consumer price index increased 41%.

After the above mentioned crisis, the Argentine economy began a new period of rapid growth. Argentina's GDP increased for six consecutive years, from 2003 to 2008. However, the international financial crisis of 2008 affected the country, which recorded a significant fall in its economic activity of 5.9%, interrupting the growth period mentioned above. Throughout 2010 and 2011, the economy showed a rapid and strong recovery, growing at an annual rate of 10.1% and 6.0%, respectively, but in 2012 a slowdown affected the economy and growth was again affected, decreasing by 1.0%. In 2013, better economic conditions helped to increase by 2.4% the country's economic activity, but a new slowdown was recorded during 2014 as a new decrease of 2.5% in economic activity was recorded. Finally, growth resumed during 2015 at a moderate rate of 2.6%. As of the date of this Annual Report and according to figures published by INDEC, Argentina recorded a fall in its GDP of 2.3% during 2016.

Inflation continued to be the main concern for the economy. According to official statistics reported by the INDEC, the consumer price index rose 9.5% in 2011, 10.8% in 2012 and 10.9% in 2013. Since January 2014, a new consumer price index is being published aimed at improving the accuracy of the macroeconomic statistics. In 2014, the new consumer price index (IPCNU) showed an increase of 23.9%. In addition, the INDEC estimates that the Argentine wholesale price index increased by 12.7% in 2011, 13.1% in 2012, 14.8% in 2013 and 28.3% in 2014.

On January 8, 2016, the current administration issued Decree No. 55/2016 declaring a state of administrative emergency with respect to the national statistical system and the INDEC until December 31, 2016. During this state of emergency, the INDEC has suspended publication of certain statistical data (regarding prices, poverty, unemployment and GDP) until it completes a reorganization of its technical and administrative structure capable of producing sufficient and reliable statistical information. As of the date of this Annual Report, INDEC had resumed publication of the aforementioned statistical data, although for some indicators, it has not yet disclosed or provided reestimated figures for certain time periods. Under these circumstances

the INDEC has recommended the use of alternative indexes published by San Luis Province and by the Autonomous City of Buenos Aires, which are an integral part of the National Statistic System, until a new index in compliance with international standards is produced. The national CPI and the national wholesale Price index published by the INDEC for the period January-October 2015 was 11.9% and 10.6%, respectively. Additionally, CPI published by the San Luis Province and by the Autonomous City of Buenos Aires for the period November-December 2015 were 9.5% and 6.0%, respectively.

INDEC resumed publication of the wholesale price index the entirety of 2016, which increased by 34.6% based on a year-to-year comparison. According to the latest available data, as INDEC has not disclosed figures for November and December 2015. In turn, the publication of the IPCNu index was resumed in June 2016 disclosing May 2016 monthly inflation figures, while data for the months of January to April of 2016 remains unavailable. Taking this into account, IPCNu index variation from May to December 2016 was 16.9%. Meanwhile, consumer price measures for Buenos Aires City and San Luis Province registered a 41.0% and 31.4% increase during 2016, respectively.

Table of Contents

For further detail regarding Argentine economic conditions see Item 3 Key Information Risk Factors Risks Relating to Argentina Inflation could accelerate, causing adverse effects on the economy and negatively impacting Telecom's margins.

Economic activity closed 2016 with a contraction that became deeper during the second and third quarter of the year. The telecommunications sector was also affected by this context. The global economy evidenced mixed results, with U.S. economic activity slowing down slightly in comparison with economic activity in 2015, and Eurozone countries grew at steady levels, with a less favorable outlook after Brexit results. In turn, emerging economies such as China and Brazil have significantly reduced their expansion rates, thus impacting Argentine exports and external competitiveness. Overall household consumption in Argentina registered a decrease during 2016, after being affected by important increases in prices and tariffs that in turn affected real household income.

During the period between 2005 and 2007, the peso remained relatively stable against the U.S. dollar, with US\$1.00 trading within a range of P\$2.86 to P\$3.16. However, the international financial crisis created uncertainty that affected the Argentine exchange rate, as reflected by a peso/dollar exchange rate increase of 9.5% and 10.1% per year in 2008 and 2009, respectively. The peso/dollar exchange rate was relatively stable in 2010 and 2011, ending 2010 at P\$3.98 per US\$1.00 and 2011 at P\$4.30 per US\$1.00, increasing 4.7% and 8.0%, respectively. In 2012, 2013 and 2014, the pace of peso devaluation accelerated to 14.4%, 32.5% and 31.1%, respectively; and the official exchange rate ended the year at a P\$8.55 per US\$1.00. In December 2015, the current administration lifted many of the restrictions to access the FX Markets and the multiple exchange rate system was unified into a floating rate regime. As a consequence, a significant depreciation of the peso occurred, with the exchange rate at P\$13.04 per US\$ 1.00, an increase of 52.5% by the end of 2015. In addition, on April 21, 2016 the BCRA published Communication A 5955, whereby the limits for access to the MULC for payments of foreign accounts payable related to goods and services were eliminated, establishing that starting on the following day access to the market for such payments is unlimited, subject to compliance with the foreign exchange norms in force. As of December 31, 2016, the exchange rate was P\$15.89 = US\$1.00, while on April 24, 2017, the exchange rate was P\$ 15.39= US\$1.00.

As the substantial majority of our property and operations are located in Argentina, macroeconomic and political conditions will continue to affect us. The Argentine government has exercised and continues to exercise significant influence over many aspects of the Argentine economy. Accordingly, Argentine governmental actions concerning the economy could significantly affect private sector entities in general and our operations in particular, as well as affect market conditions, prices and returns on Argentine securities, including ours. While our business continued growing in 2016, our operating results, financial condition and cash flows remain vulnerable to fluctuations in the Argentine economy. See Item 3 Key Information Risk Factors Risks Relating to Argentina.

Critical Accounting Policies

Our Consolidated Financial Statements, prepared in accordance with IFRS, are dependent upon and sensitive to accounting methods, assumptions and estimates that we use as a basis for its preparation. We have identified critical accounting estimates and related assumptions and uncertainties inherent in our accounting policies (that are fully described in Note 3 to our Consolidated Financial Statements), which we believe are essential to an understanding of the underlying financial reporting risks. Additionally we have identified the effect that these accounting estimates, assumptions and uncertainties have on our Consolidated Financial Statements.

Use of estimates

IFRS involves the use of assumptions and estimates that may significantly affect the reported amounts of assets, liabilities and results of operations and any accompanying financial information.

Management considers financial projections in the preparation of the financial statements as further described below. These financial projections anticipate scenarios deemed both likely and conservative based upon macroeconomic, financial and industry-specific assumptions. However, actual results may differ significantly from such estimates.

Variations in the assumptions regarding exchange rates, rates of inflation, level of economic activity and consumption, creditworthiness of our current and potential customers, aggressiveness of our current or potential competitors and technological, legal or regulatory changes could also result in

Table of Contents

significant differences from financial projections used by us for valuation and disclosure of items under IFRS.

The most important accounting estimates, those which require a high degree of subjective assumptions and judgments, are the following:

Revenue recognition

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Telecom Group and their amount can be measured reliably. Revenues are stated net of estimated discounts and returns.

Revenues from upfront connection fees for fixed, data and Internet services that are non-separable from the service are accounted for as a single transaction and deferred over the term of the contract or, in the case of indefinite period contracts, over the average period of the customer relationship (approximately eight years for the fixed telephony customers). Therefore, these revenues are influenced by the estimated expected duration of customer relationships for indefinite period contracts.

Revenues are also subject to estimations of the traffic measures. Unbilled revenues from the billing cycle dating to the end of each month are calculated based on the traffic and are accrued at the end of the month. In addition, revenues from unexpired prepaid recharges made by customers are recognized on the basis of the services used, at the contract price per service.

Changes in these estimations, if any, may require adjustments to recorded revenues.

PP&E and intangible assets

Useful lives and residual value

We record PP&E and intangible assets at acquisition or construction cost. PP&E and intangible assets, except for indefinite useful life intangibles, are depreciated or amortized on a straight-line basis over their estimated useful lives. The determination of the depreciable amount of the assets and their useful lives involves significant judgment. We periodically review, at least at each financial year-end, the estimated useful lives of PP&E and amortizable intangible assets.

Recoverability assessment of PP&E and intangible assets with finite useful life

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At a minimum at every annual closing date, we assess whether events or changes in circumstances indicate that PP&E and amortizable intangible assets may be impaired.

Under IFRS, the carrying value of a long-lived asset is considered impaired by the Company when the recoverable amount of such asset is lower than its carrying value. In such event, a loss would be recognized based on the amount by which the carrying value exceeds the recoverable amount of the long-lived asset. The recoverable amount is the higher of the fair value (less costs to sell) and its value in use (present value of the future cash flows expected to be derived from the asset, group of assets or cash generating unit). Once an impairment loss is identified and recognized, future reversal of impairment loss is permitted only if the indicators of the impairment no longer exist or have decreased.

The identification of impairment indicators and the estimate of the value in use for assets (or groups of assets or cash generating units) require Management to make significant judgments concerning the validation of impairment indicators, expected cash flows and applicable discount rates. Estimated cash flows are based on significant assumptions by Management about the key factors that could affect future business performance such as the future market share, competition level, capital expenditures, salary increases, foreign exchange rates evolution, capital structure, capital cost, etc.

For the years presented, we estimated that there are no indicators of impairment of assets that are subject to amortization, except for the net impairment loss of certain assets amounting to P\$383 million, P\$230 million and P\$25 million in 2016, 2015 and 2014, respectively. See Note 3.k) to our Consolidated Financial Statements.

However, changes in our current expectations and operating assumptions, including changes in our business strategy, technology, competition, changes in market conditions or regulations, could significantly impact these judgments and could require future adjustments to the carrying amount of recorded assets.

Table of Contents

Intangible assets with indefinite useful life PCS license

We determined that Personal's PCS license met the definition of an indefinite-lived intangible asset for the years presented. Therefore, Personal does not amortize the cost of this license. However, Personal tests it annually for impairment. An impairment loss is recognized when the carrying amount exceeds the recoverable amount. The recoverability assessment of an indefinite-lived intangible asset such as the PCS license requires our Management to make assumptions about the future cash flows expected to be derived from such asset.

Such estimated cash flows are based on significant assumptions by Management about the key factors that could affect future business performance such as the future market share, competition level, capital expenditures, salary increases, foreign exchange rates evolution, capital structure, discount rate, etc.

Personal's net cash flows projection is denominated in Argentine pesos, its functional currency. However, due to the fact that there is no prevailing long-term discount rate in pesos available in the market, Personal: (a) has converted such peso-denominated cash flows into U.S. dollars using future estimated exchange rates applicable to each period; and (b) has discounted these U.S. dollar-denominated cash flows at an annual U.S. dollar rate of approximately 11% in order to obtain the recoverable value of intangible assets with indefinite useful life.

Through this evaluation, it was determined that the carrying amount of the PCS license did not exceed the recoverable amount of the asset. As a result, no impairment has been recognized.

Our judgments regarding future cash flows may change due to future market conditions, competition, business strategy, the evolution of technology, changes in regulations and other factors. These changes, if any, may require material adjustments to the carrying amount of the PCS license.

Income Taxes and Recoverability assessment of deferred income tax assets and other tax receivables

We are required to estimate our income taxes (current and deferred) in each of the companies of the Telecom Group according to a reasonable interpretation of the tax law in effect in each jurisdiction where the companies operate. This process may involve complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized for all deductible temporary differences to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets requires estimating future taxable income based on the Company's projections and takes into account conservative tax planning.

The recoverability assessment of the income tax receivable related to Telecom Argentina's actions for recourse filed during 2015 and 2016 regarding the amounts determined in excess due to lack of application of the income tax inflation adjustment, is based on the existing legal jurisprudence on this matter and the estimated future behavior of the National Tax Authority and of the

National court in their review of the actions filed by the Company (see Note 14 to our Consolidated Financial Statements).

If actual results differ from these estimates due to changes in tax authority's interpretations and the new fiscal jurisprudence, or we adjust those estimates in future periods, our financial position, results of operation and cash flows may be materially affected.

The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law as of the end of the reporting period and the effects of future changes in tax laws or rates are not anticipated.

Receivables and payables valued at amortized cost

Receivables and payables valued at amortized cost are initially recorded at their fair value, which is generally determined by using a discounted cash flow valuation method. The fair value under this method is estimated as the present value of all future cash flows discounted using an estimated discount rate, especially for long-term receivables and payables. The estimated discount rate used to determine the discounted cash flow of long-term receivables and payables was an annual rate in pesos of approximately 34% for 2015. The estimated discount rate used to determine the discounted cash flow of long-term receivables in U.S. dollars was an annual rate of 13% for years 2016 and 2015. The discount rate in Guaraníes for loans was 9.42% in 2016 and 2015, and for accounts receivable was 9.8% in 2016 and 2015. The difference between the initial fair value and the nominal amount of

Table of Contents

receivables and payables is recognized as finance income or expense using the effective interest method over the relevant period.

Changes in these estimated discount rates could materially affect our financial position, cash flows and results of operations.

Provisions

We are subject to proceedings, lawsuits and other claims related to labor, civil, tax, regulatory, commercial and other matters. In order to determine the proper level of provisions relating to these contingencies, we assess the likelihood of any adverse judgments or outcomes related to these matters as well as the range of probable losses that may result from the potential outcomes. We consult with internal and external legal counsel on these matters. A determination of the amount of provisions required, if any, is made after careful analysis of each individual issue. Our determination of the required provisions may change in the future due to new developments in each matter, changes in jurisprudential precedents and tribunal decisions or changes in our method of resolving such matters, such as changes in settlement strategy, and, therefore, these changes may materially affect our financial position, cash flows and results of operations.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make the required payments. We base our estimates on the aging of our accounts receivable balances, the requests by customers to unsubscribe, our historical write-offs, public sector and corporate customer creditworthiness and changes in our customer payment terms. If the financial condition of our customers were to deteriorate, the actual write-offs could be higher than expected.

Years ended December 31, 2016, 2015 and 2014

For purposes of these sections, the fiscal years ended December 31, 2016, 2015 and 2014 are referred to as 2016, 2015 and 2014, respectively.

Our results of operations are determined in accordance with IFRS. The Telecom Group provides customers with a broad range of telecommunication services. To fulfill its purpose, the Telecom Group conducts different activities that are distributed among the companies in the Group. Each company represents an operating segment. These operating segments have been aggregated into the following segments according to the nature of the products and services provided and economic characteristics:

| Segment | Company of the Telecom Group/Operating Segment |
|----------------|--|
| Fixed Services | Telecom Argentina Telecom Argentina USA Micro Sistemas (i) |

Personal Mobile Services

Personal

Núcleo Mobile Services

Núcleo

Envíos

-
- (i) Dormant entity during the years ended December 31, 2016, 2015 and 2014.

The main products and services in each segment for the years presented are:

- Fixed Services: local area, national long-distance and international communications, supplementary services (including call waiting, itemized invoicing, voicemail, etc.), interconnection with other operators, data transmission (including private networks, point-to-point traffic, radio and TV signal transportation), Internet services, IT solution Outsourcing and sales of equipment.
- Personal Mobile Services and Núcleo Mobile Services: service offerings include voice communications, high-speed mobile Internet content and applications download, MMS, SMS, among others; and sale of mobile communication devices (handsets, modems mifi and wingles). The services are supported in the different technologies of the mobile network (2G/3G/4G).

Table of Contents

The following table shows a breakdown of our revenues by business segment for the years ended December 31, 2016, 2015 and 2014:

| Segment | 2016 | | 2015 | | 2014 | |
|--------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Revenues (1) (P\$ million) | % of Consolidated Revenues | Revenues (1) (P\$ million) | % of Consolidated Revenues | Revenues (1) (P\$ million) | % of Consolidated Revenues |
| Fixed Services | 15,014 | 28.2 | 10,736 | 26.5 | 8,559 | 25.7 |
| Personal Mobile Services | 35,584 | 66.8 | 28,054 | 69.3 | 23,204 | 69.6 |
| Núcleo Mobile Services | 2,642 | 5.0 | 1,706 | 4.2 | 1,578 | 4.7 |
| TOTAL | 53,240 | 100.0 | 40,496 | 100.0 | 33,341 | 100.0 |

(1) Includes service revenues and equipment sales and the effect of elimination of intersegment transactions.

Management's explanations under (B) Results of Operations by Segment below regarding changes in financial condition and results of operations for years 2016, 2015 and 2014 related to segments of the Company have been provided based on financial information under IFRS as disclosed in Note 28 to our Consolidated Financial Statements.

Factors Affecting Results of Operations

Described below are certain factors that may be helpful in understanding our operating results. These factors are based on the information currently available to our Management and may not represent all of the factors that are relevant to an understanding of our current or future results of operations. See also Item 3 Key Information Risk Factors. Additional information regarding trends expected to influence our results of operations is analyzed below under Trend Information.

Impact of Political and Economic Environment in Argentina: Levels of economic activity affect our customers' consumption of our services, the demand for new mobile and fixed lines and Broadband accesses as well as the levels of uncollectible accounts and disconnections. Demand for our services and the amount of revenues we collect are also affected by inflation, the evolution of consumption in the economy, exchange rate variations and the rate of unemployment, among other factors.

Price of services: The LAD (as amended by Decree No. 267/15), under Title VI - Article 48, established that licensees of ICT services may set their prices which shall be fair and reasonable, to offset the costs of exploitation and to tend to the efficient supply and reasonable margin of operation. However, the Regulatory Authority is entitled to observe the prices set by the Company if it understands that they do not comply with the provisions of Article 48 of the LAD. If prices are observed as imposing restrictions on our prices our operating margins may be negatively affected. Before the LAD came into force, the service prices that Telecom Argentina charged in its fixed telephony service (including both monthly charges and measured service charges), installation charges, public telephone charges and charges for

Internet dial-up traffic (Regulated Services) were subject to regulation.

The impact of the service price adjustments on the Company's results of operations has been particularly relevant in recent years as a result of inflationary pressures on our costs structure.

Competition: The Argentine telecommunications market has become increasingly competitive. Competition is mainly focused on Internet and mobile services. Recently, through ENACOM Resolution No. 1,299/17, Nextel was authorized to provide SCMA resulting in the entrance of a new competitor for these services. To remain competitive, we must devote significant resources to capital expenditures, and trade expenses (including selling commissions). See Item 4 Information on the Company The Business Competition.

Technology Developments and Capital Expenditures: Improvements in technology influence our customers' demand for services and equipment. For example, demand for fixed-line telecommunications services has been affected by continued significant growth in mobile business. Growth in the fixed-services business at present is being driven by the expansion of Broadband for individuals and corporations. The increase in Broadband adoption has also proven to be a critical factor in facilitating the offering of Value Added Services to customers and the bundling of services.

In the fixed-services business, we must invest in our fixed-line network and information technology. Specifically, in Internet services, we must constantly upgrade our Access technology and software, embrace emerging transmission technologies and improve the responsiveness, functionality, coverage and features of our services.

Table of Contents

In the mobile business, to provide its subscribers with new and better services, Personal has to enhance its mobile networks extending 3G and 4G technology and bandwidth for mobile data transmission. Moreover, taking into account the frequencies acquired, Personal must develop a LTE infrastructure expeditiously, according to regulatory requirements and the mobile market development.

In addition, as new technologies develop, equipment may need to be replaced or upgraded, and network facilities (in particular, mobile and Internet network facilities) may need to be rebuilt in whole or in part, at substantial cost, to remain competitive. These enhancements and the implementation of new technologies will continue requiring increased capital expenditures. See Item 4 Information on the Company Capital Expenditures.

Devaluation of the peso: The peso has been subject to significant devaluations in the past and may be subject to fluctuation in the future. In recent years, there was a significant devaluation which amounted to approximately 21.9% in 2016, 52.5% in 2015 and 31.1% in 2014. The majority of our revenues are received in pesos whereas a portion of the costs regarding materials and supplies related to the construction and maintenance of our networks and services are incurred in foreign currencies. Also, the high level of competition limited our ability to transfer to our customers the fluctuations in the exchange rates between the peso and the U.S. dollar and other currencies. In addition, any devaluation of the peso against foreign currencies may increase operating costs and capital expenditures, which will adversely affect our results of operations, considering the net effect on revenues and costs.

Increase in inflation. In the past, Argentina has experienced periods of high inflation. In recent years, inflation levels have been increasing and have remained relatively high. The economic recovery, a higher increase in public spending or a fast devaluation of the Argentine peso could lead to higher inflation. Any increase in inflation levels not accompanied by an increase in the rates we charge our customers could adversely affect our results of operations in nominal and real terms. See Item 3 Key Information Risk Factors Risks relating to Argentina Inflation could accelerate, causing adverse effects on the economy and negatively impacting Telecom s margins.

Our Consolidated Financial Statements and the financial information included elsewhere in this Annual Report have been prepared on a historical basis in accordance with IFRS. However, due to the high level of inflation prevailing in Argentina in the last few years, Management analyzed the conditions established by IAS 29 paragraph 3 to consider an economy as hyperinflationary. It should be mentioned that if the conditions established by IAS 29 to consider an economy as a hyperinflationary are met, the restatement of financial statements must be made retroactively from the date of the revaluation used as deemed cost (in the case of Group companies located in Argentina, since February 2003) or from the acquisition date for assets acquired after that date.

Based on the analysis made as of December 31, 2016, Management considers that the quantitative condition provided in section e) of IAS 29 has been met, while the qualitative conditions of the Argentine economy are mixed (some suggest the existence of a high inflation environment while others have not substantially changed from previous years, when it was concluded that our financial statements should not be restated). Under these circumstances, and in order to be objective, Management gave prominence to the conclusions reached by some international auditing firms that were available to Management, which considered that as of December 31, 2016 there was insufficient evidence to consider the Argentina s economy as hyperinflationary under IAS 29. Similar conclusions were reached under US GAAP by the International Practices Task Force (the IPTF), according to its memorandum issued on November 17, 2016. See Item 3 Key Information Risk factors Risk Factors

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Relating to Argentina Inflation could accelerate, causing adverse effects on the economy and negatively impacting Telecom s margins , Economic and Political Developments in Argentina and Note 1.e) to the Consolidated Financial Statements.

Although we believe that in 2017 inflation rates will be significantly reduced, IAS 29 and the IPTF recommended that Argentine issuers continue monitoring whether the Argentine economy qualifies as highly inflationary. Therefore, given the retroactive nature of the potential financial information restatement that should be applied in the event that Argentine economy be qualified as highly inflationary, under

Additional relevant information on the possible application of IAS 29 in the Telecom Group as of December 31, 2016, 2015 and 2014 we provide an aggregate estimation of IAS 29 application for the amounts reported in accordance with IFRS as of December 31, 2016, 2015 and 2014.

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents

Tax pressures and litigation. Local municipalities in the regions where we operate have introduced regulations and proposed various taxes and fees for the installation of infrastructure, equipment and expansion of fixed-line and mobile networks. Local and federal tax authorities have brought an increasing number of claims against us. We disagree with these proceedings and we are contesting them. Also, jurisprudential changes in labor and pension matters have generated higher claims from employees and former employees and also increased claims from employees of a contractor or subcontractor alleging joint liability. We cannot assure you that the laws and regulations currently governing the economy or the telecommunications industry will not change, that the claims will be resolved in our favor, or that any changes to the existing laws and regulations will not adversely affect our business, financial condition, results of operations and cash flows as well.

(A) Consolidated Results of Operations

In the year ended December 31, 2016, we reported net income of P\$4,005 million, compared to net income of P\$3,435 million for the year ended December 31, 2015, and net income of P\$3,729 million for the year ended December 31, 2014. Net income attributable to Telecom Argentina increased by P\$572 million in 2016 as compared to 2015, reaching P\$3,975 million, while it decreased by P\$270 million in 2015 as compared to 2014, reaching P\$3,403 million, from P\$3,673 million reported in 2014.

Consolidated revenues in 2016 were P\$53,240 million compared to P\$40,496 million in 2015 and P\$33,341 million in 2014. The increase of P\$12,744 million in 2016 (a 31% increase) can be largely attributed to the growth in the Personal and Núcleo Mobile Services segments, including handset revenues and in Internet and Data services included in the Fixed Services segment.

In 2016, operating expenses (including depreciation and amortization and impairment of PP&E) totaled P\$45,480 million, representing an increase of P\$11,169 million, or 33%. In 2015, operating expenses (including depreciation and amortization and gain on disposal of PP&E and impairment of PP&E) totaled P\$34,311 million, representing an increase of P\$6,366 million, or 23% in relation to 2014. The increase in costs in both years is mainly a consequence of higher revenues, higher expenses related to competition in mobile and Internet businesses, higher direct and indirect labor costs on the cost structure of the Telecom Group in Argentina, the increase in fees for services related to higher supplier prices, the increase in taxes and fees with the Regulatory Authority, the increase of VAS costs, the increase in bad debt expenses and higher depreciation and amortization of PP&E and intangible assets. Also, in 2016, the increase is mainly due to higher provisions costs, higher agents commissions, and, in 2015 is also mainly due to an increase in cost of equipment and handsets.

(A.1) 2016 Compared to 2015

| Years Ended December 31, | | Total Change | Change by segment (1) | | |
|-----------------------------|------|--------------|-----------------------|--------------------|------------------|
| 2016 | 2015 | | Fixed Services | Personal Mobile | Núcleo Mobile |

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| | (P\$ million) | | % | (P\$ million) | | Services | Services |
|--|---------------|---------------|-----------|---------------|------------|--------------|-------------|
| Revenues | 53,240 | 40,496 | 31 | 12,744 | 4,278 | 7,530 | 936 |
| Other Income | 83 | 44 | 89 | 39 | 27 | 11 | 1 |
| Operating expenses (without depreciation and amortization) | (38,899) | (29,674) | 31 | (9,225) | (3,637) | (4,933) | (655) |
| Operating income before depreciation and amortization (2) | 14,424 | 10,866 | 33 | 3,558 | 668 | 2,608 | 282 |
| Depreciation and amortization | (6,198) | (4,438) | 40 | (1,760) | (371) | (1,094) | (295) |
| Impairment of PP&E | (383) | (199) | 92 | (184) | 92 | (275) | (1) |
| Operating income | 7,843 | 6,229 | 26 | 1,614 | 389 | 1,239 | (14) |
| Financial results, net | (2,244) | (1,102) | 104 | (1,142) | 35 | (1,213) | 36 |
| Income tax expense | (1,594) | (1,692) | (6) | 98 | 96 | 16 | (14) |
| Net income | 4,005 | 3,435 | 17 | 570 | 520 | 42 | 8 |
| Net income attributable to: | | | | | | | |
| <i>Telecom Argentina (Controlling Company)</i> | 3,975 | 3,403 | 17 | 572 | | | |
| <i>Noncontrolling interest</i> | 30 | 32 | (6) | (2) | | | |

(1) Includes the effect of eliminations of Intersegment transactions.

(2) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview above for a discussion of the use of this measure.

Table of Contents**Revenues**

| | Years Ended December 31, | | Total Change % | | Change by segment (1) | | |
|-------------------------|-----------------------------|---------------|-------------------|---------------|-----------------------|--------------------------------|------------------------------|
| | 2016 | 2015 | | | Fixed Services | Personal Mobile Services | Núcleo Mobile Services |
| | (P\$ million) | | | | | (P\$ million) | |
| Voice | 17,566 | 13,854 | 27 | 3,712 | 1,671 | 1,733 | 308 |
| Data | 9,984 | 9,249 | 8 | 735 | 1,139 | (520) | 116 |
| Internet | 17,804 | 11,377 | 56 | 6,427 | 1,438 | 4,578 | 411 |
| Service Revenues | 45,354 | 34,480 | 32 | 10,874 | 4,248 | 5,791 | 835 |
| Equipment (2) | 7,886 | 6,016 | 31 | 1,870 | 30 | 1,739 | 101 |
| Revenues | 53,240 | 40,496 | 31 | 12,744 | 4,278 | 7,530 | 936 |

- (1) Net of the Intersegment revenues effect.
- (2) This item is composed of voice, data and Internet equipment in each year.

During 2016, total consolidated revenues increased by 31% to P\$53,240 million from P\$40,496 million in 2015, mainly driven by the mobile services provided by Personal and our Broadband and data transmission businesses.

Consolidated revenues for 2016 and 2015 are comprised as follows:

Voice

Revenues from voice services increased 27% to P\$17,566 million in 2016 from P\$13,854 million in 2015. Revenues from voice services represented 33% of our total consolidated revenues for 2016 compared to 34% of our total consolidated revenues for 2015.

Fixed services

Revenues from voice services represented 40% of our total Fixed Services segment revenues attributable to third parties for each of 2016 and 2015.

Voice services mainly include revenues from monthly charges, charges for supplementary services, measured service (national and international calls) and public telephone service. Charges for supplementary services include call waiting, call forwarding, three-way calling, caller ID, direct

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inwards dialing, toll-free service and voicemail, among others. Measured service charges are based on the number and duration of calls. Measured service revenues depend on the number of lines in service, the volume of usage, the number of new lines installed and applicable rates. They also include interconnection services (which primarily include Access, termination and long-distance transport of calls), international long-distance service (which reflect payments made under bilateral agreements between Telecom Argentina and foreign telecommunications carriers covering inbound international long-distance calls) and revenues related to billing and collection services charged to other operators.

Revenues from voice-retail increased 41% to P\$4,654 million.

Monthly charges and supplementary services increased by P\$1,074 million or 76% to P\$2,480 million in 2016 from P\$1,406 million in 2015. Such growth was mainly due to an increase of residential monthly basic charges prices since May 2016 and an increase in the prices of supplementary services.

Measured service charges increased 15% to P\$2,073 million in 2016 from P\$1,800 million in 2015. The increase was mainly due to the increase in plans prices (both in local and national long-distance).

Voice-wholesale revenues (including fixed and mobile interconnection revenues and lease of circuits, together with the revenues generated by the subsidiary Telecom Argentina USA amounting to P\$265 million) amounted to P\$1,356 million in 2016 (31% higher than in 2015). Interconnection services reached P\$845 million in 2016, an increase of P\$156 million, or 23% as compared to 2015. Other wholesale revenues reached P\$511 million in 2016, an increase of P\$165 million, or 48%, as

Table of Contents

compared to 2015. The increase was mainly due to higher prices related to cell sites rentals and lease of circuits due to the variation of the P\$/US\$ exchange rate.

Personal Mobile services

Revenues from voice services represented 30% of our total Personal Mobile Services segment revenues attributable to third parties for 2016 compared to 32% for 2015.

Voice services mainly include revenues from monthly charges, airtime usage charges and roaming charges to our customers for their use of our and other carriers' networks, CPP, TLRD and roaming charges to other mobile service providers whose customers use our network.

Voice-retail revenues reached P\$8,503 million in 2016 (an increase of 22% as compared to 2015). The increase was mainly due to the increase in monthly charges prices for the post-paid and *Abono Fijo* subscribers and prepaid services, net of the variation of the subscriber's base (evidencing an increase of 1.2% and 0.7% of post-paid, *Abono Fijo* subscriber's base, respectively and a decrease of 1.4% of prepaid of subscriber's base as compared to 2015).

Voice-wholesale revenues to third parties reached P\$2,078 million in 2016 (an increase of 10% as compared to 2015). The increase was mainly due to an increase in interconnection prices, partially offset by a decrease in interconnection traffic (mainly TLRD and CPP).

In *Núcleo Mobile Services segment*, voice revenues increased by 46% to P\$975 million in 2016 compared to P\$667 million in 2015, mainly due to the devaluation of the P\$ as compared to the Guaraní.

Data and Internet

Revenues from data and Internet services increased 35% to P\$27,788 million in 2016 from P\$20,626 million in 2015. Revenues from data and Internet represented 52% of our total consolidated revenues in 2016 compared to 51% of our total consolidated revenues in 2015.

In the Mobile Services segments, data and Internet services mainly include SMS, contents via SMS and Internet. Revenues from data and Internet in the Personal Mobile segment increased 30% to P\$17,468 million in 2016 from P\$13,410 million in 2015.

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As a consequence of the increase in VAS consumption (Internet and data), the ARPU increased to P\$112.3 per month in 2016 (as compared to P\$91.5 per month in 2015) in the Personal Mobile Segment.

Data

Revenues from data services in the Fixed segment increased 64% to P\$2,919 million in 2016 from P\$1,780 million in 2015. These revenues were generated by focusing on Telecom Argentina's position as an integrated ICT provider (Datacenter and VPN, among others) for wholesale and government segments. The increase was primarily due to higher prices of these services related to the variation of the P\$/US\$ exchange rate and the increase in the number of customers of *Innovation* services (which generated an increase of P\$812 million as compared to 2015).

Mobile data revenues reached P\$7,065 million in 2016 (a decrease of 5% as compared to 2015). The decrease was due to lower revenues from the principal item of VAS revenues, SMS consumption in Personal Mobile Services Segment, which decreased by 27% from 2015 to 2016. Notwithstanding, this effect was partially offset by a constant increase of the SMS with content sales (where its inter-annual variation amounted to an increase of P\$438 million or 14%).

Internet

Internet revenues in the Fixed segment increased by 32% to P\$5,994 million in 2016 from P\$4,556 million in 2015. The increase was mainly due to an increase in average prices resulting in an improvement in the ARPU, which amounted to P\$270.9 per month in 2016 as compared to P\$207.4 per month in 2015, which was partially offset by a decrease in Broadband service access lines (a decrease of 4% of access lines as compared to 2015). As of December 31, 2016 the number of Internet accesses reached approximately 1.7 million (of which 1,298,000 correspond to an increase of access over 3Mb as compared to 1,010,000 in 2015) equivalent to 44% of fixed lines in service of Telecom Argentina (as compared to 45% in 2015), compared to approximately 1.8 million as of December 31, 2015, as a consequence of a decrease of prepaid customers with no consumption.

Table of Contents

Mobile Internet revenues in the Personal Mobile segment increased 73% to P\$10,832 million in 2016 from P\$6,254 million in 2015. This increase is mainly explained by the increase in browsing services consumption of Personal's subscribers, which was mainly fueled by the increase in the offer of services, plans and packs (including VAS) launched by Personal. This growth was fueled by new subscribers, the migration of existing ones to higher-value plans and the increase in subscribers that acquired 3G and 4G handsets, which facilitate Internet browsing.

Equipment

Revenues from equipment increased by 31% to P\$7,886 million in 2016 from P\$6,016 million in 2015. The Personal Mobile Services segment showed an increase of P\$1,739 million as compared to 2015 due to an increase in handset's average sale price (an increase of 34% as compared to 2015), which was partially offset by a decrease in handset units sold (a decrease of 4% as compared to 2015), resulting in a higher operating margin. Núcleo Mobile Services segment reached an increase of P\$101 million (an increase of 64% as compared to 2015) due to an increase in handset's average sale prices including the effect of the devaluation of P\$ against Guaraníes (an increase of 78% as compared to 2015), partially offset by a decrease in handset units sold (a decrease of 8% as compared to 2015).

Other Income

Other income mainly includes penalties and indemnities collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided and gains on disposal of PP&E since 2016. During 2016, other income increased by 89% to P\$83 million from P\$44 million in 2015, mainly due to an increase in penalties and indemnities collected from suppliers.

Operating expenses (without depreciation and amortization)

Total operating expenses (without depreciation and amortization and impairment of PP&E) increased by P\$9,225 million totaling P\$38,899 million in 2016, representing a 31% increase as compared to 2015.

| | Years Ended December 31, | | Total Change % | Fixed Services | Change by segment (1) | | |
|--|-----------------------------|-------|-------------------|-------------------|--------------------------------|------------------------------|----|
| | 2016 (P\$ million) | 2015 | | | Personal Mobile Services | Núcleo Mobile Services | |
| Employee benefit expenses and severance payments | 9,800 | 7,253 | 35 | 2,547 | 1,952 | 525 | 70 |
| Interconnection costs and other telecommunications charges | 2,553 | 2,170 | 18 | 383 | 235 | 110 | 38 |

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| | | | | | | | |
|---|---------------|---------------|-----------|--------------|--------------|--------------|------------|
| Fees for services, maintenance, materials and supplies | 5,006 | 3,919 | 28 | 1,087 | 532 | 478 | 77 |
| Taxes and fees with the Regulatory Authority | 5,125 | 3,943 | 30 | 1,182 | 300 | 854 | 28 |
| Commissions | 3,849 | 3,193 | 21 | 656 | 59 | 501 | 96 |
| Cost of equipment and handsets | 6,188 | 4,595 | 35 | 1,593 | 54 | 1,421 | 118 |
| Advertising | 874 | 814 | 7 | 60 | 18 | 16 | 26 |
| Cost of VAS | 1,499 | 1,256 | 19 | 243 | 15 | 193 | 35 |
| Provisions | 187 | 113 | 65 | 74 | 61 | 13 | |
| Bad debt expense | 1,228 | 564 | 118 | 664 | 73 | 489 | 102 |
| Other operating expense | 2,590 | 1,854 | 40 | 736 | 338 | 333 | 65 |
| Total operating expenses (without depreciation and amortization) | 38,899 | 29,674 | 31 | 9,225 | 3,637 | 4,933 | 655 |

(1) Net of the Intersegment transactions effect.

Employee benefit expenses and severance payments

During 2016, employee benefit expenses and severance payments were P\$9,800 million, representing a 35% increase from 2015. This was primarily due to salary increases that Telecom implemented across all segments with several trade unions with respect to the unionized employees and also to non-unionized employees, together with related social security charges.

Table of Contents

With a total headcount of 15,970 at the end of 2016 (a decrease of 2% as compared to 2015), lines in service per employee reached 360 in the Fixed Services segment (a decrease of 3% as compared to 2015), 4,187 customers by employee in the Personal mobile services segment (an increase of 5% as compared to 2015) and 6,317 customers by employee in the Núcleo mobile services segment (an increase of 1.5% as compared to 2015).

Interconnection costs and other telecommunications charges

Interconnection costs and other telecommunication charges (including charges for TLRD, Roaming, cost of international outbound calls and lease of circuits) amounted to P\$2,553 million in 2016 as compared to P\$2,170 million in 2015. The increase was mainly due to an increase in international outbound calls and Roaming traffic, and higher TLRD costs.

Fees for services, maintenance, materials and supplies

Expenses related to fees for services, maintenance, materials and supplies increased by 28% to P\$5,006 million in 2016 from P\$3,919 million in 2015. Maintenance, material and supplies costs increased 48% as compared to 2015 (including obsolescence of inventories) and fees for services increased 11% as compared to 2015. The increase was mainly due to higher maintenance costs of radio bases in the mobile services segments, as a result of the variation in the P\$/US\$ exchange rate, an increase in corrective and preventive technical assistance cost of radio bases, higher system licenses costs, higher costs of sites location and higher storage costs. There were also increases in other maintenance costs and fees for services, mainly due to higher costs recognized by suppliers in all segments.

Taxes and fees with the Regulatory Authority

Taxes and fees with the Regulatory Authority (including turnover tax, tax on deposits and withdrawals from bank accounts, municipal and other taxes) increased by 30% to P\$5,125 million in 2016 from P\$3,943 million in 2015, mainly influenced by the increase in revenues of fixed and mobile services in Argentina and higher taxes on deposits and withdrawals from bank accounts related to higher collections and payments to suppliers.

Commissions

Commissions (including agent, distribution of prepaid cards and other commissions) increased by 21% to P\$3,849 million in 2016 from P\$3,193 million in 2015. The increase was mainly due to the increase in agents' commissions (associated with higher revenues) as a result of higher customer's acquisition and retention costs recognized and an increase in outsourced sales commissions and collection commissions.

Commissions are net of agents' commissions capitalized as Subscriber acquisition cost (SAC), which totaled P\$1,403 million in 2016 (an increase of P\$231 million or 20% as compared to 2015), and it is directly related to the gross increase of new customers in the *Abono Fijo* subscribers' base, mainly in the Personal Mobile Services segment, and the increase in the commissions prices.

Cost of equipment and handsets

During 2016, the cost of equipment and handsets increased to P\$6,188 million from P\$4,595 million in 2015, mainly due to an increase in the average unit cost of sales (an increase of 39% as compared to 2015) which was partially offset by a decrease in the units of handsets sold (a decrease of 4% as compared to 2015) in the Personal Mobile Services segment.

Cost of equipment and handsets are net of handset costs capitalized as SAC, which amounts to P\$130 million in 2016, P\$37 million, or 40% higher than in 2015.

Advertising

Costs related to advertising increased by P\$60 million, or 7%, to P\$874 million in 2016, mainly due to an increase in media campaigns of Personal related to the launch of 4G services throughout the country.

Cost of VAS

Cost of VAS amounted to P\$1,499 million in 2016 (an increase of P\$243 million as compared to 2015), mainly due to the increase of VAS sales in the Personal Mobile Services segment (mainly the Contents via SMS service) as a consequence of several campaigns launched by Personal.

Table of Contents

Provisions

During 2016, we recorded P\$187 million in provisions compared to P\$113 million recorded in 2015, representing a 65% increase. The increase was mainly due to higher labor and regulatory claims, which were partially offset by lower civil and commercial claims. See Note 17 to our Consolidated Financial Statements for more information.

Bad debt expenses

In 2016, bad debt expense amounted to P\$1,228 million, an increase of 118% as compared to 2015, representing 2.3% and 1.4% of consolidated revenues in each of 2016 and 2015. The major increase is observed in the Personal Mobile Services segment as a consequence of higher aging of the accounts receivables and higher incidence of handset sales directly financed by Personal and Núcleo to its post-paid and *Abono Fijo* subscribers.

Other Operating Expenses

Other operating expenses, which include transportation costs, energy and rentals, among others, increased by 40% to P\$2,590 million in 2016 from P\$1,854 million in 2015, primarily as a result of higher prices on related services, especially in transportation, freight and travel expenses (an increase of P\$193 million or 25% as compared to 2015), among others, in the operations in Argentina; the increase of rent prices (an increase of P\$225 million or 42% as compared to 2015), as a result of new agreements and the renegotiation of some existing agreements and an increase in the energy cost (an increase of P\$181 million or 53% as compared to 2015), mainly due to an increase in prices.

For a further breakdown of our consolidated operating expenses, see Results of Operations by Segment below.

Operating income before depreciation and amortization

Our consolidated operating income before depreciation and amortization was P\$14,424 million in 2016, (representing an increase of P\$3,558 million or 33% from P\$10,866 million in 2015). It represented 27% of total consolidated revenues, in each 2016 and 2015. This growth was mainly fueled by the Fixed Services segment (an increase of P\$760 million or 30% as compared to 2015) and Personal Mobile Services segment (an increase of P\$2,529 million or 32% as compared to 2015).

Depreciation and Amortization

Depreciation of PP&E and amortization of intangible assets increased by P\$1,760 million, or 40% as compared to 2015, to P\$6,198 million during 2016. The increase was mainly due to the increase in PP&E depreciation of P\$1,312 million, the increase in the amortization of SAC and Service connection costs of P\$429 million, and the increase in the amortization of other intangible assets of P\$19 million.

Impairment of PP&E

In 2016, impairment loss of PP&E amounted to P\$383 million, which was mainly related to the Mobile swap of Vendors in AMBA, and the simultaneous modernization of 2G/3G technology.

In 2015, the impairment is mainly related to projects of Telecom Argentina of P\$116 million (P\$107 million related to AFA Plus Project) and Telecom Personal of P\$114 million (Telecom Personal has assessed the recoverability of a group of former work in progress, recording an impairment of P\$44 million equivalent to its book value and an impairment of P\$49 million related to the total amount of works related to the discontinuation of the Orga Gold IT project and recorded an impairment of P\$21 million related to the Mobile swap of Vendors in AMBA, and the simultaneous modernization of 2G/3G technology).

Operating income

During 2016, consolidated operating income was P\$7,843 million, representing an increase of P\$1,614 million or 26% from 2015. Operating income represented 15% of consolidated revenues in each of 2016 and 2015.

Table of Contents

| | Years Ended December 31, | | % of Change 2016-2015 Increase/(Decrease) |
|--|--------------------------|---------------|---|
| | 2016 | 2015 | |
| | (P\$ million / %) | | |
| Operating income before depreciation and amortization (1) | 14,424 | 10,866 | 33 |
| <i>As % of revenues</i> | 27 | 27 | |
| Depreciation and amortization | (6,198) | (4,438) | 40 |
| <i>As % of revenues</i> | (12) | (11) | |
| Impairment of PP&E | (383) | (199) | 92 |
| Operating income | 7,843 | 6,229 | 26 |
| <i>As % of revenues</i> | 15 | 15 | |

(1) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

Financial results, net

During 2016, the Company recorded a net financial loss of P\$2,244 million compared to a net financial loss of P\$1,102 million in 2015. The variation is mainly due to higher interest on loans as a result of higher indebtedness of the Company of P\$1,047 million, lower interest on time deposits and other investments at a total cost of P\$272 million, higher interest on provisions at a total cost of P\$70 million, which were partially offset by lower foreign currency exchange losses net of NDF agreement of P\$85 million and higher interest on receivables of P\$190 million.

Income tax expense

Income tax expense amounted to P\$1,594 million and P\$1,692 million in 2016 and 2015, respectively.

The Company's income tax charge includes three effects: (i) the current tax payable for the year pursuant to tax legislation applicable to each company in the Telecom Group; (ii) the effect of applying the deferred tax method on temporary differences arising out of the asset and liability valuation according to tax versus financial accounting criteria; and (iii) tax receivable from the action for recourse filed by Telecom Argentina claiming income tax determined in excess.

(i) Regarding current tax expenses, Telecom Argentina, Telecom Argentina USA, Personal and Núcleo generated tax profit in fiscal year 2016, resulting in an income tax payable of P\$2,091 million versus P\$1,721 million in 2015. Fixed Segment income tax expense in 2016 amounted to P\$476 million as compared to P\$278 million in 2015; Personal's income tax expense, in 2016, amounted to P\$1,586 million compared to P\$1,410 million in 2015; and Núcleo's income tax expense, in 2016, amounted to P\$29 million compared to P\$33 million in 2015.

(ii) Regarding the deferred tax, in 2016 and 2015, the Fixed Segment recorded a deferred tax gain of P\$49 million and P\$25 million, respectively; Personal recorded a deferred tax gain of P\$80 million and a deferred tax loss of P\$112 million (mainly due to an increase in the allowance for doubtful accounts) in 2016 and 2015, respectively; and Núcleo generated a P\$18 million gain in 2015.

(iii) Telecom Argentina filed actions for recourse with the AFIP in 2015 and 2016 to claim the full tax determined in excess. The income tax determined in excess qualifies as a tax credit in compliance with IAS 12 and the Company recorded a gain of P\$368 million and P\$98 million in 2016 and 2015, respectively. For the determination of the tax credit valuation, the Company has estimated the amount of the tax paid determined in excess for fiscal years 2009-2016 weighting the probability of certain variables according to the jurisprudential precedents known until such date. The Management will assess Tax Authority's resolutions related to actions for recourse filed and the evolution of jurisprudence in order to annually measure the tax credit recorded. See Note 14 to our Consolidated Financial Statements.

