

TELECOM ARGENTINA SA  
Form 6-K  
September 11, 2017  
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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 6-K

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16  
of the Securities Exchange Act of 1934**

**For the month of September 2017**

**Commission File Number: 001-13464**

**Telecom Argentina S.A.**

(Exact name of registrant as specified in its charter)

**Telecom Argentina S.A.**

(Translation of registrant's name into English)

**Alicia Moreau de Justo, No. 50, 1107**

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**Buenos Aires, Argentina**

(Address of principal executive offices)

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

Form 20-F                            Form 40-F     

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

Yes                                    No             

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

Yes                                    No             

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

Yes                                    No             

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**Item**

1. Discussion of Telecom Argentina S.A.'s results of operations, liquidity and capital resources as of June 30, 2017 and for the six-month periods ended June 30, 2017 and 2016
  2. Telecom Argentina S.A.'s unaudited condensed consolidated financial statements as of June 30, 2017 and for the six-month periods ended June 30, 2017 and 2016
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**Results of Operations, Liquidity and Capital Resources as of June 30, 2017 and for the six-month periods ended June 30, 2017 and 2016**

The below contains information regarding our (a) consolidated results of operations and (b) results of operations by segment for the six-month period ended June 30, 2017 and 2016 ( 1H17 and 1H16 , respectively). The below also contains information about our liquidity and capital resources for the same periods.

Information regarding Management Overview, Economic and Political Developments in Argentina, Critical Accounting Policies, Taxes, Trend Information, Off-balance Sheet Arrangements and Tabular Disclosures of Contractual Obligations have no substantial changes of that available in Item 5 Operating and Financial Review and Prospects of Telecom 2016 Form 20-F and should be read in conjunction with this Results of Operations.

**Six-month periods ended June 30, 2017 and 2016**

**(A) Consolidated Results of Operations**

In the six-month period ended June 30, 2017, we reported net income of P\$3,639 million, compared to net income of P\$1,737 million for the six-month period ended June 30, 2016. Net income attributable to Telecom Argentina increased P\$1,890 million in 2017 as compared to 2016, reaching P\$3,615 million.

Consolidated revenues in 1H17 were P\$30,544 million compared to P\$25,406 million in 1H16. The increase of P\$5,138 million in 1H17 (a 20% increase) can be largely attributed to the growth in the outbound mobile services provided by Personal and Voice and Internet services included in the Fixed Services segment, in both segments mainly due to an increase in the prices of our services.

In 1H17, operating expenses (including depreciation and amortization and disposals and impairment of PP&E) totaled P\$24,732 million, representing an increase of P\$3,018 million, or 14%. The increase in costs is mainly a consequence of higher revenues, higher expenses related to competition in mobile and Internet businesses, higher direct and indirect labor costs on the cost structure of the Telecom Group in Argentina, the increase in fees for services related to higher supplier prices, the increase in taxes, higher provisions, the increase in bad debt expenses and higher depreciations and amortizations, partially offset by the decrease in the cost of equipment and handsets, the decrease of VAS costs and the decrease in agent commissions. For further information on these variations see Operating expenses below.

**1H17 Compared to 1H16**

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	1H17	1H16	Total Change		Change by segment (1)		
					Fixed Services	Personal Mobile Services	Núcleo Mobile Services
	P\$ million		%		P\$ million		
Revenues	30,544	25,406	20	5,138	2,300	2,775	63
Other Income	39	29	35	10	11	(1)	
Operating expenses (without depreciation and amortization)	(21,239)	(18,671)	14	(2,568)	(1,916)	(684)	32
<b>Adjusted EBITDA (2)</b>	<b>9,344</b>	<b>6,764</b>	<b>38</b>	<b>2,580</b>	<b>395</b>	<b>2,090</b>	<b>95</b>
Depreciation and amortization	(3,392)	(2,894)	17	(498)	(157)	(290)	(51)
Disposals and impairment of PP&E	(101)	(149)	(32)	48	(48)	97	(1)
<b>Operating income</b>	<b>5,851</b>	<b>3,721</b>	<b>57</b>	<b>2,130</b>	<b>190</b>	<b>1,897</b>	<b>43</b>
Financial results, net	(260)	(1,046)	(75)	786	50	741	(5)
Income tax expense	(1,952)	(938)	108	(1,014)	(105)	(908)	(1)
<b>Net income</b>	<b>3,639</b>	<b>1,737</b>	<b>110</b>	<b>1,902</b>	<b>135</b>	<b>1,730</b>	<b>37</b>
<b>Net income attributable to:</b>							
<i>Telecom Argentina (Controlling Company)</i>	<i>3,615</i>	<i>1,725</i>	<i>110</i>	<i>1,890</i>			
<i>Noncontrolling interest</i>	<i>24</i>	<i>12</i>	<i>100</i>	<i>12</i>			

(1) Includes the effect of eliminations of Intersegment transactions.

(2) Adjusted EBITDA is a non-GAAP measure. See the purpose of use of Adjusted EBITDA and reconciliation of Adjusted EBITDA to Net income in section Adjusted EBITDA .