Net Income

For 2016, we recorded net income of P\$4,005 million (8% of total consolidated revenues), of which P\$3,975 million is attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P\$1,163 million, the Personal Mobile Services segment accounted for a gain of P\$2,750

Table of Contents

million and the Núcleo Mobile Services segment accounted for a gain of P\$92 million, representing 7%, 8% and 3% of the total segment revenues, respectively, including intercompany transactions.

For 2015, we recorded net income of P\$3,435 million (8% of total consolidated revenues), of which P\$3,403 million is attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P\$564 million, the Personal Mobile Services segment accounted for a gain of P\$2,774 million and the Núcleo Mobile Services segment accounted for a gain of P\$97 million, representing 4%, 10% and 6% of the total segment revenues, respectively, including intercompany transactions.

(A.2) 2015 Compared to 2014

| | Years Ended December 31, | | Total Change % | | Change by segment(1) | | |
|---|-----------------------------|--------------|-------------------|--------------|------------------------------------|--------------------------------|------------------------------|
| | 2015 (P\$ million) | 2014 | | | Fixed Services (P\$ million) | Personal Mobile Services | Núcleo Mobile Services |
| Revenues | 40,496 | 33,341 | 21 | 7,155 | 2,177 | 4,850 | 128 |
| Other Income | 44 | 47 | (6) | (3) | 13 | (16) | |
| Operating expenses (without depreciation and amortization) | (29,674) | (24,686) | 20 | (4,988) | (1,814) | (3,031) | (143) |
| Operating income before depreciation and amortization(2) | 10,866 | 8,702 | 25 | 2,164 | 376 | 1,803 | (15) |
| Depreciation and amortization | (4,438) | (3,243) | 37 | (1,195) | (296) | (870) | (29) |
| Gain on disposal of PP&E and impairment of PP&E | (199) | (16) | n/a | (183) | (100) | (84) | 1 |
| Operating income | 6,229 | 5,443 | 14 | 786 | (20) | 849 | (43) |
| Financial results, net | (1,102) | 253 | n/a | (1,355) | (471) | (841) | (43) |
| Income tax expense | (1,692) | (1,967) | (14) | 275 | 248 | 20 | 7 |
| Net income | 3,435 | 3,729 | (8) | (294) | (243) | 28 | (79) |
| Net income attributable to: | | | | | | | |
| <i>Telecom Argentina (Controlling Company)</i> | <i>3,403</i> | <i>3,673</i> | <i>(7)</i> | <i>(270)</i> | | | |
| <i>Noncontrolling interest</i> | <i>32</i> | <i>56</i> | <i>(43)</i> | <i>(24)</i> | | | |

(1) Includes the effect of eliminations of Intersegment transactions.

(2) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview above for a discussion of the use of this measure.

Revenues

| | Years Ended December 31, | | Total Change % | | Change by segment (1) | | |
|-------------------------|-----------------------------|-----------------------|-------------------|--------------|------------------------------------|--------------------------------|------------------------------|
| | 2015 (P\$ million) | 2014 (P\$ million) | | | Fixed Services (P\$ million) | Personal Mobile Services | Núcleo Mobile Services |
| Voice | 13,854 | 11,766 | 18 | 2,088 | 557 | 1,565 | (34) |
| Data | 9,249 | 9,467 | (2) | (218) | 310 | (510) | (18) |
| Internet | 11,377 | 7,045 | 61 | 4,332 | 1,302 | 2,919 | 111 |
| Service Revenues | 34,480 | 28,278 | 22 | 6,202 | 2,169 | 3,974 | 59 |
| Equipment (2) | 6,016 | 5,063 | 19 | 953 | 8 | 876 | 69 |
| Revenues | 40,496 | 33,341 | 21 | 7,155 | 2,177 | 4,850 | 128 |

- (1) Net of the Intersegment revenues effect.
- (2) This item is composed of voice, data and Internet equipment in each year.

During 2015, total consolidated revenues increased by 21% to P\$40,496 million from P\$33,341 million in 2014, mainly driven by our mobile, Broadband and data transmission businesses.

Consolidated revenues for 2015 and 2014 are comprised as follows:

Table of Contents

Voice

Revenues from voice services increased 18% to P\$13,854 million in 2015 from P\$11,766 million in 2014. Revenues from voice services represented 34% of our total consolidated revenues for 2015 compared to 35% of our total consolidated revenues for 2014.

Fixed services

Revenues from voice services represented 40% of our total Fixed Services segment revenues attributable to third parties for 2015 compared to 44% for 2014.

Voice services mainly include revenues from monthly basic charges, charges for supplementary services, measured service (national and international calls) and public telephone service. Charges for supplementary services include call waiting, call forwarding, three-way calling, caller ID, direct inwards dialing, toll-free service and voicemail, among others. Measured service charges are based on the number and duration of calls. Measured service revenues depend on the number of lines in service, the volume of usage, the number of new lines installed and applicable rates. They also include interconnection services (which primarily include Access, termination and long-distance transport of calls), international long-distance service (which reflect payments made under bilateral agreements between Telecom Argentina and foreign telecommunications carriers covering inbound international long-distance calls) and revenues related to billing and collection services charged to other operators.

Revenues from voice-retail increased 16% to P\$3,304 million and were affected by the freezing of regulated rates in early 2002. Revenues from regulated rate services represented 26% of our total segment revenues in 2015 compared with 28% in 2014.

Monthly basic charges and supplementary services increased by P\$203 million or 17% to P\$1,406 million in 2015 from P\$1,203 million in 2014. Such growth was mainly due to an increase of their prices (mainly due to an increase in monthly basic prices in the Business Segment of approximately 55% and an average increase of 14% in supplementary services prices).

Measured service charges increased 17% to P\$1,800 million in 2015 from P\$1,541 million in 2014. The increase was mainly due to the increase in plans prices (both in local and national long-distance), while customers remain stable.

Voice-wholesale revenues (including fixed and mobile interconnection revenues, together with the revenues generated by the subsidiary Telecom Argentina USA amounting to P\$151 million) amounted to P\$1,035 million in 2015 (an increase of 11% as compared to 2014). Interconnection services reached P\$689 million in 2015, an increase of P\$68 million or 11% as compared to 2014. Other wholesale revenues reached P\$346 million in 2015, an increase of P\$38 million or 12% compared to 2014. The increase was mainly due to higher prices

related to cell sites rentals due to the variation of the P\$/US\$ exchange rate.

Personal Mobile services

Revenues from voice services represented 32% of our total Personal Mobile Services segment revenues attributable to third parties for 2015 compared to 31% for 2014.

Voice services mainly include revenues from monthly basic charges, airtime usage charges and roaming charges to our customers for their use of our and other carriers' networks, CPP, TLRD and roaming charges to other mobile service providers whose customers use our network.

Voice-retail revenues reached P\$6,964 million in 2015 (an increase of 31% as compared to 2014). The increase was mainly due to the increase in monthly charges prices in the post-paid and *Abono Fijo* subscribers (an increase of 30% as compared to 2014) and prepaid services (an increase of 22% as compared to 2014), and because of the positive variation of the subscribers base in *Abono Fijo* (an increase of 5.6% as compared to 2014).

Voice-wholesale revenues to third parties reached P\$1,884 million in 2015 (a decrease of 4% as compared to 2014). The decrease was mainly due to the decrease in interconnection traffic (TLRD and CPP).

In *Núcleo Mobile Services segment*, voice revenues decreased 5% to P\$667 million in 2015 compared to P\$701 million in 2014.

Table of Contents

Data and Internet

Revenues from data and Internet services increased 25% to P\$20,626 million in 2015 from P\$16,512 million in 2014. Revenues from data and Internet represented 51% of our total consolidated revenues for 2015 compared to 50% of our total consolidated revenues for 2014.

In the Mobile Services segments, data and Internet services mainly include SMS, contents via SMS, MMS, Browsing and Internet. Revenues from data and Internet in the Personal Mobile segment increased 22% to P\$13,410 million in 2015 from P\$11,001 million in 2014.

As a consequence of the increase in VAS consumption (Internet and data), the ARPU increased to P\$91.5 per month in 2015 (as compared to P\$74.2 per month in 2014) in the Personal Mobile Segment.

Data

Revenues from data services in the Fixed segment increased 21% to P\$1,780 million in 2015 from P\$1,470 million in 2014. These revenues were generated focusing on the Company's position as an integrated ICT provider (Datacenter, VPN, among others) for wholesale and government segments. The increase was primarily due to higher prices of these services related to the variation of the P\$/US\$ exchange rate (mainly due to an increase in prices of the product Integra by 16% as compared to 2014 and in prices of VPN-IP services by 34% as compared to 2014) and to the increase in the number of customers of *Innovation* services (mainly due to an increase in the number of customers of Integra of 8% as compared to 2014 and in the number of customers of VPN-IP services of 0.2% as compared to 2014).

Mobile data revenues reached P\$7,469 million (a decrease of 7% as compared to 2014). The decrease was due to lower revenues from the principal item of VAS revenues, SMS consumption in Personal Mobile Services Segment, which decreased 15%. Notwithstanding, this effect was partially offset with a constant increase of the SMS with content sales, as a result of several campaigns launched by Personal (where its inter-annual variation amounted to an increase of P\$192 million or 7%).

Internet

Internet revenues in the Fixed segment increased 40% to P\$4,556 million in 2015 from P\$3,254 million in 2014. The increase was mainly due to the substantial expansion of the Broadband service (an increase of 2% of access lines as compared to 2014), and an increase in average prices resulting in an improvement in the ARPU amounted to P\$207 per month in 2015 as compared to P\$153 per month in 2014. As of December 31, 2015 the number of Internet accesses reached approximately 1.8 million equivalent to 45% of fixed lines in service of Telecom Argentina (as compared to 43% in 2014), compared to approximately 1.8 million as of December 31, 2014.

Mobile Internet revenues in the Personal Mobile segment increased 88% to P\$6,254 million in 2015 from P\$3,335 million in 2014. This increase is mainly explained by the increase in browsing services consumption of Personal s subscribers, which was mainly fueled by the increase in the offer of services, plans and Packs (including VAS) launched by Personal. This growth was fueled by new subscribers, the migration of existing ones to higher-value plans and the increase in subscribers that acquired 3G and 4G handsets, which facilitate Internet browsing.

Equipment

Revenues from equipment increased by 19% to P\$6,016 million in 2015 from P\$5,063 million in 2014. Personal Mobile Services segment shows an increase of P\$876 million as compared to 2014 due to an increase in handset s average sale price (an increase of 56% as compared to 2014), partially offset by a decrease in handset units sold (a decrease of 23% as compared to 2014), resulting in a higher operating margin. Núcleo Mobile Services segment reached an increase of P\$69 million in 2015 (an increase of 77% as compared to 2014) due to higher sales of handset units and an increase in handset s average sale prices.

Other Income

Other income mainly includes penalties and indemnities collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided. During 2015, other income decreased 6% to P\$44 million from P\$47 million in 2014.

Table of Contents**Operating expenses (without depreciation and amortization)**

Total operating expenses (without depreciation and amortization and gain on disposal and impairment of PP&E) increased by P\$4,988 million totaling P\$29,674 million in 2015, representing a 20% increase as compared to 2014.

| | Years Ended December 31, | | Total Change % | | Change by segment (1) | | |
|---|-----------------------------|---------------|-------------------|--------------|-----------------------|--------------------------------|------------------------------|
| | 2015 (P\$ million) | 2014 | | | Fixed Services | Personal Mobile Services | Núcleo Mobile Services |
| Employee benefit expenses and severance payments | 7,253 | 5,591 | 30 | 1,662 | 1,247 | 404 | 11 |
| Interconnection costs and other telecommunications charges | 2,170 | 2,074 | 5 | 96 | 41 | 89 | (34) |
| Fees for services, maintenance, materials and supplies | 3,919 | 3,333 | 18 | 586 | 352 | 219 | 15 |
| Taxes and fees with the Regulatory Authority | 3,943 | 3,297 | 20 | 646 | 95 | 544 | 7 |
| Commissions | 3,193 | 2,494 | 28 | 699 | 58 | 598 | 43 |
| Cost of equipment and handsets | 4,595 | 4,143 | 11 | 452 | 10 | 369 | 73 |
| Advertising | 814 | 792 | 3 | 22 | (43) | 65 | |
| Cost of VAS | 1,256 | 936 | 34 | 320 | 22 | 280 | 18 |
| Provisions | 113 | 84 | 35 | 29 | (98) | 127 | |
| Bad-debt expense | 564 | 424 | 33 | 140 | (10) | 147 | 3 |
| Other operating expense | 1,854 | 1,518 | 22 | 336 | 140 | 189 | 7 |
| Total operating expenses (without depreciation and amortization) | 29,674 | 24,686 | 20 | 4,988 | 1,814 | 3,031 | 143 |

(1) Net of the Intersegment transactions effect.

Employee benefit expenses and severance payments

During 2015, employee benefit expenses and severance payments were P\$7,253 million, representing a 30% increase from 2014. This was primarily due to salary increases that Telecom implemented across all segments with several trade unions with respect to the unionized employees and also to non-unionized employees, together with related social security charges.

With a total headcount of 16,224 at the end of 2015 (a decrease of 1% as compared to 2014), lines in service per employee reached 371 in the Fixed Services segment (slightly higher than 2014), 4,005 customers per employee in the Personal mobile services segment (an increase of 1%

as compared to 2014) and 6,225 customers per employee in the Núcleo mobile services segment (an increase of 1% as compared to 2014).

Interconnection costs and other telecommunications charges

Interconnection costs and other telecommunication charges (including charges for TLRD, Roaming, Interconnection costs, cost of international outbound calls and lease of circuits) amounted to P\$2,170 million in 2015 compared with P\$2,074 million in 2014. The increase was mainly due to higher TLRD costs (an increase of 23% in traffic minutes and an increase of 15% in prices as compared to 2014).

Fees for services, maintenance, materials and supplies

Expenses related to fees for services, maintenance, materials and supplies increased 18% to P\$3,919 million in 2015 from P\$3,333 million in 2014. Maintenance, material and supplies costs increased 11% as compared to 2014 (including obsolescence of inventories) and fees for services increased 24% as compared to 2014. The increase was mainly due to higher maintenance costs of network, systems and buildings mainly due to higher costs recognized to suppliers and, as a result of the variation in the P\$/US\$ exchange rate. Also there was an increase in services, principally Call Center services, because of more calls attended (an increase of P\$156 million as compared to 2014).

Taxes and fees with the Regulatory Authority

Taxes and fees with the Regulatory Authority (including turnover tax, tax on deposits and withdrawals from bank accounts, municipal and other taxes) increased 20% to P\$3,943 million in 2015

Table of Contents

from P\$3,297 million in 2014, mainly influenced by the increase in revenues of fixed and mobile services and by the increase of equipment revenues in Argentina.

Commissions

Commissions (including agent, distribution of prepaid cards and other commissions) increased 28%, to P\$3,193 million in 2015 from P\$2,494 million in 2014. The increase was mainly due to the increase in agents' commissions (associated with higher revenues) as a result of higher customer acquisition and retention costs recognized to them and to an increase of outsourced sales commissions and collection commissions, especially in relation to equipment revenues and prepaid cards recharge.

Commissions are net of agents' commissions capitalized as SAC, which totaled P\$1,172 million in 2015 (an increase of P\$259 million or 28% as compared to 2014), and it is directly related to the increase in the *Abono Fijo* subscribers' base mainly in the Personal Mobile Services segment and the increase in the commissions prices.

Cost of equipment and handsets

During 2015, the cost of equipment and handsets increased to P\$4,595 million from P\$4,143 million in 2014, mainly due to an increase in the average unit cost of sales (an increase of 40% as compared to 2014) partially offset by a decrease in the units of handsets sold (a decrease of 23% as compared to 2014).

Cost of equipment and handsets are net of handset costs capitalized as SAC, which amounts to P\$93 million in 2015, P\$10 million or 10% lower than 2014, because of the reduction in subsidies in the Personal Mobile Services segment.

Advertising

Costs related to advertising increased by P\$22 million, or 3%, to P\$814 million in 2015, mainly due to higher commercial campaigns of Personal related to the launch of the 4G services throughout the country as compared to 2014, especially those related to the new slogan *Hagamos que todo suceda* (*Let's make it all happen*).

Cost of VAS

Cost of VAS amounted to P\$1,256 million in 2015 (an increase of P\$320 million as compared to 2014), mainly due to the increase of VAS sales in the Personal Mobile Services segment (mainly the Contents via SMS service) as a consequence of several campaigns launched by Personal

Provisions

During 2015, we recorded P\$113 million in provisions compared to P\$84 million recorded in 2014, representing a 35% increase. The increase was mainly due to higher civil and commercial claims (an increase of P\$27 million as compared to 2014). See Note 17 to our Consolidated Financial Statements for more information.

Bad debt expenses

In 2015, bad debt expense amounted to P\$564 million, an increase of 33% as compared to 2014, representing 1.4% and 1.3% of consolidated revenues in 2015 and 2014, respectively. The major increase is observed in the Personal Mobile Services segment as a consequence of higher aging of the accounts receivables and higher incidence of handset sales directly financed by Personal to its post-paid and *Abono Fijo* subscribers.

Other Operating Expenses

Other operating expenses, which include transportation costs, energy and rentals, among others, increased 22% to P\$1,854 million in 2015 from P\$1,518 million in 2014 primarily as a result of higher prices on related services, especially in transportation, freight and travel expenses, net of SAC (an increase of P\$183 million or 37% as compared to 2014); and the increase of rent prices (an increase of P\$138 million or 34% as compared to 2014), as a result of new agreements and the renegotiation of some of the existing ones.

For a further breakdown of our consolidated operating expenses, see *Results of Operations by Segment* below.

Table of Contents

Operating income before depreciation and amortization

Our consolidated operating income before depreciation and amortization was P\$10,866 million in 2015, (representing an increase of P\$2,164 million or 25% from P\$8,702 million in 2014). It represented 27% and 26% of total consolidated revenues in 2015 and 2014, respectively. This growth was mainly fueled by the Fixed Services segment (an increase of P\$418 million or 20% as compared to 2014) and Personal Mobile Services segment (an increase of P\$1,756 million or 29% as compared to 2014).

Depreciation and Amortization

Depreciation of PP&E and amortization of intangible assets increased by P\$1,195 million, or 37% as compared to 2014, to P\$4,438 million during 2015. The increase was mainly due to the increase in PP&E depreciation of P\$657 million and the increase in the amortization of other intangible assets of P\$304 million (mainly due to 3G/4G licenses, which started their amortization in December 2014 and June 2015), and the increase in the amortization of SAC and Service connection costs of P\$234 million.

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

Gain on disposal of PP&E amounted to P\$31 million in 2015 and the impairment loss of PP&E amounted to P\$230 million related to projects of Telecom Argentina of P\$116 million (P\$107 million related to AFA Plus Project), and Telecom Personal of P\$114 million (Telecom Personal has assessed the recoverability of a group of former work in progress, recording an impairment of P\$44 million equivalent to its book value and an impairment of P\$49 million related to the total amount of works related to the discontinuation of the Orga Gold IT project and recorded an impairment of P\$21 million related to the mobile swap of Vendors in AMBA, and the simultaneous modernization of 2G/3G technology).

Gain on disposal of PP&E amounted to P\$9 million in 2014 and the impairment loss of PP&E amounted to P\$25 million (an impairment loss of PP&E for a total amount of P\$61 million relating to certain work in progress recorded in PP&E, and a partial reversal amounting to P\$36 million of the impairment loss recorded in 2013 relating to certain projects entered into by Telecom Argentina and the private sector).

Operating income

During 2015, consolidated operating income was P\$6,229 million, representing an increase of P\$786 million or 14% from 2014. Operating income represented 15% of consolidated revenues in 2015 versus 16% in 2014.

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| | Years Ended December 31, | | % of Change 2015-2014 Increase/(Decrease) |
|--|--------------------------|--------------|---|
| | 2015 | 2014 | |
| | (P\$ million / %) | | |
| Operating income before depreciation and amortization (1) | 10,866 | 8,702 | 25 |
| <i>As % of revenues</i> | 27 | 26 | |
| Depreciation and amortization | (4,438) | (3,243) | 37 |
| <i>As % of revenues</i> | (11) | (10) | |
| Gain on disposal of PP&E and impairment of PP&E | (199) | (16) | n/a |
| Operating income | 6,229 | 5,443 | 14 |
| <i>As % of revenues</i> | 15 | 16 | |

(1) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview for a discussion of the use of this measure.

Financial results, net

During 2015, Telecom recorded a net financial loss of P\$1,102 million compared to a net financial gain of P\$253 million in 2014. This net loss is related to the net financial position, which turned into a net financial debt in 2015 as a consequence of Group's higher investments. The variation is mainly due to higher foreign currency exchange losses net of NDF agreement of P\$865 million mainly due to the devaluation of local currency in December 2015 and higher interest on loans of P\$536 million, partially offset by higher interest on time deposits and other investments of P\$53 million.

Table of Contents

Income tax expense

Income tax expense amounted to P\$1,692 million, and P\$1,967 million in 2015 and 2014, respectively.

The Company's income tax charge includes four effects: (i) the current tax payable for the year pursuant to tax legislation applicable to each company in the Telecom Group; (ii) the effect of applying the deferred tax method on temporary differences arising out of the asset and liability valuation according to tax versus financial accounting criteria; (iii) the analysis of recoverability of deferred tax assets; and (iv) the action for recourse filed by Telecom Argentina claiming income tax determined in excess with respect to fiscal year 2009.

(i) Regarding current tax expenses, Telecom Argentina, Telecom Argentina USA, Personal and Núcleo generated tax profit in fiscal year 2015, resulting in an income tax payable of P\$1,721 million versus P\$1,749 million in 2014. Fixed Segment income tax expense in 2015 amounted to P\$278 million as compared to P\$422 million in 2014; Personal's tax expense, in 2015, amounted to P\$1,410 million compared to P\$1,302 million in 2014; and Núcleo's tax expense, in 2015, amounted to P\$33 million compared to P\$25 million in 2014.

(ii) Regarding the deferred tax, in 2015 and 2014, the Fixed Segment recorded a deferred tax benefit of P\$25 million and P\$19 million, respectively; Personal recorded a deferred tax expense of P\$112 million and P\$267 million (mainly due to an increase in deferred tax liabilities of Fixed Assets and the deduction of deferred tax assets related to investments in bonds) in 2015 and 2014, respectively; and Núcleo generated a P\$18 million and P\$3 million gain in 2015 and 2014, totaling P\$69 million and P\$245 million expense of deferred tax in 2015 and 2014, respectively.

(iii) Regarding the analysis of recoverability of deferred tax assets, Personal recorded a recovery of the valuation allowance for deferred tax assets of P\$27 million in 2014, while no charges were recorded for Telecom Argentina, Telecom Argentina USA and Núcleo in such year.

(iv) In December 2015, Telecom Argentina filed an action for recourse to claim P\$98 million of income tax determined in excess in 2009, recording a non-current tax receivable. See Note 14 to our Consolidated Financial Statements.

Net Income

For 2015, we recorded net income of P\$3,435 million (8% of total consolidated revenues), of which P\$3,403 million is attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P\$564 million, the Personal Mobile Services segment accounted for a gain of P\$2,774 million and the Núcleo Mobile Services segment accounted for a gain of P\$97 million, representing 4%, 10% and 6% of the total segment revenues, respectively including intercompany transactions.

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For 2014, we recorded net income of P\$3,729 million (11% of total consolidated revenues), of which P\$3,673 million is attributable to Telecom Argentina. The Fixed Services segment accounted for a gain of P\$742 million, the Personal Mobile Services segment accounted for a gain of P\$2,816 million and the Núcleo Mobile Services segment accounted for a gain of P\$171 million, representing 7%, 12% and 11% of the total segment revenues, respectively including intercompany transactions.

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents**(B) Results of Operations by Segment****(B.1) Fixed Services Segment**

Results of operations for our Fixed Services segment for 2016, 2015 and 2014 are comprised as follows:

| | Years Ended December 31, | | | % of Change | |
|---|--------------------------|-----------------------|--------------|----------------------------------|-------------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Revenues(1) | 16,942 | 12,554 | 10,320 | 35 | 22 |
| Other Income(2) | 85 | 55 | 37 | 55 | 49 |
| Operating expenses (without depreciation and amortization)(5) | (13,758) | (10,100) | (8,266) | 36 | 22 |
| Operating income before depreciation and amortization(3) | 3,269 | 2,509 | 2,091 | 30 | 20 |
| Depreciation and amortization | (1,897) | (1,526) | (1,230) | 24 | 24 |
| Impairment of PP&E | 1 | (91) | 9 | n/a | n/a |
| Operating income | 1,373 | 892 | 870 | 54 | 3 |
| Financial results, net (4) | (151) | (173) | 275 | (13) | n/a |
| Income tax expense | (59) | (155) | (403) | (62) | (62) |
| Net income | 1,163 | 564 | 742 | 106 | (24) |

(1) Includes intersegment revenues of P\$1,928 million, P\$1,818 million and P\$1,761 million in 2016, 2015 and 2014, respectively.

(2) Includes intersegment other income of P\$19 million, P\$16 million and P\$11 million in 2016, 2015 and 2014, respectively.

(3) Although it is not specifically defined, this is a permitted measure under IFRS. See [Management Overview](#) above for a discussion of the use of this measure.

(4) Includes intersegment financial income of P\$77 million, P\$90 million and P\$67 million in 2016, 2015 and 2014, respectively.

(5) Includes intersegment financial income of P\$158 million, P\$137 million and P\$117 million in 2016, 2015 and 2014, respectively.

Revenues

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During 2016, revenues from our Fixed Services segment increased by 35% to P\$16,942 million from P\$12,554 million in 2015. During 2015, revenues from our Fixed Services segment increased by 22% to P\$12,554 million from P\$10,320 million in 2014. The increase in each year was mainly due to an increase in data and Internet services. Also in 2016 Voice Sales increased substantially, particularly, due to the monthly charges to commercial customers since 2015 and to residential customers since May 2016.

Revenues from our Fixed Services segment for 2016, 2015 and 2014 are comprised as follows:

| | Years Ended December 31, | | | % of Change | |
|--------------------------------------|--------------------------|-----------------------|---------------|----------------------------------|-----------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Voice-retail | 4,654 | 3,304 | 2,853 | 41 | 16 |
| Voice-wholesale | 1,356 | 1,035 | 929 | 31 | 11 |
| Data | 2,919 | 1,780 | 1,470 | 64 | 21 |
| Internet | 5,994 | 4,556 | 3,254 | 32 | 40 |
| Service Revenues | 14,923 | 10,675 | 8,506 | 40 | 25 |
| Equipment (1) | 91 | 61 | 53 | 49 | 15 |
| Subtotal third-party revenues | 15,014 | 10,736 | 8,559 | 40 | 25 |
| Intersegment | 1,928 | 1,818 | 1,761 | 6 | 3 |
| Total Fixed Services revenues | 16,942 | 12,554 | 10,320 | 35 | 22 |

(1) This item is composed of voice, data and Internet equipment in each year.

Table of Contents

Voice-retail

Revenues from voice-retail represented 27% of our total segment revenues for 2016 compared to 26% of our total segment revenues for 2015 and 28% of our total segment revenues for 2014. Revenues from voice-retail increased by 41% to P\$4,654 million in 2016 from P\$3,304 million in 2015 and increased by 16% in 2015 from P\$2,853 million in 2014.

Voice-retail mainly includes revenues from monthly charges (which differ for residential, professional and commercial customers), charges for supplementary services, measured service (national and international calls) and public telephone service. Charges for supplementary services include call-waiting, call-forwarding, three-way calling, caller ID, direct inwards dialing, toll-free service and voicemail, among others. Measured service charges are based on the number and duration of calls. Measured service revenues depend on the number of lines in service, the volume of usage, the number of new lines installed and applicable rates. Most of our customers are billed monthly.

Monthly charges increased by 76% to P\$2,480 million in 2016 from P\$1,406 million in 2015 and increased by 17% from P\$1,203 million in 2014. Such growth is mainly due to an increase in residential monthly basic charges prices since May 2016 and an increase in supplementary services mainly due to an increase in their prices.

Measured service charges increased by 15% to P\$2,073 million in 2016 from P\$1,800 million in 2015 and increased by 17% in 2015 from P\$1,541 million in 2014. The increase in both 2016 and 2015 was mainly due to the increase in plan prices (both in local and national long-distance).

Voice-wholesale

Revenues from voice-wholesale represented 8% of our total segment revenues for 2016 compared to 8% in 2015 and 9% in 2014. Revenues from voice-wholesale increased by 31% to P\$1,356 million in 2016 from P\$1,035 million in 2015 and increased by 11% from P\$929 million in 2014.

Voice-wholesale mainly includes interconnection services (which primarily include Access, termination and long-distance transport of calls), international long-distance services (which reflect payments made under bilateral agreements between Telecom Argentina and foreign telecommunications carriers covering inbound international long-distance calls) and revenues related to billing and collection services charged to other operators.

Interconnection services increased by 23% to P\$845 million in 2016 from P\$689 million in 2015 and increased by 11% in 2015 from P\$621 million in 2014.

Data and Internet

Revenues from data and Internet represented 53% of our total segment revenues in 2016 compared to 50% and 46% in 2015 and 2014, respectively. Revenues from data and Internet services increased by 41% to P\$8,913 million in 2016 from P\$6,336 million in 2015 and increased by 34% in 2015 from P\$4,724 million in 2014.

Data

Revenues from data services increased by 64% to P\$2,919 million in 2016 from P\$1,780 million in 2015 and increased by 21% in 2015 from P\$1,470 million in 2014. These revenues were generated by focusing on Telecom Argentina's position as an aggressive growth of symmetric Internet Accesses and an integrated ICT provider (Datacenter and VPN, among others) for wholesale and government segments. The increase was primarily due to higher prices of these services related to the variation of the P\$/US\$ exchange rate and the increase in the number of customers of *Innovation* services.

Internet

Revenues from Internet increased by 32% to P\$5,994 million in 2016 from P\$4,556 million in 2015 and increased by 40% in 2015 from P\$3,254 million in 2014. The increases were mainly due to the increase in average prices. ARPU amounted to P\$270.9 per month in 2016 as compared to P\$207.4 per month in 2015. As of December 31, 2016, the number of Internet accesses decreased by approximately 4% to 1.74 million (Of which 1,298,000 correspond to an increase in accesses over 3Mb as compared to 1,010,000 in 2015) from 1.81 million as of December 31, 2015 and increased approximately 2% from 1.77 million as of December 31, 2014.

Table of Contents

Equipment

Revenues from equipment amounted to P\$91 million in 2016 compared to P\$61 million in 2015 and P\$53 million in 2014. Equipment revenues include revenues on construction contracts recognized in 2014 that amounted to P\$7 million.

Intersegment

Intersegment revenues mainly include connectivity, corporate and operational service billed to Personal, interconnection services, which primarily include Access, termination and transportation of calls, leases of circuits, revenues related to billing and collection services charged.

During 2016, our intersegment revenues increased by 6% to P\$1,928 million from P\$1,818 million in 2015 which increased by 3% from P\$1,761 million in 2014. The intersegment revenues are eliminated at the consolidated level.

Other Income

Other income mainly includes penalties and indemnities collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided and gains on disposal of PP&E since 2016. During 2016, other income increased by 55% to P\$85 million from P\$55 million in 2015. During 2015, other income increased by 49% from P\$37 million in 2014.

Operating Expenses (without depreciation and amortization)

During 2016, total operating expenses (without depreciation and amortization) for the Fixed Services segment increased by 36% to P\$13,758 million from P\$10,100 million in 2015 and increased by 22% from P\$8,266 million in 2014. The increases were mainly due to increases in employee benefit expenses and severance payments, fees for services, maintenance, materials and supplies and taxes and fees with the Regulatory Authority.

Detailed below are the major components of our operating expenses for the years ended December 31, 2016, 2015 and 2014 related to our Fixed Services segment:

| 2016 | Years Ended December 31, 2015 (P\$ million) | 2014 | % of Change | |
|------|---|------|----------------------------------|-----------|
| | | | 2016-2015 Increase/(Decrease) | 2015-2014 |

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| | | | | | |
|--|---------------|---------------|--------------|-----------|-----------|
| Employee benefit expenses and severance payments | 7,220 | 5,268 | 4,021 | 37 | 31 |
| Interconnection costs and other telecommunications charges | 961 | 719 | 676 | 34 | 6 |
| Fees for services, maintenance, materials and supplies | 2,311 | 1,769 | 1,402 | 31 | 26 |
| Taxes and fees with the Regulatory Authority | 1,118 | 818 | 723 | 37 | 13 |
| Commissions | 327 | 268 | 210 | 22 | 28 |
| Cost of equipment | 136 | 82 | 72 | 66 | 14 |
| Advertising | 126 | 108 | 151 | 17 | (28) |
| Cost of VAS | 53 | 38 | 16 | 39 | 138 |
| Provisions | 78 | 17 | 115 | 359 | (85) |
| Bad debt expenses | 152 | 79 | 89 | 92 | (11) |
| Other operating expenses | 1,276 | 934 | 791 | 37 | 18 |
| Total Fixed Services (1) | 13,758 | 10,100 | 8,266 | 36 | 22 |

(1) Includes intersegment cost of P\$158 million, P\$137 million and P\$117 million in 2016, 2015 and 2014, respectively. These costs are eliminated at the consolidated level.

Employee benefit expenses and severance payments

During 2016, employee benefit expenses and charges for severance payments were approximately P\$7,220 million, representing a 37% increase from P\$5,268 million in 2015. In 2015, employee benefit expenses and charges for severance payments increased by 31% from P\$4,021 million in 2014. The increases were mainly due to salary increases that Telecom implemented with several trade unions with respect to the unionized employees and also to non-unionized employees,

Table of Contents

together with related social security charges. The Fixed Services segment had 10,901, 10,903 and 11,056 employees as of December 31, 2016, 2015 and 2014, respectively.

Interconnection costs and other telecommunications charges

Interconnection costs and other telecommunications charges includes interconnection costs, lease of circuits and costs of international outbound calls, which reflect payments made under bilateral agreements between Telecom Argentina and international carriers in connection with outgoing calls made by our customers. Interconnection costs and other telecommunications charges included intersegment costs of P\$103 million, P\$96 million and P\$94 million in 2016, 2015 and 2014, respectively, that are eliminated at the consolidated level.

In 2016 interconnection costs and other telecommunications charges amounted to P\$961 million, representing an increase of 34% from P\$719 million in 2015. In 2015 such costs increased by 6% from P\$676 million in 2014.

Fees for services, maintenance, materials and supplies

During 2016, fees for services, maintenance, materials and supplies increased by 31% to P\$2,311 million from P\$1,769 million in 2015 and increased by 26% from P\$1,402 million in 2014.

The increase was mainly due to higher maintenance costs of network, systems and buildings and to higher costs recognized to suppliers, mainly as a result of the variation in the P\$/US\$ exchange rate.

Fees for services, maintenance, materials and supplies are net of service connection fees capitalized (P\$55 million, P\$50 million and P\$37 million in 2016, 2015 and 2014, respectively).

Fees for services, maintenance, materials and supplies expenses included intersegment costs of P\$35 million, P\$25 million and P\$10 million in 2016, 2015 and 2014, respectively that are eliminated at the consolidated level.

Taxes and fees with the Regulatory Authority

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Expenses related to taxes and fees with the Regulatory Authority increased by 37% to P\$1,118 million in 2016 from P\$818 million in 2015 and increased by 13% in 2015 from P\$723 million in 2014. The increase in 2016 and 2015 was mainly due to an increase in revenues. Also, in 2016, the increase in taxes is due to higher taxes on deposits and withdrawals from bank accounts related to higher collections and payments to suppliers.

Commissions

During 2016, costs related to commissions amounted to approximately P\$327 million, representing an increase of 22% as compared to P\$268 million in 2015. In 2015, these charges increased by 28% from P\$210 million in 2014. The increase during both years was mainly due to the increase in agents' commissions (associated with higher revenues) and the increase of collection commissions.

Cost of equipment

During 2016, 2015 and 2014 we recorded P\$136 million, P\$82 million and P\$72 million in cost of equipment, respectively. Cost of equipment includes P\$6 million related to equipment construction contract costs in 2014.

Advertising

During 2016, we recorded P\$126 million in costs of advertising representing an increase of 17% as compared to P\$108 million recorded in 2015. In 2015, these charges decreased by 28% from P\$151 million in 2014. Telecom Argentina continued its advertising campaigns as a result of competition in the Internet services market.

Cost of VAS

Cost of VAS increased to P\$53 million in 2016 from P\$38 million in 2015 and P\$16 million in 2014.

Provisions

During 2016, we recorded P\$78 million in provisions compared to P\$17 million recorded in 2015 and P\$115 million recorded in 2014. The increase in 2016 was mainly due to higher labor claims.

Table of Contents

amounting to approximately P\$53 million. The decrease in 2015 was mainly due to lower regulatory and tax claims for approximately P\$75 million.

Bad debt expenses

Bad debt expenses amounted to P\$152 million in 2016, P\$79 million in 2015 and P\$89 million in 2014. In 2016 these charges increased by 92%. In 2015, these charges decreased by 11%. The increase in 2016 was mainly due to higher aging of accounts receivable.

Other Operating Expenses

Other operating expenses include accrued expenses, such as transportation costs, insurance, international and satellite connectivity, energy and rentals.

During 2016, our other operating expenses amounted to P\$1,276 million compared to P\$934 million in 2015 and P\$791 million in 2014. The increase in 2016 was mainly due to higher prices for related services, especially in transportation, freight and travel expenses; the increase of rent prices, as a result of new agreements and the renegotiation of some existing agreements and an increase in the energy consumption. The increase in 2015 was primarily due to the increase in prices of transportation, freight, energy, water and others to provide Telecom Argentina's services and rental expenses.

Operating Income before depreciation and amortization

Our operating income before depreciation and amortization from the Fixed Services segment was P\$3,269 million in 2016, P\$2,509 million in 2015 and P\$2,091 million in 2014, representing 19%, 20% and 20% of total segment revenues, respectively. The increase in each year was mainly due to higher growth in revenues, which was partially offset by increases in operating costs (before depreciation and amortization).

Depreciation and amortization

Depreciation and amortization expenses were P\$1,897 million in 2016, P\$1,526 million in 2015 and P\$1,230 million in 2014. The increase in each year was mainly due to assets acquired and transferred during 2016 and 2015, which was partially offset by a reduction in the level of depreciation due to the end of the useful life of certain assets.

Impairment of PP&E

Impairment of PP&E amounted to a P\$1 million gain in 2016 and a P\$116 million loss in 2015 mainly due to the AFA Plus project. The gain of P\$1 million was due to an impairment recovery of P\$4 million of former work in progress and others, partially offset by an impairment of P\$3 million related to the AFA Plus project.

Operating Income

Operating income represented 8%, 7% and 8% of total segment revenues in 2016, 2015 and 2014, respectively. In 2016, the operating income from our Fixed Services segment increased by 54% to P\$1,373 million from P\$892 million in 2015. In 2015, the operating income from our Fixed Services segment increased by 3% from P\$870 million in 2014.

The following table shows our operating income from the Fixed Services segment in 2016, 2015 and 2014 and its percentage of revenues in each year.

| | 2016 | Years Ended December 31, | | % of Change | |
|--|-------------------|--------------------------|--------------|-----------------------|-----------|
| | | 2015 | 2014 | 2016-2015 | 2015-2014 |
| | (P\$ million / %) | | | Increase / (Decrease) | |
| Operating income before depreciation and amortization (1) | 3,269 | 2,509 | 2,091 | 30 | 20 |
| <i>As % of revenues</i> | <i>19</i> | <i>20</i> | <i>20</i> | | |
| Depreciation and amortization | (1,897) | (1,526) | (1,230) | 24 | 24 |
| <i>As % of revenues</i> | <i>(11)</i> | <i>(12)</i> | <i>(12)</i> | | |
| Impairment of PP&E | 1 | (91) | 9 | n/a | n/a |
| Operating income | 1,373 | 892 | 870 | 54 | 3 |
| <i>As % of revenues</i> | <i>8</i> | <i>7</i> | <i>8</i> | | |

(1) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview above for a discussion of the use of this measure.

Table of Contents

Financial results, net

During 2016, there was a net loss of P\$151 million compared to a P\$173 million loss in 2015. The 2016 net financial loss compared to 2015 was mainly due to lower foreign currency exchange net losses (a decrease of P\$198 million), which were partially offset by higher interest on loans (an increase of P\$117 million), and higher interest on provisions (an increase of P\$61 million).

During 2015, there was a net loss of P\$173 million. The net financial loss compared to the 2014 net financial gain of P\$275 million was mainly due to higher foreign currency exchange net losses (an increase of P\$470 million as compared to 2014).

Income tax expense

As previously mentioned, the income tax charge includes three effects (See Years ended December 31, 2016, 2015 and 2014 (A.1) Income tax expense).

During 2016, our Fixed Services segment recorded an income tax expense of P\$59 million compared to P\$155 million in 2015 and P\$403 million in 2014. The decrease in 2016 was mainly due to the recognition of a P\$368 million gain in relation to the action for recourse filed (as compared to P\$98 million in 2015), which was partially offset by an increase in the current tax expense. The decrease in 2015 was mainly due to the decrease in our pre-tax income compared to previous year.

The income tax expense in 2016 was mainly attributable to the recognition of current income tax expense (amounting to P\$476 million), which was partially offset by income generated by deferred tax on temporary differences (amounting to P\$49 million), and by the action for recourse filed by Telecom Argentina claiming P\$368 million of income tax determined in excess from 2009 to 2016. See Note 14 to our Consolidated Financial Statements.

The income tax expense in 2015 was mainly attributable to the recognition of current income tax expense (amounting to P\$278 million), partially offset by income generated by deferred tax on temporary differences (amounting to P\$25 million), and by the action for recourse filed by Telecom Argentina claiming P\$98 million of income tax determined in excess in 2009. See Note 14 to our Consolidated Financial Statements.

The income tax expense in 2014 was mainly attributable to the recognition of current income tax expense (amounting to P\$422 million), partially offset by income generated by deferred tax on temporary differences arising out of the asset and liability valuations due to tax versus financial accounting criteria (amounting to P\$19 million).

Net Income

For 2016, 2015 and 2014, the Fixed Services segment recorded net income of P\$1,163 million, P\$564 million and P\$742 million, respectively. The increase in 2016 was mainly due to an increase in our operating income and a decrease in income tax expense, as detailed above. The decrease in 2015 was mainly due to a decrease in financial results, net partially offset by a decrease in income tax expense.

(B.2) Personal Mobile Services Segment

Results of operations from our Personal Mobile Services segment for 2016, 2015 and 2014 are comprised as follows:

| | 2016 | Years Ended December 31, | | % of Change | |
|--|---------------|--------------------------|--------------|---------------------|-----------|
| | | 2015 | 2014 | 2016-2015 | 2015-2014 |
| | (P\$ million) | | | Increase/(Decrease) | |
| Revenues (1) | 35,750 | 28,198 | 23,332 | 27 | 21 |
| Other Income | 16 | 5 | 21 | 220 | (76) |
| Operating expenses (without depreciation and amortization) (4) | (25,448) | (20,414) | (17,320) | 25 | 18 |
| Operating income before depreciation and amortization (2) | 10,318 | 7,789 | 6,033 | 32 | 29 |

Table of Contents

| | Years Ended December 31, | | | % of Change | |
|-------------------------------|--------------------------|-----------------------|--------------|----------------------------------|------------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Depreciation and amortization | (3,614) | (2,520) | (1,650) | 43 | 53 |
| Impairment of PP&E | (384) | (109) | (25) | 252 | 336 |
| Operating income | 6,320 | 5,160 | 4,358 | 22 | 18 |
| Financial results, net (3) | (2,064) | (864) | | 139 | n/a |
| Income tax expense | (1,506) | (1,522) | (1,542) | (1) | (1) |
| Net income | 2,750 | 2,774 | 2,816 | (1) | (1) |

(1) Includes intersegment revenues of P\$166 million, P\$144 million and P\$128 million in 2016, 2015 and 2014, respectively.

(2) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview above for a discussion of the use of this measure.

(3) Includes intersegment financial loss of P\$77 million, P\$90 million and P\$67 million in 2016, 2015 and 2014, respectively.

(4) Includes intersegment financial loss of P\$1,930 million, P\$1,829 million and P\$1,766 million in 2016, 2015 and 2014, respectively.

Revenues

During 2016, revenues from our Personal Mobile Services segment increased by 27% to P\$35,750 million from P\$28,198 million in 2015 and increased by 21% from P\$23,332 million in 2014. The increase in each year was mainly due to the increase in prices of our services and the increase in the monthly consumption of the offered services, primarily Internet services.

An important monthly operational measure used in the Personal Mobile Services segment is ARPU, which we calculate by dividing adjusted total service revenues excluding outcollect wholesale roaming, cell site rental and reconnection fee revenues and others (divided by 12 months) by the average number of subscribers during the period. ARPU is not a measure calculated in accordance with IFRS and our measure of ARPU may not be calculated in the same manner as similarly titled measures used by other companies. In particular, certain components of service revenues are excluded from Personal's ARPU calculations presented in this Annual Report. Management believes that this measure is helpful in assessing the development of the subscriber base in the Personal Mobile Services segment. The following table shows the reconciliation of total service revenues to such revenues included in the ARPU calculations:

| | Years Ended December 31, | | |
|--|--------------------------|-----------------------|---------------|
| | 2016 | 2015 (P\$ million) | 2014 |
| Total service revenues | 28,215 | 22,402 | 18,412 |
| Components of service revenues not included in the ARPU calculation: | | | |
| Outcollect wholesale roaming | (287) | (288) | (304) |
| Cell sites rental | (88) | (54) | (43) |

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| | | | |
|---|---------------|---------------|---------------|
| Reconnection fees and others | (1,171) | (730) | (407) |
| Adjusted total service revenues included in the ARPU calculation | | | |
| (1) | 26,669 | 21,330 | 17,658 |
| Average number of subscribers during the year (thousands) | 19,798 | 19,436 | 19,821 |

(1) Certain components of service revenues are not included in the ARPU calculation. Includes Intersegment revenues for P\$166 million in 2016, P\$144 million in 2015 and P\$128 million in 2014.

During 2016, ARPU increased by 23% to approximately P\$112.3 per customer per month compared to approximately P\$91.5 per customer per month in 2015. ARPU reached P\$74.2 per customer per month in 2014.

The total number of Personal s subscribers decreased by approximately 0.7% to 19.5 million as of December 31, 2016 from 19.7 million as of December 31, 2015 and increased 0.4% from 19.6 million as of December 31, 2014. As of December 31, 2016, our subscriber base amounted to

Table of Contents

approximately 13 million prepaid subscribers (customers that made at least one recharge in the previous thirteen months as of December 31, 2016), or 67% of the total subscriber base, approximately 2.3 million post-paid subscribers, or 11% of the total subscriber base and approximately 4.2 million *Abono Fijo* plan subscribers, or 22% of the total subscriber base.

At least a 65% of prepaid customers made a recharge in the 180 days prior to the date of the year end of this Annual Report.

Revenues from our Personal Mobile Services segment for 2016, 2015 and 2014 are comprised as follows:

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|-----------------------|---------------|----------------------------------|-----------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Voice-retail | 8,503 | 6,964 | 5,330 | 22 | 31 |
| Voice-wholesale | 2,078 | 1,884 | 1,953 | 10 | (4) |
| Data | 6,636 | 7,156 | 7,666 | (7) | (7) |
| Internet | 10,832 | 6,254 | 3,335 | 73 | 88 |
| Services Revenues | 28,049 | 22,258 | 18,284 | 26 | 22 |
| Equipment | 7,535 | 5,796 | 4,920 | 30 | 18 |
| Subtotal third-party revenues | 35,584 | 28,054 | 23,204 | 27 | 21 |
| Intersegment | 166 | 144 | 128 | 15 | 13 |
| Total Personal Mobile Services Revenues | 35,750 | 28,198 | 23,332 | 27 | 21 |

Voice-retail

Revenues from voice-retail represented 24% of our total segment revenues in 2016 compared to 25% and 23% of our total segment revenues in 2015 and 2014, respectively. Revenues from voice-retail increased by 22% to P\$8,503 million in 2016 from P\$6,964 million in 2015 and increased by 31% from P\$5,330 million in 2014.

Voice-retail mainly includes revenues from monthly basic charges, airtime usage charges and roaming charges billed to our customers for their use of our and other carriers' networks.

Monthly basic charges increased by 28% to P\$5,113 million in 2016 from P\$4,009 million in 2015 and increased by 30% in 2015 from P\$3,074 million in 2014. Airtime usage charges increased by 2% to P\$2,007 million in 2016 from P\$1,977 million in 2015 and increased by 20% in 2015 from P\$1,654 million in 2014. Roaming charges and other services increased by 41% to P\$1,383 million in 2016 from P\$978 million in 2015 and increased by 62% in 2015 from P\$602 million in 2014.

The increase in 2016 was mainly due to the increase in monthly charges prices for the post-paid and *Abono Fijo* subscribers and prepaid services, net of the variation of the subscribers' base.

The increase in 2015 was mainly due to the increase in monthly charges prices for the post-paid and *Abono Fijo* subscribers and prepaid services, and by the positive variation of the subscriber base.

Voice-wholesale

Revenues from voice-wholesale represented 6% of our total segment revenues in 2016 compared to 7% and 8% of our total segment revenues in 2015 and 2014, respectively. Revenues from voice-wholesale increased by 10% to P\$2,078 million in 2016 from P\$1,884 million in 2015 and decreased by 4% in 2015 from P\$1,953 million in 2014.

Voice-wholesale mainly includes revenues from CPP, TLRD and roaming charges to other mobile service providers whose customers use our network.

CPP and TLRD increased by 11% to P\$1,711 million in 2016 from P\$1,548 million in 2015 and decreased by 4% in 2015 from P\$1,611 million in 2014. Roaming charges and other services increased by 9% to P\$367 million in 2016 from P\$336 million in 2015, and decreased by 2% from P\$342 million in 2014.

Table of Contents

Data and Internet

Data and Internet services mainly include SMS and Internet. Data and Internet represented 49%, 48% and 47% of our total segment revenues for 2016, 2015, and 2014, respectively.

Data

Revenues from data mainly include contents via SMS, and other Value Added Services. Revenues from data decreased by 7% to P\$6,636 million in 2016 from P\$7,156 million in 2015. Revenues from data also decreased 7% in 2015 from P\$7,666 million in 2014. The decrease in 2016 and 2015 was due to lower revenues from the principal item of VAS revenues, SMS consumption, which was partially offset by an increase in Content via SMS revenues.

Internet

Revenues from Internet increased by 73% to P\$10,832 million in 2016 from P\$6,254 million in 2015 and increased by 88% in 2015 from P\$3,335 million in 2014. This increase is mainly explained by the increase in consumption by Personal s subscribers, which was mainly fueled by the increase in the offer of services, plan and packs (including VAS) launched by Personal. This growth was fueled by the migration of existing plans to higher-value plans and the increase of subscribers that acquired 3G and 4G handsets, which facilitate Internet browsing.

Equipment

Equipment revenues consist primarily of revenues from the mobile handsets sold to new and existing subscribers and to agents and other third-party distributors. The revenues associated with the sale of mobile handsets and related expenses are recognized when the products are delivered and accepted by the subscribers, agents and other third-party distributors.

During 2016, handset revenues increased by 30% to P\$7,535 million from P\$5,796 million in 2015 and increased by 18% in 2015 from P\$4,920 million in 2014. This increase in 2016 was due to a mix between the increase in the average price of handsets of 34% and the decrease of 4% in the handset units sold, resulting in a higher operating result.

Intersegment

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Intersegment revenues mainly include services rendered to Telecom Argentina and primarily consist of GSM fixed services, Mobile Internet and monthly charges, airtime usage charges and Value Added Services. During 2016, our intersegment revenues increased by 15% to P\$166 million from P\$144 million in 2015 and increased by 13% in 2015 from P\$128 million in 2014. The intersegment revenues are eliminated at the consolidated level.

Other Income

Other income mainly includes penalties collected from suppliers, as a result of delays in deliveries of goods or matters related to the quality of the services provided and gains on disposal of PP&E since 2016. During 2016, other income was P\$16 million, compared to P\$5 million in 2015 and P\$21 million in 2014.

Operating Expenses (without depreciation and amortization)

Total operating expenses (without depreciation and amortization) in our Personal Mobile Services segment increased by 25% to P\$25,448 million in 2016 from P\$20,414 million in 2015 and increased by 18% in 2015 from P\$17,320 million in 2014. In line with our increases in revenues, during 2016 and 2015, all items in the cost structure of the Personal Mobile Services segment experienced increases. This trend reflects increases in certain costs related to acquiring and retaining customers, taxes, commissions.

Detailed below are the major components of the operating expenses for the years ended December 31, 2016, 2015 and 2014 in the Personal Mobile Services segment:

Table of Contents

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|-----------------------|---------------|----------------------------------|-----------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Employee benefit expenses and severance payments | 2,381 | 1,856 | 1,452 | 28 | 28 |
| Interconnection costs and other telecommunications charges | 2,721 | 2,686 | 2,592 | 1 | 4 |
| Fees for services, maintenance, materials and supplies | 2,975 | 2,417 | 2,145 | 23 | 13 |
| Taxes and fees with the Regulatory Authority | 3,925 | 3,071 | 2,527 | 28 | 22 |
| Commissions | 3,286 | 2,774 | 2,181 | 18 | 27 |
| Cost of equipment and handsets | 5,749 | 4,328 | 3,959 | 33 | 9 |
| Advertising | 644 | 628 | 563 | 3 | 12 |
| Cost of VAS | 1,329 | 1,136 | 856 | 17 | 33 |
| Provisions | 109 | 96 | (31) | 14 | n/a |
| Bad debt expenses | 951 | 462 | 315 | 106 | 47 |
| Other operating expenses | 1,378 | 960 | 761 | 44 | 26 |
| Total Personal Mobile Services(1) | 25,448 | 20,414 | 17,320 | 25 | 18 |

(1) Includes intersegment costs of P\$1,929 million, P\$1,829 million and P\$1,766 million in 2016, 2015 and 2014, respectively. These costs are eliminated at the consolidated level.

Employee benefit expenses and severance payments

During 2016, employee benefit expenses and severance payments charges increased by 28% to P\$2,381 million from P\$1,856 million in 2015 and also increased by 28% in 2015 from P\$1,452 million in 2014. The increase in 2016 was mainly due to increases in salaries agreed by Telecom Personal with several trade unions for the unionized employees and also non-unionized employees, together with related social security charges.

The Personal Mobile Services segment had 4,661, 4,908 and 4,958 employees as of December 31, 2016, 2015 and 2014, respectively.

Interconnection costs and other telecommunications charges

During 2016, interconnection costs and other telecommunications charges increased by 1% to P\$2,721 million from P\$2,686 million in 2015 and increased by 4% in 2015 from P\$2,592 million in 2014. The increase in 2016 was mainly due to an increase in Roaming traffic and higher TLRD costs. The increase in 2015 was mainly due to higher TLRD costs.

Interconnection costs and other telecommunications charges amounted to P\$1,200 million, P\$1,275 million and P\$1,274 million in 2016, 2015 and 2014, respectively, that are eliminated at the consolidated level.

Fees for services, maintenance, materials and supplies

In 2016, fees for services, maintenance, materials and supplies expenses increased by 23% to P\$2,975 million from P\$2,417 million in 2015 and increased by 13% from P\$2,145 million in 2014.

The increase in 2016 was mainly due to higher maintenance costs of radiobases, network, identification sites costs and storage costs. There was an increase of maintenance and fees for services mainly due to higher costs recognized to suppliers.

The increase in 2015 was mainly due to higher maintenance costs of network, systems and buildings mainly due to higher costs recognized to suppliers and, as a result of the variation in the P\$/US\$ exchange rate. Also there was an increase in services, principally call center services, because of more calls attended.

Fees for services, maintenance, materials and supplies expenses includes intersegment costs of P\$468 million, P\$389 million and P\$332 million in 2016, 2015 and 2014, respectively, that are eliminated at the consolidated level.

Table of Contents

Taxes and fees with the Regulatory Authority

During 2016, taxes and fees with the Regulatory Authority increased by 28% to P\$3,925 million from P\$3,071 million in 2015 and increased by 22% in 2015 from P\$2,527 million in 2014. The increase in 2016 was influenced mainly by the increase in revenues and higher taxes on deposits and withdrawals from bank accounts related to higher collections and payments to suppliers. The increase in 2015 was influenced mainly by the increase in revenues and the increase in equipment sales.

Commissions

In 2016, commissions increased by 18% to P\$3,286 million from P\$2,774 million in 2015 and increased by 27% in 2015 from P\$2,181 million in 2014. The increase was mainly due to the increase in agents' commissions of P\$122 million (associated with higher revenues) and the increase of collection commissions of P\$273 million.

Commissions include intersegment costs of P\$59 million, P\$48 million and P\$53 million in 2016, 2015, and 2014, respectively, that are eliminated at the consolidated level.

Cost of equipment and handsets

During 2016, the cost of equipment and handsets sold increased by 33% to P\$5,749 million from P\$4,328 million in 2015 and increased by 9% from P\$3,959 million in 2014. The increase in cost of mobile handsets in 2016 is related to the increase in the average unit cost of sales (an increase of 39% as compared to 2015), which was partially offset by a decrease in units of handsets sold (a decrease of 4% as compared to 2015). The increase in cost of mobile handsets in 2015 is related to the increase in the average unit cost of sales (an increase of 40% as compared to 2014), which was partially offset by a decrease in units of handsets sold (a decrease of 23% as compared to 2014). Cost of equipment and handsets are net of costs capitalized as SAC (P\$83 million in 2016, which is P\$46 million, or 124%, higher than in 2015).

Advertising

During 2016, advertising expenses including media, promotional and institutional campaigns, amounted to P\$644 million, representing an increase of 3% from P\$628 million in 2015. During 2015, advertising expenses increased by 12% from P\$563 million in 2014.

Cost of VAS

Cost of VAS amounted to P\$1,329 million in 2016 (an increase of 17% as compared to 2015), mainly due to the increase of VAS (mainly the Contents via SMS service) as a consequence of several campaigns launched by Personal. Such costs were P\$1,136 million and P\$856 million in 2015 and 2014, respectively.

Provisions

During 2016, we recorded a loss of P\$109 million in provisions compared with a loss of P\$96 million and a gain of P\$31 million recorded in 2015 and 2014, respectively. The increase in 2016 was mainly due to higher regulatory, tax and municipal claims (an increase of P\$40 million as compared to 2015). The increase in 2015 was mainly due to higher regulatory and municipal claims (an increase of P\$70 million as compared to 2014) and higher civil and commercial claims (an increase of P\$44 million as compared to 2014).

Bad debt expenses

In 2016 bad debt expenses amounted to P\$951 million (an increase of 106% as compared to 2015). In 2015, bad debt expenses amounted to P\$462 million representing an increase of 47% from P\$315 million in 2014. The major increase in 2016 as compared with 2015 was a consequence of higher aging of the accounts receivables and higher incidence of handset sales directly financed by Personal to its post-paid and *Abono Fijo* subscribers.

Other operating expenses

Other operating expenses include accrued expenses such as costs associated with the provision of transportation costs, insurance, energy and costs of site leases.

Other operating expenses increased by 44% to P\$1,378 million in 2016 from P\$960 million in 2015 and increased by 26% from P\$761 million in 2014. The increase in 2016 was primarily a result of higher prices of related services, especially transportation, freight and travel expenses; and the increase in rent prices, as a result of new agreements and the renegotiation of some existing ones.

Table of Contents

Other operating expenses included intersegment costs of P\$202 million, P\$117 million and P\$107 million in 2016, 2015, and 2014, respectively, that are eliminated at the consolidated level.

Operating Income before depreciation and amortization

Our operating income before depreciation and amortization from the Personal Mobile Services segment reached P\$10,318 million in 2016, P\$7,789 million in 2015 and P\$6,033 million in 2014, representing 29%, 28% and 26% of total segment revenues in 2016, 2015 and 2014, respectively. The increase in each year was mainly due to higher growth in revenues, which were partially offset by increases in operating costs (before depreciation and amortization).

Depreciation and Amortization

During 2016 depreciation of PP&E and amortization of intangible assets increased by 43% to P\$3,614 million from P\$2,520 million in 2015 and increased by 53% from P\$1,650 million in 2014. During 2016, the increase in PP&E depreciation amounted to P\$709 million, the increase in amortization of SAC amounted to P\$370 million and the increase in amortization of other intangible assets amounted to P\$15 million.

Impairment of PP&E

Impairment loss of PP&E amounted to P\$384 million in 2016, mainly due to the mobile access modernization for the introduction of 4G technology. Impairment of PP&E amounted to P\$114 million in 2015 related to the assessment of recoverability of a group of former work in progress, recording an impairment of P\$44 million equivalent to its book value; an impairment of P\$49 million related to the total amount of works related to the discontinuation of the Orga Gold IT project and the impairment of P\$21 million related to the mobile access modernization for the introduction of 4G technology.

Operating Income

In 2016, our operating income from the Personal Mobile Services segment was P\$6,320 million, representing an increase of 22% from P\$5,160 million in 2015, and increased of 18% from P\$4,358 million in 2014. Operating income represented 18% of revenues in 2016 and 2015 for this segment, and 19% of revenues in 2014. The increase in operating income was mainly due to the growth in service and equipment revenues, partially offset by increases in operating expenses and depreciation and amortization costs as explained above.

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The following table shows our operating income from the Personal Mobile Services segment in 2016, 2015 and 2014 and its percentage of revenues in each year:

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|--------------|--------------|-----------------------|-----------|
| | 2016 | 2015 | 2014 | 2016-2015 | 2015-2014 |
| | (P\$ million / %) | | | Increase / (Decrease) | |
| Operating income before depreciation and amortization (1) | 10,318 | 7,789 | 6,033 | 32 | 29 |
| <i>As % of revenues</i> | <i>29</i> | <i>28</i> | <i>26</i> | | |
| Depreciation and amortization | (3,614) | (2,520) | (1,650) | 43 | 53 |
| <i>As % of revenues</i> | <i>(10)</i> | <i>(9)</i> | <i>(7)</i> | | |
| Impairment of PP&E | (384) | (109) | (25) | 252 | 336 |
| Operating income | 6,320 | 5,160 | 4,358 | 22 | 18 |
| <i>As % of revenues</i> | <i>18</i> | <i>18</i> | <i>19</i> | | |

(1) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview above for a discussion of the use of this measure.

Financial results, net

During 2016, the Personal Mobile Services segment financial results, net amounted to a loss of P\$2,064 million. The loss is mainly attributable to higher interest on loans of P\$1,437 million (an increase of P\$897 million as compared to 2015), higher foreign currency exchange losses, net that amounted to P\$929 million (an increase of P\$180 million as compared to 2015) and lower interest on

Table of Contents

time deposits and other investments (a decrease of P\$244 million as compared to 2015), partially offset by higher interest on receivables of P\$124 million.

During 2015, the Personal Mobile Services segment financial results, net amounted to a loss of P\$864 million. The loss is mainly attributable to higher foreign currency exchange losses, net of P\$749 million (an increase of P\$340 million as compared to 2014) and interest on loans of P\$540 million (an increase of P\$537 million as compared to 2014), and lower interest on time deposits of P\$209 million, which was partially offset by gains on other investments of P\$519 million (an increase of P\$255 million as compared to 2014).

Income Tax Expense

During 2016, our Personal Mobile Services segment recorded an income tax expense of P\$1,506 million compared to P\$1,522 million in 2015 and P\$1,542 million in 2014. The decrease was mainly due to lower pre-tax income. The income tax expense in 2016 was mainly attributable to the recognition of current income tax expense amounting to P\$1,586 million, and by the gain generated by the deferred tax on the temporary differences amounting to P\$80 million.

The income tax expense in 2015 was mainly attributable to the recognition of current income tax expense amounting to P\$1,410 million, and by the loss generated by the deferred tax on the temporary differences amounting to P\$112 million.

The income tax expense in 2014 was mainly attributable to the recognition of current income tax expense amounting to P\$1,302 million, and by the loss generated by the deferred tax on the temporary differences amounting to P\$267 million (mainly due to an increase in deferred tax liabilities of Fixed Assets and the deduction of deferred tax assets related to investments in bonds) and P\$27 million of an allowance recovery.

Net Income

During 2016, our Personal Mobile Services segment reported net income of P\$2,750 million as compared to P\$2,774 million during 2015 and P\$2,816 million in 2014. The decrease in net income in 2016 and 2015 was mainly due to higher financial losses, partially offset by higher operating income, as explained above.

(B.3) Núcleo Mobile Services Segment

The Núcleo Mobile Services Segment includes Núcleo and Personal Envíos, which is a company controlled by Núcleo that was authorized by the Central Bank of Paraguay to operate as an Electronic Payment Company (EMPE) through

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Resolution No.6 issued on March 30, 2015 and its corporate purpose is restricted to such service.

Results of operations from our Núcleo Mobile Services segment for 2016, 2015 and 2014 are comprised as follows:

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|---------------------------|------------|------------------------------------|-------------|
| | 2016 (3) | 2015 (4) (P\$ million) | 2014 | 2016-2015 Increase / (Decrease) | 2015-2014 |
| Revenues (1) | 2,648 | 1,717 | 1,588 | 54 | 8 |
| Other Income | 1 | | | 100 | |
| Operating expenses (without depreciation and amortization) | (1,812) | (1,149) | (1,010) | 58 | 14 |
| Operating income before depreciation and amortization (2) | 837 | 568 | 578 | 47 | (2) |
| Depreciation and amortization | (687) | (392) | (363) | 75 | 8 |
| Gain on disposal of PP&E | | 1 | | (100) | n/a |
| Operating income | 150 | 177 | 215 | (15) | (18) |
| Financial results, net | (29) | (65) | (22) | (55) | 195 |
| Income tax expense | (29) | (15) | (22) | 93 | (32) |
| Net income | 92 | 97 | 171 | (5) | (43) |

(1) Includes intersegment revenues of P\$6 million, P\$11 million and P\$10 million in 2016, 2015 and 2014, respectively.

(2) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview above for a discussion of the use of this measure.

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents

(3) Includes operations of Personal Envíos that are not material (Revenues P\$25million, Operating income before depreciation and amortization (P\$7million), Operating income (\$9million) and Net loss (P\$9million)).

(4) Includes operations of Personal Envíos. Its operations are not material (Revenues P\$9 million, Operating income before depreciation and amortization (P\$2million), Operating income (P\$4million) and Net loss (P\$4million)).

Revenues and Other Income

During 2016, total revenues from Núcleo increased by 54% to P\$2,648 million from P\$1,717 million in 2015. This increase was mainly due to a 46% appreciation of Guaraní as compared to P\$, to an increase in Internet revenues (an increase of 72% as compared to 2015) as a consequence of subscribers that acquired 3G and 4G handsets, which facilitate Internet browsing, and an increase in voice retail revenues (an increase of 50% as compared to 2015). As of December 31, 2016, Núcleo had approximately 2.1 million prepaid subscribers, representing 82% of Núcleo's total mobile subscriber base.

Value Added Services sales (included in Data and Internet services) grew by 60% in 2016 as compared to 2015.

During 2015, total revenues from Núcleo increased by 8% to P\$1,717 million from P\$1,588 million in 2014. This increase was mainly due to an increase of 3% in Núcleo's subscriber base that reached approximately 2.5 million mobile subscribers as of December 31, 2015. As of December 31, 2015, Núcleo had approximately 2 million prepaid subscribers, representing 80% of Núcleo's total mobile subscriber base.

Value Added Services sales (included in Data and Internet services) grew by 12% in 2015 as compared to 2014.

During 2016, handset revenues increased by 64% to P\$260 million from P\$159 million in 2015 and increased by 77% from P\$90 million in 2014.

Revenues from our Núcleo Mobile Services segment for 2016, 2015 and 2014 are comprised as follows:

| | Years Ended December 31, | | | % of Change | |
|-------------------------|--------------------------|-----------------------|--------------|----------------------------------|-----------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Voice | 975 | 667 | 701 | 46 | (5) |
| Data | 429 | 313 | 331 | 37 | (5) |
| Internet | 978 | 567 | 456 | 72 | 24 |
| Service revenues | 2,382 | 1,547 | 1,488 | 54 | 4 |
| Equipment | 260 | 159 | 90 | 64 | 77 |

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| | | | | | |
|--------------------------------------|--------------|--------------|--------------|-----------|----------|
| Subtotal third-party revenues | 2,642 | 1,706 | 1,578 | 55 | 8 |
| Intersegment | 6 | 11 | 10 | (45) | 10 |
| Total revenues | 2,648 | 1,717 | 1,588 | 54 | 8 |

Operating expenses (without depreciation and amortization)

Total operating expenses in our Núcleo Mobile Services segment increased by 58% to P\$1,812 million in 2016 from P\$1,149 million in 2015 (mainly due to the appreciation of the Guaraní as compared to P\$ of 46% in 2016) and increased 14% in 2015 from P\$1,010 million in 2014. In line with our increases in revenues, during 2016 and 2015, all items in the cost structure of the Núcleo Mobile Services segment experienced increases. This trend reflected increases in certain costs of acquiring and retaining subscribers, and commissions directly associated with sales and expansions of the customer service staff. Detailed below are the major components of the operating expenses for the years ended December 31, 2016, 2015 and 2014 related to Núcleo Mobile Services segment:

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|-----------------------|------|----------------------------------|-----------|
| | 2016 | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Employee benefit expenses and severance payments | 199 | 129 | 118 | 54 | 9 |
| Interconnection costs and other telecommunications charges | 200 | 154 | 192 | 30 | (20) |

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents

| | 2016 | Years Ended December 31, | | % of Change | |
|--|--------------|--------------------------|--------------|----------------------------------|-----------|
| | | 2015 (P\$ million) | 2014 | 2016-2015 Increase/(Decrease) | 2015-2014 |
| Fees for services, maintenance, materials and supplies | 229 | 152 | 137 | 51 | 11 |
| Taxes and fees with the Regulatory Authority | 82 | 54 | 47 | 52 | 15 |
| Commissions | 295 | 199 | 156 | 48 | 28 |
| Cost of equipment and handsets | 303 | 185 | 112 | 64 | 65 |
| Advertising | 104 | 78 | 78 | 33 | |
| Cost of VAS | 117 | 82 | 64 | 43 | 28 |
| Bad debt expense | 125 | 23 | 20 | 443 | 15 |
| Other operating expenses | 158 | 93 | 86 | 70 | 8 |
| Total Núcleo Mobile Services(1) | 1,812 | 1,149 | 1,010 | 58 | 14 |

(1) Includes intersegment cost of P\$32 million, P\$23 million and P\$27 million in 2016, 2015 and 2014, respectively. These costs are eliminated at the consolidated level.

Employee benefit expenses and severance payments

During 2016, employee benefit expenses and severance payments increased 54% to P\$199 million from P\$129 million in 2015. During 2015, these costs increased 9% from P\$118 million in 2014. Núcleo had 408 employees as of December 31, 2016. As of December 31, 2015 and 2014 it had 413 and 402, respectively.

Interconnection costs and other telecommunication charges

During 2016, interconnection costs and other telecommunication charges increased 30% to P\$200 million from P\$154 million in 2015 and decreased 20% in 2015 from P\$192 million in 2014. The increase in 2016 was mainly due to an increase in TLRD costs. The decrease in 2015 was mainly due to a decrease in TLRD costs.

Fees for services, maintenance, materials and supplies

During 2016, fees for services and maintenance, materials and supplies totaled P\$229 million, representing an increase of 51% from P\$152 million in 2015. During 2015, they increased 11% from P\$137 million in 2014.

Taxes and fees with the Regulatory Authority

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During 2016, taxes and fees with the Regulatory Authority increased 52% to P\$82 million from P\$54 million in 2015 and increased 15% from P\$47 million in 2014. The increase in each year was mainly attributable to the increase in total segment revenues.

Commissions

During 2016, commissions increased 48% to P\$295 million from P\$199 million in 2015. During 2015, commissions increased 28% from P\$156 million in 2014. The increase in 2016 was mainly due to an increase in agent commissions and commissions for distribution of prepaid cards. The increase in 2015 was mainly due to the growth in the subscriber base and an increase in the commissions for distribution of prepaid cards.

Cost of equipment and handsets

During 2016, the cost of equipment and handsets increased to P\$303 million from P\$185 million in 2015, representing an increase of 64%. During 2014, the cost of equipment and handsets was P\$112 million. The increase in 2016 and 2015 was mainly due to the increase of the customer upgrade of mobile handsets as a result of technological advances and new service offerings.

Advertising

During 2016, advertising expenses including media, promotional and institutional campaigns, increased 33% as compared to 2015 and amounted to P\$104 million.

During 2015 and 2014, advertising expenses including media, promotional and institutional campaigns, amounted to P\$78 million.

Table of Contents

Cost of VAS

Cost of VAS increased 43% million to P\$117 million in 2016 from P\$82 million in 2015. Such costs were P\$64 million in 2014.

Bad debt expenses

In 2016 bad debt expenses amounted to P\$125 million, representing an increase of 443% from P\$23 million in 2015 and an increase of 15% in 2015 from P\$20 million in 2014. The major increase in 2016 as compared with 2015 was a consequence of higher incidence of handset sales directly financed by Núcleo to its post-paid and Plan *Control* subscribers.

Other operating expenses

Other operating expenses include accrued expenses such as costs associated with the provision of transportation costs, insurance, energy and costs of site leases.

Other operating expenses increased 70% to P\$158 million in 2016 and increased 8% in 2015 to P\$93 million from P\$86 million in 2014.

Operating income before depreciation and amortization

Operating income before depreciation and amortization was P\$837 million in 2016, P\$568 million in 2015 and P\$578 million in 2014, representing 32%, 33% and 36% of total revenues, respectively. The increase was mainly due to growth in service revenues, partially offset by increases in costs, such as employee benefit expenses and severance payments, fees for services and maintenance, materials and supplies, cost of equipment and handsets and commissions.

Depreciation and Amortization

During 2016, depreciation of PP&E and amortization of intangible assets increased 75% to P\$687 million from P\$392 million in 2015. During 2015, depreciation of PP&E and amortization of intangible assets increased 8% from P\$363 million in 2014. The increase was mainly due to the appreciation of the Guaraní of 46% as compared to P\$ in 2016, and the result of higher investment in PP&E and

intangible assets, partially offset by a reduction in the level of depreciation due to the end of the amortization period for certain assets..

Operating Income

In 2016, our operating income from the Núcleo Mobile Services segment was P\$150 million, representing a decrease of 15% from P\$177 million in 2015, which represent 6% and 10% of total revenues for this segment in 2016 and 2015, respectively. In 2014, our operating income was P\$215 million, representing 14% of total revenues for this segment.

The following table shows our operating income from the Núcleo Mobile Services segment in 2016, 2015 and 2014 and its percentage of total revenues in each year:

| | Years Ended December 31, | | | % of Change | |
|--|--------------------------|---------------------------|-------------|------------------------------------|-------------|
| | 2016 | 2015 (P\$ million / %) | 2014 | 2016-2015 Increase / (Decrease) | 2015-2014 |
| Operating income before depreciation and amortization (1) | 837 | 568 | 578 | 47 | (2) |
| <i>As % of total revenues</i> | <i>32</i> | <i>33</i> | <i>36</i> | | |
| Depreciation and amortization | (687) | (392) | (363) | 75 | 8 |
| <i>As % of total revenues</i> | <i>(26)</i> | <i>(23)</i> | <i>(23)</i> | | |
| Gain on disposal of PP&E | | 1 | | (100) | n/a |
| Operating income | 150 | 177 | 215 | (15) | (18) |
| <i>As % of total revenues</i> | <i>6</i> | <i>10</i> | <i>14</i> | | |

(1) Although it is not specifically defined, this is a permitted measure under IFRS. See Management Overview above for a discussion of the use of this measure.

Financial results, net

During 2016, the Núcleo Mobile Services segment recorded a net financial loss of P\$29 million, compared to a net financial loss of P\$65 million in 2015 and P\$22 million in 2014. The decrease in the

Table of Contents

loss in 2016 was mainly due to lower foreign currency exchange losses. The increase in the loss in 2015 was mainly due to higher foreign currency exchange losses.

Income Tax Expense

During 2016, our Núcleo Mobile Services segment recorded an income tax expense of P\$29 million compared to P\$15 million in 2015 and P\$22 million in 2014. The income tax expense in 2016 was attributable to the recognition of current income tax expense amounting to P\$29 million.

The income tax expense in 2015 was mainly attributable to the recognition of current income tax expense amounting to P\$16 million, which was partially offset by the gain generated by the deferred tax on the temporary differences arising out of the asset and liability valuations according to tax versus financial accounting criteria amounting to P\$1 million.

The income tax expense in 2014 was mainly attributable to the recognition of current income tax expense amounting to P\$25 million, which was partially offset by the gain generated by the deferred tax on the temporary differences arising out of the asset and liability valuations according to tax versus financial accounting criteria amounting to P\$3 million.

Net Income

During 2016, our Núcleo Mobile Services segment reported net income of P\$92 million as compared to P\$97 million during 2015, representing 3% and 6% of total revenues in 2016 and 2015, respectively. In 2014, our net income was P\$171 million, representing 11% of total revenues. The decrease in 2016 was mainly due to a decrease in the operating income as a consequence of a strong increase in depreciation and amortization that offset the improvement in Operating income before depreciation and amortization, and an increase in income tax expense, partially offset by a decrease in the net financial losses. The decrease in 2015 was mainly due to a decrease in the operating income and higher net financial losses, partially offset by lower income tax expense.

Liquidity and Capital Resources

Sources and Uses of Funds

We expect that the main source of Telecom Argentina's liquidity in the near term will be cash flows from Telecom Argentina's operations and the dividends that Personal may pay to it. Telecom Argentina's principal uses of cash flows are expected to be for capital expenditures, operating expenses and dividends to its shareholders. Telecom Argentina expects working capital, funds generated from operations, dividend payments from its subsidiaries and financing from third parties to be sufficient for its present requirements.

We expect that the principal source of Personal's liquidity in the near term will be cash flows from operations, dividends that Núcleo may pay to it and cash flow from financing from third parties. During 2014 and 2015, Personal's working capital was impacted by 3G and 4G licenses acquisitions. Personal's principal uses of cash flows are expected to be for capital expenditures, operating expenses, dividend payments to its shareholders and payment of financial debt, interests and related expenses.

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

Also, the Ordinary and Extraordinary Shareholders' Meeting of Personal held on December 2, 2010, approved the creation of a Medium-Term Notes Global Program for a maximum outstanding amount of US\$500 million or its equivalent in other currencies for a term of five years. On October 13, 2011, the CNV approved this program. Personal's Ordinary Shareholders' Meeting held on May 26, 2016 authorized to extend the due date of the Program until October 31, 2021, and to expand the Program's maximum circulation amount to US\$1,000 million or its equivalent in other currencies. On October 20, 2016, the CNV authorized the extension and expansion of the aforementioned Program through Resolution No. 18,277.

Under this program, on December 10, 2015, Telecom Personal has successfully completed the issuance of Series I and Series II notes for a total nominal value of P\$720.5 million. Additionally, on November 16, 2016 Telecom Personal also completed the issuance of Series III and Series IV notes

Table of Contents

for a total nominal value of almost P\$722.0 million and US\$77.9 million, respectively. See Debt Obligations and Debt Service Requirements below.

Additionally, during October 2016 Personal and the IFC signed a loan agreement for an amount of US\$ 400 million.

We do not expect any implications on the sources of liquidity and the sources of funds as a result of the Reorganization. See Item 4 Information on the Company Introduction Recent Developments The Reorganization.

The table below summarizes, for the years ended December 31, 2016, 2015 and 2014, Telecom's consolidated cash flows:

| | 2016 | Years ended December 31, 2015 (P\$ million) | 2014 |
|---|--------------|---|----------------|
| Cash flows provided by operating activities | 11,365 | 6,812 | 5,721 |
| Cash flows used in investing activities | (11,340) | (9,651) | (9,426) |
| Cash flows provided by (used in) financing activities | 2,828 | 2,950 | (1,340) |
| Net foreign exchange differences on cash and cash equivalents | 222 | 75 | 505 |
| Increase/(Decrease) in cash and cash equivalents | 3,075 | 186 | (4,540) |
| Cash and cash equivalents at the beginning of the year | 870 | 684 | 5,224 |
| Cash and cash equivalents at the end of the year | 3,945 | 870 | 684 |

As of December 31, 2016, 2015 and 2014, we had P\$3,945 million, P\$870 million and P\$684 million in cash and cash equivalents, respectively.

Cash flows from operating activities: The breakdown of the net cash flow provided by operating activities is as follows:

| | 2016 | Years ended December 31, 2015 (P\$ million) | 2014 |
|--|---------------|---|---------------|
| Collections | | | |
| Collections from customers | 55,928 | 41,930 | 34,396 |
| Interests from customers | 366 | 182 | 160 |
| Interests from investments | 59 | 190 | 400 |
| Mobile operators collections | 885 | 843 | 330 |
| Subtotal | 57,238 | 43,145 | 35,286 |
| Payments | | | |
| For the acquisition of goods and services and others | (17,120) | (12,784) | (7,821) |

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| | | | |
|--|-----------------|-----------------|-----------------|
| For the acquisition of inventories | (5,383) | (6,343) | (4,167) |
| Salaries and social security payables and severance payments | (9,113) | (6,885) | (5,146) |
| CPP payments | (393) | (413) | (475) |
| Income taxes (includes tax returns and payments in advance) | (1,700) | (1,631) | (2,277) |
| Other taxes and taxes and fees with the Regulatory Authority | (10,731) | (7,775) | (8,902) |
| Foreign currency exchange differences related to the payments to suppliers | (1,433) | (502) | (777) |
| <i>of which: Inventory suppliers</i> | (295) | (182) | (343) |
| <i>PP&E suppliers</i> | (1,467) | (188) | (311) |
| <i>Other suppliers</i> | (144) | (31) | (154) |
| <i>NDF</i> | 473 | (101) | 31 |
| Subtotal | (45,873) | (36,333) | (29,565) |
| Net cash flow provided by operating activities | 11,365 | 6,812 | 5,721 |

Cash flows used in investing activities were P\$11,340 million, P\$9,651 million and P\$9,426 million in 2016, 2015 and 2014, respectively, and includes the payment for the acquisition of 4G licenses of P\$2,256 million and P\$3,091 million in 2015 and 2014, respectively. The increase of P\$1,689 million in 2016 was mainly due to an increase in PP&E capital expenditures (mainly due to the modernization of the Mobile technology).

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents

Cash flows provided by financing activities were P\$2,828 million and P\$2,950 million in 2016 and 2015, respectively while cash flows used in financing activities were P\$1,340 million in 2014. The decrease in 2016 was mainly due to higher payments of loans and dividends, partially offset by higher proceeds of financial debts. The positive cash flows from financing activities in 2015 as compared to 2014 were mainly due to the increases in proceeds of financial debt to acquire, among others, 4G licenses by P\$2,256 million.

NDF and US Dollar bonds

Due to the existence of commitments denominated in US Dollars as of December 31, 2016, the Company entered into several NDF agreements during 2016 to purchase a total amount of US\$ 7 million. The purpose of these NDF is to eliminate the risks associated to the fluctuation of the future exchange rate and to align the payment currency of Telecom Argentina's and Personal's commitments (hedged item) to its functional currency. As the effect of the fluctuation of the exchange rate over the hedged items is recognized in the Income Statement, changes in the fair value of NDF in 2016 (net gain of approximately P\$2 million) have also been recognized in the Income Statement, within Finance expenses Exchange Differences with counterpart in current assets (Other receivables), maturing in February 2017.

During 2016, Personal entered into several NDF agreements for US\$9 million, maturing in March 2017 in order to hedge the first interest installment of the IFC Loan. These NDF agreements were qualified as effective cash flow hedges for accounting purposes. The Telecom Group recognizes the hedging instruments results, distinguishing between gains and losses of such agreements that generate assets and liabilities, as appropriate, without offsetting balances with different counterparties. As of December 31, 2016, the Telecom Group has a current liability amounting to P\$2 million, of which P\$1 million (before income tax) has been recorded within Other Comprehensive Income and a net loss amounting to P\$1 million has been included in Finance expenses Exchange Differences related to the US\$9 million outstanding NDF to such date, which will mature in March 2017.

During 2016 Personal also settled US\$ 159 million of NDF agreements in US dollars that had as of December 31, 2015, which resulted in a gain of P\$2 million recognized in the Income Statement, within Other operating costs. The purpose of these NDF was also to eliminate the risks associated to the fluctuation of the future exchange rate and to align the payment currency of Personal's commercial commitments (hedged item) to its functional currency.

As part of their financial risk management and reduction of exchange rate risk policies, during 2016 Personal acquired National Government bonds denominated in US dollars (Discount 2033) for a total cost of P\$715 million, which bear interest at a rate of 8.28% per annum, also in US dollars. These bonds were valued at fair value and generated a P\$5 million gain recognized in the Income Statement, within Finance profits Investments. In addition, in 2016, Personal acquired National Government bonds denominated in US dollars, Global 2021 and Bonar 2024, for a total cost of P\$255 million, bearing interest at annual rates of 6.875% and 8.75%, respectively, also in US dollars. These bonds were valued at amortized cost and generated a P\$1 million gain recognized in the Income Statement, within Finance profits Investments.

Additional information regarding Financial Instruments is set forth in Note 20 to our Consolidated Financial Statements.

Debt Obligations and Debt Service Requirements

Telecom Argentina has no indebtedness as of December 31, 2016, except for bank overdrafts amounting to P\$41 million.

The Indebtedness of Telecom Argentina's subsidiaries as of December 31, 2016 was as follows:

Telecom Personal:

On January 28, 2015, Personal entered into a loan with a foreign bank for a total amount of US\$40.8 million (equivalent to P\$353 million at such date). This loan is a 27-months bullet loan with three-month interest payment at a weighted average rate of three-month LIBO plus 8.75% (a financial cost of 9.6309% as of December 31, 2016). The funds were used for the acquisition of inventories. Subsequently, on February 7, 2017, with the maturity of the interest service, Personal proceeded to fully prepay the loan, paying US\$40.8 million in capital (equivalent to P\$643 million), US\$1 million of

Table of Contents

interest (equivalent to P\$16 million) and US\$0.3 million in pre-cancellation fees (equivalent to P\$5 million).

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

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

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

The balance of these loans as of December 31, 2016 amounted to approximately P\$6,953 million. During 2017, Personal entered into various hedging agreements (NDF) to cover fluctuations in the LIBOR rate of the loan with IFC. These NDF allow fixing the variable rate to be set for the life of the loan.

Additionally, in April 2017, Personal and the Inter-American Investment Corporation (*IIC*), a member of the Inter-American Development Bank (*IDB*) Group, signed a loan agreement (*IIC Loan*) for an amount of US\$100 million and for a six year period, payable in 8 equal half-yearly installments since the 24th month, with a 6 month LIBO rate + 400bp. The funds of this loan will be allocated to deploy the 4G network and for financing working capital and other financial needs. The loan terms include standard commitments and covenants for this type of financial transactions.

On December 10, 2015 Personal issued notes in two series for a total nominal amount of P\$720.5 million, under the Medium Term Notes Global Program mentioned in *Sources and Uses of Funds* above, with the following terms and conditions:

- Series I: with a maturity of 18 months from the date of issuance and settlement for a nominal value of P\$571.5 million, at a combined rate (fixed rate of 28.5% up to the 6th month and variable rate from the 7th month, BADLAR rate + 375bps).
- Series II: with a maturity of 36 months from the date of issuance and settlement, with a nominal value of P\$149 million, at a combined rate (fixed rate of 28.75% up to the 9th month and variable rate from the 10th month, BADLAR rate + 400bps).

Additionally, on November 16, 2016 Personal issued notes in two series for a total nominal amount of almost P\$722.0 million and US\$77.9 million, also under the Medium Term Notes Global Program mentioned in Sources and Uses of Funds above, with the following terms and conditions:

- Series III, denominated in pesos at a floating rate and with a maturity of 18 months from the date of issuance and settlement, and for a nominal value of P\$722 million, at a variable rate (BADLAR Privada rate + 290bps).
- Series IV, denominated in U.S. dollars, at a fixed rate and with a maturity of 24 months from the same date of issuance and settlement as Series III, for a nominal value of US\$77.9 million, at a nominal fixed annual rate equivalent to 4.85%.

The aforementioned notes have a local risk rating issued by FIX SCR S.A. (Fitch Ratings) of AA+ (arg) , due to the credit quality and financial strength of Personal.

The funds arising from the Series I and II notes were used to refinance short-term liabilities through the partial settlement of bank overdrafts that Personal had taken to finance the acquisition of 3G and 4G frequencies bands, and the Series III notes and Series IV notes funds were applied to the refinancing of short-term liabilities.

The balance of Series I, II, III and IV notes of Personal as of December 31, 2016 amounted to approximately P\$2,690 million. Finally, as of December 31, 2016 Personal has bank overdrafts amounting to P\$1,672 million (including P\$6 million of interest).

In connection with the Reorganization, Telecom will assume, by universal succession, all of Personal's rights and obligation arising from the Notes and their trust or fiscal agency agreements, if

Table of Contents

any. The Reorganization is a merger authorized by the terms and conditions of the Notes and their holders have no opposition rights with respect to the Reorganization. For information on the Reorganization, see Item 4 Information on the Company Introduction Recent Developments The Reorganization.

Núcleo:

As of December 31, 2016, Núcleo's outstanding debt (bank loans and bank overdrafts) is denominated in Guaraníes and amounted to approximately P\$554 million.

Additional information regarding terms and conditions of the Telecom Group's loans as of December 31, 2016 is set forth in Note 12 to our Consolidated Financial Statements.

Liquidity

The liquidity position for each of Telecom Argentina, Personal and Núcleo is and will be significantly dependent on each individual company's operating performance, its indebtedness, capital expenditure programs and receipt of dividends, from its subsidiaries, if any.

The Group's working capital breakdown and its main variations are disclosed below:

| | 2016 | 2015 (P\$ million) | Variation |
|--|----------------|-----------------------|--------------|
| Trade receivables | 7,577 | 5,663 | 1,914 |
| Other receivables | 1,011 | 1,336 | (325) |
| Inventories | 1,278 | 2,193 | (915) |
| Current liabilities (not considering financial debt) | (13,245) | (13,463) | 218 |
| Operative working capital - negative | (3,379) | (4,271) | 892 |
| <i>As % of Revenues</i> | <i>(6.4)%</i> | <i>(10.5)%</i> | |
| Cash and cash equivalents | 3,945 | 870 | 3,075 |
| Investments | 1,751 | 1,430 | 321 |
| Current financial debt | (3,266) | (3,451) | 185 |
| Net Current financial asset / (debt) | 2,430 | (1,151) | 3,581 |
| Negative working capital (current assets - current liabilities) | (949) | (5,422) | 4,473 |
| Liquidity rate | 0.94 | 0.68 | 0.26 |

The Telecom Group has a typical working capital structure corresponding to a company with intensive capital that obtains spontaneous financing from its suppliers (especially PP&E) for longer terms than those provided to its customers. According to this, the negative working

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capital amounted to P\$949 million as of December 31, 2016 (decreasing P\$4,473 million as compared to December 31, 2015), improving its level in relation to revenues (6.4% of consolidated revenues as of December 31, 2016 as compared to 10.5% of consolidated revenues as of December 31, 2015).

During the fiscal year 2016 the Telecom Group renewed its demand for funds coming from the financial and capital markets in Argentina, which allowed the Company to finance the growth of its PP&E and Intangible assets at very competitive rates. The Telecom Group has an excellent credit rating (the notes issued by Telecom Personal were rated AA + (arg) by FIX SCR SA) thanks to its solid cash flows provided by operating activities and reduced levels of leverage. Moreover, total working capital (current assets - current liabilities) amounted to a net debt of P\$949 million as of December 31, 2016, due to a decrease in negative operative working capital and of the current net financial debt of P\$892 million and P\$3,581 million, respectively.

These increases in absolute terms have enhanced our consolidated liquidity ratio (current assets/current liabilities), which amounted to 0.94.

The Group has several financing sources and several offers from first-class international institutions to diversify its current short-term funding structure, which includes accessing to domestic and international capital market and obtaining competitive bank loans in what relates to terms and financial costs.

The low financial debt of the Group makes it possible to obtain financial resources for longer terms at a reasonable cost. The Group's management evaluates the national and international macroeconomic context to take advantage of market opportunities that allows it to preserve its financial health for the benefit of its investors.

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents

The Telecom Group manages its cash and cash equivalents and its financial assets, matching the term of investments with those of its obligations. The average term of its investments should not exceed the average term of its obligations. Cash and cash equivalents position is invested in highly-liquid short-term instruments through first-class financial entities.

The Telecom Group maintains a liquidity policy that results in a significant volume of available cash through its normal course of business as it is shown in the consolidated statement of cash flows. As of December 31, 2016, Telecom Argentina and its consolidated subsidiaries had approximately P\$3,945 million (equivalent to US\$250 million) in cash and cash equivalents (in 2015, P\$870 million or the equivalent of US\$67 million). Of this amount, approximately P\$244 million of cash and cash equivalents was held by Telecom Argentina on a stand-alone basis. The Telecom Group has approximately P\$66 million of restricted cash in connection with legal proceedings. Such restricted cash has been classified as Other Receivables, net on our balance sheet. The Telecom Group has credit lines with banks and a global notes program that allow the financing of its short-term obligations and its investment plan, in addition to the expected cash flow in the coming years.