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	1H17	1H16	Total Change	
	P\$ million		%	P\$ million
<b><u>Services</u></b>				
Voice	3,976	2,751	45	1,225
Internet	3,669	2,838	29	831
Data	1,686	1,402	20	284
<b>Subtotal Fixed Services</b>	<b>9,331</b>	<b>6,991</b>	<b>34</b>	<b>2,340</b>
Outbound	14,400	11,788	22	2,612
Inbound	1,323	725	83	598
Other	769	645	19	124
<b>Subtotal Personal Mobile Services</b>	<b>16,492</b>	<b>13,158</b>	<b>25</b>	<b>3,334</b>
Outbound	1,100	916	20	184
Inbound	64	62	3	2
Other	103	150	(31)	(47)
<b>Subtotal Núcleo Mobile Services</b>	<b>1,267</b>	<b>1,128</b>	<b>12</b>	<b>139</b>
<b>Total service revenues</b>	<b>27,090</b>	<b>21,277</b>	<b>27</b>	<b>5,813</b>
<b><u>Equipment</u></b>				
Fixed Services	25	65	(62)	(40)
Personal Mobile Services	3,379	3,938	(14)	(559)
Núcleo Mobile Services	50	126	(60)	(76)
<b>Total equipment revenues</b>	<b>3,454</b>	<b>4,129</b>	<b>(16)</b>	<b>(675)</b>
<b>Total revenues</b>	<b>30,544</b>	<b>25,406</b>	<b>20</b>	<b>5,138</b>

During 1H17 consolidated total revenues increased 20% (+P\$5,138 million vs. 1H16) amounting to P\$30,544 million mainly fueled by the outbound mobile services provided by Personal and Voice and Internet services included in the Fixed Services segment.

Services revenues amounted to P\$27,090 million (+27% vs. 1H16) and represented 89% of consolidated revenues (vs. 84% in 1H16). Equipment revenues decreased 16%, amounting to P\$3,454 million and represented 11% of consolidated revenues (vs. 16% in 1H16).

**Fixed Services**

During 1H17, services revenues generated by this segment amounted to P\$9,331 million (+P\$2,340 million or +34% vs. 1H16), where Voice revenues have grown the most (+P\$1,225 million or +45% vs. 1H16), followed Internet services (+P\$831 million or +29% vs. 1H16).

Voice revenues (including the net revenues generated by the subsidiary Telecom USA in the amount of P\$160 million) reached P\$3,976 million in 1H17. The increase was mainly due to the increase in plans prices.

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Internet revenues amounted to P\$3,669 million in 1H17 as a result of the increase in the average plans prices. As of June 30, 2017, the number of ADSL subscribers amounted to approximately 1,735,000. The churn rate per month amounted to 1.4% in 1H17 (vs. 1.5% in 1H16).

Data revenues (including the revenues generated by the subsidiary Telecom USA amounted to P\$7 million) amounted to P\$1,686 million in 1H17 (+P\$284 million or +20% vs. 1H16). These revenues were generated focusing on the Company's position as an integrated TICs provider (Datacenter, VPN, among others) for wholesale and government segments. The increase was primarily due to the variation of the P\$/US\$ exchange rate related to agreements settled in such foreign currency and to the increase in the number of Innovation services' customers.

### **Personal Mobile Services**

During 1H17, total services revenues amounted to P\$16,492 million (+P\$3,334 million or +25% vs. 1H16), being the principal business segment in revenues terms (61% and 62% of consolidated services revenues in 1H17 and 1H16, respectively). As of June 30, 2017, Personal reached 19.5 million subscribers in Argentina (-2% vs. 1H16). Approximately 67% of the subscriber base is prepaid subscribers and 33% is postpaid subscribers (including *Abono Fijo* and Mobile Internet subscribers' dongles).

The main ratios were:

- The churn rate per month amounted to 3% in 1H17 (vs. 3% in 1H16);

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- ARPU amounted to P\$135.3 per month in 1H17 (vs. P\$106.2 per month in 1H16), representing a 27% increase (ARPU is a non-GAAP measure; see the purpose of use of ARPU and reconciliation of Revenues for the calculation of ARPU in section (B.2) Personal Mobile Services Segment Revenues);
- Other income generated by mobile Internet services amounted to P\$7,776 million (+3,106 million or +67% vs. 1H16), fueled by new subscribers, the migration of subscribers to higher value service plans and the increase in subscribers holding 3G and 4G handsets, which enhance Internet usage.

Outbound mobile services revenues amounted to P\$14,400 million in 1H17 (+P\$2,612 million or +22% vs. 1H16). The increase was mainly due to the increase in monthly charges prices in the postpaid and Abono fijo subscriber base and to the increase of the online recharges in the prepaid subscriber base.

Inbound mobile services revenues (including CPP and TLRD) amounted to P\$1,323 million (+P\$598 million or +83% vs. 1H16). This increase is mainly related to the increase of the price per minute of CPP services, representing an increase in CPP services revenues, which were partially offset by a decrease in traffic volumes. TLRD average price per minute also increased, representing an increase in TLRD services revenues, which were partially offset by a decrease in interconnection traffic volumes.

Other mobile services revenues amounted to P\$769 million (+P\$124 million or +19% vs. 1H16) mainly due to the increase in interconnection charges, which were partially offset by a decrease in international roaming traffic.

**Núcleo Mobile Services**

This segment generated services revenues equivalent to P\$1,267 million during 1H17 (+P\$139 million or 12% vs. 1H16) mainly due to the Internet revenues increase related to the increase of browsing generated by subscribers with mobile equipment prepared for that purpose. As of June 30, 2017, Núcleo's subscriber base reached 2.5 million customers. Prepaid and postpaid subscribers (including Plan Control subscribers and mobile Internet subscribers) represented 83% and 17% in 1H17, respectively.

Internet revenues amounted to P\$584 million (+31% vs. 1H16) and represented 46% of Núcleo Mobile Services segment services revenues (vs. 40% in 1H16).

**Equipment**



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Revenues from equipment amounted to P\$3,454 million, a decrease of P\$675 million or -16% vs. 1H16. This decrease is mainly related to the Personal Mobile Services with a decrease of P\$559 million vs. 1H16 due to lower handsets sold (-14% vs. 1H16) partially offset by higher handset s sale prices (+8% vs. 1H16).

### **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 retirements of PP&E. During 1H17, other income increased 35% to P\$39 million from P\$29 million in 1H16.

### **Operating expenses (without depreciation and amortization)**

Total operating expenses (without depreciation and amortization and impairment of PP&E) increased by P\$2,568 million totaling P\$21,239 million in 1H17, representing a 14% increase as compared to 1H16.

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	1H17 P\$ million	1H16	Total Change %	Change by segment (1)			
				Fixed Services P\$ million	Personal Mobile Services	Núcleo Mobile Services	
Employee benefit expenses and severance payments	5,878	4,435	33	1,443	1,119	311	13
Interconnection costs and other telecommunications charges	1,532	1,330	15	202	55	163	(16)
Fees for services, maintenance, materials and supplies	2,959	2,335	27	624	417	182	25
Taxes and fees with the Regulatory Authority	2,870	2,494	15	376	140	226	10
Commissions	1,803	1,850	(3)	(47)	33	(96)	16
Cost of equipment and handsets	2,769	3,083	(10)	(314)	(56)	(163)	(95)
Advertising	479	371	29	108	44	70	(6)
Cost of VAS	466	792	(41)	(326)	9	(348)	13
Provisions	259	81	220	178	42	136	
Bad debt expenses	675	518	30	157	44	114	(1)
Other operating expenses	1,549	1,382	12	167	69	89	9
<b>Total operating expenses (without depreciation and amortization)</b>	<b>21,239</b>	<b>18,671</b>	<b>14</b>	<b>2,568</b>	<b>1,916</b>	<b>684</b>	<b>(32)</b>

(1) Net of the Intersegment transactions effect.

*Employee benefit expenses and severance payments*

Employee benefit expenses and severance payments amounted to P\$5,878 million (+P\$1,443 million or +33% vs. 1H16). The increase was mainly due to increases in salaries agreed by Telecom Argentina with several trade unions for the unionized employees and also to non-unionized employees, together with related social security charges.

With a total headcount of 15,570 by the end of 1H17, (vs. 16,381 employees in 1H16), lines in service per employee reached 360 in the Fixed Services segment (+1% vs. 1H16), subscribers per employee reached 4,337 in the Personal Mobile Services segment (+7% vs. 1H16) and subscribers per employee reached 6,537 (+5% vs. 1H16) in the Núcleo Mobile Services segment.

*Interconnection costs and other telecommunication charges*

Interconnection costs and other telecommunication charges (including charges for TLRD, Roaming, Interconnection costs, cost of international outbound calls and lease of circuits) amounted to P\$1,532 million (+P\$202 million or +15% vs. 1H16). The increase was mainly due to higher

TLRD costs.

*Fees for services, maintenance, materials and supplies*

Fees for services, maintenance, materials and supplies amounted to P\$2,959 million, +P\$624 million or +27% vs. 1H16. The increase was mainly due to higher software maintenance costs in the fixed segment and an increase in system licenses costs in the mobile segment. There were also increases in fees for services, mainly related to call centers and to higher costs recognized to suppliers in all segments.

*Taxes and fees with the Regulatory Authority*

Taxes and fees with the Regulatory Authority (including turnover tax, fees with the Regulatory Authority, IDC, municipal and other taxes) amounted to P\$2,870 million (+15% vs. 1H16), influenced mainly by the increase in revenues of fixed and mobile services and by the increase of the tax on deposits to and withdrawals from bank accounts related to higher collections and payments to suppliers.

*Commissions*

Commissions (including agent, distribution of prepaid cards and other commissions) amounted to P\$2,318 million (a gain of P\$206 million or -8% vs. 1H16). The decrease was mainly due to the decrease in agents' commissions as well as a decrease in collection commissions, CPP commissions and others.

On the other hand, agent commissions capitalized as SAC amounted to P\$515 million, -P\$159 million or -24% vs. 1H16.

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*Cost of equipment and handsets*

Cost of equipment and handsets amounted to P\$2,806 million (a gain of P\$333 million or -11% vs. 1H16) mainly due to a decrease in the units of handsets sold (-21% vs. 1H16) partially offset by an increase in the average unit cost of sales (+21% vs. 1H16) in the Personal Mobile Services segment.

On the other hand, SAC deferred costs from handsets sold amounted to P\$37 million, -P\$19 million or -34% vs. 1H16.

*Advertising*

Advertising amounted to P\$479 million (+P\$108 million vs. 1H16), mainly due to the new advertising campaigns launched by the Telecom Group during 2017.

*Cost of VAS*

Cost of VAS amounted to P\$466 million (-P\$326 million or -41% vs. 1H16). The decrease was mainly due to the decrease of VAS sales in the Personal Mobile Services segment, as a consequence of the content suppliers deputation carried out within the content business general reorganization realized by Personal in 2016.

*Provisions*

Provisions amounted to P\$259 million, +P\$178 million vs. 1H16, mainly due to higher labor claims (+P\$125 million vs. 1H16).