Telecom Argentina's Board of Directors, at its meeting held on March 16, 2017, called an Ordinary and Extraordinary Shareholders' meeting to be held on April 27, 2017, to consider among other issues the allocation of Telecom Argentina's retained earnings as of December 31, 2016, (P\$3,975 million). The proposal of the Board of Directors is to allocate the total amount of said retained earnings to the Reserve for Future Cash Dividends. In addition, the Board of Directors proposed the withdrawal of P\$2,730 million from the Voluntary Reserve for Capital Investments and the withdrawal of the Voluntary Reserve for Future Investments (P\$2,904 million), increasing in turn the Reserve for Future Cash Dividends by P\$5,634 million.

Our ability to generate sufficient cash from our operations in order to satisfy our indebtedness and capital expenditure needs may be affected by macroeconomic factors influencing our business, including, without limitation, the exchange rate of Argentine Pesos to U.S. dollars and rates of inflation; among others. These factors are not within our control. Certain statements expressed in this section constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties, including those described in this Annual Report in Item 3 Key Information Risk Factors. Actual results may differ materially from our expectations described above as a result of various factors.

Capital Expenditures

We estimate that our capital expenditures for the year 2017 will be approximately 20% of consolidated revenues.

In the Personal Mobile Services segment, the capital expenditures were mainly oriented towards the deployment of the 4G technology and the extension of the coverage and capacity of our network in numerous cities across Argentina. The objectives were reached mainly through new sites, together with replacement plans and the upgrade of the current network. At the same time, new investments were made in connection with the swap of the Core Platform.

In the Fixed Services segment, specifically in the access area, the investment in deployment of new technologies continued to provide higher bandwidth to customers, mainly over Gigabit-capable Passive Optical Network (GPON) technology whose deployment has begun in 2016 and continued with the deployment of FTTC.

Following the strategy of previous years, in the transportation area, investments were made in the deployment of interurban trunk optical fiber, the increase in the capacity and security of the WDM (Dense Wavelength Division Multiplexing) Centuri3n network, the increase in the capacity of the Backbone IP and the addition of new POPs of content.

Also, investments continued in the installation of equipment for the Metro Ethernet network and the evolution of the capacity and capillarity of regional transportation, especially on the Packet Transport Network.

In both business segments, major investments were made on IT projects such as the implementation of a new rating system by the end of 2016. In addition, the Company started to contract the suppliers for the new systems of customer relationship management, order manager, billing and collection.

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents

See Item 3 Key Information Risk Factors Risks associated with Telecom and its Operations We operate in a competitive environment that may result in a reduction in our market share in the future. We expect to finance our capital expenditures through cash generated from our operations, cash on hand and financing from third parties; therefore, our ability to fund these expenditures is dependent on, among other factors, our ability to generate sufficient funds internally. Telecom's ability to generate sufficient funds for capital expenditures is also dependent on its ability to increase its service prices, the increase of its operating costs due to inflation and the increase of the cost of imported materials as they may increase in peso terms (as a result of the decline in the peso/U.S. dollar exchange rate and higher inflation).

Taxes

Turnover Tax

Under Argentine tax law, Telecom is subject to a tax levied on gross revenues. Rates differ depending on the jurisdiction where revenues are earned for tax purposes. Rates in effect ranged from 2.5% to 8.0% for the years ended December 31, 2016, 2015 and 2014, depending on the jurisdiction or goods and services subject to the tax.

Income Tax

Our income tax rate is currently 35% of net taxable income for the companies located in Argentina, 10% for Núcleo and Envíos and 39.5% (34% Federal Tax and 5.5% State Florida Tax) for Telecom Argentina USA. The amount of income subject to tax is calculated according to tax regulations which contain a different methodology for calculating net taxable income than the methodology used for the preparation of our Consolidated Financial Statements under IFRS. The differences between the methodology of computing income under the tax regulations and under IFRS make it difficult to determine the taxable net income from our income statements. For instance, some deductions from income normally accepted for accounting purposes are not deductible and, accordingly, must be added back to income for tax purposes.

Pursuant to Law No. 26,893, *dividends* and other profits paid in cash or in kind except for stock dividends or quota dividends by companies and other entities incorporated in Argentina referred to in the Argentine Income Tax Law (the Income Tax Law), Sections 69 (a)(1), (2), (3), (6) and (7), and Section 69(b), were subject to income tax at a 10% rate except for those beneficiaries that were domestic corporate taxpayer. Law No. 27,260 repealed this withholding tax as of July 23, 2016. Consequently, there is currently no withholding tax levied on dividends distributed to either Argentine or non-Argentine resident shareholders.

Additionally, under Argentine Income Tax Law, a corporation that makes a distribution of dividends to its shareholders in excess of the amount of its accumulated net taxable income at the close of the previous taxable year, as determined by application of the Argentine Income Tax Law, shall have to withhold a 35% tax from such excess. This withholding income tax is known as the equalization tax. See Item 10 Additional Information Taxation Argentine Taxes Taxation of Dividends.

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Tax on cash dividends received from a foreign subsidiary is calculated according to the statutory income tax rate. As per Paraguayan tax law, an additional income tax rate of 5% is imposed on dividends that are paid by a Paraguayan company. Additionally, under such law, when dividends are being paid to foreign shareholders, there is a withholding tax of 15%, which is deducted from the amounts which are paid to such shareholders.

As per Argentine tax law, income tax paid abroad and withholding tax are recognized as tax credit with certain quantitative limits.

Net losses in Argentina can generally be carried forward and applied against future taxable income for five years. However, Paraguayan law does not permit the carry-forward of such losses.

Thin Capitalization Rules

Argentine Law No. 25,784, modified the limitation on the deduction of interest expense by stating that the limit will only be applied to interest expense on debt owed to non-resident entities that control the borrowing entity (except for interest expense subject to the 35% withholding tax) in proportion to the amount of debt that exceeds by two times the company's equity, and the excess of interest over this ratio will be treated as dividend payments. During fiscal years 2016, 2015 and 2014, Telecom's

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND
PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents

deduction of interest expenses was not limited because Telecom was able to meet the conditions required for such deduction.

Tax on Minimum Presumed Income

Our companies located in Argentina are required to pay an amount equal to the greater of the income tax or the tax on minimum presumed income. The tax on minimum presumed income is computed based on 1% of the value of our assets. The value of our assets is determined in accordance with the criteria established under the tax laws. The amount of any income tax paid during the year may be applied against the tax on minimum presumed income that would be payable in such year. The amount of any tax on minimum presumed income paid in excess of the income tax for such year may be carried forward for a period of up to ten years. This excess may be treated as a credit to be applied against the income tax payable in a future year to the extent the tax on minimum presumed income for the year does not exceed income tax payable for such future year. During fiscal years 2016, 2015 and 2014, income tax was higher than tax on minimum presumed income. Shares and other equity participations in companies subject to the tax on minimum presumed income are exempt from the tax on minimum presumed income.

According to Law No. 27,260, Tax on Minimum Presumed Income is abolished for fiscal years beginning from January 1, 2019.

Value Added Tax (VAT)

VAT does not have a direct impact on our results of operations. VAT paid by us to our suppliers is applied as a credit toward the amount of VAT charged by Telecom to its customers and the net amount is passed through to the Argentine government. VAT rates are 21%, 27% and 10.5%, depending on the type of the transaction and tax status of the customer.

The import of services (including financial services) by Argentine VAT taxpayers registered for VAT purposes, or *responsables inscriptos*, such as Telecom Argentina and Personal, is subject to VAT. In the case of loans, if the lender is a bank or a financial entity located in a country whose central bank has adopted the Banking Supervision Standards of the Basel Committee, the rate is 10.5%. If the foreign lender is one other than those mentioned above, the rate is 21%.

The burden of paying VAT is borne by the Argentine taxpayer.

Law No. 27,346 states that since January 1, 2017, VAT for Argentinean residents, such as Telecom Argentina and Telecom Personal will be considered *responsables sustitutos* (substitutes) of the VAT tax that levies services rendered in Argentina by non-residents.

Tax on Deposits to and Withdrawals from Bank Accounts

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The tax on deposits to and withdrawals from bank accounts under Law No. 21,526 applies to certain deposits to and withdrawals from bank accounts with Argentine financial institutions and to other transactions that, due to their special nature and characteristics, are similar or could be used in lieu of a deposit to or withdrawal from a bank account. Therefore, any deposit to or withdrawal from a bank account opened in an institution regulated by Law No. 21,526, or any transaction deemed to be used in lieu of a deposit to or withdrawal from a bank account, is subject to the tax on deposits and withdrawals unless a particular exemption is applicable. The tax rate in effect since August 1, 2001 has been 0.6% of the transaction volume.

During 2016, 2015 and 2014, we charged to our income statement P\$539 million, P\$403 million and P\$343 million, respectively, of this tax.

On February 6, 2003, the Ministry of Economy and Public Finance, through General Resolution No. 72/03, authorized us to increase the Basic Telephone Services reflecting the impact of IDC. The Company determined an amount of approximately P\$23 million had not yet been recovered that arose prior to the issuance of Resolution No.72/03 and that was not used to offset payment of other taxes. Such amount was recorded under Other receivables during 2007 and can be offset with existing and/or future regulatory duties. See Item 4 Information on the Company Regulatory and Legal Framework Regulatory Framework Tax on deposit to and withdrawals from bank accounts charged to customers.

Decree No. 534/2004 provides that owners of bank accounts subject to the general tax rate of 0.6% may take into account as a tax credit 34% of the tax originated in credits on such bank accounts.

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND
PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents

This amount may be computed as a credit for the Income Tax and Tax on Minimum Presumed Income. The amount computed as a credit is not deductible for income tax purposes.

Personal Assets Tax

Argentine companies, such as us, have to assess and pay the personal assets tax corresponding to their shareholders that are Argentine individuals and non-Argentine resident persons (natural and legal persons). The tax rate in effect through December 31, 2015 was 0.50%. As of December 31, 2016, Law No. 27,260 lowered the rate to 0.25%, which is to be assessed on the proportional net worth value (*valor patrimonial proporcional*), of the shares as per the Argentine entity's last financial statements prepared under Argentine GAAP. Pursuant to the Personal Assets Tax Law, an Argentine company is entitled to seek reimbursement for such paid tax from the applicable Argentine domiciled individuals and/or foreign domiciled shareholders. As a result, until shareholders reimburse Telecom Argentina for the amounts paid on their behalf, the payment of this tax constitutes a receivable for Telecom Argentina.

Telecom Argentina has, from time to time, requested that its shareholders reimburse the amounts of personal assets tax paid on their behalf and has received partial reimbursement of such taxes. The amount paid by Telecom Argentina and pending collection from its shareholders as of December 31, 2016, was approximately P\$26 million, of which P\$18 million are included in the allowance for doubtful accounts, based on the recoverability assessment made by Telecom Argentina. Whenever applicable, personal assets tax paid on behalf of Telecom Argentina's shareholders is deducted from the cash dividend payment.

Pursuant to Law No. 27,260, Argentine companies that have properly fulfilled their tax obligations during the two fiscal year periods prior to the 2016 fiscal year and complied with certain other requirements may qualify for an exemption from the personal asset tax paid on behalf of the Shareholders for the 2016, 2017 and 2018 fiscal years. The request for this tax exemption should be filed before March 31, 2017. Telecom Argentina has filed the request. Notwithstanding, we cannot assure that in the future, Telecom Argentina can fulfill those requirements and maintain the referred exemption.

Other Taxes and Levies

We are subject to a levy of 0.5% of our monthly revenues from telecommunications services. The proceeds of this levy are used to finance the activities of the Regulatory Bodies. The amount of this levy is included in our consolidated income statement within Taxes and fees with the Regulatory Authority.

Law No. 25,239 imposes a tax on Personal of 4% (tax on mobile and satellite services) of amounts invoiced excluding VAT but including the excise tax, which results in an effective tax rate of up to 4.167%.

Law No. 26,539 amends the excise tax and establishes that the importation and sale of technological and computer goods, including mobile phones, is subject to the excise tax at a rate of 17%, resulting in an effective tax rate of up to 20.48%, effective from December 1, 2009.

Since the beginning of 2001, telecommunication services companies have been required to pay a Universal Service tax to fund Universal Service requirements. See Item 4 Information on the Company Regulatory and Legal Framework Regulatory Framework Universal Service Regulation.

Law No. 26,573, which was regulated in 2010, imposes a levy of 1% of the monthly revenues from telecommunication services, excluding prepaid services, which must be collected from the customers. The proceeds of this levy are used to finance the activities of the Ente Nacional de Alto Rendimiento Deportivo ENARD (National Board of High Performance Sport).

Stamp tax is a provincial tax that is levied based on the formal execution of public or private instruments. Documents subject to stamp tax include, among others, various types of contracts, notarial deeds and promissory notes. Each province and the City of Buenos Aires has its own stamp tax legislation. Stamp tax rates vary according to the jurisdiction and type of agreement involved.

Local municipalities establish various taxes and fees such as Safety and hygiene , Habilitation and inspection of structures and Advertising rates, among others.

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents

Personal is subject to a radioelectric spectrum fees that are paid to the Regulatory Authority for the use of the radio spectrum.

Research and Development, Patents and Licenses, etc.

None.

Trend Information

We believe that the fiscal year 2017 will be a more favorable macroeconomic context in terms of level of activity, salary and consumption recovery. In particular, a significant reduction of the inflation rate is expected as compared to fiscal year 2016. Regarding regulatory matters, it is expected that some adjustments will continue to be made with respect to the telecommunications industry regulations, promoting convergence of ICT services and industry competition. We are optimistic that the Regulatory Authority will provide symmetrical rules between different operators that promote long-term investments and the closing of claims started in previous years.

We expect moderate economic growth rates for 2017 amounting to approximately 3.5% annually (GDP in real terms), with inflation rates that should not exceed 20% annually. However, we believe that the demand of our products and services will remain at positive levels, especially those product and services related to the use of the Internet, and in particular of those related to innovative offers associated with convergence at home, which the Company will continue launching in order to provide to most of our customers with the benefits of enjoying our services at their home or company, or while mobile through Personal services. We will continue working to enrich our innovative offers with products and services to encourage the increase of our ARPU in all business segments, with pricing policies segmented to align with each type of customer, without neglecting the global profitability of our business.

In 2017 we expect the evolution of fixed telephone to continue in line with the trend in recent years, influenced by the maturity of the market.

In order to continue improving the Internet at home, UBB (high bandwidth) will continue to be developed with new technologies that replace copper with fiber optic in different network points, allowing our customers to access to speeds over 100 mgs. These infrastructure investments will not only improve the existing Internet services, but they will also allow the Telecom Group to improve its positioning and offers when the distribution of content in real time (in particular TV) begins, in the terms and markets allowed by regulations.

We will continue developing convergent offers, under modalities allowed by current defense of competition regulations, providing our customers with Internet services, fixed and mobile calling, with differential benefits provided by joint subscribing services. In this way, the level of service subscriptions will be maximized when we leverage the positioning of other services and of our competitiveness in each area of the country. Simplification of service offerings focused on data and Internet services will continue characterizing our positioning in mobile services.

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In the mobile business we will continue focusing on service quality and the nationwide deployment of the 4G LTE network, improving coverage and network speeds. 4G services will also be expanded with new frequencies and more investment, continuing with technological conversion and the expansion of the network capacity, obtaining LTE capacity in over 80% of our sites. The ambitious investment plan assumes that we will be able to develop these activities in a symmetrical competition framework with the remaining operators. The distribution of content in real time through mobile devices will be one of our competitive advantages in providing this service.

For the high value mobile segment, we will seek to improve the user experience, working on simplifying customer service and management, through more flexible and differential processes. These actions will also go along with the convenience of the offer and a 1 to 1 relationship model, repositioning Personal Black as a different offer with special benefits for high value subscribers.

We plan to work more deeply at a regional level, advancing with a differentiated offering according to the competitiveness level of each region, to enhance positioning and/or leveraging of the customer base development on convergent customers.

For prepaid subscribers, we plan to continue working on a social network-oriented offer, coupled

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents

with real-time campaigns that promote our prepaid subscribers base and improve ARPU of such subscribers.

Our mobile subscribers' loyalty program, *Club Personal*, will maintain its goal of extending the customer's life cycle through an interactive, continuous and positive relationship. In 2017, this program will join a single loyalty club of the Telecom Group through a cross-selling strategy that will allow the customer to have access to different offers and exclusive benefits by choosing us as an integral ICT provider.

Quality in customer service will continue to focus on the efficiency of communication channels and care segmentation with a central customer vision. It will also continue promoting the self-management channel (through the use of social networks), to simplify the administration and control of each customer of its services.

For the corporate segment, we will continue to focus on the provision of converged solutions, with a portfolio that we believe will provide customers with next-generation datacenter services, as well as Value Added Services associated with cloud computing and security solutions.

The corporate reorganization between Sofora, Nortel, Telecom Argentina and Personal, with Telecom Argentina as the surviving company, will seek to simplify the shareholding structure of Telecom Argentina. See **Item 4 Information on the Company Introduction Organizational Structure Recent Developments The Reorganization**.

We will continue working on our goal of promoting operational excellence, and looking for a better use of the Company's physical, human and technological resources, so as to continue meeting the expectations of our investors' profitability. In order to achieve this goal, we have developed an ambitious multi-year business plan that foresees for 2017, increases in services revenues over the projected inflation rate, improvements in profit margins over consolidated revenues, the execution of a capital expenditures plan of approximately 20% of such revenues.

The strategy implemented by the Company's Management lays out the basic necessary fundamentals for the Telecom Group to pursue its objectives of continuously improving the quality of service, strengthening its market position and adequately rewarding the invested capital of those who finance our businesses. Our strategy and important investment plan are based on this forward-looking vision and on the commitment of the Telecom Group with our country and its people.

Contractual Obligations

Our consolidated contractual obligations and purchase commitments as of December 31, 2016 were as follows:

| Less than 1 year | 1-3 years | 3-5 years | More than 5 years | Total |
|---------------------|-----------|-----------|----------------------|-------|
|---------------------|-----------|-----------|----------------------|-------|

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(in millions of Argentine Pesos)

| | | | | | |
|---------------------------------|---------------|--------------|--------------|--------------|---------------|
| Debt obligations (1) | 3,869 | 4,907 | 3,560 | 1,652 | 13,988 |
| Finance Lease Obligations | 49 | 12 | | | 61 |
| Operating lease obligations | 636 | 849 | 320 | 74 | 1,879 |
| Purchase obligations (2) | 5,637 | 270 | 118 | 41 | 6,066 |
| Other long-term liabilities (3) | 171 | 150 | 66 | 137 | 524 |
| Total | 10,362 | 6,188 | 4,064 | 1,904 | 22,518 |

-
- (1) Includes P\$2,076 million of future interest.
- (2) Other than operating lease obligations. It includes PP&E purchase obligations, inventories purchase obligations, and other services purchase obligations, among others.
- (3) Includes voluntary retirement program, pension benefits and other long-term payables.

Additional relevant information on the possible application of IAS 29 in the Telecom Group as of December 31, 2016, 2015 and 2014

As explained in Note 1.e) to our Consolidated Financial Statements, we believe that the periodic assessment of the macroeconomic environment of the countries in which the Company operates and the possible restatement of financial statements in accordance to IAS 29, represent an element of care and concern for investors, analysts and regulators of capital markets where Argentine companies list

Table of Contents

their equity and debt securities, related to the impact that such restatement might have on their financial position and results of operations of Argentine companies, including the Telecom Group.

In Argentina, section 62 of LGS *in fine*, Adjustment section, provides that financial statements corresponding to full years or intermediate periods within the same year must be stated in constant currency. This legal requirement was last applied by Argentine companies in February 2003, when PEN Decree No. 664/03 was issued, preventing Controlling Authorities from receiving financial statements restated or adjusted by inflation. From 2003 to 2015, although inflation levels were increasing, they had not reached levels that required accounting standards to reinstall the accounting inflation adjustment.

Since the mandatory application of IFRS for issuers listed in public offering (2012), year 2016 was the first one to experience inflation rates, which, combined with those of the previous two years, exceeded the expected quantitative indicator stated in section e) of IAS 29. Consequently, since fiscal year 2016, the application of inflation adjustment under IFRS for companies with operations in Argentina and having the Argentine peso as its functional currency has become a significant matter.

By the end of 2016, our Management acknowledged certain assessments performed by international audit firms and the IPTF which have agreed that, for 2016, the Argentine economy does not qualify as hyperinflationary in accordance with IAS 29 or highly inflationary in accordance with US GAAP. As a result, and as explained in Note 1.e) to our Consolidated Financial Statements, we continued to prepare its financial statements in historical currency as provided by IFRS in those circumstances.

However, as inflation rates reached high levels in the first half of 2016, the Company prudently estimated the impact of the possible financial information restatement provided by IAS 29 and disclosed it in the notes to its interim financial statements as of June 30, 2016 and September 30, 2016.

While Management understands that in 2017 inflation rates will be significantly reduced, IAS 29 and the IPTF recommended Argentine issuers to continue monitoring the Argentine economy qualification as highly inflationary (or not). Given the retroactive nature of the potential financial information restatement, we provide to our stakeholders the following aggregate estimation of IAS 29 as applied for the amounts reported in accordance with IFRS as of December 31, 2016, 2015 and 2014, taking into account that the restatement for inflation should be made from February 2003 only for Argentine entities of the Telecom Group and using the IPIM evolution published by the INDEC (which increased by approximately 513% in the period from February 2003 to December 2016, assuming an inflation rate of 7.8% from November to December 2015 period, as explained in Note 1. e) to our Consolidated Financial Statements.

The table below shows the evolution of the consolidated shareholders' equity estimating that IAS 29 is applied for the years 2016, 2015 and 2014:

| Consolidated statements of changes in equity restated for inflation according with IAS 29 (*) (in billions of Argentine pesos and in constant currency as of December 31, 2016) | 12/31/16 | 12/31/15 | 12/31/14 |
|--|-------------|-------------|-------------|
| Equity at the beginning of the year | 35.2 | 33.5 | 32.9 |

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| | | | |
|--|-------------|-------------|-------------|
| Dividends | (2.3) | (1.3) | (2.2) |
| Net income | 1.4 | 2.9 | 2.8 |
| Other Comprehensive Results | (0.2) | 0.1 | |
| Comprehensive Income | 1.2 | 3.0 | 2.8 |
| Equity at the end of the year applying IAS 29 | 34.1 | 35.2 | 33.5 |
| <i>Capital + Adjustment of Capital</i> | 22.5 | 22.5 | 22.5 |
| <i>Treasury shares acquisition cost</i> | (1.0) | (1.0) | (1.0) |
| <i>Legal Reserve + Special reserve for IFRS implementation</i> | 2.9 | 2.9 | 2.9 |
| <i>Voluntary Reserves + Retained Earnings</i> | 9.4 | 10.3 | 8.7 |
| Other Comprehensive Results | (0.2) | | (0.1) |
| Attributable to Telecom Argentina (Controlling Company) | 33.6 | 34.7 | 33.0 |
| Attributable to non-controlling interest | 0.5 | 0.5 | 0.5 |

(*) These figures represent the best estimation of the Management as of the date of this Annual Report. An estimation of the restatement of financial statements with more detail and precision as required by IAS 29 could generate different figures. However, the Management believes that the figures would be similar to those presented in the table above with the same trends and impacts. The estimation includes the effect of the adjustment for inflation not taxable/deductible under income tax law, which was recorded as a temporary difference resulting in a deferred tax liability.

Table of Contents

The table below shows a brief reconciliation of the main differences reported between amounts according to IFRS and those that would be required applying IAS 29 for 2016 and comparative years:

| Equity reconciliation between IFRS and possible application of IAS 29(*) (in billions of Argentine pesos and in constant currency as of December 31, 2016) | 12/31/16 | 12/31/15 |
|---|-------------|-------------|
| Consolidated equity according to IFRS included in the Statements of Financial Position | 19.9 | 17.6 |
| <u>Eventual Inflation adjustment effects provided by IAS 29</u> | | |
| Inventory restatement | 0.1 | 0.9 |
| PP&E restatement | 15.2 | 19.2 |
| Intangible asset restatement | 6.8 | 7.5 |
| Deferred income tax liability from non-monetary items (non-taxable) restatement | (7.9) | (6.3) |
| Previous year monetary items restatement for comparative purpose | | (3.7) |
| Total inflation adjustments effects of IAS 29 | 14.2 | 17.6 |
| Consolidated equity as of December 31, 2016 applying IAS 29 | 34.1 | 35.2 |

Consolidated equity would have increased because of the restatement of non-monetary items located in Argentina (Inventories, PP&E and Intangible assets), net of the income tax deferred liability related to the non-deduction of such restatement.

| Consolidated Net income reconciliation between IFRS and possible application of IAS 29 (*) (in billions of Argentine pesos and in constant currency as of December 31, 2016) | 12/31/16 | 12/31/15 | 12/31/14 |
|---|--------------|--------------|--------------|
| Consolidated net income according to IFRS included in the Income Statements | 4.0 | 3.4 | 3.7 |
| <u>Eventual Inflation adjustment effects provided by IAS 29</u> | | | |
| Sales restatement | 4.1 | 20.3 | 24.2 |
| Other income restatement | 0.1 | 0.1 | |
| Operating costs (without depreciation and amortization) restatement | (3.8) | (15.1) | (18.2) |
| Operating income before D&A effect | 0.4 | 5.3 | 6.0 |
| Depreciation and amortization and PP&E impairment restatement | (4.8) | (5.4) | (5.4) |
| Operating income effect | (4.4) | (0.1) | 0.6 |
| Net Financial income (costs) restatement | (0.2) | (0.4) | 0.2 |
| REI (Inflation adjustment) restatement | 3.9 | 2.4 | 1.6 |
| Income before income tax effect | (0.7) | 1.9 | 2.4 |
| Income tax restatement | (1.9) | (2.4) | (3.3) |
| <i>Of which inflation adjustment accounting effect (non-taxable)</i> | <i>(1.8)</i> | <i>(0.6)</i> | <i>(0.8)</i> |
| Total inflation adjustments effects of IAS 29 | (2.6) | (0.5) | (0.9) |
| Consolidated net income applying IAS 29 | 1.4 | 2.9 | 2.8 |
| <i>Attributable to Telecom Argentina</i> | <i>1.4</i> | <i>2.9</i> | <i>2.7</i> |
| <i>Attributable to non-controlling shareholders</i> | | | <i>0.1</i> |

Net income for the years reported would be reduced mainly due to the restatement of depreciation and the consumption of non-monetary assets (which restated value increased considerably) and the non-deduction of income taxes of those higher depreciation and consumption of non-monetary assets. Financial results would instead be benefited from a positive REI (Result from Inflation Exposure) in all years reported since the Telecom Group has a net liability position. Operating income before D&A, in margin over sales terms, would face slight declines as

compared to historical amounts reported according to IFRS and operating income margin over sales would be deteriorated in 2016, 2015 and 2014 as a result of higher restated depreciations.

Off-Balance Sheet Arrangements

None.

Safe Harbor

See the discussion at the beginning of this Item 5 and **Forward-Looking Statements** in the introduction of this Annual Report, for forward-looking statement safe harbor provisions.

PART I - ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

TELECOM ARGENTINA S.A.

Table of Contents**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****The Board of Directors**

Management of the business of the Telecom Group is vested in the Board of Directors. Telecom Argentina's bylaws provide for a Board of Directors consisting of (i) no fewer than three and no more than eleven directors and (ii) no more than eleven alternate directors. As of the date of this Annual Report, Telecom Argentina has eleven directors and seven alternate directors. Four of the directors and two of the alternate directors qualify as independent directors under SEC regulations. Six of the directors and five of the alternate directors also qualify as independent directors under CNV rules. According to Telecom Argentina's bylaws, the Board of Directors has all of the required authority to manage the corporation, including those for which the law requires special powers. The Board of Directors operates where there is a quorum of the absolute majority of its members and resolves issues by simple majority of votes present. According to Telecom Argentina's bylaws, the chairman of the Board of Directors (the Chairman) has a double vote in the case of a tie. Under CNV regulation, in order to be independent, a director must neither be employed by, nor affiliated with, Telecom Argentina, Nortel, Sofora, W de Argentina Inversiones, the Telecom Italia Group until March 8, 2016 or with Fintech since March 8, 2016 (See Item 7 Major Shareholders and Related Party Transactions Major Shareholders Shareholders of Nortel). Directors and alternate directors are normally elected at annual ordinary general meetings of shareholders (Annual Ordinary Shareholders Meetings) and serve a renewable three-year term. None of Telecom Argentina's directors have services contracts with Telecom Argentina (or any subsidiary) providing for benefits upon termination of employment as a director.

Because a majority of our shares are owned by Nortel, Nortel, as a practical matter, may have the ability to elect the majority of our directors and alternate directors. In the absence of a director, the corresponding alternate director may attend and vote at meetings of the Board of Directors.

See Item 7 Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreement for a description of certain agreements relating to the appointment of members of the Board of Directors.

The following table lists our directors and alternate directors as of December 31, 2016 and, otherwise mentioned, as of the date of this Annual Report:

| Name | Position on the Board of Directors | Date Director joined the Board of Directors |
|----------------------------------|---|--|
| Mariano Marcelo Ibáñez | Chairman of the Board of Directors | March 8, 2016 |
| Gerardo Werthein | Vice Chairman of the Board of Directors | December 19, 2003 |
| David Manuel Martínez (1) | Director | March 8, 2016 |
| Carlos Alejandro Harrison | Director | March 8, 2016 |
| Martín Héctor D Ambrosio | Director | March 8, 2016 |
| Pedro Chomnalez | Director | March 8, 2016 |
| Alejandro Macfarlane | Director | March 8, 2016 |
| Esteban Gabriel Macek | Director | April 27, 2007 |
| Enrique Horacio Boilini (2) | Director | April 29, 2016 |
| Pedro Ángel Costoya | Director | April 29, 2016 |
| Darío Leandro Genua | Director | April 29, 2016 |
| Baruki Luis Alberto González (5) | Alternate Director | April 8, 2016 |

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| | | |
|--------------------------------|--------------------|-------------------|
| Saturnino Jorge Funes | Alternate Director | March 8, 2016 |
| Bernardo Saravia Frías (3) | Alternate Director | March 8, 2016 |
| Gabriel Hugo Fissore | Alternate Director | March 8, 2016 |
| José Luis Galimberti | Alternate Director | March 8, 2016 |
| Ignacio Villarroel | Alternate Director | March 8, 2016 |
| Eduardo Federico Bauer | Alternate Director | April 27, 2007 |
| Pablo Alberto Gutierrez | Alternate Director | November 30, 2010 |
| Germán Ariel Zunini (4) | Alternate Director | April 29, 2016 |
| Martín Alberto Breinlinger (4) | Alternate Director | April 29, 2016 |
| Luis María Abbá (2) | Alternate Director | April 29, 2016 |

(1) On April 5, 2017, Mr. David Manuel Martínez submitted his resignation to the Board of Directors of Telecom Argentina, which was accepted by the Board of Directors of Telecom Argentina on April 18, 2017.

(2) Mr. Enrique Boilini and Mr. Luis María Abbá submitted their resignations as regular and alternate members of the Board of Directors, respectively, with effectiveness as of the date on which the next Shareholders Meeting is held. On March 16, 2017, the Board of Directors accepted the resignations of Mr. Boilini and Mr. Abbá, with effectiveness as of the date on which the next Shareholders Meeting will be held, April 27, 2017.

Table of Contents

(3) On February 2, 2017, Mr. Bernardo Saravia Frías presented his resignation as Alternate Director and the Board of Directors accepted it on February 16, 2017.

(4) The Board of Directors of Telecom Argentina in its meeting held March 16, 2017 accepted the resignations of Mr. Zunini and Mr. Breinlinger as alternate directors of Telecom Argentina.

(5) On April 18, 2017, the Board of Directors appointed Mr. Baruki González as a director to replace Mr. David Martínez.

Mariano Marcelo Ibáñez is a lawyer with a degree from the Universidad de Buenos Aires, UBA. He is currently the Chairman of Telecom Argentina. Previously, he served as Director of Cablecom and as President and CEO of Cablevisión S.A.. He was Director of Multimédios América (Cablevisión, Radio América, Radio del Plata, El Cronista and América TV). He was born on August 25, 1959.

Gerardo Werthein is a veterinarian. He was a director on Personal Boards of Directors from December 2003 until April 10, 2013. Since that date he is alternate director of Personal. He is Chairman of Haras El Capricho S.A. and of the Argentine Olympic Committee. He is a member of the International Olympic Committee. He is Vice Chairman of Ente Nacional de Alto Rendimiento Deportivo and La Estrella S.A. Compañía de Seguros de Retiro. He is a Director of Gregorio, Numo y Noel Werthein S.A. and Los W S.A. He was born on December 3, 1955.

David Manuel Martínez holds a degree in electrical and mechanical engineering from the Universidad Nacional Autónoma de México and a degree in philosophy from the Pontifical Gregorian University of Rome. He also holds a postgraduate degree in Business Administration from Harvard Business School. Currently, he is a director of Alfa S.A.B. de C.V., Vitro S.A.B. de C.V. and Cemex S.A.B. de C.V. in Mexico and Banco Sabadell in Spain. He was born on May 8, 1957.

Carlos Alejandro Harrison holds a degree in Business Administration from the Universidad de Buenos Aires and completed postgraduate studies at IAE Business School. Previously he was President of Producciones YAQ S.A. and President of Business Development for AMC Networks International. Before that, he was the CEO of Chello Latin America and Pramer SCA (both Liberty Global plc controlled companies). Mr. Harrison also worked for Grupo Clarín S.A. as a business development manager and was the COO of International Operations at Multicanal S.A. He was born on January 19, 1963.

Martín Héctor D Ambrosio is a lawyer with a degree from the Universidad de Buenos Aires. He is currently the President of BA Property Managers Inc., a managing partner at GS1 S.R.L. and a legal adviser of BA Property Managers S.R.L.. He is also a lawyer at his own law firm. Previously, he worked with Dellepiane & Asociados, also as a lawyer, and for many years he was in charge of the legal area of US Equities Realty. He was born on March 9,

1974.

Pedro Chomnalez is a private investor and advisor based in New York City. Prior to founding CH EM Holdings in 2014, he worked for more than 22 years in investment banking. He joined Credit Suisse (formerly Credit Suisse First Boston) in 1999 after spending nine years at Lehman Brothers. During his 13-year tenure at Credit Suisse, he was the head of Latin American Investment Banking, co-head of Global Emerging Markets and served on the firm's Investment Banking Operating Board. Mr. Chomnalez also worked in private equity for Credit Suisse's International Merchant Banking Fund. Prior to joining Lehman Brothers in 1991, he spent four years as a management consultant at Andersen Consulting (currently Accenture). Mr. Chomnalez holds a BS in econometrics and an MS in economics from the Université Paris II - Assas, and an MBA from INSEAD. He was born on September 4, 1964.

Alejandro Macfarlane studied economics and management. Mr. Macfarlane is Chairman and CEO of Disvol Investment S.A. and Chairman of Camuzzi Gas Pampeana S.A. and Camuzzi Gas del Sur S.A. Previously, Mr. Macfarlane was owner and Chairman of both, Edelap S.A. and Edea S.A., Chairman and CEO of Edenor S.A., Chairman of EMDERSA and its subsidiaries (EDESA S.A., EDESAL S.A., EDELAR S.A. and ESED S.A.). He was born on August 16, 1965.

Esteban Gabriel Macek is a public accountant. He is Chairman of Fiduciaria Internacional Argentina S.A. He is a director of Inmobiliaria Madero S.A. He is also member of the Supervisory Committees of Banelsip S.A. and alternate member of Prisma Medios de Pago S.A. and Botón de Pago S.A. He was born on November 8, 1960.

Enrique Horacio Boilini is an engineer with a degree from the Universidad de Buenos Aires in December 1984, where he received the Honor Diploma award. He is a member of Telecom Argentina's

Table of Contents

Board of Directors nominated by ANSES. He is also a graduate of Columbia Business School in New York City, which he attended on a full tuition scholarship and where he earned an MBA in 1988, also with honors. He also attended different executive programs held by Harvard Business School in Corporate Governance, Agribusiness and Behavioral Finance. He is currently a Senior Managing Director of Lone Star Latin American Acquisitions LLC, an affiliate of Lone Star Funds, a private investment firm based in Dallas, Texas. Previously, he was the managing partner of Yellow Jersey Capital LLC, which he founded in 2002, to act initially as exclusive advisor to Farallon Capital Management LLC, an investment firm in San Francisco. From 1994 to September 2002, he was a partner at Farallon Partners LLC, where his primary responsibility was investments in Latin America. Mr. Boilini is also a member of the board of directors of Bunge Limited, where he is the Chairman of its Finance and Risk Policy Committee. He is also a member of the board of directors of the Bunge & Born Foundation and the Chairman of its Investment Committee. Mr. Boilini holds both US and Argentine citizenship. He was born on June 16, 1961.

Pedro Angel Costoya is an accountant with a degree from the Universidad de Buenos Aires and completed postgraduate studies in finance at Wharton School (Univ. of Pennsylvania) and Negotiation and Valuation of Corporations at Harvard Business School. He has also a PAD from IAE. He is a Director in Zafari Advertising S.A., Los Soles Internacional S.A. and Servicio Satelital S.A. He also worked at Grupo Velox in different positions, including Chairman of investment funds, operating manager, finance manager and commercial manager until 1998. From 1998 to 2003, he was a partner at SWW Consultores Asociados (Enrique Szewach and Nicolas Weisz Wassing). He was born on August 9, 1952.

Dario Leandro Genua has a Master's degree in administrative, financial and accounting processes from the Universidad Católica Argentina. He was controlling and finance director at Pilar Country Government from 2013 to 2016. From 2007 to 2013, he was co-founder and director at Openagro SA, and for the last five years he has been working in politics, involved in local lobby, political relations and field work. He worked at several companies with ERP implementation projects, in consulting assignments associated with business processes reengineering, for companies dedicated to different branches of the industrial, commercial and services activities, such as Skanka LA, Verizon MCI International, SC Johnson & Son., Tenaris Group, Interbaires, Unilever and Hewlett Packard, among others. He also worked at Pricewaterhouse Coopers from 1998 to 2001. He was born on December 16, 1972.

Baruki González is a lawyer with a degree from the Universidad de Buenos Aires. Mr. González joined the Board of Directors of Nortel, Telecom Argentina and Personal in April 2016. Mr. González is a founding member of the Argentine law firm Errecondo, González & Funes. Between 1995 and 1996, he worked as an international associate at the United States law firm White & Case LLP. He was born on July 29, 1967.

Saturnino Jorge Funes is a lawyer with a degree from the Universidad del Salvador and a Master's degree in business law from the Universidad Austral, with honors. He is a founding partner of the law firm *Errecondo, González & Funes Abogados*. He worked at Shearman & Sterling LLP between 2000 and 2001 as an international associate. He is professor of corporate law at the *Universidad del Salvador* Law School in Buenos Aires, and a professor at the Masters in Finance and Masters in Law and Economics, both at the *Universidad Torcuato Di Tella* in Buenos Aires. He is a member of the Public Bar Association of the City of Buenos Aires (*Colegio Público de Abogados de la Capital Federal*) and of the Buenos Aires City Bar (*Colegio de Abogados de la Ciudad de Buenos Aires*). He was born on August 6, 1968.

Bernardo Saravia Frías is a lawyer with a degree from the Universidad de Buenos Aires and a Master's degree in business law from Universidad Austral and a Master in corporate finance from the University of Illinois. He was the general counsel of Bank of America Argentina until 2008. Since then, he has been a partner at Saravia Frías Abogados Law Firm. He is a professor at Universidad Austral and has published several books and articles in different law journals and newspapers during the last years. He was born on July 12, 1973.

Gabriel Hugo Fissore is a lawyer with a degree from the Universidad de Buenos Aires and completed postgraduate studies at Harvard Law School with a Master of Laws. He also works in its own firm at *Estudio Alegria, Buey Fernández, Fissore y Montemerlo*. He is currently professor at the Universidad Argentina de la Empresa and Universidad del Salvador. He was born on February 22, 1961.

Table of Contents

Jose Luis Galimberti is a partner at the Buenos Aires office of Curtis, Mallet-Prevost, Colt & Mosle. He was formerly a partner at Brons & Salas. Mr. Galimberti is a professor at Universidad Austral in the Corporate Law Postgraduate Program, and has been a professor at Palermo University and Universidad de Buenos Aires Law School. Mr. Galimberti got his law degree from the Universidad Nacional de Rosario (1992), and has a Master's Business Law from the Universidad Austral (1994), an LLM from the University of Chicago (2000) and a Master in Finance from the Universidad del CEMA (2004). He was born on April 22, 1969.

Ignacio Villarroel is a lawyer with a degree from the Universidad Católica Argentina. He is a partner at Lopez Saavedra & Villarroel Law Firm. Between 2012 and 2014, he was Project Manager at the Ministry of Modernization of the Government of the City of Buenos Aires. Mr. Villarroel also served as a legal adviser to the Port Authority of the City of Mar del Plata between 2009 and 2011 and as a legal advisor to the Secretary of Tourism of the Government of the Province of Buenos Aires between 2008 and 2009. Also, he worked for Clyde & Co International Law Firm in London, United Kingdom, Insurance and Reinsurance Department, Office for Latin America. He was born on March 9, 1974.

Eduardo Federico Bauer is a lawyer. He is Vice Chairman of the Board of Directors of Nortel and Micro Sistemas. He is a director of Sofora and an alternate director of Personal, Experta Aseguradora de Riesgos del Trabajo S.A., Experiencia ART S.A., Experta Seguros de Retiro S.A. and La Estrella S.A. Cía. de Seguros de Retiro. He was born on January 14, 1950.

Pablo Alberto Gutiérrez is a public accountant. He is an advisor for many companies. He is Director of Fiduciaria Internacional Argentina S.A. He is a vocal of CAFIDAP Cámara Argentina de Fideicomisos y Fondos de Inversión Directa en Actividades Productivas. He was born on January 4, 1968.

Germán Ariel Zunini is an economist. He is an alternate director on Telecom Board of Directors appointed in representation of ANSES-Fondo de Garantía de Sustentabilidad. He was born on March 8, 1976.

Martín Alberto Breinlinger is an economist. He is an alternate director on Telecom Board of Directors appointed in representation of ANSES-Fondo de Garantía de Sustentabilidad. He was born on May 4, 1985.

Luis María Abbá is an economist. He is an alternate director on Telecom Board of Directors appointed in representation of ANSES-Fondo de Garantía de Sustentabilidad. He was born on July 22, 1972.

Senior Management

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As of December 31, 2016, the Telecom Group's senior Management team includes the individuals listed below. Unless otherwise noted, these individuals are members of the Telecom Group's senior Management as of the date of this Annual Report.

| Name | Position (1) | Date of Designation |
|----------------------------|--|---------------------|
| Germán H. Vidal | Chief Executive Officer (CEO) | April 29, 2016 |
| Pedro L. López Matheu | Director of Government Relations, Communications and Media | June 14, 2016 |
| Gerardo H. Maurer | Director of Corporate Security | November 27, 2014 |
| María F. Bonelli | Director of Strategy, Innovation and Development of Business | September 1, 2016 |
| Alejandro D. Quiroga López | Director of Legal and Public Affairs | June 1, 2011 |
| Ignacio C. Morán (2) | Chief Financial Officer (CFO) | May 12, 2016 |
| Sebastián Palla | Director of Procurement | August 8, 2016 |
| Alejandro Miralles | Director of Human Capital | June 6, 2016 |
| Roberto D. Nóbile | Chief Operating Officer (COO) | May 12, 2016 |
| Nestor G. Bergero | Chief Technology Officer (CTO) | December 19, 2016 |
| Juan C. Pepe | Telecom Personal Paraguay Direction | January 1, 2016 |
| Héctor D. Cazzasa | Chief Audit Executive | August 1, 2016 |

(1) The designation of Director does not imply that the officers mentioned above are members of the Board of Directors of Telecom Argentina, which is composed of the persons stated in Directors, Senior Management and Employees The Board of Directors above. The term of officer of Telecom's Senior Management is contractual in nature. Such contracts do not include a specified expiration date.

(2) As of the date of this Annual Report, Ignacio C. Morán no longer holds the position of CFO. Beginning on March 9, 2017, this position was segregated in two: (i) Financial Direction (which provisionally assumes the duties of the CFO), to which Mr. Pedro G. Insussarry was appointed and (ii) the Direction of Planning, Administration and Control, to which Mr. Héctor G. Buscalia was appointed.

Table of Contents

Germán Horacio Vidal is an industrial engineer graduated from the Universidad Católica Argentina. He has been the CEO of Telecom Argentina since May 12, 2016, appointed by the Board of Directors of Telecom Argentina on April 29, 2016. Since the same date, he has been Chairman of the Operations Committee of Telecom Argentina. Mr. Vidal has 18 years of experience in the technology and telecommunications sector. Between 1987 and 1997, he worked in different management positions at IBM in Argentina and Europe. From 1997 to 2004, he worked at MetroRED, a company of Fidelity, where he was Marketing and Sales Director and CEO of the Argentine branch, and Vice Chairman and CEO of the operations in Argentina, Brazil, and Mexico. In 2003, he participated on the CTI board of directors. Afterwards, he was Director of Marketing, Products, Customer Care and Data Center in Telmex Argentina. Since 2005 until his current appointment with Telecom Argentina, he worked at Korn Ferry consultants as a Senior Client Partner, General Director and Chairman. He was born on December 27, 1963.

Pedro Lopez Matheu is a lawyer with a degree from the Universidad Católica Argentina. Mr. Lopez Matheu has 20 years of experience in the institutional relations in first-line multinational and national companies. From 1996 to 2006 worked at Grupo Clarín as Public Affairs Manager. He was Chairman of the Newspaper Publisher Association of the City of Buenos Aires, and of the Press Freedom Commission of ADEPA (Asociación de Entidades Periodísticas Argentinas), Vice Chairman of the Association of Argentine Private Radios, and of other national and multinational entities of that sector. From 2006 to 2014 he was Corporate and Government Affairs at Kraft Foods and Mondelez, leading company of food and, for Argentina, Chile, Uruguay and Paraguay. Also, since 2014, he has been Corporate Affairs Director at AXION energy. He has skills at government relations, corporate and social responsibility, press and corporate communication, crisis management and internal communication. He was born on May 23, 1966.

Gerardo Maurer is an engineer with a degree from the Universidad de Buenos Aires. He joined Telecom Argentina in August 2006 and since then has held various positions within Internal Audit and Corporate Security. In November 2014, he was appointed as Corporate Security Director. Previously, he worked at the United Nations Conference on Trade and Development (UNCTAD) in Geneva, Venezuela and Central America. He returned to Argentina in 1996 and joined the Audit Unit at La Caja de Ahorro y Seguro S.A. He was born on May 11, 1959.