*Bad debt expenses*

Bad debt expenses amounted to P\$675 million (+P\$157 million or +30% vs. 1H16), representing approximately 2% of the consolidated revenues in 1H17 and 1H16, respectively. The main increase is derived from the Mobile Services segments (amounting to P\$113 million) as a consequence of higher aging of the accounts receivable allowances, recorded in accordance with the accounting policy of the Group, and the impact of handsets sales directly financed by Telecom Personal and Núcleo to its postpaid and *Abono Fijo* subscribers.

*Other operating expenses*

Other operating expenses amounted to P\$1,549 million (+P\$167 million or +12% vs. 1H16). The increase was mainly due to higher prices on related services in the operations in Argentina and the increase of rent prices (+P\$103 million or +28% vs. 1H16), as a result of new agreements and the renegotiation of some of the existing ones.

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For a further breakdown of our consolidated operating expenses, see Results of Operations by Segment below.

**Adjusted EBITDA**

An important operational performance measure used by the Company is Adjusted EBITDA. Adjusted EBITDA is defined as our net income less income taxes, financial results, depreciation and amortization and disposals and impairment of PP&E. We believe Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations such as capital structures, taxation and the age and book depreciation and amortization of PP&E and intangible assets, which may vary for different companies for reasons unrelated to operating performance. Although Adjusted EBITDA is not a measure defined in accordance with IFRS (a non-GAAP measure), our Management believes that this measure facilitates operating performance comparisons from period to period and provides useful information to investors, financial analysts and the public in their evaluation of our operating performance. Adjusted EBITDA does not have a standardized meaning and, accordingly, our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies.

The following table shows the reconciliation of Adjusted EBITDA to Net income:

	1H17	1H16	% of Change 2017-2016
	P\$ million		Increase/(Decrease)
<b>Adjusted EBITDA</b>	<b>9,344</b>	<b>6,764</b>	<b>38</b>
Depreciation and amortization	(3,392)	(2,894)	17
Disposals and impairment of PP&E	(101)	(149)	(32)
Financial results, net	(260)	(1,046)	(75)
Income tax expense	(1,952)	(938)	108
<b>Net income</b>	<b>3,639</b>	<b>1,737</b>	<b>110</b>

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Adjusted EBITDA amounted to P\$9,344 million in 1H17 (+P\$2,580 million or +38% vs. 1H16), representing 31% of consolidated revenues in 1H17 (vs. 27% in 1H16). This growth was mainly fueled by the Fixed Services segment (+P\$460 million or +29% vs. 1H16) and the Mobile Services segments (+P\$2,120 million or +41% vs. 1H16).

**Depreciation and amortization**

Depreciation and amortization amounted to P\$3,392 million (+P\$498 million or +17% vs. 1H16). The increase in depreciation and amortization includes P\$453 million from PP&E depreciation and P\$73 million from amortization of SAC and service connection costs, partially offset by P\$28 million from amortization of intangible assets without SAC. The increase in depreciation and amortization corresponds 32% to the Fixed Services segment and 68% to the mobile services segments.

**Disposals and impairment of PP&E**

Disposals and impairment of PP&E amounted to P\$101 million in 1H17 (-P\$48 million vs. 1H16), P\$39 million generated by the Fixed Services segment and P\$62 million generated by the Mobile Services segments.

**Operating income**

Operating income amounted to P\$5,851 million in 1H17 (+P\$2,130 million or 57% vs. 1H16). The margin over consolidated revenues represented 19% in 1H17 (vs. 15% in 1H16). This growth was mainly fueled by the Personal Mobile Services segment (+P\$1,832 million or +62% vs. 1H16) and the Fixed Services segment (+P\$255 million or +35% vs. 1H16).

	1H17	1H16	% of Change 2017-2016 Increase/(Decrease)
	(P\$ million / %)		
<b>Adjusted EBITDA (1)</b>	<b>9,344</b>	<b>6,764</b>	<b>38</b>
<i>As % of revenues</i>	<i>31</i>	<i>27</i>	
Depreciation and amortization	(3,392)	(2,894)	17
<i>As % of revenues</i>	<i>(11)</i>	<i>(11)</i>	
Disposals and impairment of PP&E	(101)	(149)	(32)
<b>Operating income</b>	<b>5,851</b>	<b>3,721</b>	<b>57</b>
<i>As % of revenues</i>	<i>19</i>	<i>15</i>	

(1) Adjusted EBITDA is a non-GAAP measure. See the purpose of use of Adjusted EBITDA and reconciliation of Adjusted EBITDA to Net income in section Adjusted EBITDA .

**Financial results, net**

Net financial results resulted in a net loss of P\$260 million, representing a lower loss of P\$786 million vs. 1H16. The lower loss was mainly due to lower foreign currency exchange losses (+P\$256 million vs. 1H16), higher interests on receivables (+P\$188 million vs. 1H16), higher investments results (+P\$155 million vs. 1H16) and lower interests on loans (+P\$251 million vs. 1H16).

**Income tax expense**

Income tax expense amounted to P\$1,952 million and P\$938 million in 1H17 and 1H16, respectively.

The Company's income tax charge includes two effects: (i) the current tax payable for the period pursuant to tax legislation applicable to each company in the Telecom Group and (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.

(i) Regarding current tax expenses, Telecom Argentina, Telecom Argentina USA, Personal and Núcleo generated tax profit in 1H17, resulting in an income tax payable of P\$2,431 million versus P\$1,035 million in 1H16. Fixed Segment income tax expense in 1H17 amounted to P\$436 million as compared to P\$269 million in 1H16; Personal's income tax expense, in 1H17, amounted to P\$1,978 million compared to P\$748 million in 1H16; Núcleo's income tax expense, in 1H17, amounted to P\$14 million compared to P\$11 million in 1H16; and Telecom Argentina USA's income tax expense, in 1H17, amounted to P\$3 million compared to P\$7 million in 1H16.

(ii) Regarding the deferred tax, in 1H17 and 1H16, the Fixed Segment recorded a deferred tax gain of P\$126 million and P\$69 million, respectively; Personal recorded a deferred tax gain of P\$353 million and



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P\$31 million, respectively; Núcleo recorded a deferred tax loss of P\$3 million and P\$5 million, respectively; and Telecom Argentina USA recorded a deferred tax gain of P\$3 million and P\$2 million, respectively.

**Net Income**

Telecom Argentina reached a net income of P\$3,639 million in 1H17, +P\$1,902 million or +110% as compared to 1H16, representing 12% of the consolidated revenues in 1H17 (vs. 7% in 1H16). Net income attributable to Telecom Argentina amounted to P\$3,615 million in 1H17, +P\$1,890 million or +110% as compared to 1H16.

**(B) Results of Operations by Segment****(B.1) Fixed Services Segment**

Results of operations for our Fixed Services segment for 1H17 and 1H16 are comprised as follows:

	1H17	1H16	Total Change	
	P\$ million		%	P\$ million
Revenues (1)	10,546	8,087	30	2,459
Other Income (2)	44	31	42	13
Operating expenses (without depreciation and amortization)	(8,520)	(6,508)	31	(2,012)
<b>Adjusted EBITDA (3)</b>	<b>2,070</b>	<b>1,610</b>	<b>29</b>	<b>460</b>
Depreciation and amortization	(1,051)	(894)	18	(157)
Disposals and Impairment of PP&E	(39)	9	n/a	(48)
<b>Operating income</b>	<b>980</b>	<b>725</b>	<b>35</b>	<b>255</b>
Financial results, net (4)	(93)	(143)	(35)	50
Income tax expense	(310)	(205)	51	(105)
<b>Net income</b>	<b>577</b>	<b>377</b>	<b>53</b>	<b>200</b>

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- (1) Includes intersegment revenues of P\$1,190 million and P\$1,031 million in 1H17 and 1H16, respectively.
  - (2) Includes intersegment other income of P\$12 million and P\$10 million in 1H17 and 1H16, respectively.
  - (3) Adjusted EBITDA is a non-GAAP measure. See the purpose of use of Adjusted EBITDA and reconciliation of Adjusted EBITDA to Net income in section Adjusted EBITDA .
  - (4) Includes intersegment financial income of P\$73 million in 1H16.

**Revenues**

During 1H17, revenues from our Fixed Services segment increased by 30% to P\$10,546 million from P\$8,087 million in 1H16. The increase was mainly due to an increase in Voice and Internet services.

Revenues from our Fixed Services segment for 1H17 and 1H16 are comprised as follows:

	1H17	1H16	Total Change	
	P\$ million		%	P\$ million
Voice	3,976	2,751	45	1,225
Internet	3,669	2,838	29	831
Data	1,686	1,402	20	284
<b>Service Revenues</b>	<b>9,331</b>	<b>6,991</b>	<b>34</b>	<b>2,340</b>
Equipment (1)	25	65	(62)	(40)
<b>Subtotal third party revenues</b>	<b>9,356</b>	<b>7,056</b>	<b>33</b>	<b>2,300</b>
Intersegment	1,190	1,031	15	159
<b>Total Fixed Services revenues</b>	<b>10,546</b>	<b>8,087</b>	<b>30</b>	<b>2,459</b>

(1) This item is composed of voice, data and Internet equipment in each period.

During 1H17, services revenues generated by this segment amounted to P\$9,331 million (+P\$2,340 million or +34% vs. 1H16), where Voice revenues have grown the most (+P\$1,225 million or +45% vs. 1H16), followed by Internet services (+P\$831 million or +29% vs. 1H16).

Voice revenues (including the net revenues generated by the subsidiary Telecom USA in the amount of P\$160 million) reached P\$3,976 million in 1H17 (+45% vs. 1H16). The increase was mainly due to the increase in the price of the services.

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Internet revenues amounted to P\$3,669 million in 1H17 (+29% vs. 1H16) as a result of the increase in the average plans prices. As of June 30, 2017, the number of ADSL subscribers amounted to approximately 1,735,000. The churn rate per month amounted to 1.4% in 1H17 (vs. 1.5% in 1H16).

Data revenues (including the revenues generated by the subsidiary Telecom Argentina USA amounted to P\$7 million) amounted to P\$1,686 million in 1H17 (+P\$284 million vs. 1H16). These revenues were generated focusing on the Company's position as an integrated ICTs provider (Datacenter, VPN, among others) for wholesale and government segments. The increase was primarily due to the variation of the P\$/US\$ exchange rate related to agreements settled in such foreign currency and to the increase in the number of *Innovation* services' customers.

*Equipment*

Revenues from equipment amounted to P\$25 million in 1H17 compared to P\$65 million in 1H16 (-P\$40 million or -62% vs. 1H16).