María Fabiola Bonelli is an engineer with a degree from the Universidad de Buenos Aires, with a specialization in telecommunications. She has been Director of Strategy, Innovation and Development of Business since 2016 at Telecom Argentina. Ms. Bonelli has almost 30 years of experience in the technology and telecommunications sector. Since 2012, she has been CEO at SOLS Technologies, a technology outsourcing of the public sector. Before that, she was CEO Negocios Digitales del Grupo UNO and Commercial manager at Compañía de Medios Digitales, of the Grupo Clarín. Ms. Bonelli has been Commercial Manager at Iron Mountain Argentina from 2007 to 2010, and from 2003 to 2007, she has been Commercial Director at Ertach (ex Millicom). She started her professional career at IBM Argentina in 1998, and for 12 years she has develop her commercial career until she accepted the position of Marketing and Sales Manager at MetroRED Telecomunicaciones, of Fidelity group. In 2002 she has been Marketing Director at Internet Solutions and since 2003, she has been Marketing and Sales Manager Director at Metrored Telecomunicaciones S.A. of Coinvest group in Argentina. She was born on August 15, 1962.

Alejandro D. Quiroga Lopez is a lawyer with a degree from the Universidad de Buenos Aires. He joined Telecom Argentina in June 2011 as General Counsel. From 2010 to 2011, he was an associate at Curutchet-Odrizola law firm. From 2001 until February 2010, he was General Counsel and Secretary of the Board of Directors of YPF S.A. He was a partner at the Nicholson & Cano law firm from 1986 to 1997, a foreign associate at Davis Polk & Wardwell in 2000, and Undersecretary of Banking and Insurance at the Ministry of Economy and Public Finance from 1997 to 1999. He was professor of banking and commercial law at the Universidad del CEMA. He was a member of the Executive Board of the Universidad de Buenos Aires School of Law. He is also a graduate of the Wharton Advanced Management Program. He was born on June 9, 1962.

Ignacio C. Morán is an accountant with a degree from the Universidad de Buenos Aires. He was CFO of Telecom Argentina from May, 2016 to March, 2017. He started his professional career in Arthur Andersen (currently E&Y) in the financial institutions and capital markets area, becoming an audit and advice manager. In 1998, he worked at Banco de San Juan, as Internal Auditor and then he

Table of Contents

became a member of the Board of Directors of four banks of Banco de San Juan Group (Banco de San Juan S.A., Banco de Santa Cruz S.A., Nuevo Banco de Santa Fe S. A. and Nuevo Banco de Entre Ríos S.A.). In 2008, he became CFO at YPF and, in 2010, he held the position of COO. In those years, Mr. Morán was also member of the Board of Director of different local subsidiaries of YPF. He was born on August 5 1970.

Pedro Insussarry holds a degree in Business Administration from the Universidad de Belgrano and completed his postgraduate studies at the Universidad de San Andres. Mr. Insussarry is a Board Member of Núcleo, Personal Envíos and Telecom Argentina USA. He has worked for the Telecom Argentina Group since 1993. After covering several management positions in the Finance Area, in December 2007 he was promoted to Head of Finance, where Investor Relations, Treasury, Financial Resources, and Financial Planning were under his responsibility. With an extensive experience in the Company and specifically in the Finance Area, he has participated in several financing, capital markets and M&A transactions where the Telecom Argentina Group was involved. In March 2017, Pedro was appointed Finance Director of Telecom Argentina, reporting to the CEO and assuming the responsibilities of CFO in an interim manner. In addition, the Corporate Risk Management area was included in his responsibilities. Previous to Telecom Argentina, Mr. Insussarry was Financial Planning Manager at Massuh S.A. (a pulp and paper company in Argentina). He was born on December 21, 1968.

Héctor Gaspar Buscalia is an accountant with a degree from the Universidad de Buenos Aires (1988), where he received the Honor Diploma award. He completed his postgraduate studies in Telecommunications Industry at the Universidad de San Andrés. Mr. Buscalia is a Board Member of Núcleo and Personal Envíos. He has worked for the Telecom Argentina Group since 1991. In 2009 he was promoted to Head of Planning and Control of Telecom Group, where planning, costs, M&A and controlling activities were under his responsibilities. He has led many M&A transactions where Telecom Argentina Group was involved. In March 2017, Mr. Buscalia was appointed Planning, Administration and Controlling Director of Telecom Argentina, reporting to the CEO. He also worked at Arthur Andersen until 1988. He was born on June 8, 1966.

Sebastian Palla is an economist with a degree from the Universidad Torcuato Di Tella. He is Director of Procurement of Telecom Argentina since August 8, 2016. He has 21 years of experience, from 2009 to 2016, he has worked at Macro Bank as an advisor of the Chairman first, later in the Investment Banking Management area and finally in the Government Banking Management area. From 2006 to 2009, he was in charge of AFJP, first as Executive Director, and later as a Chairman. From 2002 to 2005, he worked in the public administration, as a Chief of Advisors of the Ministry of Finance and then as Sub-secretary of Finance of the Ministry of Economy and Public Finance. Mr. Palla was honored as a member of the Young Global Leaders Forum in 2005 (created by the World Economic Forum), also a member of the Eisenhower Fellowship in 2008; and was chosen as one of the most influential people of 2007, in Luciana Vazquez's book *The Education of Those Who Influence*. He was born on June 12, 1974.

Alejandro Miralles is an economist with a degree from the Universidad de Buenos Aires. He is Director of Human Resources of Telecom Argentina since June 6, 2016. Before that, he has been Client Partner for five years at Korn Ferry, leading company in executive talent searches. He also has worked as a CFO at Cablevisión and CEO at Teledigital Cable. Previously, he has been Investment Officer at CEI Citicorp Holdings and has worked at Citibank

N.A. and at Manufacturers Hannover Trust. He was born on December 29, 1963.

Roberto Nobile is an accountant with a degree from the Universidad de Buenos Aires and an AMP (Advanced Management Program) at Harvard Business School. He has been COO of Telecom Argentina since May 2016, with responsibility on Marketing, Sales and Operation Directions. Mr. Nobile has many years of experience in the telecommunication and media sector. He joined Cablevisión in October 2006 as a COO and deputy CEO, as part of the merger of Cablevisión and Multicanal. He has been worked at Cablevisión, company with more than 10,500 employees for 10 years. He has worked at Arthur Andersen in 1989 and after that, he has worked at Honeywell as a South Regional Controller (Brazil, Argentina and Chile). Also, in 1997, Mr. Nobile has worked as CFO of Grupo Clarín. He was born on September 27, 1967.

Nestor Gustavo Bergero is an electrical engineer with a degree from the Universidad Nacional de Córdoba and with a Senior Management Program post graduated from the IAE-Universidad Austral, in 2002. He has been working as a CTO of Telecom Argentina since December 2016. Mr. Bergero has 34 years of experience in the technology and telecommunication sector. From 1983 to 1986, he has

Table of Contents

been working as a Manager Telecommunications at SANCOR CUL, in a rural telephony project. From 1986 to 1991 he worked at Communication Director at the province of Córdoba Government. From 1991 to 1994, he has worked as a Marketing Manager at Telintar and as Line Manager of the Northern Region of Telecom Argentina, as part of the first stage of the privatization of ENTEL. From 1994 to 2002, he has worked in different managing positions at CTI, as a Planning Manager, Engineering Director, Engineering and Operating Director and assuming also the IT Direction. From 2000 to 2002, he has been member of the Board of Directors at CTI, and in 2003 at Iusacell, a mobile telecommunication company in Mexico. In 2012 Mr. Bergero returned to Argentina and worked as a Responsible of Network Creation at Telecom Argentina. In 2013 he worked in Brazil as a Vice Chairman of Engineering of Nextel Brasil. Also, he was professor of Universidad Nacional, Universidad Católica de Córdoba, ITBA (Instituto Tecnológico de Buenos Aires) and other universities. He was born on September 19, 1957.

Juan C. Pepe is an electrical engineer with a degree from the Universidad Tecnológica de Córdoba and has a Master in Business from the Universidad de San Andres. He is CEO of Núcleo in Paraguay since April, 2009. Mr. Pepe joined Telecom Group in 1994 and since then, he has worked in different areas, including planification and development of projects with high quality standards. From 1999 to 2009, he was CTO of Núcleo. He was born on October 18, 1967.

Héctor Daniel Cazzasa is an accountant and an administrative system information specialist from the Universidad de Buenos Aires. He has obtained the designation as a C.I.S.A. (Certified Information Systems Auditor). He has been Telecom Group's Internal Audit Director since August 1, 2016. Mr. Cazzasa has more than 30 years as a professional dedicated to auditing and consulting. Since 1987, he has worked at different international and national firms, such as Bertora & Asociados, Grant Thornton and PricewaterhouseCoopers, throughout Latin America, including Argentina. In 2004, he was appointed Internal Audit Director at Grupo IRSA until 2012. He was Chairman during 2000 and 2001 of the ISACA (Information Systems Audit and Controls Association). Since 1990, he has been a university professor in both undergraduate and postgraduate programs. He was born on June 4, 1958.

Supervisory Committee

Argentine law requires any corporation with share capital in excess of P\$10,000,000 or which provides a public service or which is listed on any stock exchange or is controlled by a corporation that fulfills any of the aforementioned requirements, to have a Supervisory Committee. The Supervisory Committee is responsible for overseeing Telecom Argentina's compliance with its bylaws and Argentine law and, without prejudice of the role of external auditors, is required to present a report on the accuracy of the financial information presented to the shareholders by the Board of Directors at the Annual Ordinary Shareholders' Meeting. The members of the Supervisory Committee are also authorized:

- to call ordinary or extraordinary Shareholders' Meetings;

- to place items on the agenda for meetings of shareholders;

- to attend meetings of shareholders; and
- generally to monitor the affairs of Telecom Argentina.

Telecom Argentina's bylaws provide that the Supervisory Committee is to be formed by three or five members and three or five alternate members, elected by the majority vote of all shareholders. Members of the Supervisory Committee are elected to serve one year terms and may be reelected.

The following table lists the members and alternate members of the Supervisory Committee as of the date of this Annual Report:

| Name | Position on the Supervisory Committee | Profession |
|--------------------------|--|-----------------------|
| Pablo Buey Fernández | Member | Lawyer |
| Ernesto Juan Cassani | Member | Accountant |
| Gerardo Prieto | Member | Accountant |
| Diego Emilio Rangugni | Member | Lawyer |
| Gabriel Andrés Carretero | Member | Accountant |
| Javier Alegría | Alternate Member | Lawyer |
| Pablo Cinque | Alternate Member | Lawyer |
| Juan Facundo Genis | Alternate Member | Lawyer |
| Mirta Silvia Maletta | Alternate Member | Accountant |
| Raúl Alberto Garré | Alternate Member | Accountant and Lawyer |

Table of Contents

Pablo Andrés Buey Fernández is a lawyer with a degree from the Universidad de Buenos Aires (1979) and a Master of Laws from Harvard University Law School (1985). He is a member of the Supervisory Committee of Sofora, Nortel and Telecom Personal. He is Managing Partner at *Estudio Alegria, Buey Fernández, Fissore & Montemerlo* law firm. He acted as an associate foreign lawyer with the firm Finley, Kumble, Wagner, Heine, Underberg, Manley & Casey in 1985. He has actively participated in a number of foreign transactions, including, among others, private placements of convertible notes, initial public offerings (Royce Laboratories Inc.), foreign investments in the United States, project finance transactions and corporate counseling. He is a member of the following professional associations: Associate Member of the International Bar Association (Banking and Insolvency Committees); International Associate Member of the American Bar Association (Banking and Business Committees); International Associate Member of the American Society of International Law; Member of the Argentine Institute of Commercial Law (*Instituto Argentino de Derecho Comercial*); Member of the Institute of Commercial Law (*Instituto de Derecho Comercial*) of Universidad del Salvador Law School; and Member of the Committee of Lawyers of Banks of the Argentine Republic (*Comité de Abogados de Bancos de la República Argentina*). He was a professor of Comparative Law in the Master's program in Financial and Capital Markets at the Escuela Superior de Economía y Administración de Empresas; a professor of post-graduate courses and seminars at the Universidad de Buenos Aires Law School and Economic Sciences School and at the Universidad del Salvador Law School. He was born on August 8, 1957.

Ernesto Juan Cassani is a certified public accountant with a degree from the University of Belgrano (1976). He is a member of the Supervisory Committee of Telecom Argentina and an alternate member of the Telecom Personal Supervisory Committee. He was a partner (1991) of the Financial Services sector of the Assurance division of Pistrelli, Henry Martin & Asociados S.R.L., a member firm of Ernst & Young Global until 2013. He is an independent Director of Banco Patagonia S.A. and alternate member of the Supervisory Committee of Molinos Río de la Plata S.A.. He is also a member of the Supervisory Committees of different companies of the Perez Companc Group and provides consulting services to La Pampa Bank. He was assistant professor of Auditing in the School of Economic Sciences of Universidad de Lomas de Zamora; teaching assistant of the Audit course at the School of Economics of the Universidad de Buenos Aires; and associate professor of the Financial Statements course at the School of Economic Sciences, Universidad Católica Argentina and Associate professor of the Accounting III course at the School of Economic Sciences, Universidad del Salvador. He was born on December 16, 1952.

Gerardo Prieto is an accountant. He has been a member of the Supervisory Committee since 2004. He is also a member of the Supervisory Committees of Sofora, Nortel, Personal and Micro Sistemas. He is Chairman of Campofin S.A., Polifin S.A., Cabaña Doble G del Litoral S.A., Experta Aseguradora de Riesgos del Trabajo S.A. and Experta Seguros de Retiro S.A.. He is President of Caminos Protegidos ART S.A. He is a Director of Industrial and Commercial Bank of China (Argentina) S.A. He is also an alternate director of La Estrella S.A. Compañía de Seguros de Retiro. He was born on March 3, 1951.

Diego Emilio Rangugni is a lawyer with a degree from the Universidad del Salvador. He owns his own law firm. He is a member of the Supervisory Committee of Nortel. He has worked at the Argentine Superintendence of Insurance (*Superintendencia de Seguros de la Nación*) since 1992 and was the Manager of Legal Affairs between 2010 and 2012. Between 2012 and 2015, he worked as a legal advisor at the Municipality of San Antonio de Areco. He also worked at the *Dirección Nacional de los Registros Seccionales de la Propiedad del Automotor y de Créditos*

Prendarios between 1987 and 1994. He was born on July 10, 1965.

Gabriel Andrés Carretero is an accountant. He is a member of the Supervisory Committee appointed in representation of ANSES-Fondo de Garantía de Sustentabilidad. He was born on April 18, 1937.

Javier Alegria is a lawyer with a degree from the Universidad Católica Argentina. He is an alternate member of the Supervisory Committee of Nortel and Telecom Personal. He is also a partner at the law firm Estudio Alegria, Buey Fernández, Fissore & Montemerlo. He received a Master of Law from Northwestern University and a certificate in Business Administration from the Kellogg School of Management at Northwestern University. He acted as an international lawyer with Cleary, Gottlieb, Steen & Hamilton LLP law firm from 2003 to 2004. Mr. Alegria is a member of the Public Bar

PART I - ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

TELECOM ARGENTINA S.A.

Table of Contents

Association of the City of Buenos Aires. He is a professor at the Universidad de Buenos Aires Law School and Universidad del CEMA. He was born on August 7, 1974.

Pablo Cinque is a lawyer with a degree from the Universidad Católica Argentina. He is member of the Supervisory Committee of Sofora. He is an associate at *Errecondo, González & Funes Abogados* law firm. He serves as a member of the Board of Directors and member of the supervisory committee of other Argentine companies, mainly in the energy and gas distribution sectors. Mr. Cinque is a member of the Public Bar Association of the City of Buenos Aires. He was born on April 29, 1984.

Juan Facundo Genis is a lawyer with a degree from the Universidad del Salvador. He specializes in business and labor law. He is an alternate member of the Supervisory Committee of Nortel. He is a member of the Public Bar Association of the City of Buenos Aires. He was born on September 18, 1967.

Mirta Silvia Maletta, is an accountant. She was elected as an alternate member of the Supervisory Committee on April 29, 2016, by the Extraordinary and Ordinary Shareholders meeting. Currently, she is an alternate member of the Supervisory Committee of Telecom Personal, Sofora and Micro Sistemas. She was born on March 7, 1959.

Raúl Alberto Garré is a public accountant and a lawyer with a degree from the Universidad de Buenos Aires and holds a degree in Marketing, Organizational Management and Finances from the University of California, Berkeley Business School. He also holds a degree as a Certified Mediator from the Universidad Maimónides. He is alternate member of the Supervisory Committee of Telecom Argentina, Gas Natural Ban S.A., ARSAT S.A. and the Dirección General de Fabricaciones Militares. He was the Director General of the Dirección General de Rentas de la Municipalidad de la Ciudad de Buenos Aires, the President of the Confederación Organismos Tributarios de Estados Americanos (COTEA) and the Vicepresident of C.E.A.M.S.E. (Coordinación Ecológica Área Metropolitana Sociedad del Estado). He was also Internal Auditor of the Department of Internal Affairs, Delegate to the Convención Constituyente of Buenos Aires City and member of the Consejo Directivo del Colegio Público de Abogados de la Ciudad de Buenos Aires. He was Cabinet Chief of the Department of Defense and the Department of Security and the Executive Secretary of the Consejo de Seguridad Interior. He was born on May 9, 1951.

There is no family relationship between any director, alternate director, member of the Supervisory Committee or executive officer and any other director, alternate director, member of the Supervisory Committee or executive officer.

Compensation

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The compensation of the members of the Board of Directors and the Supervisory Committee is established for each fiscal year at the Annual Ordinary Shareholders Meeting.

The aggregate compensation paid by the Telecom Group to the members of the Board of Directors and the Supervisory Committee, acting since April 29, 2016, and the executive officers described under Senior Management above, was approximately P\$152.1 million for the year ended December 31, 2016.

As of December 31, 2016, the accrued compensation to the members of the Board of Directors and Supervisory Committee in connection with their duties performed since April 29, 2016 was approximately P\$41.0 million and P\$9.1 million, respectively. Such accrued compensation is subject to approval by the Annual Ordinary Shareholders Meeting, which will be held on April 27, 2017.

As of December 31, 2016, compensation paid as advance payments to members of the Board of Directors and Supervisory Committee acting since April 29, 2016 was P\$16.2 million and P\$3.9 million, respectively. Those advance payments were authorized by the Annual Ordinary Shareholders Meeting held on April 29, 2016, and will be deducted from the final compensation determined by the Annual Ordinary Shareholders Meeting of 2017, based on the amount proposed by the Board of Directors to the shareholders, with the prior opinion of the Audit Committee of Telecom Argentina (the Audit Committee).

Compensation for the executive officers described under Senior Management above, amounted to approximately P\$198.0 million for the year ended December 31, 2016 (including fixed

Table of Contents

and variable compensation, retention plan benefits and, in some cases, severance payments and non-compete agreements), of which approximately P\$132.0 million were paid as of December 31, 2016.

The Company's managers (including Senior Management) receive fixed and variable compensation. A manager's fixed compensation corresponds with the level of responsibility required for his or her position and the market rate for similar positions. Variable compensation is tied to annual performance goals. Certain managers are beneficiaries of retention plan benefits.

During the year ended December 31, 2016, Telecom Argentina was not required to set aside or accrue any amounts to provide pension, retirement or similar benefits.

Telecom Argentina has no stock option plans for its personnel, or for its members of the Board of Directors or the Supervisory Committee.

Board Practices

Under Argentine law, directors have the obligation to perform their duties with loyalty and the diligence of a prudent business person. Directors are jointly and severally liable to Telecom Argentina, our shareholders and third-parties for the improper performance of their duties, for violations of law, our bylaws or regulations and for any damage caused by fraud, abuse of authority or gross negligence. Under Argentine law, specific duties may be assigned to a director by the bylaws or regulations or by resolution of the Shareholders' Meeting. In these cases, a director's liability will be determined with reference to the performance of these duties, provided that certain recording requirements are met. Under Argentine law, directors are prohibited from engaging in activities in competition with Telecom Argentina without express authorization of a Shareholders' Meeting. Certain transactions between directors and Telecom Argentina are subject to ratification procedures established by Argentine law.

The Supervisory Committee is responsible for overseeing our compliance with our bylaws and Argentine law and, without prejudice to the role of external auditors, is required to present to the shareholders at the Annual Ordinary General Shareholders' Meeting a report on the accuracy of the financial information presented to the shareholders by the Board of Directors. See Supervisory Committee for further information regarding the Supervisory Committee.

On May 22, 2001 the Argentine government issued Decree No. 677/01, entitled Regulation of Transparency of the Public Offering, or the Transparency Decree (replaced since January 28, 2013 by equivalent articles included in Law No. 26,831. See Item 9 The Offer and Listing The Argentine Securities Market Capital Markets Law Law No. 26,831 below). The intention of this decree, which is also stated within Law No. 26,831, was to move towards the creation of an adequate legal framework that may strengthen the level of protection of investors in the market. The main objectives of the Transparency Decree were to promote the development, liquidity, stability, solvency and transparency of the market, generating procedures to guarantee the efficient reallocation from savings to investments and good practices in the administration of corporations.

Law No. 26,831 (previously, the Transparency Decree) vests in members of the Board of Directors:

- the duty to disclose certain events, such as any fact or situation capable of affecting the value of the securities or the course of negotiation;
- the duty of loyalty and diligence;
- the duty of confidentiality; and
- the duty to consider the general interests of all shareholders over the interest of the controlling shareholder.

A director will not be liable if, notwithstanding his or her presence at a meeting at which a resolution was adopted or his or her knowledge of the resolution, a written record exists of his opposition thereto and he or she reports his opposition to the Supervisory Committee before any complaint against him or her is brought before the Board of Directors, the Supervisory Committee, the Annual Ordinary Shareholders Meeting, the competent governmental agency or the courts. Any liability of a director vis-à-vis Telecom Argentina terminates upon approval of the directors' performance by the Shareholders Meeting, provided that shareholders representing at least 5% of our

Table of Contents

capital stock do not object and provided that this liability does not result from a violation of the Telecom Argentina's bylaws, the Argentine law or regulations.

Additionally, Law No. 26,831 provides that those who infringe upon the provisions set forth therein shall be subject, in addition to civil and criminal liability (as applicable), to certain sanctions including warnings, fines, disqualification, suspension or prohibition from acting under the public offering regime.

In July 2012, Decree No. 1,278/12 approved a regulation of officers and directors appointed by the shares or equity interests of the Argentine government, under the scope of the Secretary of Economic Policy and Development Planning of the Ministry of Economy and Public Finance. On July 28, 2016 Decree No. 894/16 was published, which modifies Decree No. 1,278/12, establishing that in those companies whose shares integrate the investment portfolio of the FGS, the corporate, political, and economic rights pertaining to such shares shall not be exercised by the Secretary of Economic Policy and Development Planning, but they are to be exercised by the ANSES.

In addition, Decree No. 894/16 established that the directors appointed by the ANSES shall have the functions, duties and powers set out by the General Companies Law No. 19,550, the Law of Capital Market No. 26,831 and its complementary and regulatory provisions, all the regulations applicable to the company in which they perform duties, their bylaws and internal regulations, and shall have all the responsibilities they might be liable for under these rules; as a result the provisions of Decrees No. 1,278/12 and 196/15 (the latter in respect of delimitation of responsibility) are no longer applicable.

Telecom Argentina maintains an officers' and directors' insurance policy covering claims brought against the officers and/or directors relating to the performance of their duties. At present, the total amount covered by this insurance is US\$75,000,000.

Also, at Telecom Argentina Shareholders' Meeting held on April 8, 2016, the shareholders approved the grant of indemnity to: (1) the regular and alternate members of the Board of Directors and of Supervisory Committee that have resigned their positions due to the change of the indirect controlling shareholder and (2) the former directors and supervisory committee members nominated or appointed, directly or indirectly, by the former controlling shareholder (the persons subject of indemnity) in relation to their acts and omissions before or on March 8, 2016, in the case of the directors, and before or on April 8, 2016, in the case of Supervisory Committee members, to the extent and as far as it is allowed by Argentine law and by the by-laws, and for a six-year period beginning on the abovementioned dates.

In May 2004, the Board of Telecom Argentina resolved to create the Steering Committee (Consejo de Dirección), which served as an internal body of the Board of Directors and was comprised of four members of the Board of Directors.

In March 2009, the Board of Directors of Telecom Argentina resolved to dissolve the Steering Committee. However, on April 7, 2010, the Board of Directors of Telecom Argentina resolved to reestablish this Committee, maintaining the same pre-dissolution structure. The Steering Committee, consisting of four members or alternate members of the Board of Directors of Telecom Argentina and Personal, resumed its duties on October 26, 2010. On such date, the Board of Directors issued a new *Regulation of Authority and Operation of the Steering Committee*. The Steering Committee fulfills, among others, the functions of approving the Business Plan of Telecom Argentina and its subsidiaries previous to

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the presentation to the Board of Directors; approving the general remuneration policy of Telecom Argentina and Personal employees; and approving the Media Budget for its presentation to the Board of Directors.

Pursuant to the *Regulation of Authority and Operation of the Steering Committee*, a quorum shall consist of a majority of members of the Steering Committee, including those who attend by teleconference or video teleconference. All members shall adopt decisions unanimously. In the event no resolution is adopted on any of the issues submitted for consideration of the Steering Committee, the matter shall be referred to the Board of Directors.

As of the date of this Annual Report, the members of the Steering Committee are: Gerardo Werthein, Adrián Werthein, Mariano M. Ibáñez and Carlos A. Harrison.

Telecom Argentina's bylaws grant the Board of Directors the power to appoint an Executive Committee formed by some of its members and be in charge of Telecom Argentina's day-to-day

PART I - ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

TELECOM ARGENTINA S.A.

Table of Contents

affairs, in each case under the supervision of the Board of Directors. However, the Board of Directors decided not to appoint an Executive Committee.

Operating Committee

In April 2013, the Boards of Directors of Telecom Argentina and Personal decided to create the Operating Committee as an internal body of both entities, with the following duties: (i) approving any transactions determined by the authorization regime within the limits that may be prescribed, as a tier above the level assigned to the CEO and prior to the Board of Directors; and (ii) approving transactions with related parties up to P\$10,000,000.

The Operating Committee's members are the CEO of Telecom and two regular members and two alternate members, who must be regular or alternate directors of Telecom Argentina or Personal, appointed by the Board of Directors of Telecom Argentina. Members of the Operating Committee serve during the time they serve as members of the Board of Directors of Telecom Argentina or Personal.

Regulatory Compliance Committee

According to the New Shareholders' Agreement and to the TI-W Commitment (See Item 7 Major Shareholders and Related Party Transactions Major Shareholders' Telco and TI-W Commitments and Shareholders' Agreement), in October 2010, a Regulatory Compliance Committee was created consisting of three members or alternate members of the Board of Directors of Telecom Argentina and Personal not taking into account those members appointed at the request of Telecom Italia and those members appointed jointly by Telecom Italia and W de Argentina Inversiones, if any.

The main duty of the Regulatory Compliance Committee was to verify that Telecom Argentina and Personal were in compliance with the requirements (hereinafter, the Requirements) assumed or derived for both companies from the Telco and the TI-W Commitment.

Due to the change in the indirect controlling shareholder of Telecom Argentina resulting from the March 8, 2016 sale of the Telecom Italia Group's majority stake in Sofora to Fintech, on April 15, 2016, Telecom Argentina and Telecom Personal notified the CNDC that *the Telco and TI-W Commitments had become moot.*

Last members of the Regulatory Compliance Committee were Adrián Werthein (Chairman); Eduardo Federico Bauer and Esteban Gabriel Macek.

Audit Committee

Law No. 26,831 provides that companies with publicly-listed shares shall appoint an Audit Committee to be formed by three or more members of the Board of Directors. Under CNV rules, the majority of the members of the Audit Committee must be independent. In order to qualify as independent, the director must be independent with respect to the company, any controlling shareholders or any shareholders that are significant participants in the company and cannot carry out executive duties for the company. A member of the Board of Directors cannot qualify as an independent director if he or she is a relative of a person who would not qualify as an independent director if such relative were appointed as a member of the Board of Directors.

Pursuant to General Resolution No. 400/02 of the CNV, published in the Official Gazette on April 5, 2002, the provisions of the Transparency Decree, which are now part of Law No. 26,831, relating to the Audit Committee were applicable for the financial years beginning on or after January 1, 2004.

At the Board of Directors meeting held on April 29, 2004, the Board of Directors resolved the final composition of the Audit Committee, and the Audit Committee came into effect.

According to the Regulation for the implementation of the Audit Committee (*Normativa de Implementación del Comité de Auditoría*) which is a set of guidelines for the Audit Committee filed with the CNV, in case of resignation, dismissal, death or lack of capacity of any of the members of the Audit Committee, the Board of Directors shall immediately appoint a replacement, who shall remain in office until the following Annual Shareholders Meeting.

According to Law No. 26,831 the duties of the Audit Committee are:

- providing the market with complete information on transactions in which there might be a conflict of interest with the members of the corporate bodies or controlling shareholders;

Table of Contents

- giving an opinion on the fulfillment of legal requirements and reasonableness of the conditions for the issuance of shares or securities convertible into shares, in the case of capital increases where preemptive rights have been excluded or limited;
- giving an opinion regarding transactions with related parties in certain cases;
- supervising internal control systems and verifying the fulfillment of norms of conduct; and
- giving an opinion regarding the Board of Directors' proposal to designate external auditors and evaluating their independence, among others.

Additionally, according to the Regulation for the Implementation of the Audit Committee, the Audit Committee also reviews the plans of internal auditors, supervising and evaluating their performance.

On March 8, 2016 Telecom Argentina's Board of Directors accepted the resignation of Mr. Oscar Carlos Cristianci and Mr. Enrique Llerena as members of the Board of Directors and as members of Telecom's Audit Committee. On that same date the Board of Directors appointed Mr. Martín Hector D' Ambrosio and Mr. Alejandro Macfarlane to replace them as members of Telecom's Audit Committee until the date of the Annual Shareholders' Meeting that considered Telecom Argentina's 2015 Financial Statements. At its meeting on April 29, 2016, the Board of Directors elected Mr. Esteban Gabriel Macek, Mr. Alejandro Macfarlane and Mr. Martín Hector D' Ambrosio as members of the Audit Committee for fiscal year 2016. Furthermore, the Board of Directors determined that Mr. Macek qualifies as the audit committee financial expert under SEC guidelines.

Under SEC and NYSE regulations, Mr. Martín Hector D' Ambrosio qualifies as independent director and Mr. Alejandro Macfarlane relies on Rule 10A-3(b)(1)(iv)(B) exemption, otherwise meeting the independence requirements of Rule 10A-3(b)(1)(ii). Under CNV regulations, only Mr. D' Ambrosio qualifies as independent director.

The Board of Directors' meeting appointing the Audit Committee members for year 2017 has not yet been held. Therefore, as of the date of this Annual Report, the following members of Telecom Argentina's Audit Committee are still in office: Mr. Esteban Gabriel Macek, Mr. Martín Hector D' Ambrosio and Mr. Alejandro Macfarlane.

Pursuant to the Law No. 26,831, the Audit Committee may seek the advice of lawyers and other outside professionals at Telecom Argentina's expense, so long as the shareholders have approved expenditures for the services of such professionals. For fiscal year 2016, a budget of P\$2,700,000 was approved for Audit Committee expenditures. As of the date of this Annual Report, the Annual Shareholders' Meeting approving the Audit Committee expenditures for year 2017 has not yet been held.

Risk Management Committee

In 2012, the Board of Directors of Telecom Argentina approved the implementation of an Enterprise Risk Management Process at the Telecom Group, and the creation of a Risk Management Committee. The Committee is chaired by the CEO, and is composed by Senior Managers, led and coordinated by the CFO. The Board of Directors of Telecom Argentina also approved the creation of the Risk Management function (at the managerial level), whose responsible person also serves as Secretary of the Risk Management Committee and reports directly to the CFO.

The duties of the Risk Committee include reviewing and implementing policies, mechanisms and procedures to identify, to measure and to mitigate risks for Telecom Argentina and its subsidiaries, and also recommend any steps or adjustments it deems necessary to reduce the risk profile of the organization, based on the **Organizational Procedure for Enterprise Risk Management**.

The Company follows the guidelines provided under the Enterprise Risk Management **Integrated Framework 2004** issued by COSO, in order to carry on its Enterprise Risk Management process. Financial reporting risks are reviewed and certified under section 404 of the Sarbanes Oxley Act.

Telecom Argentina and its subsidiaries have different action plans that endeavor to mitigate, in whole or in part, high impact risks for the Telecom Group. However, it cannot be assured that such plans are totally effective, or other events, unforeseen at the date of this Annual Report, could arise and affect the performance of the Telecom Group.

Table of Contents

Disclosure Committee

Telecom Argentina has also established a Disclosure Committee, which is responsible for monitoring the gathering, processing and submission to the CEO and CFO of consolidated financial and non-financial information that is required to be included in disclosure reports in order to ensure timely and accurate disclosure of material information. The duties of the Disclosure Committee include the following:

- assisting the CEO and the CFO in evaluating the effectiveness of Telecom Argentina's disclosure controls and procedures prior to the filing of Annual Reports both in Argentina and the United States;
- suggesting any improvements in disclosure procedures as a result of this evaluation;
- verifying that Telecom Argentina's processes for information collection, processing and control are in compliance with its disclosure procedures such that the accuracy of its disclosures can be verified; and

providing assistance in determining what information may be considered material to Telecom Argentina.

Employees and Labor Relations

As of December 31, 2016, the total number of employees of the Telecom Group was 15,970, out of which (i) 10,901 corresponded to Telecom Argentina, (ii) 4,661 corresponded to Telecom Personal, (iii) 401 corresponded to Núcleo and (iv) 7 corresponded to Personal Envíos (with no temporary employees). Out of the total number of employees, 80% are party to collective labor agreements and, therefore, represented by unions. The management and senior positions are covered by non-unionized employees. In Núcleo and Personal Envíos, employees are non-unionized.

In Telecom Argentina and Telecom Personal there are 10,051 and 2,806 unionized employees, respectively.

As to the distribution of trade union representation, see below:

- 1) The first-degree union with the highest number of employees is *FOETRA Sindicato Buenos Aires* (*FOETRA*), with 4,473 employees. *FOETRA*, is associated with *FATEL* Federation, which together with other six first-degree

unions, represent approximately 7,373 Telecom Argentina and Personal employees (5,769 and 1,604 employees of Telecom Argentina and Personal, respectively).

2) FOEESITRA (*Federación de Obreros, Especialistas y Empleados de los Servicios e Industrias de las Telecomunicaciones de la República Argentina* or FOEESITRA) represents the rest of the unionized employees, with greater geographic dispersion and smaller population than FATEL, amounting 3,257 Telecom Argentina and Personal employees (2,269 and 988 employees of Telecom Argentina and Personal, respectively).

3) FOPSTTA (*Federación de Organizaciones de Personal de Supervisión y Técnicos Telefónicos Argentinos*) and UPJET (*Unión de Personal Jerárquico de Empresas de Telecomunicaciones*) represent 656 and 1,281 employees of Telecom Argentina and Personal, respectively.

4) In Telecom, professional employees are represented by CePETel, which represents 290 employees. This trade union, although recognized as legitimate by mobile telephony companies, does not have effective representation in the sector and, therefore, in Telecom Personal.

In 2016, the inflationary environment continued, as well as the consequent union claims with significant percentages of salary increases, and additional bonus or compensatory amounts. Such claims were combined with forceful measures of various nature as a consequence of the new structure of union leadership.

On the other hand, the claims of social organizations, in pursuit of subsidies and other benefits, were also intensified.

During 2016, Telecom Argentina, for more than six years, continued to negotiate with telecommunication labor organizations through the *Mesa de Unidad Sindical de las Telecomunicaciones* (the MUS or Board of Trade Union Unity), which brings together FOEESITRA,

Table of Contents

FATEL, FOPSTTA and UPJET. The negotiations were aimed to reach a collective labor agreement for the basic telephony. Additionally, in 2016 the CePETel, which organizes professional employees, was incorporated into this negotiation.

Together with the MUS, the Company carried out the search for collective wage agreements in the field of basic telephony. In this regard, a 30% non-remunerative and non-cumulative wage increase was agreed to as of July 2016. An additional 5% was added to such increase as from February 2017 with the same characteristics. In January 2017, a one-time special bonus of P\$5,500 was agreed to and the amount unionized employees received on the Day of the Telephone Worker was increased, representing 2% of the total payroll.

In the same terms, agreements were reached in the joint negotiations with respect to call center collective agreements, which are subscribed with FOETRA SITRATEL and FOEESITRA.

In relation with Personal s unionized employees, collective labor agreements for the mobile telephony subscribed with FATEL (Collective Labor Agreement (CCT) N° 614/15), FOEESITRA (CCT N° 712/15), FOPSTTA (CCT N° 615/15), and UPJET (CCT N° 714/15) continue in effect.

Regarding the evolution of salary scales in Telecom Personal, for the first time the negotiations were carried out within the framework of the MUS and the companies of the activity.

It is worth mentioning that, as of the date of this Annual Report, CePETel -union gathering professionals of the sector-, has raised its claim of representation and negotiation of a CCT for mobile activity, having initiated administrative proceedings within the scope of the Ministry of Labor, Employment, and Social Security.

In relation to non-bargaining unit employees (FC), in May, July and August 2016, a general adjustment was set forth, with the exception of population occupying positions reporting directly to the CEO or the Chairman. Those adjustments were supplemented for the same population, with a pattern of selective increase applied in August based on the concept of meritocracy, thus allowing award and acknowledgment for outstanding performances. For the population occupying positions reporting directly to the CEO or the Chairman, a selective adjustment was defined in August as well as in November.

See Item 8 Financial Information Legal Proceedings Labor Claims for more detail on labor claims filed against Telecom Argentina and Personal.

Employees by Segment

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The table below shows the number of employees as of December 31, 2016, 2015 and 2014 by segment:

| | December 31, 2016 | December 31, 2015 | December 31, 2014 |
|----------------------------|----------------------|----------------------|----------------------|
| Fixed Services | 10,901 | 10,903 | 11,056 |
| Personal Mobile Services | 4,661 | 4,908 | 4,958 |
| Núcleo Mobile Services (1) | 408 | 413 | 402 |
| Total | 15,970 | 16,224 | 16,416 |

(1) Includes Envíos employees.

Share Ownership

Share Ownership by directors, executive officers, and Supervisory Committee members

No current member of the Board of Directors and no current member of the Supervisory Committee directly holds obligations or capital stock of Telecom Argentina. See Item 7 Major Shareholders and Related Party Transactions Major Shareholders Shareholders of Nortel for additional information regarding indirect holdings in Telecom Argentina of certain members of its Board of Directors.

Mr. Gaspar Buscalia holds 2,000 Class B Shares and 650 ADS of Telecom Argentina; Mr. Alejandro Quiroga López holds 4,450 Class B Shares of Telecom Argentina and Mr. Roberto Nobile holds 4,000 ADS of Telecom Argentina. No other member of Telecom Argentina's senior management holds obligations or capital stock of Telecom Argentina.

Table of Contents

Share Ownership Plan

At the time of the privatization of ENTel in 1990, the Argentine government created a Share Ownership Plan (SOP), for the employees of ENTel and CAT, which were acquired by Telecom Argentina, Telintar and Startel. Pursuant to the Privatization Regulations, 10% of Telecom Argentina's then-outstanding shares, consisting of 98,438,098 Class C Shares, were transferred by the Argentine government to Telecom Argentina, Telintar, and Startel employees previously employed by ENTel and CAT. This transfer was made through a general transfer agreement signed on December 29, 1992 (the General Transfer Agreement). Our Class C Shares consist exclusively of shares originally sold in connection with the SOP. According to applicable law, to be eligible to continue to participate in the SOP, the employees had to remain employed by Telecom Argentina, Telintar and Startel. Employees who terminated their employment with Telecom Argentina, Telintar or Startel before the deferred purchase price was fully paid were required to sell their Class C Shares to another employee under the SOP or, if no other employee was available to purchase these shares, to a guaranty and repurchase fund (the Guaranty and Repurchase Fund) at a price calculated according to a formula provided in the General Transfer Agreement.

On December 9, 1999, Decree No. 1,623/99 was issued, authorizing the accelerated repayment of the outstanding balance of the deferred purchase price for all Class C Shares, and lifting the transfer restrictions on the Class C Shares upon the satisfaction of certain precedent conditions. However, the shares held in the Guaranty and Repurchase Fund were still subject to transfer restrictions until an injunction prohibiting the trading or selling of these shares was lifted. Decree No. 1,623/99 provided that once the injunction was lifted, the sale of an amount of shares in the Guaranty and Repurchase Fund, would take place in order to cancel the debt owed to the former employees for the acquisition of shares transferred to the Guaranty and Repurchase Fund. The remaining shares held in the Guaranty and Repurchase Fund would then be distributed in accordance with the decision of the majority of the employees taken in a special meeting of the SOP.

In accordance with Decree No. 1,623/99, at the extraordinary and special Class C Shareholders Meeting held on March 14, 2000, Telecom Argentina's shareholders approved the conversion of up to 52,505,360 Class C Shares into Class B Shares in one or more tranches from time to time, as determined by the trustee of the SOP, Banco de la Ciudad de Buenos Aires, based on the availability of Class C Shares that were not affected by judicial restrictions on conversion.

A first tranche of 50,978,833 Class C Shares was converted into Class B Shares for public resale. This transaction was authorized in Argentina by the CNV and was registered in the United States with the SEC on May 3, 2000. The rest of the Class C Shares authorized for conversion were converted into Class B Shares in four more tranches ending in 2005.

As requested by the Executive Committee of the SOP, the Ordinary, Extraordinary and Special Class C Shareholders Meetings held on April 27, 2006, approved the delegation of authority to Telecom Argentina's Board of Directors for the conversion of up to 41,339,464 ordinary Class C Shares into an equal quantity of Class B Shares, in one or more conversions. As of December 31, 2011, all the 41,339,464 shares were converted into Class B Ordinary Shares in eleven tranches.

The remaining 4,593,274 Class C Shares were affected by an injunction measure recorded in file *Garcías de Vicchi, Amerinda y otros c/ Sindicación de Accionistas Clase C del Programa de Propiedad Participada s/nulidad de acto jurídico* , which has been lifted. Therefore, the General Ordinary and Extraordinary and Special Class C Shares Meetings held on December 15, 2011 approved the delegation of authority to Telecom Argentina's Board of Directors for the conversion of up to 4,593,274 Class C ordinary shares into an equal quantity of Class B ordinary shares in one or more tranches. As a result, 4,358,526 Class C Shares have been converted to Class B Shares in ten tranches. As of the date of this Annual Report, the outstanding number of Class C Shares is 234,748.

Table of Contents

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

Our principal shareholder is Nortel. As of December 31, 2016, Nortel owned all of Telecom Argentina's Class A Ordinary Shares (51% of Telecom Argentina's total capital stock) and approximately 7.64% of the Class B Ordinary Shares (3.74% of Telecom Argentina's total capital stock) which, in the aggregate, represented approximately 54.74% of the total capital stock or 55.6% of the total outstanding shares considering the 15,221,373 Class B Ordinary Shares which were repurchased and are held in treasury. Telecom Argentina is directly controlled by Nortel by virtue of Nortel's ownership of a majority of Telecom Argentina's capital stock. However, Nortel's controlling interest is subject to certain agreements among Sofora's shareholders. See Shareholders of Nortel below.

Nortel was incorporated in Buenos Aires, Argentina on October 19, 1990 and registered with the Public Registry of the City of Buenos Aires on October 31, 1990 under No. 8,025, book 108, Volume A of Corporations. Nortel is a holding company that was formed in 1990 by a consortium including the Telecom Italia Group and FCR in connection with the privatization of ENTel and formation of Telecom Argentina.

In the event of certain payment defaults or breaches of covenants, holders of Nortel's preferred stock collectively have the right to elect one director of Nortel and obtain voting rights.

Nortel's offices are located at Alicia Moreau de Justo 50, 13th floor, Buenos Aires, Argentina.

Shareholders of Nortel

As of December 31, 2016, Nortel's capital stock was composed of (i) ordinary shares (78.38% of the capital stock) all of them owned by Sofora, and (ii) Preferred Series B shares (21.62% of the capital stock), which do not grant voting rights.

In 2003, W de Argentina Inversiones, Telecom Italia, and Telecom Italia International N.V. signed a shareholders' agreement for the joint management of Sofora, Nortel, Telecom Argentina and its subsidiaries, including Personal, which was amended in August 2010, October 2010, March 2011, November 2013 and October 2014. See Shareholders' Agreement below.

On November 14, 2013 Telecom Italia and Telecom Italia International N.V. (collectively, the Sellers) and Tierra Argentea S.A. (Tierra Argentea, a company controlled by the Sellers) accepted an offer made by Fintech to acquire Telecom Italia's controlling stake in Telecom Argentina owned by the Sellers through their subsidiaries Sofora, Nortel, and Tierra Argentea pursuant to the terms of a purchase agreement by and among, Fintech, Tierra Argentea and the Sellers (the 2013 Purchase Agreement), subject to prior Argentine regulatory approvals.

The total aggregate consideration and payments to be received by the Sellers under the 2013 Purchase Agreement and other agreements among Fintech and other persons was approximately US\$960.0 million. On October 25, 2014, Telecom Italia announced the acceptance of an offer made by Fintech to amend and restate the 2013 Purchase Agreement.

The amended and restated 2013 Purchase Agreement provided that: (i) the same total aggregate consideration and payments to be received by the Sellers from Fintech and other persons pursuant to the 2013 Purchase Agreement and other agreements executed in connection therewith at approximately US\$960.0 million, (ii) the transfer of a 51% controlling interest in Sofora as subject to the approval of the telecommunications regulatory body (formerly, SC, subsequently AFTIC and currently its successor, ENACOM), and (iii) a 17% minority interest in Sofora would be sold to Fintech during October 2014.

Of the total aggregate amount to be received by the Sellers, an aggregate amount of US\$ 867.9 million would be paid by Fintech as consideration for the sale of:

- 68% of the ordinary shares of Sofora held by the Sellers, divided between 17% of the ordinary shares of Sofora (US\$208.6 million) and 51% of the ordinary shares in Sofora (US\$550.6 million);
- 15,533,834 Class B Shares of Telecom Argentina held by Tierra Argentea, representing 1.58% of the outstanding shares, (US\$61.2 million); and

Table of Contents

- 2,351,752 American Depositary Shares, representing 117,588 Preferred Class B Shares of Nortel held by Tierra Argentea, equal to 8% of the outstanding Preferred Class B Shares of Nortel (US\$47.5 million).

The remaining amount would be paid pursuant to additional agreements related to the transaction, including: (i) the waiver by the Sellers of certain rights under, as well as amendments to, the Shareholders Agreement relating to Telecom Argentina and the Wertheim Group, which would retain 32% of the voting shares of Sofora; (ii) an agreement granting the right to continue providing technical support and other services to the Telecom Argentina companies for up to three years following the closing date; and (iii) the commitment of Fintech to pay amounts already reserved for the payment of dividends by Telecom Argentina (Reserved Dividends), if such dividends were not paid outside Argentina to its shareholders prior to the closing of the purchase and sale of Sofora shares.

In implementing the above-mentioned agreements, on December 10, 2013, the Class B Shares of Telecom Argentina and the American Depositary Shares representing Class B Shares of Nortel owned by Tierra Argentea were transferred to Fintech for an aggregate amount of US\$108.7 million and on October 29, 2014 Telecom Italia International N.V. transferred 17% of the capital stock of Sofora to Fintech.