*Intersegment*

Intersegment revenues mainly includes interconnection services, which primarily include Access, termination and transportation of calls, leases of circuits, revenues related to billing and collection services charged.

During 1H17, our intersegment revenues increased 15% to P\$1,190 million from P\$1,031 million in 1H16. 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 retirements of PP&E. During 1H17, other income increased 42% to P\$44 million from P\$31 million in 1H16.

**Operating expenses (without depreciation and amortization)**

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During 1H17, total operating expenses (without depreciation and amortization) for the Fixed Services segment increased 31% to P\$8,520 million from P\$6,508 million in 1H16. The increase was mainly due to increases in employee benefit expenses and severance payments, interconnection costs and other telecommunications charges, 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 1H17 and 1H16 related to our Fixed Services segment:

	1H17 P\$ million	1H16	Total Change %	P\$ million
Employee benefit expenses and severance payments	4,403	3,284	34	1,119
Interconnection costs and other telecommunications charges	620	480	29	140
Fees for services, maintenance, materials and supplies	1,515	1,093	39	422
Taxes and fees with the Regulatory Authority	693	553	25	140
Commissions	186	153	22	33
Cost of equipment	31	87	(64)	(56)
Advertising	82	38	116	44
Cost of VAS	36	27	33	9
Provisions	72	30	140	42
Bad debt expenses	111	67	66	44
Other operating expenses	771	696	11	75
<b>Total Fixed Services (1)</b>	<b>8,520</b>	<b>6,508</b>	<b>31</b>	<b>2,012</b>

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(1) Includes intersegment cost of P\$163 million and P\$67 million in 1H17 and 1H16, respectively. These costs are eliminated at the consolidated level.

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*Employee benefit expenses and severance payments*

During 1H17 employee benefit expenses and severance payments amounted to P\$4,403 million (+P\$1,119 million or +34% vs. 1H16). The increase was mainly due to increases in salaries agreed by Telecom Argentina with several trade unions for the unionized employees and also to non-unionized employees, together with related social security charges. The Fixed Services segment had 10,720 and 11,106 employees as of June 30, 2017 and 2016, 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\$130 million and P\$45 million in 1H17 and 1H16, respectively.

In 1H17 interconnection costs and other telecommunications charges amounted to P\$620 million, representing an increase of 29% from P\$480 million in 1H16.

*Fees for services, maintenance, materials and supplies*

During 1H17, fees for services, maintenance, materials and supplies increased 39% to P\$1,515 million from P\$1,093 million in 1H16.

The increase was mainly due to higher software maintenance costs and to higher costs recognized to suppliers.

Fees for services, maintenance, materials and supplies are net of service connection fees capitalized (P\$24 million and P\$26 million in 1H17 and 1H16, respectively).

Fees for services, maintenance, materials and supplies expenses included intersegment costs of P\$18 million and P\$13 million in 1H17 and 1H16, respectively that are eliminated at the consolidated level.

*Taxes and fees with the Regulatory Authority*

Expenses related to taxes and fees with the Regulatory Authority increased 25% to P\$693 million in 1H17 from P\$553 million in 1H16. The increase was mainly due to the increase in revenues and the increase of the tax on deposits and withdrawals from bank accounts related to higher collections and payments to suppliers.

*Commissions*

During 1H17, costs related to commissions amounted to approximately P\$186 million, representing an increase of 22% as compared to P\$153 million in 1H16. The increase was mainly due to the increase in agents' commissions (associated with higher revenues) and the increase of collection commissions.

*Cost of equipment*

During 1H17 and 1H16 we recorded P\$31 million and P\$87 million in cost of equipment, respectively.

*Advertising*

During 1H17, we recorded P\$82 million in costs of advertising representing an increase of 116% as compared to P\$38 million recorded in 1H16. 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\$36 million in 1H17 from P\$27 million in 1H16.

*Provisions*

During 1H17, we recorded P\$72 million in provisions compared to P\$30 million recorded in 1H16. The increase in 2016 was mainly due to higher labor claims for approximately P\$16 million.

*Bad debt expenses*

Bad debt expenses amounted to P\$111 million and P\$67 million in 1H17 and 1H16, respectively. The increase was mainly due to higher aging of accounts receivables.

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*Other operating expenses*

Other operating expenses include accrued expenses such as transportation costs, insurance, international and satellite connectivity, energy and rentals.

During 1H17, our other operating expenses amounted to P\$771 million compared to P\$696 million in 1H16. The increase was mainly due to higher prices on related services and the increase of rent prices, as a result of new agreements and the renegotiation of some of the existing ones.

Other operating expenses included intersegment costs of P\$15 million and P\$9 million in 1H17 and 1H16, respectively that are eliminated at the consolidated level.



Table of Contents**Adjusted EBITDA**

An important operational performance measure used by the Company is Adjusted EBITDA. Adjusted EBITDA is defined as our net income less income taxes, financial results, depreciation and amortization and disposals and impairment of PP&E. We believe Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations such as capital structures, taxation and the age and book depreciation and amortization of PP&E and intangible assets, which may vary for different companies for reasons unrelated to operating performance. Although Adjusted EBITDA is not a measure defined in accordance with IFRS (a non-GAAP measure), our Management believes that this measure facilitates operating performance comparisons from period to period and provides useful information to investors, financial analysts and the public in their evaluation of our operating performance. Adjusted EBITDA does not have a standardized meaning and, accordingly, our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies.