On October 16, 2015 AFTIC's Resolution No. 491/15 was published in the Official Gazette denying the requested authorization for the transfer to Fintech of the controlling interest that Telecom Italia Group held in Sofora, Fintech, the Telecom Italia Group, W de Argentina Inversiones, Telecom Argentina and Telecom Personal filed a recourse of reconsideration against Resolution No. 491/15 requesting AFTIC to revoke such resolution and grant the authorization for the transfer.

On February 17, 2016 Telecom Argentina was notified of ENACOM Resolution No. 64/16 pursuant to which ENACOM partially granted the above mentioned requests revoking the denial in AFTIC Resolution No. 491/15 and deciding to continue the analysis of the transfer of Telecom Italia's interest in Sofora to Fintech.

On February 24, 2016, Telecom Argentina was notified of Fintech's intention to launch a Mandatory Tender Offer (the OPA) resulting from a change of control event for all Class B Shares of Telecom Argentina which are traded on the BCBA, or Merval, promoted and formulated by Fintech. In addition, Fintech launched an OPA in the United States, which offers' reception period expired on November 23, 2016. For further information of the OPAs launched by Fintech and their results, see Item 4 Information on the Company Introduction History.

On March 7, 2016, ENACOM Resolution No. 277/16 authorized the transfer of Sofora's majority shareholder stake to Fintech and on March 8, 2016, the transfer of the Telecom Italia Group's 51% stake in Sofora to Fintech was completed. As a result, the Telecom Italia Group was replaced by Fintech as indirect controlling shareholder of Telecom Argentina.

As of the date of this Annual Report, Sofora's shares belong to Fintech (68%) and to W de Argentina Inversiones (32%). Additionally, Fintech has 58,173,522 Class B Shares that represent 5.91% of Telecom Argentina's total capital stock.

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In March 2017, W de Argentina Inversiones offered to Sofora and Sofora accepted with the consent of Fintech, the controlling shareholder of Sofora, an offer to amortize, in two tranches, all of the shares of capital stock issued by Sofora and owned by W de Argentina Inversiones, equal to 140,704,640 shares. As a result of the amortization, Sofora agreed to pay W de Argentina Inversiones an amount equal to the par value of W de Argentina Inversiones' shares of capital stock issued by Sofora, such amount being equivalent to P\$140,704,640, and issue in the name of W de Argentina Inversiones one or more dividend certificates (any such certificate, a Bono de Goce) evidencing W de Argentina Inversiones' rights to dividends up to an aggregate amount of up to US\$470 million less the amounts paid to amortize the shares of Sofora owned by W de Argentina Inversiones, plus certain incremental amounts, with preference over the Telecom Argentina Class A Shares to be received by the shareholders of Sofora in the Reorganization. The amortization of the first tranche of shares of capital stock of Sofora owned by W de Argentina Inversiones and representing 17% of the issued and outstanding capital stock of Sofora is scheduled to occur on May 2, 2017, after which a Bono de Goce in the amount of US\$249,687,500 less the U.S. dollar equivalent of P\$74,749,340 will be issued to W de Argentina Inversiones. The amortization of the second tranche of shares of capital stock of Sofora owned by W de Argentina Inversiones and representing an additional 15% of the issued and outstanding capital stock of Sofora as of the date of this Annual Report is subject to the approval of ENACOM. If this second amortization occurs, an additional Bono de Goce will be issued in an amount equal to U.S.\$220,312,500 less the U.S. dollar equivalent of P\$65,955,300. Upon the completion of the amortizations, Fintech will be the sole shareholder of Sofora.

PART I - ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

TELECOM ARGENTINA S.A.

Table of Contents

Consequently, on March 28, 2017 Sofora's Shareholders Meeting approved the amortization of all of W de Argentina Inversiones' shares in Sofora in two tranches (17% on or before May 2, 2017 and 15% subject to the ENACOM's release from the obligation to be maintained as part of the principal nucleus (núcleo principal)). See Item 4 Information on the Company Introduction Recent Developments The Reorganization.

More information is available in the Relevant Facts Section of the CNV at www.cnv.gob.ar, and in the Company filings search Section (company Telecom Argentina) of the SEC at www.sec.gov. Unless specifically incorporated by reference herein, the information contained or accessible through such websites should not be considered a part of this Annual Report.

Fintech

Fintech Telecom LLC, a Delaware (United States) limited liability company, is a wholly-owned direct subsidiary of Fintech Advisory Inc. and its primary purpose is to hold, directly and indirectly, the securities of Telecom Argentina. Fintech Advisory Inc., a Delaware (United States) corporation, is directly controlled by Mr. David Martínez. Fintech Advisory Inc. is an investor and investment manager in equity and debt securities of sovereign and private entities primarily in emerging markets.

W de Argentina Inversiones S.A.

W de Argentina Inversiones, a company of the Werthein Group, is a company owned by Daniel Werthein, Adrián Werthein, Gerardo Werthein (a member of Telecom Argentina's Board of Directors) and Darío Werthein. The Werthein Group's main lines of business include farming and oil operations, insurance and real estate activities, as described below:

- ***Farming and Oil Operations.*** Gregorio, Numo y Noel Werthein S.A.A.G.C. e I. (GNNW) is the company that handles the businesses of the Werthein Group, mainly related to agribusiness activities and food products. GNNW owns more than 217,141 acres in the primary farming areas of Argentina, harvesting more than 28,587 tons of different crops and owns more than 20,223 heads of cattle dedicated to meat production. GNNW is also involved in the manufacturing of processed fruits as well as teas and other infusions. Most of its products are aimed at the international markets with important exports worldwide.
- ***Insurance Activities.*** The Werthein Group has a 100% interest in Experta Aseguradora de Riesgos del Trabajo S.A., a leading work risk insurance company in Argentina, and Experta de Retiro S.A., a retirement insurance company in Argentina. Additionally, together with certain third-party individuals, the Werthein Group detain control of La Estrella S.A. Compañía de Seguros de Retiro, a leading retirement insurance company in Argentina.

- *Real Estate Activities.* The Werthein Group conducts real estate, construction, consulting, public works and other real estate-related activities through its interests in other companies.
- *Gas Transportation Activities.* The Werthein Group has a minority stake in Transportadora de Gas del Sur S.A., one of the largest gas pipeline companies in Argentina.

Ownership of Telecom Argentina Common Stock

The following table sets forth, as of March 31, 2017, each beneficial owner of 5% or more of each class of Telecom Argentina's shares. However, as of the date of this Annual Report, current holdings may differ.

| | Number of Shares Owned | Percent of Class | Percent of Total Capital Stock (1) |
|--|---------------------------|---------------------|--|
| Class A Ordinary Shares: | | | |
| Nortel | 502,034,299 | 100.00% | 51.00% |
| Class B Ordinary Shares (listed in BCBA): | | | |
| ANSES - FGS | 246,018,839 | 51.03% | 24.99% |
| Nortel | 36,832,408 | 7.64% | 3.74% |
| Treasury Shares | 15,221,373 | 3.16% | 1.55% |
| Others (2) | 184,039,311 | 38.17% | 18.69% |
| Class C Ordinary Shares: | | | |
| Others | 234,748 | 100.00% | 0.03% |

(1) Represents the respective percentage over the total of Telecom Argentina's ordinary shares, regardless their class.

(2) Includes 58,173,522 Class B Shares owned by Fintech representing 12.07% of total Class B Shares (including Treasury Shares) and 5.91% of Telecom Argentina's total capital stock.

Table of Contents

As of March 31, 2017, there were approximately 28.2 million American Depositary Shares outstanding (representing rights to 141.2 million Class B Shares or 32.84% of total Class B Shares, excluding those held by Nortel and Treasury Shares). Further, as of March 31, 2017, there were approximately 63 registered holders of American Depositary Shares in the United States and approximately 17,500 holders of Class B Shares in Argentina. Because some Class B Shares are held by representatives, the number and domicile of registered shareholders may not exactly reflect the number and domicile of beneficial shareholders.

All shares have equal voting rights. Nevertheless, pursuant to Section 221 of the GCL, the rights of treasury shares shall be suspended (including voting rights) while held by Telecom.

Telco and TI-W Commitments

On October 25, 2007, a consortium made up of Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A., Sintonia S.A. (Benetton) and Telefónica, S.A. (of Spain) bought Olimpia S.p.A.'s entire stock through the Italian company Telco S.p.A., which held approximately 23.6% of Telecom Italia's voting shares (the Telco Transaction). On December 22, 2009, Sintonia S.A. (Benetton) left the consortium and its participation was assumed by the remaining shareholders of Telco S.p.A. on a pro rata basis. As of December 31, 2014, Telco held 22.3% of Telecom Italia's voting shares, according to its Financial Statements.

The Telco Transaction has generated different opinions with respect to its impact on Argentina's telecommunications market in light of the Argentine Antitrust Law and the existing regulatory framework.

Consequently, the Telco Transaction led to the intervention of various administrative bodies whose decisions have been subject to various presentations and complaints before administrative and judicial courts.

On August 5, 2010, Telecom Italia, Telecom Italia Internacional N.V. and W de Argentina agreed to:

- A settlement agreement to end all legal proceedings existing between the parties as direct shareholders of Sofora and indirect shareholders of the remaining companies of the Telecom Argentina Group (Sofora, Nortel, Telecom Argentina and its subsidiaries and Personal and its subsidiaries), which originated as a result of the Telco Transaction.
- Amend the 2003 Shareholders' Agreement. The amendment includes, among other things, certain measures to guarantee a more efficient corporate governance of the Telecom Argentina Group companies. As part of the agreement, a Telecom Argentina and Personal's Regulatory Compliance Committee was created and will remain in place for as long as Telefónica, S.A. (of Spain) owns any subsidiaries in Argentina and concurrently maintains any direct or indirect participation in the Telecom Italia Group and maintains corporate rights similar to those provided by the Telco Transaction.

- The transfer of 8% of the capital stock of Sofora from W de Argentina Inversiones to Telecom Italia International N.V., subject to the applicable authorizations. This increased Telecom Italia Group's participation to 58% of the capital stock of Sofora (the TI-W Transaction).

On October 6, 2010, Telefónica, S.A. (of Spain), Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A., Telco S.p.A, and, as intervening parties, Telecom Italia, Telecom Italia International N.V., Sofora, Nortel, Telecom Argentina, Personal, Telefónica de Argentina S.A. and Telefónica Móviles Argentina S.A., submitted before the CNDC an agreement (the Telco Commitment).

PART I - ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

TELECOM ARGENTINA S.A.

Table of Contents

The Telco Commitment ensures the separation and independence of the activities in the Argentine telecommunications market, of Telefónica, S.A. (of Spain) and its controlled subsidiaries, on one hand, and Telecom Italia, Telecom Italia International N.V., Sofora, Telecom Argentina and Personal, on the other hand, preserving and encouraging the competitive conditions of such companies' activities in the Argentine market.

In addition, in connection with the TI-W Transaction, Sofora's shareholders submitted before the CNDC an agreement in relation to the administration and governance of the Telecom Argentina Group (the "TI-W Commitment").

On June 24, 2015 Telefónica, S.A. (of Spain) informed to the CNV and the BCBA the *divestment of its entire stake in Telecom Italia S.p.A.*

According to clause 9.2 of the Telco Commitment and to clause 3 of the TI-W Commitment, the divestment of Telefónica, S.A. (of Spain) and the end of the validity of the Telco S.p.A. shareholders' agreement implied the end of the validity of the Telco and TI-W Commitments.

Consequently, on July 6, 2015, Telecom Italia filed a note before the CNDC informing the end of the validity of the Telco and TI-W Commitments.

On July 7, 2015, Telecom Argentina and Personal filed a note before the CNDC adhering to the presentation made by Telecom Italia and requesting that the extinction of the validity of the Commitments be declared for the same reasons exposed by Telecom Italia in its note. On February 18, 2016 Telecom Argentina and Telecom Personal submitted another note to the CNDC reiterating their request.

On April 15, 2016, Telecom Argentina and Telecom Personal notified the CNDC that the Telco and TI-W Commitments had become moot due to the change in the indirect controlling shareholder of Telecom Argentina, resulting from the sale of the Telecom Italia Group's majority stake in Sofora to Fintech on March 8, 2016.

Shareholders' Agreement

On August 5, 2010, the Telecom Italia Group and W de Argentina Inversiones (jointly with the Telecom Italia Group, the "Parties") entered into the *2010 Amended and Restated Shareholders' Agreement*, that amended the provisions and terms of the *2003 Amended and Restated Shareholders' Agreement* (the "2003 Shareholders' Agreement"), as amended on: (i) October 13, 2010 as a consequence of the TI-W Commitment; (ii) March 9, 2011, (iii) November 13, 2013 and (iv) October 24, 2014 (the "Amended and Restated Third Amendment"). The 2010 Shareholders' Agreement as amended and restated by the modifications listed above is hereinafter referred to as the "New Shareholders' Agreement".

As a result of the acquisition of the 17% of Sofora's shares held by the Telecom Italia Group which was concluded on October 29, 2014, Fintech adhered as a party to the New Shareholders' Agreement by means of execution of a deed of adherence (the "Deed of Adherence"). On March 8,

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2016, following the acquisition of the remaining 51% of Sofora's shares from the Telecom Italia Group, and as per the terms and conditions of the Amended and Restated Third Amendment and the Deed of Adherence, Fintech acquired all the rights and obligations of the Telecom Italia Group under the New Shareholders' Agreement.

Below is a brief summary of the main terms and conditions of the New Shareholders' Agreement and the principal amendments to the 2003 Shareholders' Agreement:

With respect to Sofora:

- Fintech shall have the right to appoint five Board members out of nine and W de Argentina Inversiones shall have the right to appoint the remaining four Board members. Decisions will be made by the majority of directors present at each meeting.
- W de Argentina Inversiones shall have the right to nominate the Chairman of the Supervisory Committee.

With respect to Nortel:

- W de Argentina Inversiones has the right to appoint two board members out of seven and Fintech has the right to appoint four. In case the Preferred Class B Shares of Nortel would acquire voting rights in accordance with their respective terms and conditions of issuance, the

Table of Contents

seventh board member would be appointed by the shareholders of the Preferred Class B Shares of Nortel. In case those shares confer no voting rights, as it is currently the case, Fintech and W de Argentina Inversiones have the right to jointly appoint the remaining board member. Decisions will be made by the majority of directors present at each meeting. In case of a tie, the chairman shall cast the deciding vote.

- W de Argentina Inversiones shall be entitled to nominate the Chairman of the Audit Committee of Nortel.

With respect to Telecom Argentina:

- As a general rule, Fintech shall have the right to nominate a majority of the members of the Board of Directors through Nortel. Currently, the Board of Directors is composed of eleven (11) members appointed in March 2016 for a term of three (3) years of which six (6) have been nominated by Fintech, two (2) have been nominated by W de Argentina Inversiones and three (3) have been nominated by ANSES. Decisions will be made by the majority of directors present at each meeting. In case of a tie, the Chairman shall cast the deciding vote.

- W de Argentina Inversiones shall be entitled to nominate the Chairman of the Audit Committee of Telecom Argentina. The New Shareholders Agreement also provides that the resolutions of the Audit Committee shall be taken by the unanimous vote of its members.

- The Chairman of Telecom Argentina's Board of Directors shall meet the following requirements: (i) be an Argentine professional of recognized reputation and (ii) shall not have served as member of the Board of Directors or officer at any direct or indirect competitor of any company of the Telecom Argentina Group in the Argentine telecommunications market within the previous twelve months from his appointment.

The New Shareholders Agreement also provides for the establishment of a Steering Committee for Telecom Argentina, which shall be composed of four members, two appointed by Fintech and two appointed by W de Argentina Inversiones. See Item 6 Directors, Senior Management and Employees Board Practices.

The New Shareholders Agreement still provides for meetings between Fintech and W de Argentina Inversiones (set forth in Section 4 of the New Shareholders Agreement) before the Shareholders meeting or the Board of Directors meeting of Sofora, Nortel, Telecom Argentina or its subsidiaries regarding matters that must be treated at shareholders meetings or those related to preferred shareholders of Nortel, but it excludes resolutions to be adopted by certain non-executive committees, such as the Audit Committee and the Supervisory Committee which will follow the rules of their respective committees.

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Similar to the 2003 Shareholders Agreement, two members of Fintech and one member of W de Argentina Inversiones shall attend the meetings and the decisions will be taken through the affirmative vote of the majority of its members who attend the meeting.

W de Argentina Inversiones shall maintain substantially similar veto rights as provided for in the 2003 Shareholders Agreement, upon the following matters:

- the approval of any amendment to the bylaws, other than the amendments expressly set forth in the New Shareholders Agreement;
- dividend policy;
- any capital increase or decrease, except for any capital increase or decrease connected to any possible debt restructuring;
- changing the location of the headquarter offices;
- any acquisition of subsidiaries and/or creation of subsidiaries;
- the sale, transfer, assignment or any other disposition of all or substantially all of the assets or any of its subsidiaries;
- decisions relating to the establishment of joint ventures;

Table of Contents

- constitution of any charges, liens, encumbrance, pledge or mortgage over assets, exceeding the amount of US\$20,000,000 (twenty million U.S. dollars);
- any change of external auditors, to be chosen among auditors of international reputation;
- any related party transaction which is not carried out according to usual market conditions, exceeding the amount of US\$5,000,000, with the exception of (i) any correspondent relationships, traffic agreement and/or roaming agreements with any national and/or international telecommunications carriers/operators, including the establishment, expansion or amendment of such correspondent relationships with any new telecommunications carriers; and (ii) any transaction connected with the debt restructuring;
- any extraordinary transaction involving the Telecom Argentina Group, exceeding the amount of US\$30,000,000, except for any operation connected with the debt restructuring of the Telecom Argentina Group; and
- any change to the rules of the Steering Committee or the Audit Committee; and the creation, changes or dissolution of any committee of the Telecom Argentina Group with similar functions.

Regarding the New Shareholders Agreement, on March 17, 2017 Fintech and W de Argentina Inversiones agreed: upon the earlier of (i) the consummation of the amortization of the shares of Sofora held by W de Argentina Inversiones representing 17.00% of the capital stock of Sofora (the Initial Shares) and (ii) the date on which W de Argentina Inversiones would cease to hold any of the Initial Shares (whether as a result of the amortization and subsequent cancellation and annulment thereof or otherwise), the Shareholders Agreement shall be automatically terminated and have no further force and effect, without further action by the parties; provided, however, that the tag-along rights and drag-along rights under the Shareholders Agreement and the provisions of section 2 of the fourth amendment pertaining to creation of a new section 7.9 to the Shareholders Agreement shall survive the termination of the Shareholders Agreement until the earlier of (i) consummation of the amortization of the shares of Sofora held by W de Argentina Inversiones representing 15.00% of the capital stock of Sofora (the Nucleum Shares) and the cancellation and annulment of such Nucleum Shares and (ii) the date on which W de Argentina Inversiones cease to hold any of the Nucleum Shares (whether as a result of the amortization and subsequent cancellation and annulment thereof or otherwise).

Related Party Transactions

We have been involved in a number of transactions with our related parties since the Transfer Date.

Our policy is to make transactions with related parties on arm's-length basis. In addition, Section 72 of Law No. 26,831 provides that before a publicly-listed company may enter into an act or contract involving a relevant amount with a related party or parties, the publicly-listed company

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must obtain approval from its Board of Directors and obtain a valuation report from its Audit Committee or two independent valuation firms that demonstrates that the terms of the transaction are consistent with those that could be obtained at an arm's-length basis. If the Audit Committee or two independent valuation firms do not find that the terms of the contract are consistent with those that could be obtained on an arm's-length basis, approval must be obtained from the shareholders. Relevant amount means an amount which exceeds 1% of the issuer's equity as contained in the latest approved financial statements.

Transactions with related parties of Sofora (including Telecom Italia (indirect controlling company up to March 8, 2016), Fintech (indirect controlling company as from March 8, 2016), W de Argentina Inversiones and/or their respective affiliates) and other related parties resulted in expenses, finance costs or purchases of approximately P\$304 million for the year ended December 31, 2016. Of that amount, P\$90 million were incurred with Telecom Italia and its affiliates for telecommunications services received by Telecom, including international outbound calls and others, fees for services, roaming and purchases of equipment and materials (that amount is related to the transactions made with the Telecom Italia Group performed until March 8, 2016, date when the Telecom Italia Group ceased to be a related party of the Telecom Group); P\$209 million were incurred with W de Argentina Inversiones for insurance, advertising, labor costs and finance costs; and P\$5 million were incurred with other parties.

PART I - ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

TELECOM ARGENTINA S.A.

Table of Contents

Transactions with related parties of Sofora (including Telecom Italia (indirect controlling company up to March 8, 2016), Fintech (indirect controlling company as from March 8, 2016), and other related parties resulted in income for services rendered by us of approximately P\$123 million for the year ended December 31, 2016, corresponding to telecommunication services rendered to Telecom Italia and its affiliates of approximately P\$111 million, services rendered to W de Argentina Inversiones of approximately P\$7 million and services rendered to other related parties of approximately P\$5 million.

In addition, P\$1 million of other income (rental services) rendered to Nortel is recorded for the year ended December 31, 2016.

Transactions with related parties of Fintech for the year ended December 31, 2016 resulted in income for telecommunication services rendered by us of approximately P\$41 million and expenses for telecommunications services received of approximately P\$90 million.

As of December 31, 2016, we had no loans outstanding to the executive officers of Telecom Argentina.

Interests of Experts and Counsel

Not applicable.

Table of Contents

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

See Item 18 for Telecom Argentina's Consolidated Financial Statements. For a description of events that have occurred since the date of the Company's Financial Statements, see Item 4 Information on the Company Introduction Recent Developments.

Legal Proceedings

We are parties to several civil, tax, commercial, labor and regulatory proceedings and other claims that have arisen in the ordinary course of business. As of December 31, 2016, Telecom has established provisions, excluding asset retirement obligations, in an aggregate amount of P\$1,382 million to cover potential losses related to these claims and proceedings in its Consolidated Financial Statements (P\$57 million for regulatory deducted from assets and P\$1,325 million included under liabilities). In addition, as of December 31, 2016, the Company had P\$66 million deposited in its bank accounts and restricted for some judicial proceedings.

See Note 17 to our Consolidated Financial Statements for additional information.

Labor Claims

- *Profit-Sharing Bonds*

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

In August 2008, the Argentine Supreme Court of Justice declared Decree No. 395/92 unconstitutional when resolving a similar case against Telefónica and ordered that the proceedings be remanded back to the court of origin so that such court could decide which defendant was compelled to pay the licensee and/or the Argentine government and the parameters that were to be taken into account in order to quantify the remedies requested (percent of profit sharing, dismissals of claims due to expiration of the applicable statute of limitations and distribution method between the beneficiaries of the program). The Argentine Supreme Court of Justice deemed the ruling against Telefónica as applicable to Telecom Argentina when resolving the appeal filed by Telecom Argentina. That criterion has been followed by lower courts.

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The Argentine Supreme Court of Justice has left the determination of incidental issues to the lower courts and requested that such courts to take into account that it was the Argentine government who issued the legal rule later declared unconstitutional. On that basis, most appellate courts have also declared the Argentine government liable and established different methods to calculate compensation. Telecom Argentina has filed motions regarding, for example, the statute of limitations and the method to calculate compensation.

On June 9, 2015, in *Ramollino Silvana c/Telecom Argentina S.A.*, the Argentine Supreme Court of Justice ruled that the profit-sharing bonds do not correspond to employees who joined Telecom Argentina after the Transfer Date and that were not members of the share ownership plan (Share Ownership Plan or SOP). This judicial precedent is consistent with the criteria followed by Telecom Argentina based on the advice of its legal counsel, by which it considered remote the chances of paying compensation to employees not included in the SOP. As of December 31, 2016, Telecom Argentina's Management, with the advice of its legal counsel, has recorded provisions for contingencies that it estimates are sufficient to cover the risks associated with the claims filed by employees included in the SOP, having considered the legal background.

On June 3, 2013, Telecom Argentina was notified of a lawsuit filed by four unions claiming the issuance of profit sharing bonds for future periods and for periods for which the statute of limitations has not expired. Plaintiffs request that Decree No. 395/92 should be declared unconstitutional.

This collective lawsuit is for an unspecified amount. The plaintiffs presented the criteria that should be applied for the determination of the percentage of participation in Telecom Argentina's profit. If the lawsuit requiring the issuance of a profit-sharing bond were to lead to an adverse result for the Company, it would have a potential future economic impact on Telecom Argentina.

Table of Contents

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

In the hearing of December 12, 2013, the intervening court further deferred the defense based on statute of limitations filed by Telecom Argentina to the moment of the final ruling. The court also ordered the plaintiff to prove that they have legal standing to bring the case on behalf of Telecom Argentina's employees included in the claim, and the suspension of the trial until plaintiff complied with this order. The plaintiff appealed the ruling and the court deferred this issue to the time of sentencing.

As of the date of this Annual Report, the appeal regarding lack of jurisdiction raised by Telecom Argentina is pending until the documentation requested by the court to the plaintiffs is resolved.

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

Regarding profit sharing bonds two cases initiated against Telefónica set precedents as described below:

1. Statute of limitation criteria: Domínguez c/ Telefónica de Argentina S.A.

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

The Argentine Supreme Court of Justice ruled that the Civil and Commercial Court must hear the case again to consider the arguments concerning the statute of limitations raised by the appellants. In the criteria of the Argentine Supreme Court of Justice, these arguments were not considered by the lower court and are relevant to the case.

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

2. *Criteria for determining the relevant profit to calculate compensation: Parota c/ Estado Nacional y Telefónica de Argentina S.A.*

On February 27, 2014, the Civil and Commercial Court of Appeals issued its decision in a case against Telefónica, ruling that: *the amount of profit-sharing bonds corresponding to former employees of Telefónica de Argentina S.A. should be calculated based on the taxable income of Telefónica de Argentina S.A. on which the income tax liability is to be assessed.*

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

After it was notified of both rulings, the Management adjusted the provisions for contingencies to align them with the criteria established by the courts regarding relevant profit and the statute of limitations.

- *Labor claims brought by employees of suppliers, contractors and commercial agents*

Certain contractors and subcontractors employees have continued initiating lawsuits against contractors and Telecom Argentina claiming direct or indirect liability based on a broad interpretation of the rules of labor law. The plaintiffs claimed for the application of the telecommunications collective

Table of Contents

labor agreement instead of the telecommunication section of the construction collective labor agreement, which results in wage differences.

Similar legal actions have been brought by employees of commercial suppliers and agents, who have also requested the application of the telecommunications collective labor agreement instead of collective labor agreement applicable to them.

As of the date of this Annual Report, Company's Management, based on the advice of its legal counsel, has recorded provisions that it estimates are adequate to hedge the risks associated with these claims.

In certain circumstances and in accordance to certain jurisprudence and regulations, the Company may be obliged to assume labor liabilities in connection with claims initiated by suppliers' employees against the supplier and/or the Company. Although the Company seeks the recovery from suppliers of any amount it had to pay in its behalf, we cannot give assurances that the Company may succeed in recovering these amounts from the relevant supplier.

- *Wage differences due to non-remunerative sums*

The Company is subject to various lawsuits initiated by some current and former employees who claim wage differences caused by the impact of the concept of non-remunerative sums (amounts not subject to social security contributions) on the settlement of items such as overtime, productivity, vacations, supplementary annual salary and other additional benefits provided by the collective labor agreement. In this regard, the Argentine Supreme Court of Justice in a case against Cervecería y Maltería Quilmes ruled that non-remunerative items resulting from collective labor agreements should be considered salaries for all purposes, declaring Section 103 bis, Subsection c) of the Labor Law (which considers non-remunerative items as social benefits) as unconstitutional. As of December 31, 2016, considering the judicial precedents, the Company's management, based on the advice of its legal counsel, has recorded a provision that it estimates is sufficient to cover the risks associated with these claims.

- *Telecommunication unions claim*

Some telecommunication unions have initiated claims against Telecom Argentina seeking compensation for the alleged non-compliance of certain provisions of the respective collective bargaining agreements that could allow them to negotiate the inclusion of some suppliers' employees in their collective bargaining agreements. The claims are for unspecified amounts. The Company believes there are strong defenses by which the claims would not be sustained.

- *Sales representative claims*

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Former sales representatives of Personal have brought legal actions for alleged improper termination of their contracts and claiming the payment of several items such as commission differences, value of the customers' portfolio and lost profit. Personal believes, based on the advice of its legal counsel, that certain items included in the claims would not be sustained while other items, if sustained, would result in significantly lower amounts than those claimed.

Some legal actions are in the discovery phase and some expert opinions are in progress. Personal's management, based on the advice of its legal counsel, has recorded provisions that it estimates are sufficient to cover the risks associated with these claims. However, we cannot guarantee the outcome of these proceedings.

- *Interest rate applicable to the matters under labor courts of the City of Buenos Aires*

In addition, on May 21, 2014, the National Labor Court of Appeals agreed, as a result of a divided vote, that the interest rate applicable to the matters under its jurisdiction in the City of Buenos Aires shall be the nominal annual rate for personal loans with free use of funds of the Banco de la Nación Argentina for a 49 to 60 month term (currently 3% per month). The Court of Appeals also ruled that, in those cases where final sentences are still pending, this new rate shall be applied as from the date on which each amount is due.

Since 2002, the National Labor Court of Appeals had resolved to apply the interest rate resulting from the monthly average of the interest rate used by the Banco de la Nación Argentina for the granting of loans (currently 2.055% per month). Therefore, this new disposition represents an increase in the interest rate, which the Company has reflected in its assessment of the provisions for pending labor claims. Although the National Labor Court of Appeals' decision is not compulsory for lower

Table of Contents

courts, an additional risk exists since the courts might intend to apply such rate retroactively to labor credits not yet acknowledged by a court sentence.

The Telecom Group's management, with the advice of its legal counsel, considers that there are solid legal arguments against the retroactive application of this new rate. As of the date of this Annual Report, our management cannot assure a favorable decision by the Court of Appeals until the lower courts issue future rulings, clarifying their position. As a result, the Company has classified this matter as a possible contingency. Nevertheless, should a disadvantageous resolution prevail, we estimate that it shall not have a significant impact on the financial position, results of operations and cash flows of the Telecom Group.

Tax Matters

- *Tax matters relating to Telecom Argentina*

In December 2008, the National Congress passed Law No. 26,476, the Law on Tax Regularization and Repatriation of Capital establishing a regime for the regularization of tax liabilities, the repatriation of funds and the registration of employees. Title I of the law provides taxpayers a complete exemption from penal responsibilities in tax matters and from fines, and a partial exemption from interest arising out of tax or social security liabilities prior to December 31, 2007.

As discussed in previous Annual Reports, Telecom Argentina was party to various legal proceedings arising from claims by AFIP with regard to:

- (a) AFIP's claim for income tax for fiscal years 1993 to 1999 arising from its disagreement with Telecom Argentina's calculation of the depreciation of its fiber optic network;
- (b) AFIP's claims for income tax for fiscal years 1997 to 2000 challenging Telecom Argentina's certain deductions it made for bad debt expenses; and
- (c) AFIP's claims regarding invoices for certain kinds of services.

Upon detailed analysis of the regularization regime, on April 30, 2009, Telecom Argentina decided to settle the AFIP's claims in the time frame established by Title I of Law No. 26,476. The settlement for the abovementioned tax claims was complete except for item (b), which was partially settled.

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In order to qualify for the regularization regime, Telecom Argentina had to voluntarily dismiss legal proceedings previously initiated against AFIP's claims. As a result of the regularization regime, regarding the matter mentioned in item (c) above, Telecom Argentina has requested the respective court to suspend the penal proceedings and dismiss the claims against officers and employees who had been called to give testimony, since the law provides for the suspension of penal proceedings upon adoption of the regularization regime, and complete extinguishment of a penal case upon cancellation of all amounts due under the payment plan pursuant to the regularization regime. In October 2014, the court declared the extinguishment of the penal proceedings despite not having cancelled the installments of the payment plan. The prosecutor appealed such resolution. In September 2015, the appeals court ratified the trial court's ruling, resulting in the termination of the penal proceeding.

Telecom Argentina's compliance with the regularization regime generated recognition of a debt owed to AFIP in the amount of P\$38 million (nominal value) payable in 120 monthly installments at an annual interest rate of 9%. Telecom Argentina also recognized a debt for legal fees in connection with these regularized processes in the amount of P\$14 million (nominal value). The value of both liabilities has been set forth under the captions "Income Tax Payables" and "Other Liabilities" classified by the nature and due date of each liability. As of December 31, 2016, such liabilities amounted to P\$12 million and P\$4 million, respectively.

- *Provincial taxes*

Some provincial tax authorities have filed claims regarding turnover tax and stamp tax. As of the date of this Annual Report, the Company's management has recorded provisions that it estimates are adequate to hedge these risks.

Table of Contents

- *Municipal fees*

Since 2005, the Company has seen a noticeable increase in legal and extrajudicial claims seeking the collection of various municipal fees in the City of Buenos Aires and various municipalities. As of the date of this Annual Report, the Company has recorded provisions that estimate sufficient to cover these claims.

- *Alleged omission in Telecom Argentina's income tax declaration*

On December 17, 2014, the AFIP notified Telecom Argentina of an alleged omission in reporting the balances of two bank accounts, held with the HSBC Private Bank (Swiss) S.A, in Telecom Argentina's income tax declaration corresponding to the fiscal year 2006. On February 6, 2015, Telecom Argentina denied this allegation, providing documentary proof which certifies that such balances had been reported in a timely manner on the tax declaration and were recorded in Telecom Argentina's financial statements.

On July 7, 2015 Telecom Argentina was notified of the AFIP tax assessment in connection with only one of the bank accounts previously claimed.

Although this carryforward could not be applied against future taxable incomes, Telecom Argentina initiated a legal proceeding against AFIP's claim at the National Tax Court (*Tribunal Fiscal de la Nación*).

Individuals holding a power of attorney to manage those accounts on behalf of Telecom Argentina, were also notified of the same alleged omission regarding their personal tax declarations. However during 2015, some of these cases were closed and others were suspended.

- *Income tax - Action for recourse filed with the AFIP*

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

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

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

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

According to the abovementioned new legal background of which Telecom Argentina had knowledge during 2015, and after making the respective assessments, in fiscal year 2015 and 2016 Telecom Argentina filed actions for recourse with the AFIP to claim the full tax overpaid for fiscal year 2009, 2010 and 2011 estimated in an amount of P\$371 million plus interests, alleging that the lack of application of the income tax inflation adjustment is confiscatory.

As of the date of this Annual Report, the actions for recourse filed are pending of resolution by the AFIP. However, Telecom Argentina's management, with the assessment of its tax advisor, considers that the argument presented in this recourse follows the same criteria as the established by the Argentine Supreme Court of Justice jurisprudence mentioned above, among others, which we believe should allow Telecom Argentina to obtain a favorable resolution of the actions for recourse filed.

Consequently, the income tax determined in excess qualifies as a tax credit in compliance with IAS 12 and Telecom Argentina recorded a non-current tax credit of P\$466 million as of December 31, 2016 (P\$98 million were recorded in fiscal year 2015 and P\$368 million in fiscal year 2016, reducing Income tax cost). For the calculation of the tax credit, Telecom Argentina has estimated the amount of the tax determined in excess for all fiscal years not covered by the statute of limitation (2009-2016), weighing the likelihood of certain variables according to the jurisprudential precedents known until December 31, 2016. Telecom Argentina's management will assess the AFIP's resolutions related to

Table of Contents

actions of recourse filed as well as the jurisprudence evolution in order to at least annually re-measure the tax credit recorded.

Regulatory Proceedings

- *Regulator's Penalty Activities*

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

Since fiscal year 2013, the CNC (Regulatory Authority in effect at that time) significantly increased the severity of its penalties, increasing the amount of charges and sanctions, as well as the individual amount of each. In several cases, the sanctions imposed as from 2013 had twice the economic value of those imposed on Telecom Argentina in previous periods for the same alleged infringements and such tendency continued during 2014 and 2015 but decreased in 2016.

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

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

Recently, the Company has been subject to various penalty procedures related to the infringement of Resolution No. 5/13 regarding quality of service rules. The Company has estimated and recorded provisions that it deems sufficient to cover those charges in the case that they become sanctions imposed on the Company.

- *Radioelectric Spectrum Fees*

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In October 2016 Personal modified the criteria used for the statement of some of its commercial plans (*Abono Fijo*) for purposes of paying the radioelectric spectrum fees (*derecho de uso de espectro radioeléctrico* or DER), taking into account certain changes in such plans composition. This meant a reduction in the amount of fees paid by Personal. In March 2017, the ENACOM demanded Personal to rectify its statements, requiring that such plans' statements continue to be prepared based on the previous criteria. Personal believes that it has solid legal arguments to defend its position, by filing the applicable administrative recourse. However, we cannot give assurances that such arguments will be accepted by the ENACOM. The difference resulting from both sets of liquidation criteria is of approximately P\$23 million per month from October 2016, plus interests.

- *Claims by some content providers*

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

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

PART I - ITEM 8 FINANCIAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

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

On February 24, 2017, the ENACOM notified Personal of the Resolution No. 2017-1122-APN-ENACOM#MCO, which we believe to be unclear, establishing specific rules that apply to the content providers who initiated the claims against Personal as follows: (i) mobile operators may receive, for every service they provide, a percentage that should not exceed 40% of the services invoiced by the content providers, and (ii) the application of the same rules for providers of audiotext and mass calling value added services..

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

On March 22, 2017, Personal based on the advice of its legal counsel and due to its solid arguments, filed a recourse requiring the revocation of Resolution No. 2017-1122-APN-ENACOM # MCO. However, if the recourse is not successful, Personal's revenues could be negatively impacted. If this occurs, we cannot guarantee that it will not have an adverse effect on our results of operations, financial condition and cash flows.

General Proceedings

- *Environmental proceedings*

In 1999, the Argentine national environmental agency (*Secretaría de Medio Ambiente y Desarrollo Sustentable*) initiated an administrative proceeding against us in connection with our waste management. This agency alleged that there were problems with our liquid drainage at an underground chamber, and such problem was in violation of Argentine environmental law. The agency sought to require Telecom Argentina's registration with the National Register of Generators and Operators of Hazardous Waste. This registration would require Telecom Argentina to pay an annual fee calculated in accordance with a formula that takes into consideration the extent of a hazard and the quantity of waste. Telecom Argentina believes that its activities did not generate the alleged waste, and that the waste in the underground chamber was generated by other parties. Telecom Argentina nonetheless removed the liquid drainage in accordance with environmental law. We have filed the requisite official responses, and we believe that we will not have to register with any environmental agency as a result of this liquid drainage.

In February 2009, Telecom Argentina received a notification from the Argentine national environmental agency requesting that Telecom Argentina be registered in the National Registry of Generators and Operators of Hazardous Waste. In March 2009, Telecom Argentina filed a request for administrative review seeking to obtain rejection of the agency's notification. As of the date of this Annual Report, there has yet to be a resolution on the matter.

Considering the evolution and development of environmental legislation and related agencies, Telecom Argentina is in the process of reviewing

its interpretation in relation to the registration as a hazardous waste generator that in any case will refer to a reduced number of materials that we use in our operations. Based on the information available to us, we believe that the environmental proceedings and the potential registration of Telecom Argentina as a hazardous waste generator will not have a significant impact on our financial position, results of operations and cash flows.

Consumer Trade Union Proceedings

The Company has been notified of the following complaints filed by consumer trade unions. Although Personal believes there are strong defense arguments for which the claims should not succeed, in the absence of jurisprudence on the matter, Personal's management, with the assistance of its legal counsel, has classified the claims as possible until a judgment is rendered:

i) *Consumidores Financieros Asociación Civil para su Defensa* claim:

In November 2011, Personal was notified of a lawsuit filed by *Consumidores Financieros Asociación Civil para su Defensa* claiming that Personal made allegedly abusive charges to its

Table of Contents

customers by implementing per-minute billing and setting an expiration date for prepaid telecommunication cards.

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

Personal responded in a timely manner, arguing for the dismissal of the lawsuit, emphasizing the regulatory framework that explicitly endorses Personal's practices then being challenged by the plaintiff in disregard of such framework.

The plaintiffs are seeking damages for unspecified amounts. Although Personal believes there are strong defenses to the claim, in the absence of jurisprudence on the matter, Personal's management, with the assistance of its legal counsel, has classified the claim as possible until a judgment is rendered.

As of the date of this Annual Report, this claim is in the discovery phase. However, the court has ordered the joining of this claim with two other similar claims against Telefónica Móviles Argentina S.A. and AMX Argentina S.A. Consequently, the three legal actions will continue before the Federal Civil and Commercial Court No. 9.

ii) *Asociación Protección Consumidores Del Mercado Común Del Sur - Proconsumer claim:*

In June 2012 the consumer trade union *Asociación Protección Consumidores Del Mercado Común Del Sur - Proconsumer* filed a lawsuit against Personal claiming that the company did not provide the clients with enough information regarding new prices for the services provided by Personal between May 2008 and May 2011. It demands the reimbursement of the increase in the price billed to customers for a period of two months. The plaintiff is seeking damages for unspecified amounts. In August 2012, Personal answered the complaint arguing that the Personal adequately informed its clients the modifications of the terms and conditions in which the service would be provided. For these reasons, Personal believes this claim should be dismissed.

Personal also filed a jurisdictional plea and a motion alleging the lack of active legal standing of the plaintiff. The Commercial Court declared itself as incompetent in the matter. Accordingly, the case was sent to the Administrative and Contentious Court, which ruled that the jurisdiction corresponded to the Commercial Court. That decision was appealed by Personal through an extraordinary motion, which was denied. Consequently, Personal filed a complaint before the Argentine Supreme Court of Justice, which on May 27, 2016 ruled that the lawsuit will continue at the Commercial Court. As of the date of this Annual Report, the claim is at discovery phase.

While Personal's management believes that there are solid arguments for the favorable resolution of this lawsuit, in the event of an unfavorable result, it would not have a significant impact on our financial position, results of operations and cash flows.

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iii) *Proceedings related to the definition of the scope of fixed and mobile telephone services under Broadcasting Law No. 22,285, repealed by Law No. 26,522 of Audiovisual Communication Services:*

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

Certain legal developments took place during the second quarter of 2014 and in 2015 in connection with the VAS, which could have an effect on two existing claims initiated against Telecom Argentina as detailed below:

- *Supercanal Case*

Within the context of a claim filed by Supercanal S.A. in 2003, an injunction was ordered against fixed and mobile telephone companies, by which the court ordered them to abstain from *providing supplementary broadcasting services or issuing any kind of broadcasting contents and programming*, as well as *making any advertisement relating to future services to be provided, or the provision of television services as VAS or any other kind of technical method through the fixed or mobile telephone and Internet services that they provide.*

PART I - ITEM 8 FINANCIAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

In 2012, a lower court ruled that the case was without merit and in favor of the termination of the injunction. However, on February 18, 2014, the Court of Appeals overruled the decision, and the court had to issue a decision on the appeal filed against the injunction that was pending.

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

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

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

On May 10, 2016, the court declared the claim was moot and ruled to terminate the injunction.

- *Claim by the Argentine Association of Cable Television*

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

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

On June 10, 2014, Telecom Argentina claimed to the courts that the substantive issues underlying the claim were without merit and that the injunction has become ineffective as a result of the new Law No. 26,522 of Audiovisual Communication Services which repealed the former law under which the injunction had been ordered.

On October 7, 2014, the court notified Telecom Argentina and Personal of a breach complaint related to the above referred injunction. Telecom Argentine answered the notification by rejecting its whole content and requesting that the CNC and the SC

become part of the process. The court had to make a joint decision on these two issues presented by the parties.

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

On June 18, 2015 a lower court decided to postpone the declaration that the claim was moot and to limit the term of the injunction for six months. The decision was appealed by Telecom Argentina and other defendants. On October 8, 2015, the Court of Appeals decided the revocation of the court's decision, to turn the case moot and to rule that the injunction had ceased to apply. The plaintiff has filed an extraordinary resource against this ruling, which was rejected on March 17, 2016, by the Court of Appeals. The claim was dismissed on August 4, 2016, thus terminating the claim.

iv) Proceedings related to value added services - mobile contents:

On October 1, 2015, Personal was notified of a claim seeking damages for unspecified amounts initiated by consumer trade union Cruzada Cívica para la defensa de los consumidores y usuarios de

Table of Contents

servicios públicos. The plaintiff invokes the collective representation of an undetermined number of Personal customers.

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

This claim has a similar object to other claims made by a consumer association (Asociación Protección Consumidores Del Mercado Común Del Sur - Proconsumer) where collective representation of customers is also invoked. As of the date of this Annual Report, the discovery phases of those claims have not been initiated.

Personal has answered the claims through the presentation of legal and factual defenses, requesting the citation of third parties involved in the provision of VAS. Personal, with the assistance of its legal counsel, believes it has strong arguments against these claims. However, given the absence of jurisprudential precedents, we cannot assure the final outcome of these claims.

v) *Claim by Asociación por la Defensa de Usuarios y Consumidores c/Telecom Personal S.A. :*

In 2008, the *Asociación por la Defensa de Usuarios y Consumidores* sued Personal, in representation of an undetermined number of Personal customers, seeking damages for unspecified amounts. The plaintiff claimed the billing of calls ending in automatic answering machines and the collection system called *send to end* (traffic billed to the customer until the receiver answer the call). As of the date of this Annual Report, this lawsuit is at the discovery phase.

In the third quarter of 2015, Personal took knowledge of an adverse court ruling in a similar trial, promoted by the same consumers association against other mobile operator. Taking into consideration this new jurisprudential precedent, the claim has been classified as a possible contingency.

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

Remote Proceedings

The Telecom Group faces other legal proceedings, fiscal and regulatory considered normal in the development of its activities. Although we cannot guarantee the outcome of these proceedings, the Company and its legal advisors estimate these legal proceedings will not generate an adverse impact on our financial position and the result of our operations, or our liquidity. In accordance with IAS 37 Provisions, no provision has been constituted related to the resolution of these proceedings, as they have been classified as remote.

Contingency Asset

- *AFA Plus Project Claim*

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

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

The AFA Plus system was not implemented, even partially, by AFA. Consequently, Telecom Argentina has not been able to collect the agreed price.

Table of Contents

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

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

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

In October 2015, Telecom Argentina formally demanded that AFA pay the amounts due (P\$179.2 million plus interest) from the execution of the AFA-Telecom Argentina agreement. AFA rejected the claim but agreed to resume negotiations for a closing agreement which was then suspended by the AFA electoral process.

In January 2016, both parties resumed conciliatory negotiations. However, Telecom Argentina reserved its right to exercise legal claims on the amounts due.

In June 2016, Telecom Argentina initiated a compulsory pre-judicial mediation procedure. The first mediation was held on July 12, 2016 and was attended by both parties. A second mediation was held on August 3, 2016 and a third mediation was held on August 23, 2016. No agreement was reached through this pre-judicial mediation.