The following table shows the reconciliation of Adjusted EBITDA to Net income:

	1H17	P\$ million	1H16	% of Change 2017-2016 Increase/(Decrease)
<b>Adjusted EBITDA</b>	<b>2,070</b>		<b>1,610</b>	<b>29</b>
Depreciation and amortization	(1,051)		(894)	18
Disposals and impairment of PP&E	(39)		9	n/a
Financial results, net	(93)		(143)	(35)
Income tax	(310)		(205)	51
<b>Net income</b>	<b>577</b>		<b>377</b>	<b>53</b>

Our Adjusted EBITDA from the Fixed Services segment was P\$2,070 million and P\$1,610 million in 1H17 and 1H16, respectively, representing 20% of total segment revenues in both periods.

**Depreciation and amortization**

Depreciation and amortization expenses were P\$1,051 million and P\$894 million in 1H17 and 1H16, respectively. The increase was mainly due to assets acquired and transferred during 2017.

**Disposals and impairment of PP&E**

Disposals and impairment of PP&E amounted to P\$39 million loss in 1H17 and P\$9 million gain in 1H16.

**Operating income**

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Operating income represented 9% of total segment revenues both in 1H17 and 1H16, respectively. In 1H17, the operating income from our Fixed Services segment increased 35% to P\$980 million from P\$725 million in 1H16.

The following table shows our operating income from the Fixed Services segment in 1H17 and 1H16 and its percentage of revenues in each period:

	1H17	1H16	% of Change 2017-2016 Increase/(Decrease)
	(P\$ million / %)		
<b>Adjusted EBITDA (1)</b>	<b>2,070</b>	<b>1,610</b>	<b>29</b>
<i>As % of revenues</i>	<i>20</i>	<i>20</i>	
Depreciation and amortization	(1,051)	(894)	18
<i>As % of revenues</i>	<i>(10)</i>	<i>(11)</i>	
Disposals and impairment of PP&E	(39)	9	n/a
<b>Operating income</b>	<b>980</b>	<b>725</b>	<b>35</b>
<i>As % of revenues</i>	<i>9</i>	<i>9</i>	

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(1) Adjusted EBITDA is a non-GAAP measure. See the purpose of use of Adjusted EBITDA and reconciliation of Adjusted EBITDA to Net income in section Adjusted EBITDA .

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**Financial results, net**

During 1H17, there was a net loss of P\$93 million compared to P\$143 million loss in 1H16. The decrease in the net financial loss compared to 1H16 was mainly due to lower foreign currency exchange net losses (P\$55 million), higher interests on receivables (+P\$25 million vs. 1H16), partially offset by higher interest on provisions (+P\$29 million).

**Income tax expense**

As previously mentioned, the income tax charge includes two effects (See Six-month periods ended June 30, 2017 and 2016 (A) Income tax expense ).

During 1H17, our Fixed Services segment recorded an income tax expense of P\$310 million compared to P\$205 million in 1H16.

The income tax expense in 1H17 was mainly attributable to the recognition of current income tax expense (amounting to P\$439 million), partially offset by income generated by deferred tax on temporary differences (amounting to P\$129 million).

The income tax expense in 1H16 was mainly attributable to the recognition of current income tax expense (amounting to P\$276 million), partially offset by income generated by deferred tax on temporary differences (amounting to P\$71 million).

**Net income**

For 1H17 and 1H16, the Fixed Services segment recorded net income of P\$577 million and P\$377 million, respectively. The increase was mainly due to an increase in our operating income, partially offset by an increase in income tax expense, as detailed above.

Table of Contents**(B.2) Personal Mobile Services Segment**

Results of operations from our Personal Mobile Services segment for 1H17 and 1H16 are comprised as follows:

	1H17	1H16	Total Change	
	P\$ million		%	P\$ million
Revenues (1)	20,039	17,168	17	2,871
Other Income	7	8	(13)	(1)
Operating expenses (without depreciation and amortization)	(13,247)	(12,402)	7	(845)
<b>Adjusted EBITDA (2)</b>	<b>6,799</b>	<b>4,774</b>	<b>42</b>	<b>2,025</b>
Depreciation and amortization	(1,965)	(1,675)	17	(290)
Disposals and impairment of PP&E	(62)	(159)	(61)	97
<b>Operating income</b>	<b>4,772</b>	<b>2,940</b>	<b>62</b>	<b>1,832</b>
Financial results, net (3)	(159)	(900)	(82)	741
Income tax expense	(1,625)	(717)	127	(908)
<b>Net income</b>	<b>2,988</b>	<b>1,323</b>	<b>126</b>	<b>1,665</b>

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- (1) Includes intersegment revenues of P\$168 million and P\$72 million in 1H17 and 1H16, respectively.
- (2) Adjusted EBITDA is a non-GAAP measure. See the purpose of use of Adjusted EBITDA and reconciliation of Adjusted EBITDA to Net income in section Adjusted EBITDA .
- (3) Includes intersegment financial loss of P\$73 million in 1H16.