As of the date of this Annual Report, Telecom Argentina is preparing the lawsuit to claim the amounts due. Telecom Argentina, with the assistance of its external advisor, believes it has solid factual and legal arguments for its claim and is evaluating the actions to follow for the recovery of the investments and expenses incurred.

It is worth mentioning that the impairment recorded by Telecom Argentina arising from the uncertainties related to the recoverable value of assets recognized by the AFA Plus Project (works in progress and materials amounting to P\$143 million as of December 31, 2016) have been only recorded for the purpose to comply with accounting standards and in no way imply a renunciation of, waiver of or a limit to the rights of Telecom Argentina as a genuine creditor of the AFA Plus Project agreement.

Dividend Policy

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The declaration, amount and payment of dividends are determined by a majority vote at a shareholders' ordinary meeting of Telecom Argentina's capital stock. Under the GCL, dividends may only be declared out of liquid and realized profits determined based on non-consolidated financial statements prepared in accordance with GAAP effective in Argentina (IFRS in the case of listed companies as Telecom Argentina) and other applicable regulations issued by the CNV and other regulatory bodies. Furthermore, liquid and realized profits can only be distributed when all accumulated losses from past periods have been absorbed and the legal reserve has been constituted or reconstituted.

According to CNV rules (New Text 2013), Shareholders' Meetings that approve financial statements in which retained earnings are positive must make a specific determination on the use of such earnings in accordance with the GCL and, as a result, must resolve on its distribution as cash dividends, capitalization with issuance of paid-in shares, use to create reserves other than statutory reserves, or a combination of such alternatives. As a result of this rule the balance of retained earnings after the allocation approved by the Annual Shareholders' Meeting should be zero.

In preparing the Annual Report in compliance with Argentine requirements, at the end of each fiscal year, the Board of Directors analyzes Telecom Argentina's economic and financial position and its compliance with the abovementioned restrictions. The Board of Directors also takes into account the funds needed for operative purposes for the following fiscal year. The Board of Directors then

PART I - ITEM 8 FINANCIAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

proposes a course of action with respect to retained earnings, which may or may not include a dividend distribution. The decision with regards to the proposal of the Board of Directors is made by Telecom Argentina's shareholders at the Shareholders' Meeting.

Telecom Argentina's Board of Directors, at its meeting held on March 16, 2017, called an Ordinary and Extraordinary Shareholders' meeting to be held on April 27, 2017, to consider among other issues, the allocation of Telecom Argentina's retained earnings as of December 31, 2016, (P\$3,975 million). The proposal of the Board of Directors is to allocate all the retained earnings to the Reserve for Future Cash Dividends. In addition the Board of Directors proposed the withdrawal of P\$2,730 million from the Voluntary Reserve for Capital Investments and to withdraw the total amount of the Voluntary Reserve for Future Investments (of P\$2,904 million), increasing the Reserve for Future Cash Dividends with these withdrawals.

Telecom Argentina's Shareholders' Meeting held on April 29, 2016 approved the allocation of all retained earnings of Telecom Argentina as of December 31, 2015 (P\$3,403 million) to the Reserve for Future Cash Dividends. The Shareholders' Meeting also approved the delegation of authority to Telecom Argentina's Board of Directors to determine the reduction, in one or more times and according with the business evolution, up to P\$2,000 million of the Reserve for Future Cash Dividends and its distribution to the shareholders as cash dividends.

Significant Changes

No undisclosed significant changes have occurred since the date of the Consolidated Financial Statements.

Table of Contents

ITEM 9. THE OFFER AND LISTING

On May 22, 2013, Telecom Argentina's Board of Directors, based on the authority delegated by the Ordinary Shareholders' meeting held on May 21, 2013 to allocate the Voluntary Reserve for Capital Investments, approved the terms and conditions of Telecom Argentina's Treasury Shares Acquisition Process. The acquisition process has to be made in Argentine pesos in the market in order to avoid any possible damages to Telecom Argentina and its shareholders derived from fluctuations and imbalances between the shares' price and Telecom Argentina's solvency.

The main terms and conditions of the Treasury Shares acquisition process are:

- Date of announcement: May 22, 2013.

- Maximum amount to be invested: P\$1,200 million.

- Maximum amount of shares subject to the acquisition: the amount of Class B Ordinary Shares of Telecom Argentina, P\$1 of nominal value and with one vote each, that may be acquired with the maximum amount to be invested, which amount may never exceed a limit of 10% of the capital stock.

- Price to be paid by share: between a minimum of P\$1 and a maximum of P\$32.50 per share. On August 29, 2013, the maximum price was raised by Telecom Argentina's Board of Directors to P\$40 per share.

- Deadline for the acquisition process: April 30, 2014.

By virtue of the offer made by Fintech on November 7, 2013, for the acquisition of the controlling interest of Telecom Italia Group in Telecom Argentina, Telecom Argentina suspended the acquisition of treasury shares. In addition, Telecom Argentina's Board of Directors considered it was appropriate to require the opinion of the CNV regarding the interpretation of the provisions of the CNV rules on this matter. The CNV did not answer Telecom Argentina's request and its Board of Directors, at its meeting held on May 8, 2014 decided to conclude the request considering that the Treasury Shares Acquisition Program finished on April 30, 2014. Such Program had been approved by Telecom Argentina's Board of Directors Meeting held on May 22, 2013.

Telecom Argentina's Board of Directors, at its meeting held on June 27, 2014, decided to request a new opinion from the CNV to confirm whether Telecom Argentina is obliged to refrain from acquiring treasury shares in the market under Section 13, Chapter I, Title II of the CNV rules (New Text 2013). As of the date of this Annual Report, no response from the CNV has been received.

Pursuant to Section 67 of Law No. 26,831, Telecom Argentina must sell its treasury shares within three years of the date of acquisition, unless such period is extended by a decision of the Shareholders Meeting. The Telecom Argentina's Shareholders Meeting held on April 29, 2016 resolved to extend for three years the period for which the treasury shares are held. Pursuant to Section 221 of the GCL, the rights of treasury shares shall be suspended until such shares are sold, and shall not be taken into account to determine the quorum or the majority of votes at the Shareholders Meetings. No restrictions apply to Retained Earnings as a result of the creation of a specific reserve for such purposes named Voluntary Reserve for Capital Investments.

The last acquisition made by Telecom Argentina was on November 5, 2013. The total treasury shares acquired were 15,221,373 by a total amount of P\$461 million (P\$30.29 average per share). Such acquisitions were recorded at the acquisition cost and deducted from equity under the caption Treasury shares acquisition cost. No profit or loss resulting from holding the treasury shares has been recognized in the income statement. See Note 19.d) and Note 3.s) to the Consolidated Financial Statements.

As of December 31, 2016, the capital stock of Telecom Argentina was divided into three classes: Class A Ordinary Shares, nominal value P\$1.00 each (Class A Shares), representing 51.00% of the total capital stock of Telecom Argentina, Class B Ordinary Shares, nominal value P\$1.00 each (Class B Shares), representing approximately 48.97% of the total capital stock of Telecom Argentina, and Class C Ordinary Shares, nominal value P\$1.00 each (Class C Shares), representing approximately 0.03% of Telecom Argentina's total capital stock.

Table of Contents

The number of shares as of December 31, 2016, was as follows:

| Class of shares | Outstanding Shares | Treasury shares | Total capital stock |
|-----------------|--------------------|-------------------|---------------------|
| Class A Shares | 502,034,299 | | 502,034,299 |
| Class B Shares | 466,890,558 | 15,221,373 | 482,111,931 |
| Class C Shares | 234,748 | | 234,748 |
| Total | 969,159,605 | 15,221,373 | 984,380,978 |

The Class B Shares are currently listed on the BCBA. The ADSs are currently listed on the NYSE under the symbol TEO. Each ADS issued by the Depository represents rights to five Class B Shares.

The table below shows the high and low closing prices of the Class B Shares in pesos for the periods indicated on the Mercado de Valores de Buenos Aires S.A., Stock Market (the *MERVAL*) currently succeeded by Bolsas y Mercados Argentinos S.A. (*BYMA*), the current principal non-U.S. trading market for such securities. See *The Argentine Securities Market*. See *Item 3 Key Information Exchange Rates* for the exchange rates applicable during the periods set forth below.

| | Pesos per Class B Share (1) | |
|--------------------------------|-----------------------------|-------|
| | High | Low |
| <i>Annual</i> | | |
| 2012 | 20.40 | 12.30 |
| 2013 | 39.50 | 16.40 |
| 2014 | 62.30 | 28.00 |
| 2015 | 63.00 | 38.50 |
| 2016 | 59.40 | 38.50 |
| <i>Quarterly</i> | | |
| 2015 | | |
| First Quarter | 63.00 | 45.15 |
| Second Quarter | 55.00 | 44.45 |
| Third Quarter | 49.50 | 38.50 |
| Fourth Quarter | 56.95 | 39.25 |
| 2016 | | |
| First Quarter | 58.75 | 38.50 |
| Second Quarter | 57.00 | 48.50 |
| Third Quarter | 58.00 | 53.00 |
| Fourth Quarter | 59.40 | 54.40 |
| <i>Monthly</i> | | |
| 2016 | | |
| October | 57.20 | 55.30 |
| November | 58.60 | 54.50 |
| December | 59.40 | 54.40 |
| 2017 | | |
| January | 65.00 | 57.90 |
| February | 74.00 | 65.40 |
| March | 72.40 | 66.80 |
| April (through April 24, 2017) | 71.50 | 67.60 |

(1) Reflects peso nominal amounts as of that date.

Source: Bolsa de Comercio de Buenos Aires.

The ADSs issued by the Depositary under the Deposit Agreement dated as of November 8, 1994, among Telecom Argentina, the Depositary and the registered holders from time to time of the ADSs issued thereunder (the Deposit Agreement) trade on the NYSE. Each ADS represents rights to five Class B Shares.

PART I - ITEM 9 THE OFFER AND LISTING

TELECOM ARGENTINA S.A.

Table of Contents

The table below shows the high and low closing prices of the ADSs in U.S. dollars on the NYSE for the periods indicated.

| | US\$ per ADS | |
|--------------------------------|--------------|-------|
| | High | Low |
| <i>Annual</i> | | |
| 2012 | 21.94 | 9.37 |
| 2013 | 21.19 | 12.13 |
| 2014 | 25.09 | 14.78 |
| 2015 | 26.04 | 13.85 |
| 2016 | 19.52 | 14.44 |
| <i>Quarterly</i> | | |
| 2015 | | |
| First Quarter | 26.04 | 18.85 |
| Second Quarter | 22.87 | 17.95 |
| Third Quarter | 18.69 | 13.85 |
| Fourth Quarter | 19.99 | 13.90 |
| 2016 | | |
| First Quarter | 19.10 | 14.44 |
| Second Quarter | 19.52 | 16.75 |
| Third Quarter | 19.50 | 17.64 |
| Fourth Quarter | 18.82 | 17.40 |
| <i>Monthly</i> | | |
| 2016 | | |
| October | 18.82 | 18.06 |
| November | 18.71 | 17.40 |
| December | 18.55 | 17.50 |
| 2017 | | |
| January | 19.60 | 18.00 |
| February | 23.98 | 20.32 |
| March | 23.30 | 21.45 |
| April (through April 24, 2017) | 23.00 | 22.25 |

On April 24, 2017, the reported last sale price of the ADSs on the NYSE was US\$ 22.90.

Plan of Distribution

Not applicable.

The Argentine Securities Market

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As of March 2017, eleven securities exchanges exist in Argentina, of which five (including the BCBA) have affiliated stock markets and are authorized to quote publicly-offered securities. The oldest and largest of these exchanges is the BCBA, founded in 1854. For the year ended December 31, 2016, the ten most actively traded equity issues represented approximately 69% of the total volume of equity traded on the market. Trading in securities listed on an exchange is conducted through a *Mercado de Valores* (the Stock Market) affiliated with such exchange.

On April 17, 2017, Bolsas y Mercados Argentinos S.A. (BYMA), a stock market authorized by CNV, who shall succeed the Mercado de Valores de Buenos Aires S.A. or MERVAL, started the automatic transfer of all the species listed in the MERVAL to BYMA.

BYMA was created after the merger of the MERVAL and the capital contribution of the BCBA, with the purpose of incorporating the Argentine Stock Exchange System (SBA) under Law No. 26,831 of the Capital Markets.

Securities may also be listed and traded on the *Mercado Abierto Electrónico S.A.* (the MAE), an electronic over-the-counter market trading system that functions independently from the BCBA and the MERVAL. However, in March 1992, the BCBA, the MERVAL and representatives of the dealers on the MAE implemented an agreement that causes trading in equity and equity-related securities to be conducted

PART I - ITEM 9 THE OFFER AND LISTING

TELECOM ARGENTINA S.A.

Table of Contents

exclusively on the Merval, while all corporate debt securities listed on the BCBA may also be traded on the MAE. Trading in Argentine government securities, which are not covered by the agreement, is expected to be conducted principally on the MAE. The agreement does not extend to other Argentine stock exchanges.

The CNV is responsible for the regulation and supervision to ensure the correct application of the rules governing the Argentine Securities Market, which acts under the regulatory framework described as follows.

Capital Markets Law – Law No. 26,831

On December 28, 2012, the Capital Markets Law No. 26,831 was published in the Official Gazette. Law No. 26,831 eliminates capital markets self-regulation and grants new powers to the CNV, including the ability to request reports and documents, conduct investigations and inspections of natural and legal persons under its control, call to testify and take informative and testimonial declaration. Likewise, if as a result of investigations performed, it is determined that non-controlling interests or the interests of holders of securities subject to public offering have been harmed, the CNV, according to the severity of the harm determined, may appoint overseers with the power to veto resolutions adopted by the Board of Directors and/or discontinue the Board of Directors for a maximum period of 180 days until deficiencies found are remedied.

Law No. 26,831 supersedes Law No. 17,811 and Decree No. 677/01, among other rules, and became effective on January 28, 2013.

In August 2013, the PEN issued Decree No. 1,023/13 regulating certain sections of Law No. 26,831, and in September 2013, the CNV issued the Resolution No. 622/13 which established the new comprehensive rules of the CNV and also implements regulation related to certain sections of Law No. 26,831.

The Buenos Aires Stock Market

The Merval, entity succeeded by BYMA, is the largest stock market in Argentina. The Merval is a corporation, whose approximately 183 shares are held by individuals and entities authorized to trade in the securities listed on the BCBA. Trading on the BYMA is conducted by continuous open auction, from 11:00 a.m. to 5:00 p.m. each business day. The BYMA also operates a continuous electronic market system each business day, on which privately arranged trades are registered and made public.

Although the BCBA is one of Latin America's largest securities exchanges in terms of market capitalization, it remains relatively small and illiquid compared to major world markets, and therefore, is subject to greater volatility. To control price volatility, the BYMA operates a system which suspends dealing in a particular issuer's shares for fifteen minutes when the price changes 10% with respect to that day's opening price. Once trading resumes, the trading is then suspended for another fifteen minutes if the price changes more than 15% with respect to that day's opening price. If the price then changes 20% with respect to that day's opening price, and for every 5% fluctuation in price thereafter, the trading of such shares is interrupted for an additional ten minutes. Investors in the Argentine securities market are mostly individuals, mutual funds and companies. Institutional investors that trade securities on the BYMA, which represent a relatively small percentage of trading activity, consist of a limited number of investment funds.

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Certain historical information regarding the BCBA is set forth in the table below.

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|-----------|---------|---------|---------|---------|
| Market capitalization (P\$ billions) (1) | 4,512 | 3,292 | 3,893 | 3,356 | 2,314 |
| As percent of GDP (2) | 56 | 56 | 85 | 100 | 88 |
| Volume (P\$ million) (1) | 1,333,260 | 749,829 | 621,831 | 367,830 | 242,324 |
| Average daily trading volume (P\$ million) (1) | 5,420 | 3,098 | 2,580 | 1,526 | 1,006 |
| Number of traded companies (including Cedears) | 189 | 194 | 202 | 256 | 267 |

(1) End-of-period figures for trading on the BCBA (includes domestic and non-domestic public companies).

(2) According to INDEC revised figures of GDP at current prices for the selected period, published as of March 2017.

Source: Instituto Argentino de Mercado de Capitales

Table of Contents

Selling Shareholders

On March 22, 2017, Telecom Argentina filed a registration on Form F-3 (File No. 333-216890) through the selling shareholder to be identified in a prospectus supplement may offer and sell from time to time our Class B Shares underlying ADSs or ADSs. As of the date of this Annual Report, this registration statement has not been declared effective by the SEC.

Dilution

Not applicable.

Expenses of the Issue

Not applicable.

Table of Contents

ITEM 10. ADDITIONAL INFORMATION

MEMORANDUM AND ARTICLES OF ASSOCIATION

Register

Telecom Argentina's bylaws were registered before the Public Registry (*Inspección General de Justicia*) on July 13, 1990, under number 4,570, book 108, volume A of Corporations. Telecom Argentina's bylaws with all subsequent amendments were registered before the Public Registry on January 8, 2016, under number 447, book 77 of Corporations.

Object and Purpose

Article I, Section 3 of Telecom Argentina's bylaws was amended by Ordinary and Extraordinary Shareholders' Meeting held on June 22, 2015, with the approval of AFTIC. Pursuant to this amendment, Telecom Argentina's object and purpose is to provide, directly or through third parties, or in association with third parties, ICT Services, whether these ICT services are fixed, mobile, wired, wireless, national or international, with or without its own infrastructure, and to provide Audiovisual Communication Services (AC Services).

Pursuant to its object and purpose, Telecom Argentina may supply, lease, sell and market in any manner, all kinds of equipment, infrastructure, goods and services related to or supplementary with ICT Services and AC Services. Telecom Argentina may undertake works and provide all kinds of services, including advisory and safety services, in connection with ICT Services and AC Services.

To fulfill its object and purpose, Telecom Argentina has full legal capacity to acquire rights, undertake obligations and take any action that is not forbidden by law and by its bylaws, including the capacity to borrow funds, publicly or privately, through the issue of debentures and negotiable obligations. Telecom Argentina may constitute companies, acquire equity interests in other companies and enter into any kinds of association agreements.

Any amendment to the corporate object and purpose shall be in compliance with the respective legal regulations in force.

On April 30, 2003, Telecom Argentina's shareholders voted not to adhere to the regime established by Decree No. 677/01, the Statutory Regime of Public Offer of Mandatory Acquisition, and approved the consequent modification of Article 1 of Telecom Argentina's bylaws.

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However, since January 28, 2013, when Law No. 26,831 became effective, the Statutory Regime of Public Offer of Mandatory Acquisition has a mandatory universal scope. Article 90 Law No. 26,831 states: *Universal scope. The Statutory Regime of Public Offer of Mandatory Acquisition regulated in this chapter and the residual participation regime regulated in the following chapter includes all listed companies, even those that, under the previous regime, have opted to be excluded of its application.*

On February 18, 2004, Telecom Argentina's shareholders voted to change the company's name to Telecom Argentina S.A.

Telecom Argentina's capital stock

The following is a summary of the rights of the holders of Telecom Argentina shares. These rights are set out in Telecom Argentina's *estatutos sociales* (bylaws) or are provided for by applicable Argentine law. These rights may differ from those typically provided to shareholders of U.S. companies under the corporation laws of some states of the United States.

Limited liability of shareholders

Under Argentine law, a shareholder's liability for losses of a company is generally limited to the value of his or her shareholdings in the company. Under Argentine law, however, a shareholder who votes in favor of a resolution that is subsequently declared void by a court as contrary to Argentine law or a company's bylaws (or regulations, if any) may be held jointly and severally liable for damages to such company, to other shareholders or to third parties resulting from such resolution. In connection with recommending certain actions for approval by shareholders, the Board of Directors of Telecom Argentina occasionally obtained opinions of internal and/or external counsel concerning the compliance of the actions with Argentine law and our bylaws (or regulations, if any). We currently intend to obtain similar opinions in the future as the circumstances require it. Although the issue is not free from doubt, based on advice of counsel, we believe that a court in Argentina in which a case has been properly presented would hold that a non-controlling shareholder voting in good faith and without

Table of Contents

a conflict of interest in favor of such a resolution based on the advice of counsel that such resolution is not contrary to Argentine law or our bylaws or regulations, would not be liable under this provision.

Voting Rights

Pursuant to Telecom Argentina's bylaws, each share entitles the holder thereof to one vote at the shareholders' meetings. All of Telecom Argentina's directors are appointed jointly by shareholders in an Ordinary General Shareholders' Meeting.

Under Argentine law, shareholders are entitled to cumulative voting rights for the election of up to one-third of the vacancies to be filled on the Board of Directors and the Supervisory Committee. If any shareholder notifies the company of its decision to exercise its cumulative voting rights not later than three business days prior to the date of the Shareholders' Meeting, all shareholders are entitled, but not required, to exercise their cumulative voting rights as well.

Through the exercise of cumulative voting rights, the aggregate number of votes that a shareholder may cast is multiplied by the number of vacancies to be filled in the election, and each shareholder may allocate the total number of its votes among a number of candidates not exceeding one-third of the number of vacancies to be filled. Shareholders not exercising cumulative voting rights are entitled to cast the number of votes represented by their shares for each candidate. The candidates receiving the most votes are elected to the vacancies filled by cumulative and non-cumulative voting. In case of tie between the candidates voted under the same system, the two candidates that received the most votes will participate in a run-off election, and the candidate receiving the most votes in the run-off election will be deemed elected.

In addition, any person who enters into a voting agreement with other shareholders in a public company must inform the CNV of that voting agreement and must file a copy of that voting agreement before the CNV.

Shareholders' Meetings

Shareholders' Meetings may be ordinary meetings or extraordinary meetings. Telecom Argentina is required to hold an Annual Ordinary Shareholders' Meeting in each fiscal year to consider the matters outlined in Article 234 of the GCL, Article 71 of Law No. 26,831 and CNV rules, including but not limited to:

- approval of Telecom Argentina's financial statements and general performance of the directors and members of the Supervisory Committee for the preceding fiscal year;
- election, removal and remuneration of directors and members of the Supervisory Committee;

- allocation of profits; and
- appointment of external auditors.

Matters which may be considered at these or other ordinary meetings include, but are not limited to:

- consideration of the responsibility of directors and members of the Supervisory Committee; and
- capital increases and the issuance of negotiable obligations.

Extraordinary Shareholders Meetings may be called at any time to consider matters beyond the scope of the ordinary shareholder s meetings, including amendments to the bylaws, issuances of certain securities that permit profit sharing, anticipated dissolution, merger and transformation from one type of company to another, etc.

Shareholders Meetings may be convened by the Board of Directors or the members of the Supervisory Committee. The Board of Directors or the members of the Supervisory Committee are also required to convene shareholders meetings upon the request of any shareholder or group of shareholders holding at least 5% in the aggregate capital stock of Telecom Argentina. If the Board of Directors or the members of the Supervisory Committee fail to do so, the meeting may be called by the CNV or by the Argentine courts.

Table of Contents

Notice of the Shareholders Meeting must be published in the Official Gazette of the Republic of Argentina (the Official Gazette) and in a widely circulated newspaper in Argentina, at least twenty days before the shareholder s meeting. In order to attend a meeting, shareholders must submit proper evidence of their ownership of shares via book-entry account held at the Caja de Valores S.A. If entitled to attend the meeting, a shareholder may be represented by proxy.

Holders of ADSs are not entitled to attend or vote at a shareholders s meeting but its Deposit Agreement provides for certain procedures to instruct the Depositary to vote deposited Class B Shares in accordance with instructions provided by the holders of the ADSs. For voting instructions to be valid, the depositary must receive them on or before the date indicated in the relevant notice. There is no guarantee that an ADS holder will receive voting materials in time to instruct the depositary to vote.

The quorum for Ordinary Shareholders Meetings consists of a majority of the capital stock entitled to vote. In Ordinary Shareholders Meetings, resolutions may be adopted by the affirmative vote of a majority of the shareholders present that have issued a valid vote, without counting voluntary abstentions. If there is no quorum at the meeting, a second Ordinary Shareholders Meeting may be called. The meeting in a second call can be held whatever the number of the shareholders at the meeting, and resolutions may be adopted by a majority of the shareholders present.

The quorum for Extraordinary Shareholders Meetings is 60% of the capital stock entitled to vote. If there is no quorum at the extraordinary shareholders meeting, a second extraordinary shareholders meeting may be called. The quorum for extraordinary shareholders meeting in a second call is the 30% of the present capital stock. In both cases, decisions are adopted by a majority of valid votes, except for certain fundamental matters, including:

- mergers and spin-offs, when Telecom Argentina is not the surviving entity;
- anticipated liquidation;
- change of Telecom Argentina s domicile to a domicile outside Argentina;
- total or partial repayment of capital; or
- a substantial change in the corporate object and purpose.

Each of these actions requires a favorable vote of more than 50% of all the capital stock entitled to vote.

In some of these cases, a dissenting shareholder is entitled to appraisal rights.

Any resolution adopted by the shareholders at Ordinary or Extraordinary Shareholders Meetings that affects the rights of one particular class of capital stock must also be ratified by a special meeting of that class of shareholders. The special meeting will be governed by the rules for Ordinary Shareholders Meetings.

Dividends

Dividends can be lawfully paid and declared only out of our realized and liquid profit.

For these purposes, the Board of Directors must submit our financial statements for the previous fiscal year, together with a report thereon by the Board of Directors, to the shareholders for their approval at an Ordinary Shareholders Meeting.

Upon the approval of the financial statements, the shareholders determine the allocation of Telecom Argentina's net profits (if any). Under CNV rules, a Shareholders Meeting convened to approve the financial statements in which retained earnings are positive must make a specific decision on the use of such earnings in accordance with the GCL. The Shareholders Meeting must resolve on its distribution as cash dividends, capitalization with issuance of paid-in shares, use to create reserves other than statutory reserves, or a combination of such alternatives. In addition, the GCL requires Argentine companies to allocate 5% of any net profits to a legal reserve, until the amount of this reserve equals 20% of our capital stock. The legal reserve is not available for distribution. The remainder of net profits may be paid as dividends on common stock or retained as a voluntary reserve or other account, or a combination thereof, all as determined by the shareholders. As provided by CNV Resolution No. 609/12, positive retained earnings generated by the mandatory adoption of IFRS as from January 1, 2012, should be assigned to a special reserve that can only be utilized for its capitalization or to absorb negative retained earnings.

Table of Contents

Dividends may not be paid if the legal reserve has been impaired, nor until it has been fully replenished. Shareholders' rights to collect dividends expire three years after the distribution date pursuant to Section 17 of Telecom Argentina's bylaws, as amended by the Shareholders' Meeting held on April 24, 2002.

Argentine law permits the Board of Directors of certain companies, such as Telecom Argentina, to approve the distribution of anticipated dividends on the basis of financial statements especially prepared for the purpose of paying such dividends, provided that both the external auditors and the Supervisory Committee have issued an opinion report. The actual payment of these dividends is made on an interim basis, and they are paid on account of the dividends to be determined in the Annual Ordinary Shareholders' Meeting on the basis of the financial statements for the year.

See Note 30 to our consolidated financial statements regarding restrictions on distributions of profits and dividends.

Capital increase and reduction

Telecom Argentina may increase its capital upon authorization of an Ordinary Shareholders' Meeting. All capital increases must be registered before the CNV, published in the Official Gazette and registered before the Public Registry. Capital reductions may be voluntary or mandatory. Shares issued in connection with any capital increase must be divided among the various classes in proportion to the number of shares of each class outstanding at the date of the issuance, provided that the number of shares of each class actually issued may vary based on the exercise of preemptive rights and additional accretion rights in accordance with the procedure described under "Preemptive Rights" below.

A voluntary capital reduction must be approved by an Extraordinary Shareholders' meeting and may take place only after notice thereof is published and creditors are given an opportunity to obtain payment or collateralization of their claims, or attachment, except in redemption cases (with liquid and realized profits).

In accordance with Article 206 of the GCL, reduction of a company's capital stock is mandatory when losses have exceeded reserves and at least 50% of the stated capital (capital stock plus inflation adjustment).

Currently, Telecom Argentina is not required to reduce its capital stock.

Preemptive Rights

Under Argentine law, holders of a company's common shares of any given class have preferential or preemptive rights, proportional to the number of shares owned by each shareholder, to subscribe for any shares of capital stock of the same class as the shares owned by the shareholder or for any securities convertible into such shares issued by the company.

In the event of a capital increase, shareholders of Telecom Argentina of any given class have a preemptive right to purchase any issue of shares of such class in an amount sufficient to maintain their proportionate ownership of Telecom Argentina's capital stock. For any shares of a class not preempted by any holder of that class, the remaining holders of the class will assume *pro rata* the preemptive rights of those shareholders that are not exercising their preemptive rights. Pursuant to Telecom Argentina's bylaws, if any Class B or Class C Shares are not preempted by the existing shareholders of each such class, the other classes may preempt such class. However, if any shares of Class A are not preempted by the existing holders of such class, holders of Class B or Class C Shares shall have no preemptive rights with respect to such shares of Class A unless otherwise approved by the regulatory authorities.

A notice to the shareholders of their opportunity to preempt the capital increase must be published for three days in the Official Gazette and a widely circulated newspaper in Argentina. The period for the exercise of preemptive rights is 30 days following the last day of publication and may be reduced to 10 days by resolution of an extraordinary shareholders' meeting.

Pursuant to the GCL, preemptive rights may only be restricted or suspended in certain particular and exceptional cases by a resolution of an Extraordinary Shareholders' Meeting when required by the interest of the company.

PART I - ITEM 10 ADDITIONAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

Conflicts of Interest

A shareholder that votes on a business transaction in which its interest conflicts with that of Telecom Argentina may be liable for damages under Argentine law, but only if the transaction would not have been approved without his or her vote. See Item 3 Key Information Risk Factors Risks Relating to Argentina Shareholders may be liable under Argentine law for actions that are determined to be illegal or ultra vires. See also Powers of the Directors below for a description of conflict of interest regarding Directors.

Redemption or Repurchase

Telecom Argentina's stock is subject to redemption in connection with a reduction of capital by a majority vote of shareholders at an Extraordinary Shareholders Meeting. Pursuant to the GCL, Telecom Argentina may repurchase the stock with liquid and realized profits or available reserves, upon a determination of the Board of Directors that the repurchase is necessary in order to avoid severe damage to our business (subject to shareholder consideration) or in connection with a merger or acquisition. In addition, Telecom Argentina can purchase up to 10% of its capital stock in the BCBA pursuant to Law No. 26,831, complying with the requirements and procedures stated therein. If the purchase is made pursuant to Law No. 26,831, Telecom Argentina must resell the repurchased shares within three years and its shareholders will have preemptive rights to purchase the shares, except in case of an employee compensation program or plan, or in case the shares are distributed among all the shareholders proportionately or regarding the sale of an amount of shares that in any period of 12 months does not exceed 1% of the Telecom Argentina's capital stock. In such cases, the three-year period can be extended with the previous approval by a Shareholders Meeting.

Appraisal Rights

Whenever certain extraordinary resolutions are adopted at an Extraordinary Shareholders meeting, such as a merger of Telecom Argentina into another entity, a change of corporate object and purpose, transformation from one type of corporate form to another, or the voluntary withdrawal from the public offering regime or listing of Telecom Argentina's shares, any shareholder dissenting from the adoption of any resolution may withdraw from Telecom Argentina and receive the book value of his or her shares determined on the basis of Telecom Argentina's annual financial statements (as approved by the Annual Ordinary Shareholders Meeting), provided that the dissenting shareholder exercises its appraisal rights within five days following the Shareholders Meeting at which the resolution was adopted. This right may be exercised within 15 days following the meeting if the dissenting shareholder was absent and provided he or she can prove that he or she was a shareholder on the day of the Shareholders Meeting at which the resolution was adopted. In the case of a merger of Telecom Argentina or a spin-off of Telecom Argentina, no appraisal rights may be exercised if Telecom Argentina is the surviving company or if the shares that Telecom shareholders would receive as a result of such merger or spin-off would also be admitted to the public offering regime or listed in Argentina.

Appraisal rights are extinguished if the resolution is subsequently overturned at another Shareholders Meeting held within sixty days of the expiration of the time period during which absent shareholders may exercise their appraisal rights.

Payment on the appraisal rights must be made within one year of the date of the Shareholders Meeting at which the resolution was adopted. In the case of voluntary withdrawal from the public offering regime or listing of Telecom Argentina's shares, the payment period is reduced to sixty days from the date of the approval of the voluntary withdrawal.

Notwithstanding the foregoing, should Telecom Argentina decide to voluntarily withdraw its shares from the public offering regime or listing in Argentina, pursuant to Article 97 of Law No. 26,831, a tender offer by Telecom Argentina at a fair price (*precio equitativo*) to be determined in accordance with certain parameters must be conducted before such withdrawal.

Liquidation

Upon liquidation of Telecom Argentina, one or more liquidators may be appointed to wind up its affairs. All outstanding shares of common stock will be entitled to participate equally in any distribution upon liquidation.

PART I - ITEM 10 ADDITIONAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

In the event of liquidation, the assets of Telecom Argentina shall be applied to satisfy its debts and liabilities. If any surplus remains, it shall be distributed to the holders of shares in proportion to their holdings.

Acquisitions of 5% or more of the voting stock of a public company

Under Argentine law, any person acquiring 5% or more of the voting stock of a public company must inform the CNV in writing of the acquisition of such voting stock. Additionally, such person must inform the CNV in writing of each additional acquisition of 5% of the voting stock of that particular company, until such person acquires control of that company.

Powers of the Directors

The bylaws of Telecom Argentina do not contain any provision regarding the ability to vote on a proposal, arrangement or contract where a director is an interested party. Under Argentine law, a director may sign contracts with the company related to the company's activities so long as the conditions are on an arm's-length basis. If such contract does not meet such conditions, the agreement may only be subscribed with the prior approval of the Board of Directors or, in absence of quorum, with the approval of the Supervisory Committee. Such transactions must be dealt with at the following Shareholders' Meeting, and if such meeting does not approve them, the Board of Directors or the Supervisory Committee (as the case may be) are jointly responsible for any damages caused to the company. Argentine law also requires that if a director has a personal interest contrary to Telecom Argentina's, he or she must notify the Board of Directors and to the Supervisory Committee. The director must refrain from participating in any deliberations or he or she may be held jointly and severally liable for all damages caused to Telecom Argentina as a result of the conflict of interests.

Additionally, Law No. 26,831 dictates that the contracts between a company and a director (that qualifies as a related party) when they exceed 1% of the shareholders' equity of the company, it must be submitted to prior approval of the Audit Committee or of two independent evaluation firms to ensure that the transaction is in accordance with market conditions. Such transactions must also be approved by the Board of Directors and reported to the CNV and the exchanges on which the shares of the company are listed. If the Audit Committee or the independent evaluation firms have not determined the terms of the transaction to be according to market conditions, then the contract in question must be submitted for consideration at a Shareholders' Meeting.

Section 10 of the bylaws of Telecom Argentina establishes that the remuneration of the members of the Board of Directors is to be determined by the shareholders at their Annual Ordinary Shareholders' Meeting. The Audit Committee is to issue a prior opinion on the reasonability of the proposed remuneration, which the Board of Directors submits for approval to the shareholders. Directors cannot vote on the resolution concerning their compensation or the compensation of any other director.

The bylaws of Telecom Argentina do not contain any provision regarding the possibility of granting loans to members of the Board of Directors or to the company executives.

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Members of the Board of Directors of Telecom Argentina or its subsidiaries or parent company cannot be appointed as members of the Supervisory Committee.

The bylaws of Telecom Argentina do not establish a maximum age to be member of the Board of Directors.

Neither the bylaws of Telecom Argentina nor any Argentine law require the members of the Board of Directors to be shareholders.

Limitations on foreign investment in Argentina

Under the Argentine Foreign Investment Law, as amended (the FIL), the purchase of stock by an individual or legal entity domiciled abroad or by a local company of foreign capital (as defined in the FIL) constitutes a foreign investment subject to the FIL. Foreign investments generally are unrestricted. However, foreign investments in certain industries, such as broadcasting, are restricted as to percentage. No approval is necessary to purchase Class B Shares. The FIL does not limit the right of non-resident or foreign owners to hold or vote the Class B Shares, and there are no restrictions in Telecom Argentina's bylaws limiting the rights of non-residents or non-Argentines to hold or to vote on Telecom Argentina's Class B Shares. Notwithstanding the foregoing, regulations implemented by the CNV require that all shareholders that are companies who are registered to participate at a Shareholders Meeting should provide details of their registration before the Public Registry of

PART I - ITEM 10 ADDITIONAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

Argentina. To acquire participation in a company in Argentina, non-Argentine companies are required to comply with the share ownership registration requirements as provided for under Section 123 of the GCL.

Change of Control

There are no provisions in the bylaws of Telecom Argentina which may have the effect of delaying, deferring or preventing a change in control of Telecom Argentina and that would only operate with respect to a merger, acquisition or corporate restructuring involving Telecom Argentina or any of its subsidiaries, except for the regulatory authorization required for the transfer of Nortel's Class A Shares stated in Section 9 of our Bylaws.

Under Law No. 26,831 a party that wishes to obtain either a majority or a significant equity ownership interest (with the intention of acquiring control) in a publicly traded corporation must offer a fair price (*precio equitativo*) as defined in Law No. 26,831 to acquire all shares of voting stock or securities convertible into voting stock of such corporation. Until the enactment of Law No. 26,831, this regulation applied to all Argentine corporations with listed securities unless the corporation's shareholders specifically voted not to adopt the regime. On January 28, 2013, Law No. 26,831 became effective. This law states in its Article 90: *Universal scope. The Statutory Regime of Public Offer of Mandatory Acquisition regulated in this chapter and the residual participation regime regulated in the following chapter includes all listed companies, even those that, under the previous regime, have opted to be excluded of its application.*

Under Decree No. 764/2000, as amended by Decree No. 267/2015, the loss of control of a licensee company such as Telecom Argentina is subject to the approval of ENACOM.

MATERIAL CONTRACTS

For information regarding the Shareholders' Agreement, see Item 7 Major Shareholders and Related Party Transactions Major Shareholders' Agreement. We are not a party to the Shareholders' Agreement.

FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN ARGENTINA

Due to the deterioration of the economic and financial situation in Argentina throughout 2001, the difficulties in dealing with the servicing of the public foreign debt and the decrease of the total level of deposits in the financial system, the Argentine government issued Decree No. 1,570/01, which, as of December 3, 2001, established a number of monetary and currency exchange control measures that included restrictions on the free disposition of funds with banks and restrictions on transferring funds abroad, with certain exceptions for transfers related to foreign trade and certain other transfers subject to the prior authorization of the BCRA.

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On February 8, 2002, the BCRA issued tight restrictions on the transfer of funds abroad in order to make payments of principal and/or interest by requiring prior authorization from the BCRA. Since 2003, these restrictions were progressively curbed.

In June 2005, the Argentine government imposed certain restrictions on inflows and outflows of foreign currency to the local foreign exchange market. New indebtedness entered into the foreign exchange market and debt renewals with non-Argentine residents from the private sector entered in the local foreign exchange market had to be agreed upon and canceled in terms not shorter than 365 calendar days (the Minimum Holding Term), whatever the form of cancellation thereof (i.e. with or without access to the local foreign exchange market). The following transactions, among others, were exempted from this restriction: (i) foreign trade financings (i.e., exports advance payments, pre-financing of exports and imports financing); (ii) balances of foreign exchange transactions with correspondent exchange entities (which are not credit lines); and (iii) primary debt security issuances with a public offering and listing.

In addition, certain inflow of funds were subject to the creation of a nominative, nontransferable and non-compensated deposit, for 30% of the amount involved in the relevant transaction (the Mandatory Deposit), for a term of 365 calendar days, pursuant to the terms and conditions established in the regulations.

PART I - ITEM 10 ADDITIONAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

However, beginning in December 17, 2015, the Argentine government implemented a series of measures to progressively deregulate and implement more flexible rules for foreign exchange controls. The following amendments, along with certain other reforms, were introduced by communications including Communications A 5850, A 5861, A 5899, A 6037, A 6058, A 6067, A 6137, A 6150 and A 6174 in each case as amended. Collectively, these new regulations are referred to as the New Regulations.

The following is a description of the main aspects of BCRA's regulations concerning inflows and outflows of funds in Argentina as of the date hereof. Additional information regarding all current foreign exchange restrictions and exchange control regulations and regarding the applicable rules mentioned herein, as well as any amendments and complementary regulations, is available at the Ministry of the Treasury's website: www.economia.gob.ar, or the BCRA's website: www.bcr.gov.ar.

Inflow of capital

Foreign financial indebtedness

Inflow and settlement through the foreign exchange market

Foreign financial indebtedness incurred by the private non-financial sector, the financial sector and Argentine local governments are no longer subject to the requirement of having the proceeds from such indebtedness transferred and settled through the foreign exchange market (Communication A 6037).

Whether funds enter the foreign exchange market or not, in transactions involving the private non-financial sector and the financial sector, it is mandatory to register such debt in the Report of Issuances of Securities and Other Foreign Indebtedness of the Private Financial and Non-Financial Sector (Communication A 3602 as amended and restated), if applicable.

Outflow of capital

Payment of interest, earnings, dividends, services and import of goods

No limitations are imposed to access the foreign exchange market to pay interests, earnings, dividends, services, import of goods and non-financial non-produced assets acquisition, under whichever concept it may be (shipping, insurance, royalties, technical advice, professional

fees, etc.) abroad. Access to the foreign exchange market for this purpose requires the presentation of an affidavit declaring compliance with the reporting regimes established by Communication A 3602 (as amended and supplemented) and Communication A 4237 (as amended and supplemented), as applicable.

Notwithstanding the above, as of December 31, 2016, pursuant to General Resolution No. 3,417/12, as amended, of the AFIP, Argentine residents who accessed the foreign exchange market to pay dividends and interests abroad (among other items), were obliged to previously inform in advance the payment of interests through the AFIP's website and obtain an Advanced Sworn Statement of Payments made Abroad (*Declaración Jurada de Pagos al Exterior*) (DAPE). However, on March 6, 2017, this resolution was abrogated by General Resolution AFIP 4008/17.

Non-residents have access to the foreign exchange market for payment of, among others, services, earnings and current transfers collected in Argentina according to the specific regulations that apply to non-residents to access the foreign exchange market.

Cancellation of services of foreign financial debts

In the case of access to the foreign exchange market for capital services of foreign financial indebtedness, including cancellation of financial standby arrangements granted by Argentine banking entities, applicable regulations require: (i) a sworn affidavit by the debtor confirming the presentation, if applicable, of the Report of Issuances of Securities and Other Foreign Indebtedness of the Private Financial and Non-Financial Sector established by Communication A 3602 (as amended and supplemented).

Access to the foreign exchange market for payment for services in the issuance of local debt securities in foreign currency

For access to the foreign exchange market for payment for services in the issuance of Argentine debt securities in foreign currency, applicable regulations require a sworn affidavit by the debtor confirming the presentation, if applicable, of the Report of Issuances of Securities and Other Foreign

Table of Contents

Indebtedness of the Private Financial and Non-Financial Sector established by Communication A 3602 (as amended and supplemented).

Transactions by non-residents

The New Regulations, as amended, sets forth the regulations applicable to access to the foreign exchange market by non-residents.

In this respect, financial entities can grant access to the foreign exchange market with a sworn affidavit by the client regarding the reason for which the foreign exchange market is being accessed in the case of transactions involving the transfer of foreign currency abroad, and the sale of cash, checks and travelers checks in foreign currency, to the following non-resident clients:

- a) International organizations and institutions acting as official export credit agencies;
- b) Diplomatic and consular representatives and diplomatic staff authorized in the country to the extent that such transfers are made in the exercise of their respective functions; and
- c) Representations from courts, authorities or departments, special missions, bilateral commissions or bodies established by international treaties or agreements, to which Argentina is a party, to the extent that such transfers are made in the exercise of their respective functions.

Access to the foreign exchange market by non-residents can be also granted for transfers of funds collected in Argentina to overseas accounts, provided that the non-resident files a sworn affidavit declaring that the funds correspond to:

- Argentine import payments.
- Foreign debt with residents for Argentine imports of goods.
- Services, rents and other overseas current transfers.
- Financial indebtedness originating in external loans of non-residents.
- Earnings from bonds and secured loans issued by the Argentine government issued in pesos.

- Recovery of claims in local bankruptcy proceedings and collection of debts under reorganization proceedings to the extent that the non-resident client has been recognized as creditor by a final non-appealable decision of the court of such proceedings.
- Inheritance, in accordance with the declaration of inheritance.
- Benefits or funds from services and sales of received securities, granted by the Argentine government in the framework established by laws No. 24,043, No. 24,411 and No. 25,914.
- Indemnifications awarded by local courts in favor of non-residents.
- Repatriations of direct investments in companies in the private, non-financial sector that do not control local financial institutions and/or real estate, provided that the foreign beneficiary is either a natural or legal entity residing or incorporated and established in, or the payment is performed, in domains, jurisdictions, territories or associated states that are considered cooperators for the purposes of fiscal transparency according to the provisions of section 1 of Decree 589/2013, as amended and supplemented for the following purposes:
 - a. sale of the direct investment;
 - b. final liquidation of the direct investment;
 - c. capital reduction decided by the local company; and
 - d. reimbursement of irrevocable contributions by the local company.

The intervening entity must verify compliance with the Report of Direct Investments, if applicable.

- Collections of services or sales proceeds of other portfolio investments (and their profits) provided that the foreign beneficiary is either a natural or legal person residing in or incorporated and established in domains, jurisdictions, territories or associated states that are considered cooperators for the purposes of fiscal transparency according to the provisions of Art. 1 of Decree 589/2013, as amended and supplemented. These portfolio investment repatriations include, but are not limited to, portfolio investments in shares and ownership interests in local companies, investments in mutual funds and local trusts, purchases of portfolios of loans granted to residents by local banks, purchases of invoices and promissory

Table of Contents

notes for local business transactions, investments in local bonds issued in pesos and in foreign currency payable locally, as well as purchases of other internal receivables.

In each of the cases listed above, access to the foreign exchange market is also possible for residents for the transfer of funds to a non-resident. In all cases, before accessing the foreign exchange market, the intervening authority must ensure that the requirements established by the regulations are complied with. When access to the foreign exchange market is granted to the resident, an exchange ticket will be created in his name, and the reason for declaration will be the one corresponding to the type of operation.

The remaining sale transactions of currency, cash, checks and travelers checks in foreign currency to non-residents shall be subject to the prior authorization of the BCRA when the amount exceeds the equivalent of US\$10,000 per calendar month across all entities authorized to deal in foreign currency transactions. For transactions below that amount, only identity validation will be required pursuant to applicable regulations under Valid Identification Documentation issued by the BCRA.

For capital services and income from public bonds issued by the Argentine government in foreign currency and other bonds issued by residents in foreign currency that are deposited by non-residents in Argentine custody accounts, the non-resident can choose among the following options: the collection in foreign currency, crediting the funds in an Argentine account in foreign currency on his behalf or the transfer of funds to his own account abroad. In these cases, no exchange tickets will be issued.

If, after payment, the beneficiary of the funds wants to convert the collected funds in foreign currency into pesos, the purchase must be done in the foreign exchange market in accordance with the general regulations relating to portfolio investments by non-residents.

Transactions carried out on behalf of and for non-resident clients by intermediaries contemplated in the Financial Entities Law, that are not Pension and Retirement Fund Managers or mutual funds, must take place on behalf of the non-resident client that is granted the access to the foreign exchange market.

Formation and Repatriation or sale of external assets by residents

Pursuant to the New Regulations, resident individuals, legal entities from the private sector organized in Argentina and not authorized to deal in foreign exchange, certain trusts and other estates domiciled in Argentina, as well as Argentine local governments will be allowed access to the FX Market without the prior authorization of the BCRA with respect to, among others, the following types of transactions: direct investments by residents, portfolio investments abroad by residents, loans to non-residents, purchases of foreign currency in Argentina, purchases of traveler checks and purchases of foreign currency to transfer it to other residents. In each case, the following conditions must be met: in the case of foreign currency sales the transfer of the purchased amounts cannot be made to countries or jurisdictions considered non-cooperative for fiscal transparency purposes under section 1 of Executive Decree No. 589/13, as amended, or to countries or jurisdictions where the Recommendations of the Financial Action Task Force are not sufficiently followed. Non-cooperative countries or jurisdictions will be designated as such by the Financial Action Task Force (www.fatf-gafi.org). The identification of the foreign entity where the client's account has been created and the account number must be recorded in the applicable exchange ticket.

Capital markets

As of December 31, 2016, securities-related transactions carried out through stock exchanges and authorized securities markets were to be paid in any of the following: (i) in pesos; (ii) in foreign currency through electronic fund transfers from and to sight accounts in local financial institutions; or (iii) through wire transfers against foreign accounts. Under no circumstances was the settlement of these securities purchase and sale transactions to be made in foreign currency bills or through deposits in escrow accounts or in third-party accounts (Communication A 4308). However, this provision was repealed by Communication A 6220 on April 12, 2017.

Reporting Regimes

Report of issuances of securities and other foreign indebtedness of the private financial and non-financial sector

PART I - ITEM 10 ADDITIONAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

Pursuant to Communication A 3602 dated May 7, 2002, as amended, all individuals and legal entities in the private financial and non-financial sector must report their outstanding foreign indebtedness (whether peso or foreign currency-denominated) at the end of each quarter. The debts incurred and repaid within the same calendar quarter need not be reported.

Direct investments report

Communication A 4237 dated November 10, 2004 established reporting requirements in connection with direct investments made by local residents abroad and by non-residents in Argentina. Direct investments are defined as those that reflect the long-standing interest of a resident in one economy (direct investor) in another economy's resident entity, such as an ownership interest representing at least 10% of a company's capital stock or voting rights. The reporting requirements prescribed by Communication A 4237 are to be met on a bi-annual basis.

Notwithstanding the above, there can be no assurance that the BCRA will not require again its prior authorization for, or restrict in some other way, the transfer of funds abroad for principal and/or interest payments by Telecom Argentina to its foreign creditors or for dividend payments by Telecom Argentina to its foreign shareholders.

TAXATION

Argentine taxes

The following summary of certain Argentine tax matters is based upon the tax laws of Argentina and regulations thereunder as of the date of this Annual Report and is subject to any subsequent changes in Argentine laws and regulations which may come into effect after such date. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of such securities. No assurance can be given that the courts or tax authorities responsible for the administration of the laws and regulations described in this Annual Report will agree with this interpretation. Holders should carefully read Item 3 Key Information Risk Factors Risks Relating to Telecom Argentina's Shares and ADSs Changes in Argentine tax laws may adversely affect the tax treatment of our Class B Shares underlying ADSs or ADSs in this Annual Report and consult their tax advisors regarding the tax treatment of the Class B Shares underlying ADSs and ADSs.

Taxation of Dividends

Pursuant to Law No. 26,893, dividends and other profits paid in cash or in kind except for stock dividends or quota dividends by companies and other entities incorporated in Argentina referred to in the Argentine Income Tax Law (the Income Tax Law), Sections 69 (a)(1), (2), (3), (6) and (7), and Section 69(b), were subject to income tax at a 10% rate

except for those beneficiaries that were domestic corporate taxpayer. Law No. 27,260 repealed this withholding tax as of July 23, 2016. Consequently, there is currently no withholding tax levied on dividends distributed to either Argentine or non-Argentine resident shareholders.

Under the Argentine Income Tax Law, a corporation that makes a distribution of dividends to its shareholders in excess of the amount of its accumulated taxable net income at the close of the previous taxable year, as determined by application of the Argentine Income Tax Law, must withhold a 35% tax from such excess (the Equalization Tax). For purpose of this rule, the amount of income to be considered shall be determined by (1) deducting from taxable income, calculated under the general rules of the Argentine Income Tax Law, the income tax paid by the company and (2) adding the dividends and profits not subject to tax received as distributions from other corporations. If the distribution is in-kind, then the corporation must pay the tax to the Argentine tax authorities and will be entitled to seek reimbursement from the shareholders.

Capital gains

The results derived from the transfer of shares and other equity interests, bonds and other securities of Argentine companies are subject to Argentine capital gains tax, regardless of the type of beneficiary who realizes the gains. Capital gains obtained by Argentine taxpayers (in general, entities organized or incorporated under Argentine law and local branches of non-Argentine entities) derived from the sale, exchange or other disposition of shares are subject to income tax at the rate of 35% on net income.

Table of Contents

Income derived by Argentine resident individuals from the sale of shares and other securities is subject to income tax at a 15% rate on the net gain, unless such securities were traded in stock markets and/or have public offering authorization, in which case an exemption applies. The implementing Decree No. 2,334/13 introduced a provision stating that the exemption applies to gains derived from the sale of shares and other securities made through a stock exchange market duly authorized by the CNV.

It is not clear whether the term *includes* (as used in the implementing Decree No. 2,334/13) means that the exemption only refers to sales of securities made through a stock exchange market duly authorized by the CNV, or whether the implementing Decree No. 2,334/13 intended to clarify that such sales were just one of the possibilities that may be covered by the exemption (in addition to publicly offering authorized securities, as provided in the Argentine Income Tax Law).

Capital gains obtained by non-Argentine residents from the sale, exchange or other disposition of shares and other equity interests, bonds and other securities of Argentine companies are subject to capital gains tax. In such cases, gains are subject to Argentine tax at a rate of 15% on the net presumed gain provided by the Argentine Income Tax Law for this type of transaction, which is 90% of the transaction's price, resulting in an effective rate of 13.5%. The non-resident seller may opt to be taxed on the net gain resulting from the deduction of the expenses incurred in Argentina necessary for its obtaining, maintenance and conservation, as well as the deductions admitted by the Argentine Income Tax Law. For that purpose, the non-resident seller has to furnish the purchaser with supporting evidence of the amounts to be deducted from the transaction's price, which may or may not be accepted by the purchaser. There is currently no regulation under Argentine law with respect to how this election can be made. When both the seller and the buyer are non-Argentine residents, the person liable to pay the tax shall be the buyer of the shares, equity interests or other securities transferred.

However, as of the date of this Annual Report, no regulations have been issued stipulating the withholding and payment mechanism for transactions between nonresidents. Following the amendments made by Law No. 26,893, and its implementing Decree No. 2,334/13, the tax treatment applicable to gains obtained by non-residents from the sale of ADSs is open to interpretation. Additionally, should the sale of ADSs take place between non-Argentine parties and such sale were deemed to give rise to Argentine source income, as of the date of this Annual Report, no regulations have been issued regarding the mechanism through which payment would be effectuated to satisfy such obligation. Conversely, if the sale of ADSs were deemed to give rise to foreign source income, no income tax would apply. Therefore, holders of the Class B Shares underlying ADSs or ADS are encouraged to consult a tax advisor as to the particular Argentine income tax consequences derived from holding and disposing of not only the Class B Shares underlying ADSs but also the ADSs.

Personal assets tax

Argentine companies, such as us, have to assess and pay the personal assets tax corresponding to their shareholders that are Argentine individuals and non-Argentine resident persons. The tax rate in effect through December 31, 2015 was 0.50%. As of December 31, 2016, Law No. 27,260 lowered the rate to 0.25%, which is to be assessed on the proportional net worth value (*valor patrimonial proporcional*), of the shares as per the Argentine entity's last financial statements prepared under Argentine GAAP. Pursuant to the Personal Assets Tax Law, the Argentine company is entitled to seek reimbursement of such paid tax from the applicable Argentine domiciled individuals and/or foreign domiciled shareholders.

Pursuant to Law No. 27,260, Argentine companies that have properly fulfilled their tax obligations during the two fiscal year periods prior to the 2016 fiscal year and comply with other requirements may qualify for an exemption from the personal assets tax for the 2016, 2017 and 2018 fiscal years. The request for this tax exemption should be filed before March 31, 2017. Telecom Argentina has already

filed this request. Notwithstanding, we cannot assure that in the future, Telecom Argentina can fulfill those requirements and maintain the referred exemption.

Telecom Argentina has, from time to time, requested that its shareholders reimburse the amounts of personal assets tax paid on their behalf and has received partial reimbursement of such taxes, however no assurances can be made that Telecom Argentina will be successful in seeking reimbursement of all such taxes paid from holders of ADSs and Class A, B, and C shares. The amount paid by Telecom Argentina and pending collection from its shareholders as of December 31, 2016, was approximately P\$26 million, of which P\$18 million are included in the allowance for doubtful

Table of Contents

accounts, based on the recoverability assessment made by Telecom Argentina. Whenever applicable, personal assets tax paid on behalf of Telecom Argentina's shareholders is deducted from the cash dividend payment.

Value added tax

The sale, exchange or other disposition of Telecom Argentina shares and ADSs, and the distribution of dividends in connection therewith are exempted from the value added tax.

Tax on deposits to and withdrawals from bank accounts

The tax on deposits to and withdrawals from bank accounts under Law No. 21,526 applies to certain deposits to and withdrawals from bank accounts with Argentine financial institutions and to other transactions that, due to their special nature and characteristics, are similar or could be used in lieu of a deposit to or withdrawal from a bank account. Therefore, any deposit to or withdrawal from a bank account opened in an institution regulated by Law No. 21,526, or any transaction deemed to be used in lieu of a deposit to or withdrawal from a bank account, is subject to the tax on deposits and withdrawals, unless a particular exemption is applicable. The tax rate in effect since August 1, 2001 has been 0.6% of the transaction volume.

Decree No. 534/04 provides that owners of bank accounts subject to the general tax rate of 0.6% may take into account as a tax credit of 34% of the tax originated in credits on such bank accounts. This amount may be computed as a credit for the income tax and tax on minimum presumed income. The amount computed as a credit is not deductible for income tax purposes.

Tax on minimum presumed income

Companies located in Argentina are required to pay an amount equal to the greater of the income tax or the tax on minimum presumed income. The tax on minimum presumed income is computed based on 1% of the value of our assets. The value of our assets is determined in accordance with the criteria established under Argentine tax laws. The amount of any income tax paid during the fiscal year may be applied against the tax on minimum presumed income that would be payable in such fiscal year. The amount of any tax on minimum presumed income paid in excess of the income tax for such fiscal year may be carried forward for a period of up to ten years. This excess may be treated as a credit to be applied against the income tax payable in a future year to the extent the tax on minimum presumed income for the year does not exceed income tax payable for such future year.

According to Law No. 27,260, the tax on minimum presumed income is abolished for the fiscal years beginning from January 1, 2019.

Turnover tax

In addition, gross turnover tax could be applicable to Argentine residents on the transfer of shares and on the perception of dividends to the extent such activity is conducted on a regular basis within an Argentine province or within the City of Buenos Aires. However, under the Tax Code of the City of Buenos Aires, any transactions with shares, as well as the perception of dividends are exempt from gross turnover tax. Holders of the Class A, B and C Shares or ADSs are encouraged to consult a tax advisor as to the particular Argentine gross turnover tax consequences derived from holding and disposing of the Class A, B and C Shares or ADSs or ADSs.

Stamp taxes

Stamp tax is a provincial tax that is levied based on the formal execution of public or private instruments. Documents subject to stamp tax include, among others, all types of contracts, notarial deeds and promissory notes. Each Argentine province and the City of Buenos Aires have its own stamp tax legislation. Stamp tax rates vary according to the jurisdiction and type of agreement involved. In certain jurisdictions, acts or instruments related to the negotiation of shares and other securities duly authorized for its public offering by the CNV are exempt from stamp tax.

Other taxes

There are no Argentine federal inheritances or succession taxes applicable to the ownership, transfer or disposition of Class A, B and C Shares.

Tax treaties

Argentina has signed tax treaties for the avoidance of double taxation with several countries, although there is currently no tax treaty or convention in effect between Argentina and the United

Table of Contents

States. On December 23, 2016, Argentina and the United States signed an agreement for the exchange of information relating to taxes.

United States federal income taxes

The following discussion is a summary of certain U.S. federal income tax consequences for a U.S. holder (as defined below) of the acquisition, ownership and disposition of our ADSs or Class B Shares underlying ADSs, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of such securities, including alternative minimum tax and Medicare contribution tax on net investment income. This summary applies only to U.S. holders that hold ADSs or Class B Shares underlying ADSs as capital assets for U.S. federal income tax purposes and does not address investors that are members of a class of holders subject to special rules, such as:

- financial institutions;
- dealers in securities or currencies;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- life insurance companies;
- persons that hold ADSs or Class B Shares underlying ADSs that are a hedge or that are hedged against interest rate or currency risks;
- persons that hold ADSs or Class B Shares underlying ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the ADSs or Class B Shares underlying ADSs;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;

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- tax-exempt entities;
- persons that own or are deemed to own 10% or more of any class of Telecom Argentina's capital stock;
- persons who acquired ADSs or Class B Shares underlying ADSs pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding ADSs or Class B Shares underlying ADSs in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds ADSs or Class B Shares underlying ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding ADSs or Class B Shares underlying ADSs and partners in such partnerships should consult their tax advisors as to the particular U.S. federal income tax consequences of holding and disposing of the ADSs or Class B Shares underlying ADSs.

This summary is based on the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These authorities are subject to change, possibly on a retroactive basis. In addition, this summary assumes the deposit agreement, and all other related agreements, will be performed in accordance with their terms. As mentioned above, there is currently no income tax treaty or convention in effect between Argentina and the United States.

U.S. holders should consult their tax advisors regarding the U.S., Argentine or other tax consequences of the acquisition, ownership and disposition of ADSs or Class B Shares underlying ADSs in their particular circumstances, including the effect of any state or local tax laws.

As used herein, the term U.S. holder means a holder that, for U.S. federal income tax purposes, is a beneficial owner of ADSs or Class B Shares underlying ADSs and is:

- a citizen or individual resident of the United States;
- a U.S. domestic corporation; or

Table of Contents

- otherwise subject to U.S. federal income tax on a net income basis with respect to income from the ADS or Class B Share.

In general, for U.S. federal income tax purposes, holders of ADSs will be treated as the owners of the underlying Class B Shares represented by those ADSs. Accordingly, no gain or loss will be recognized if such holder exchanges ADSs for the underlying Class B Shares represented by those ADSs.

These statements assume that Telecom Argentina is not, and will not become, a Passive Foreign Investment Company (PFIC), as described below.

Distributions

To the extent paid out of current or accumulated earnings and profits of Telecom Argentina (as determined in accordance with U.S. federal income tax principles), the gross amount of distributions made with respect to ADSs or Class B Shares underlying ADSs will generally be included in the income of a U.S. holder as ordinary dividend income. Because Telecom Argentina does not maintain calculations of its earnings and profits under U.S. federal income tax principles, U.S. holders should expect that a distribution will generally be treated as a dividend. Dividends will generally be treated as foreign-source and passive category income to U.S. holders and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code. Dividends will be included in a U.S. holder's income on the date of the U.S. holder's (or in the case of ADSs, the depositary's) receipt of the dividend. The amount of the distribution will equal the U.S. dollar value of the pesos received (including amounts withheld in respect of Argentine taxes), calculated by reference to the exchange rate in effect on the date such distribution is received (which, for holders of ADSs, will be the date such distribution is received by the depositary), whether or not the depositary or U.S. holder in fact converts any pesos received into U.S. dollars. If the distribution is converted into U.S. dollars on the date of receipt, U.S. holders should not be required to recognize foreign currency gain or loss in respect of the dividend income. Any gains or losses resulting from the conversion of pesos into U.S. dollars after the date on which the distribution is received will be treated as ordinary income or loss of the U.S. holder and will be U.S.-source income or loss for foreign tax credit purposes.

Subject to certain exceptions for short-term (60 days or less) and hedged positions, the U.S. dollar amount of dividends paid to certain individuals or other non-corporate U.S. holders will be taxable at the preferential rates if the dividends are qualified dividends. Dividends paid on the ADSs are generally treated as qualified dividends if (1) the ADSs are readily tradable on a securities market in the United States (such as the NYSE, where our ADSs are currently traded) and (2) we were not, in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a PFIC. Based on our consolidated financial statements and relevant market data, we believe that Telecom Argentina was not a PFIC for U.S. federal income tax purposes with respect to our 2016 taxable year. In addition, based on our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market data, we do not anticipate becoming a PFIC for our 2017 taxable year or the foreseeable future, although there can be no assurance in this regard. If we were a passive foreign investment company for U.S. federal income tax purposes for any taxable year, U.S. holders of our ADSs could be subject to adverse U.S. federal income tax consequences. Based on existing guidance, it is not entirely clear whether dividends received with respect to the Class B Shares underlying ADSs will be treated as qualified dividends, because the Class B Shares underlying ADSs are not themselves listed on a U.S.

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exchange. U.S. holders should consult their tax advisors regarding the availability of the preferential dividend tax rates in light of their particular circumstances.

Distributions of additional shares in respect of ADSs or Class B Shares underlying ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Sale or other disposition

Gain or loss realized by a U.S. holder on the sale or other disposition of ADSs or Class B Shares underlying ADSs will be subject to U.S. federal income tax as U.S.-source capital gain or loss, and will be long-term capital gain or loss if the U.S. holder has held the ADSs or Class B Shares underlying ADSs for more than one year. The amount of the gain or loss will be equal to the difference between the U.S. holder's tax basis in those ADSs or Class B Shares and the amount realized on the disposition, in each case as determined in U.S. dollars. Long-term capital gains recognized by non-corporate taxpayers are subject to reduced tax rates. The deductibility of capital losses is subject to

PART I - ITEM 10 ADDITIONAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

limitations. If an Argentine tax is withheld, or otherwise paid, on the sale or disposition of ADSs or Class B Shares underlying ADSs, a U.S. holder's amount realized will include the gross amount of the proceeds of the sale or disposition before deduction of the Argentine tax. See *Argentine Taxes Capital gains* for a description of when a disposition may be subject to taxation by Argentina.

Foreign tax credit considerations

Because any gain realized on the sale or other disposition of ADSs or Class B Shares underlying ADSs will be treated as U.S. source, an investor generally would not be able to use the foreign tax credit arising from any Argentine tax imposed on such disposition unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

In addition, amounts paid on account of the personal assets tax (as described in *Argentine Taxes Personal assets tax*) generally will not be treated as an income tax for U.S. federal income tax purposes and will consequently not be eligible for credit against a U.S. holder's federal income tax liability. The rules governing foreign tax credits are complex, and U.S. holders should consult their tax advisors regarding the creditability and deductibility of foreign taxes in their particular circumstances.

Foreign financial asset reporting

Certain U.S. holders that own specified foreign financial assets with an aggregate value in excess of US\$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. Specified foreign financial assets include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer that are not held in accounts maintained by financial institutions. The understatement of income attributable to specified foreign financial assets in excess of US\$5,000 extends the statute of limitations with respect to the tax return to six years after the return was filed. U.S. holders that fail to report the required information could be subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible application of these rules, including the application of the rules to their particular circumstances.

Information reporting and backup withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless the U.S. holder (1) provides a correct taxpayer identification number and certifies that it is not subject to backup withholding or (2) otherwise establishes an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the internal revenue service.

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DOCUMENTS ON DISPLAY

Telecom Argentina files annual and special reports and other information before the SEC. You may read and copy any document that Telecom Argentina files at the public reference room of the SEC at 100 F Street NE, Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at www.sec.gov that contains reports and other information regarding issuers that file electronically with the SEC.

You may request a copy of these filings by writing or telephoning the offices of Telecom Argentina at Alicia Moreau de Justo 50, (C1107AAB) Buenos Aires, Argentina. Telecom Argentina's telephone number is 011-54-11-4968-4000.

Telecom Argentina maintains a website at www.telecom.com.ar. The contents of the website are not part of this Annual Report.

PART I - ITEM 10 ADDITIONAL INFORMATION

TELECOM ARGENTINA S.A.

Table of Contents

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Summarized below are the financial instruments we held as of December 31, 2016, that are sensitive to changes in foreign exchange rates and interest rate, if any. As a matter of policy, we may enter into forward exchange contracts, foreign currency swaps or other derivatives to manage the exposure attributed to foreign exchange rate and interest rate fluctuations associated with the principal amount of our liabilities in foreign currencies. We use these instruments to reduce risk by creating offsetting market exposures. The instruments we hold are not held for financial trading purposes. No foreign exchange forward or other derivatives for speculative purposes were outstanding during the reporting periods covered by this Annual Report.

We do not have any other material market risk exposure.

(a) Foreign Exchange Rate Risk

Foreign exchange exposure arises from our funding operations and, to a lesser extent, our capital expenditures and expenses denominated in foreign currencies. The peso/U.S. dollar exchange rate is determined by a free market with certain controls. See Item 10 Additional Information Foreign Investment and Exchange Controls in Argentina.

Our results of operations are sensitive to changes in the peso/dollar exchange rates because our primary assets are in Argentina and most of our revenues are denominated in pesos (our functional currency) while some part of our liabilities are denominated in foreign currencies. However, Telecom Argentina, Personal and Núcleo had commercial debt nominated in U.S. dollars and Euros. Moreover, Personal and Núcleo's overdrafts and Series 1 to 3 of Personal Notes are denominated in their functional currencies (pesos and guaraníes, respectively) and accrue interest at a variable rate. In addition, Personal maintains financial debt denominated in U.S. dollars at a variable rate and Series 4 of Notes is also denominated in U.S. dollars, but at a fixed rate, while Núcleo maintains guaraní denominated financial debt and accrues interest at a fixed rate. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Sources and Uses of Funds.

Additionally the Company has cash and cash equivalents, and investments denominated in U.S. dollars and Euros (approximately 53% of total cash and equivalents and investments) that are also sensitive to changes in peso/U.S. dollar exchange rates and contribute to reduce the exposure to commercial and financial obligations in foreign currency. As of December 31, 2016, the Company had investments adjustable to the variation of the peso/U.S. dollar exchange rate (Dollar Linked), which are also sensitive to variations in exchange rates, and which contribute to reduce the commercial and financial exposure in foreign currency. The Dollar Linked investments totaled approximately 1% of the cash, cash and equivalents and investments.

Actions taken by the Argentine government could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the peso against the U.S. dollar and other foreign currencies will not adversely affect our results of operations, financial condition and cash flows. However, we believe that a significant depreciation in the peso against major foreign currencies may have a material adverse impact on our capital expenditure program and in our operating expenses denominated in foreign currencies.

(b) Sensitivity to Interest Rate Risk

Within its financial debt structure, the Telecom Group has short term peso-denominated overdrafts that have interest rates that rollover at maturity, notes at composite interest rate (fixed plus floating rate) and at fixed rate and a bank loan from abroad denominated in U.S. dollars and guaraníes at floating rate.

Management believes that any variation of 10 basis points in annual interest rates would yield the following results:

| Financial Debt | Amount (in millions) | | Effect (in millions) | |
|-----------------------|-----------------------------|-------|-----------------------------|-----|
| Overdrafts | P\$ | 1,707 | P\$ | 1.7 |
| Notes | P\$ | 1,442 | P\$ | 1.4 |
| Bank Loans | US\$ | 440 | P\$ | 7.0 |

This analysis is based on the assumption that this change in interest rates occurs at the same time and for the same period.

Table of Contents

This sensitivity analysis shows only a limited view to market risk sensitivity of some of the outstanding financial instruments. The actual impact of changes in interest rates on financial instruments may differ significantly from the analyzed impact.

(c) Sensitivity to Exchange Rates Risk

We estimate, based on the composition of the statement of financial position as of December 31, 2016, and on the net foreign currency liability position, which amounts P\$9,779 million, equivalent to US\$630 million, that every variation in the exchange rate of P\$0.10 against the U.S. dollar and proportional variations in other foreign currencies against the Argentine peso, plus or minus, would result in a variation of approximately P\$63 million of the net foreign currency liabilities. This analysis is based on the assumption that this variation of the Argentine peso occurred at the same time against all other currencies.

If we consider only the portion not covered by derivative financial instruments and other assets adjusted by the variation of the U.S. dollar, the net liability position amounts to P\$9,450 million equivalent to US\$595 million, and a variation of the exchange rate of P\$0.10 as described in the previous paragraph, would generate a variation of approximately P\$60 million in the net foreign currency liability position.

This sensitivity analysis provides only a limited, point-in-time view of the market risk sensitivity of certain of our financial instruments. Consequently the actual impact of market foreign exchange rate changes on our financial instruments may differ significantly from the impact shown in the sensitivity analysis.

See Note 26 to our Consolidated Financial Statements for a description of financial risk management.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Depository Fees and Charges

JPMorgan Chase Bank, N.A. (formerly Morgan Guaranty Trust Company of New York), as depository for the ADSs (the Depository) collects its fees for delivery directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal. The Depository also collects taxes and governmental charges from the holders of ADSs. The Depository collects these fees and charges by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees (after attempting by reasonable means to notify the holder prior to such sale).

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Persons depositing or withdrawing shares must pay US\$5.00 for each 100 ADSs or portion thereof for issuances of ADSs, including issuances resulting from a distribution, sale or exercise of shares or rights or other property. Investors depositing shares or holders withdrawing deposited securities are charged fees and expenses in connection with stock transfers, taxes and other governmental charges, cable, telex and facsimile transmission and delivery charges imposed at such person's request, transfer or registration fees for the registration of transfer of ADSs on any applicable register in connection with the deposit or withdrawal of ADSs and the Depositary's expenses in connection with the conversion of foreign currency.

The Depositary reimburses Telecom Argentina for certain expenses we incur in connection with the American depositary receipt program (the ADR program), subject to the agreement between us and the Depositary from time to time. These reimbursable expenses currently include listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADR holders. For the year ended December 31, 2016, the Depositary reimbursed Telecom Argentina approximately US\$173.0 thousand (gross amount of withholding tax) in connection with the ADR program.

PART I - ITEM 11 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TELECOM ARGENTINA S.A.

Table of Contents

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None of Telecom Argentina, Personal, Núcleo or Telecom Argentina USA are currently in default on any outstanding indebtedness.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Telecom's Management, with the participation of our chief executive and financial officers, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2016 (the Evaluation Date). Based upon that evaluation, our chief executive and financial officers have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Telecom's Management is responsible for establishing and maintaining adequate internal control over financial reporting for Telecom as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Our internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Telecom's Management conducted an evaluation of the effectiveness of Telecom's internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO). Based on this evaluation and as set forth in its report dated March 8, 2017, and included in Item 18, Telecom's Management concluded that Telecom's internal control over financial reporting was effective as of December 31, 2016. The effectiveness of Telecom's internal control over financial reporting as of December 31, 2016 has been audited by PriceWaterhouse & Co. S.R.L., an independent registered public

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accounting firm, as stated in their report which is included herein. See the complete Management's Report on Internal Control Over Financial Reporting in Item 18.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this Annual Report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - ITEM 13 DEFAULTS, DIVIDEND ARREARAGES AND
DELINQUENCIES

TELECOM ARGENTINA S.A.

Table of Contents

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

On April 29, 2016, the Board of Directors of Telecom Argentina appointed the members of the Audit Committee for the fiscal year 2016 and determined that Esteban Gabriel Macek qualifies as Audit Committee financial expert. In conducting this evaluation, the Board of Directors took into account Mr. Macek's professional background and educational training.

Mr. Macek is an accountant from the Universidad de Buenos Aires (1982). He was a partner at Coopers & Lybrand/PriceWaterhouseCoopers until 2002, where he was an auditor and tax consultant. He assisted companies in the private (domestic and international) and public sector in tax matters related to corporate restructuring and business development. He participated in many professional training activities and attended graduate courses at the Universidad Austral and the West Ontario University Business School (Canada), among others. He was an accounting and law professor at the Universidad de Buenos Aires and at the Universidad Católica Argentina. He is Chairman of Fiduciaria Internacional Argentina S.A. He was a member of the Board of Directors and of the Supervisory Committee of several domestic corporations. He served as an alternate director of Telecom Argentina during 2007 and since 2008 he has been serving as a director of Telecom Argentina.

Mr. Macek is an independent director under CNV and SEC rules and under the NYSE listing standards. See Item 6 Directors, Senior Management and Employees Board Practices Audit Committee.

The Board of Directors' meeting for the appointment of the Audit Committee members for the fiscal year 2017 has not yet been held. Therefore, as of the date of this Annual Report, Esteban Gabriel Macek, Martín Hector D' Ambrosio and Alejandro Macfarlane remain members of the Audit Committee. See Item 6 Directors, Senior Management and Employees The Board of Directors.

ITEM 16B. CODE OF ETHICS

On November 2, 2015, the Board of Directors of Telecom Argentina and Personal (later on other companies of the Telecom Group) approved a New Code of Ethics and Conduct, a Conflict of Interests Policy and an Anticorruption Policy. These documents provide, respectively: (i) the ethical principles to which the Telecom Group and all members of the Board of Directors, the Supervisory Committee, the CEO, Managers and in general all those who work in the Company must abide; (ii) regulations to prevent and manage conflicts of interests; and (iii) the framework for the prohibition of corrupt practices.

Taken together, these documents replace the Code of Business Conduct and Ethics applicable until November 2, 2015 that was originally approved by the Board of Directors in 2003 and was modified in 2005 and 2010, and which, as stated by the Board of Directors and the Audit Committee of Telecom Argentina, has been a very valuable tool for corporate governance and has adequately satisfied the objectives that the Board of Directors pursued on the moment of its adoption.

Adjustments made to regulations in recent years and in matters of corporate governance, organization and implementation of preventive measures aimed at reducing the risk of conflict of interest and corrupt practices, and that are applicable to the Telecom Group as company

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subject to regime of public offering both in Argentina and the United States, have been taken into account for the formulation and approval of the New Code of Ethics and Conduct and the Policies. In turn, it has reflected changes occurred in the organizational structure of the Telecom Group with the purpose of defining the responsibilities in the management of this New Code of Ethics and Conduct and associated policies.

No waivers, express or implicit, have been granted to any senior officer or member of the Board of Directors of the Telecom Group with respect to any provision of the New Code of Ethics and Conduct.

It is also encouraged that suppliers, contractors, advisers and consultants of the Telecom Group, accept the ethical principles of the New Code of Ethics and Conduct.

The New Code of Ethics and Conduct is available on our website at www.telecom.com.ar and was also filed with the SEC on Form 6-K on November 2, 2015.

PART II - ITEM 16A AUDIT COMMITTEE FINANCIAL EXPERT

TELECOM ARGENTINA S.A.

Table of Contents

In addition, the Board of Directors of Telecom Argentina approved on February 16, 2017, the update of the anti-fraud policy (the Anti-Fraud Policy). The Anti-Fraud Policy aims to establish guidelines that promote a culture of transparency and prevention against any dishonest conduct or fraudulent acts and irregularities that could affect the interests of the Group.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table provides information on the aggregate fees for services rendered by our principal accountants (in millions of pesos) for the years ended December 31, 2016 and 2015.

| Services Rendered | 2016 | 2015 |
|--------------------------|-------------|-------------|
| Audit fees (1) | 23.0 | 16.8 |
| Tax fees (2) | 1.8 | 1.5 |
| All other fees (3) | 0.6 | 2.1 |
| Total | 25.4 | 20.4 |

(1) Includes fees related to the integrated audit of the Consolidated Financial Statements as of December 31, 2016 and 2015, limited reviews of interim financial statements presented during 2016 and 2015, SEC filing reviews and other attestation services.

(2) Includes fees for permitted tax compliance and tax advisory services.

(3) Includes fees for subscription to business publications and other non-audit related permitted services.

Audit Committee Pre-approval Policies and Procedures

On March 22, 2004, Telecom Argentina's Board of Directors approved policies and procedures relating to the pre-approval of auditors' services and other permitted services (collectively, Pre-Approval Procedures) for the engagement of any service provided by external auditors to Telecom Argentina and its subsidiaries. Telecom Argentina's Board of Directors performed Pre-Approval Procedures until April 2004. As of April 2004, the date on which the Audit Committee came into effect, Pre-Approval Procedures were performed by the Audit Committee. Consequently, since that date, all auditors' services were pre-approved by the Audit Committee.

The Pre-Approval Procedures provide for services that require:

- specific pre-approval to be approved on a case-by-case basis; and

- general pre-approval any category or general kind of service that come within the guidelines established to safeguard auditor independence and come within the maximum amounts set by the Audit Committee.

The Pre-Approval Procedures also provide for the following categorization of services:

Prohibited services are those services that external auditors are not allowed to provide based on prohibitions contained in the statutory rules of Argentina and the United States (i.e., bookkeeping; financial information system design and implementation; appraisal or valuation services, fairness opinions or contribution-in-kind reports; actuarial services; internal audit outsourcing services; management functions; broker/dealer, investment adviser, or investment banking services; or expert services unrelated to the audit).

Permitted Services include (i) audit services; (ii) audit-related services; (iii) tax services; and (iv) other services such as permitted internal control advice. Moreover, the services included in each category were also detailed, and, where appropriate, any limits imposed on the provision thereof to ensure external auditors' independence.

The Pre-Approval Procedures also require pre-approval for the following services:

- Annual audit and quarterly reviews of Telecom Argentina's financial statements: the Audit Committee is required to approve the terms for the engagement and remuneration of such services.
- Other Audit Services : the Audit Committee is required to define the services that will be subject to general pre-approval on an annual basis, setting the annual service fee amount, or the annual amount allocated to each individual service category, or to each service, within which fee caps the provision shall receive general pre-approval.

Table of Contents

- **Audit-related Services and Tax Services** : the Audit Committee is required to define the categories or types of services that will receive general pre-approval, provided that they fall within the annual fee cap set for that service and establish the guidelines for prior engagement of these services.
- **Other Permitted Services**: are not subject to general pre-approval, and any other services require specific pre-approval by the Audit Committee for each service.
- **Delegation**: the Audit Committee may solely delegate the specific pre-approval of services with any of its members that qualify as an independent director. An independent director must immediately report to the Audit Committee after engaging any service by delegation. Under no circumstances may the authority to either approve or pre-approve services be delegated to the Management.
- **Disclosure of overall billed fees**: external auditors shall include in their audit reports the information about the relationship between the overall fees paid in respect of Audit Services and in respect of services other than Audit Services. In addition, the Audit Committee shall, on a yearly basis, prepare a report to the Board of Directors, which will be included in this Annual Report, providing a detailed account of all fees invoiced by external auditors to Telecom Argentina and to its subsidiaries, grouped into four categories, namely: audit fees, audit related fees, tax consultation fees and all other fees.
- **Additional requirements**: the Audit Committee is required to adopt additional measures to fulfill its supervisory obligations related to external auditors' duties, in order to ensure the independence from the Company, such as the review of a formal written statement by the external auditors outlining all relations existing between them and Telecom Argentina, in accordance with Rule No. 1 of the Independence Standards Board, and discussions with the external auditors and the methods and procedures that have been designed to ensure their independence.
- **Amendments**: the Audit Committee has authority to amend the pre-approval procedures (the Pre-Approval Procedures), rendering an account of any such amendment to the Board of Directors during the first meeting of the Board of Directors held after making the amendments.

If Telecom Argentina's external auditors are to provide any service, the service must either be granted as general pre-approval or specific pre-approval under the Pre-Approval Procedures. The Pre-Approval Procedures require the Audit Committee to consider whether the services to be provided are consistent with the legal and professional rules in effect in Argentina and the United States relating to external auditors independence.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE COMPANY AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

PART II - ITEM 16C PRINCIPAL ACCOUNTANT FEES AND SERVICES

TELECOM ARGENTINA S.A.

Table of Contents

ITEM 16G. CORPORATE GOVERNANCE

Telecom Argentina's corporate governance practices differ from corporate governance practices of U.S. companies. Telecom Argentina maintains a detailed description of the significant differences in corporate governance practices on its website at www.telecom.com.ar, last updated in April 2017.

The following is a summary of the material aspects in which Telecom Argentina's corporate governance policies differ from those followed by U.S. companies under NYSE listing standards.

- **Composition of the Board of Directors:** The NYSE requires each Board of Directors to be composed of a majority of independent directors. Although this is not required under Argentine law, as of the date of this Annual Report, the eleven-member Board of Directors of Telecom Argentina has four regular directors and two alternate directors who qualify as independent according to SEC Rules.
- **Annual Self-Evaluation of the Board of Directors:** The NYSE requires the Boards of Directors of listed companies to conduct a self-evaluation at least annually, and report thereon, informing whether it and its committees are functioning effectively. Under Argentine law, the Board of Directors' performance is evaluated at the Annual Ordinary Shareholders Meeting.
- **Nominating/Corporate Governance Committee:** NYSE listed companies are required to have a nominating/corporate governance committee. Neither Argentine law nor Telecom Argentina's Bylaws require the creation of a nominating/corporate governance committee. In Argentina, it is unusual (though possible) for the Board of Directors to nominate new directors and the Board of Directors of Telecom Argentina refrains from making such proposals. Under Argentine law, the right to nominate and appoint directors is granted to shareholders. On certain occasions, the GCL delegates the right to designate directors to the Supervisory Committee.
- **Compensation committee:** NYSE listed companies are required to have a compensation committee composed entirely of independent directors. Neither Argentine law nor Telecom Argentina's Bylaws require the creation of a Compensation committee. Telecom Argentina's executive compensation matters are undertaken by the Board of Directors and the Steering Committee. The compensation of the members of Telecom Argentina's Board of Directors is determined by the shareholders at the Annual Ordinary Shareholders Meeting.
- **Audit Committee hiring policies:** The NYSE requires listed companies to have an Audit Committee which sets clear hiring policies for employees or former employees of the independent auditors. There is no such provision regarding the hiring of external auditors' employees contained in Argentine law or Telecom Argentina's bylaws.

According to the provisions of Annex IV, Title IV of CNV rules (New Text 2013) Telecom Argentina prepares and submits to the CNV, on an annual basis, a report which indicates and details the CNV's recommended corporate governance practices as set forth in the CNV public offer regime, explains the practices followed by Telecom Argentina, and the reasons for any variation from practices recommended by the CNV. Telecom Argentina's 2016 Corporate Governance Report was submitted to the CNV as part of the Statutory Annual Report dated March 8, 2017.

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Telecom Argentina's Corporate Governance Reports submitted to the CNV can be accessed through the CNV's website, www.cnv.gob.ar and Telecom Argentina's website, www.telecom.com.ar.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART II - ITEM 16G CORPORATE GOVERNANCE

TELECOM ARGENTINA S.A.

Table of Contents

PART III

ITEM 17. FINANCIAL STATEMENTS

The Registrant has responded to Item 18 in lieu of responding to this Item.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to pages F-1 through F-109.

The following financial statements are filed as part of this Annual Report:

| | Page |
|---|-------------|
| Telecom Argentina S.A.: | |
| <u>Report of Independent Registered Public Accounting Firm</u> | F-1 |
| <u>Management's Report on Internal Control over Financial Reporting</u> | F-2 |
| <u>Consolidated Statements of Financial Position</u> | F-4 |
| <u>Consolidated Income Statements</u> | F-5 |
| <u>Consolidated Statements of Comprehensive Income</u> | F-6 |
| <u>Consolidated Statements of Changes in Equity</u> | F-7 |
| <u>Consolidated Statements of Cash Flows</u> | F-9 |
| <u>Glossary of Terms</u> | F-10 |
| <u>Notes to the Consolidated Financial Statements</u> | F-13 |

ITEM 19. EXHIBITS

Exhibits:

- 1.1 *Estatutos Sociales* (Bylaws) of Telecom Argentina, as amended (English translation) (incorporated by reference to Telecom's report on Form 6-K filed on February 5, 2016).
- 4.1 Deposit Agreement, dated November 8, 1994 (incorporated by reference to Telecom's registration statement on Form F-6 (No. 333-07452)).

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- 4.2 Form of Amendment No. 1 to Deposit Agreement, dated August 28, 1997 (incorporated by reference to Telecom s registration statement on Form F-6 (No. 333-07452)).
- 8.1 List of Subsidiaries.
- 12.1 Certification of Germán Vidal of Telecom Argentina S.A. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Pedro Insussarry of Telecom Argentina S.A. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification of Germán Vidal and Pedro Insussarry pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 15.1 2010 Amended and Restated Shareholders Agreement between Telecom Italia S.p.A., Telecom Italia International N.V. and W de Argentina Inversiones S.L., dated August 5, 2010 (Shareholders Agreement) (incorporated by reference to Exhibit 3 to Telecom Italia S.p.A. s Schedule 13D filed on October 22, 2010).
- 15.2 First Amendment to the Shareholders Agreement, dated October 13, 2010 (incorporated by reference to Exhibit 4 to Telecom Italia S.p.A. s Schedule 13D, filed on October 22, 2010).
- 15.3 Second Amendment to the Shareholders Agreement, dated March 9, 2011 (incorporated by reference to Exhibit 3 to Telecom Italia S.p.A. s Schedule 13D/A, filed on March 10, 2011).
- 15.4 Third Amendment to the Shareholders Agreement, dated November 13, 2013 (incorporated by reference to Exhibit 6 to Telecom Italia S.p.A. s Schedule 13D, filed on November 14, 2013).

PART III

TELECOM ARGENTINA S.A.

Table of Contents

- 15.5 Amended and Restated Amendment No. 3 to the Shareholders Agreement, dated October 24, 2014 (incorporated by reference to Exhibit 15 to Telecom Italia S.p.A. s Schedule 13D, filed on October 27, 2014).
- 15.6 Fourth Amendment to the Shareholders Agreement, dated March 17, 2017 (incorporated by reference to Exhibit 26 to Fintech Telecom, LLC s Schedule 13D/A, filed on March 20, 2017).
- 15.7 Mutual Shareholder Release to the Shareholders Agreement dated, November 13, 2013 (incorporated by reference to Exhibit 7 to Telecom Italia S.p.A. s Schedule 13D, filed on November 14, 2013).
- 15.8 Deed of Adherence to the Shareholders Agreement, dated November 13, 2013 (incorporated by reference to Exhibit 8 to Telecom Italia S.p.A. s Schedule 13D, filed on November 14, 2013).

PART III

TELECOM ARGENTINA S.A.

Table of Contents

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Telecom Argentina S.A.
By: /s/ Pedro Insussarry
Name: Pedro Insussarry
Title: Interim Chief Financial Officer

Date: April 26, 2017

Table of Contents

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

(1107) Ciudad Autónoma de Buenos Aires

Argentina

\$: Argentine peso

US\$: US dollar

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

Table of Contents

Report of Independent Registered Public Accounting Firm

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

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

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

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

Buenos Aires, Argentina

March 8, 2017

PRICE WATERHOUSE & CO. S.R.L.

By /s/ Marcelo D. Pfaff
(Partner)

Marcelo D. Pfaff

F-1

Table of Contents

Management's Report on Internal Control over Financial Reporting

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

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

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

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

Buenos Aires, Argentina

March 8, 2017

/s/ German H. Vidal
Chief Executive Officer

/s/ Ignacio C. Moran
Chief Financial Officer

F-2

Table of Contents

CONTENTS

| | <u>Page</u> |
|--|-------------|
| <u>Consolidated Statements of Financial Position</u> | F-4 |
| <u>Consolidated Income Statements</u> | F-5 |
| <u>Consolidated Statements of Comprehensive Income</u> | F-6 |
| <u>Consolidated Statements of Changes in Equity</u> | F-7 |
| <u>Consolidated Statements of Cash Flows</u> | F-9 |
| <u>Glossary of terms</u> | F-10 |
| <u>Note 1 Description of business and basis of preparation of the consolidated financial statements</u> | F-13 |
| <u>Note 2 Regulatory framework</u> | F-16 |
| <u>Note 3 Significant accounting policies</u> | F-38 |
| <u>Note 4 Cash and cash equivalents and Investments. Additional information on the consolidated statements of cash flows</u> | F-55 |
| <u>Note 5 Trade receivables</u> | F-60 |
| <u>Note 6 Other receivables</u> | F-60 |
| <u>Note 7 Inventories</u> | F-61 |
| <u>Note 8 Property, plant and equipment</u> | F-62 |
| <u>Note 9 Intangible assets</u> | F-64 |
| <u>Note 10 Trade payables</u> | F-65 |
| <u>Note 11 Deferred revenues</u> | F-66 |
| <u>Note 12 Financial debt</u> | F-66 |
| <u>Note 13 Salaries and social security payables</u> | F-69 |
| <u>Note 14 Income tax payables, income tax assets and deferred income tax</u> | F-70 |
| <u>Note 15 Other taxes payables</u> | F-72 |
| <u>Note 16 Other liabilities</u> | F-72 |
| <u>Note 17 Provisions</u> | F-73 |
| <u>Note 18 Commitments</u> | F-81 |
| <u>Note 19 Equity</u> | F-82 |
| <u>Note 20 Financial instruments</u> | F-85 |
| <u>Note 21 Revenues</u> | F-90 |
| <u>Note 22 Operating expenses</u> | F-92 |
| <u>Note 23 Operating income</u> | F-94 |
| <u>Note 24 Finance income and expenses</u> | F-95 |
| <u>Note 25 Earnings per share</u> | F-95 |
| <u>Note 26 Financial risk management</u> | F-96 |
| <u>Note 27 Related party balances and transactions</u> | F-100 |
| <u>Note 28 Segment information</u> | F-104 |
| <u>Note 29 Quarterly consolidated information</u> | F-108 |
| <u>Note 30 Restrictions on distribution of profits and dividends</u> | F-108 |
| <u>Note 31 Subsequent events to December 31, 2016</u> | F-108 |

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

(In millions of Argentine pesos)

| | <u>Note</u> | <u>As of December 31,</u> | |
|-----------------------------|-------------|---------------------------|---------------|
| | | <u>2016</u> | <u>2015</u> |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 4 | 3,945 | 870 |
| Investments | 4 | 1,751 | 1,430 |
| Trade receivables | 5 | 7,577 | 5,663 |
| Other receivables | 6 | 1,011 | 1,336 |
| Inventories | 7 | 1,278 | 2,193 |
| Total current assets | | 15,562 | 11,492 |
| Non-Current Assets | | | |
| Trade receivables | 5 | 208 | 481 |
| Other receivables | 6 | 360 | 272 |
| Income tax assets | 14 | | |