**Revenues**

During 1H17, revenues from our Personal Mobile Services segment increased by 17% to P\$20,039 million from P\$17,168 million in 1H16. The increase 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 6 months) by the average number of subscribers during the period. ARPU is not a measure calculated in accordance with IFRS (non-GAAP measure) 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 Results of Operations. Our Management believes that this measure is helpful in assessing the development of the subscriber base in the Personal Mobile Services segment. The following table shows the reconciliation of total service revenues to such revenues included in the ARPU calculations:

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	1H17	1H16
	(P\$ million)	
<b>Total service revenues</b>	<b>16,660</b>	<b>13,230</b>
Components of service revenues not included in the ARPU		
Outcollect wholesale roaming	(118)	(146)
Cell sites rental	(49)	(41)
Reconnection fees and others	(640)	(489)
<b>Adjusted total service revenues included in the ARPU (1)</b>	<b>15,853</b>	<b>12,554</b>
Average number of subscribers during the period (thousands)	19,524	19,707

(1) Certain components of service revenues are not included in the ARPU calculation. Includes Intersegment revenues for P\$168 million in 1H17 and P\$72 million in 1H16.

During 1H17, ARPU increased 27% to approximately P\$135.3 per customer per month compared to approximately P\$106.2 per customer per month in 1H16.

The total number of Personal s subscribers decreased approximately 2% to 19.5 million as of June 30, 2017 from 20.0 million as of June 30, 2016. As of June 30, 2017, the subscriber base amounted to approximately 13 million prepaid subscribers (customers that made at least one recharge in the last thirteen months as of June 30, 2017), or 67% of the total subscriber base, approximately 2.2 million post-paid subscribers, or 11% of the total subscriber base and approximately 4.3 million *Abono Fijo* plan subscribers, or 22% of the total subscriber base.

Revenues from our Personal Mobile Services segment for 1H17 and 1H16 are comprised as follows:

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	1H17	1H16	Total Change	
	P\$ million		%	P\$ million
Outbound	14,400	11,788	22	2,612
Inbound	1,323	725	83	598
Other	769	645	19	124
<b>Services Revenues</b>	<b>16,492</b>	<b>13,158</b>	<b>25</b>	<b>3,334</b>
Equipment	3,379	3,938	(14)	(559)
<b>Subtotal third party revenues</b>	<b>19,871</b>	<b>17,096</b>	<b>16</b>	<b>2,775</b>
Intersegment	168	72	133	96
<b>Total Personal Mobile Services Revenues</b>	<b>20,039</b>	<b>17,168</b>	<b>17</b>	<b>2,871</b>

*Outbound*

Outbound mobile services revenues amounted to P\$14,400 million in 1H17 (+P\$2,612 million or +22% vs. 1H16). The increase was mainly due to the increase in monthly charges prices in the postpaid and Abono fijo subscriber base and to the increase of the online recharges in the prepaid subscriber base.

Revenues generated by mobile Internet services amounted to P\$7,776 million (+P\$3,106 million or +67% vs. 1H16), fueled by new subscribers, the migration of subscribers to higher value service plans and the increase in subscribers holding 3G and 4G handsets, which enhance Internet usage.

*Inbound*

Inbound mobile services revenues (including CPP and TLRD) amounted to P\$1,323 million (+P\$598 million or +83% vs. 1H16). This increase is mainly related to the increase of the price per minute of CPP services, representing an increase in CPP services revenues, which were partially offset by a decrease in traffic volumes. TLRD average price per minute also increased, representing an increase in TLRD services revenues, which were partially offset by a decrease in interconnection traffic volumes.

*Other*

Other mobile services revenues amounted to P\$769 million (+P\$124 million or +19% vs. 1H16) mainly due to the increase in interconnection charges, which were partially offset by a decrease in international roaming traffic.

*Equipment*

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Equipment revenues consist primarily of revenues from 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 1H17, handset revenues decreased 14% to P\$3,379 million from P\$3,938 million in 1H16. This decrease was due to a mix between the increase in the average price of handsets of 8% and the decrease of 14% in the handset units sold.

### *Intersegment*

Intersegment revenues mainly include services rendered to Telecom Argentina and primarily consist in monthly basic charges, airtime usage charges and Value Added Services. During 1H17, our intersegment revenues increased 133% to P\$168 million from P\$72 million in 1H16. 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 of retirements of PP&E. In 1H17, other income was P\$7 million, compared to P\$8 million in 1H16.

### **Operating expenses (without depreciation and amortization)**

Total operating expenses (without depreciation and amortization) in our Personal Mobile Services segment increased 7% to P\$13,247 million in 1H17 from P\$12,402 million in 1H16. In line with our increases in revenues, during 1H17, almost 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.

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Detailed below are the major components of the operating expenses for the six-month periods ended June 30, 2017 and 2016 in the Personal Mobile Services segment:

	1H17	1H16	Total Change	
	P\$ million	P\$ million	%	P\$ million
Employee benefit expenses and severance payments	1,367	1,056	29	311
Interconnection costs and other telecommunications charges	1,692	1,509	12	183
Fees for services, maintenance, materials and supplies	1,639	1,348	22	291
Taxes and fees with the Regulatory Authority	2,127	1,901	12	226
Commissions	1,511	1,583	(5)	(72)
Cost of equipment and handsets	2,678	2,841	(6)	(163)
Advertising	350	280	25	70
Cost of VAS	359	707	(49)	(348)
Provisions	187	51	267	136
Bad debt expenses	519	405	28	114
Other operating expenses	818	721	13	97
<b>Total Personal Mobile Services(1)</b>	<b>13,247</b>	<b>12,402</b>	<b>7</b>	<b>845</b>

(1) Includes intersegment costs of P\$1,193 million and P\$1,033 million in 1H17 and 1H16, respectively. These costs are eliminated at the consolidated level.

*Employee benefit expenses and severance payments*

During 1H17 employee benefit expenses and severance payments amounted to P\$1,367 million (+P\$311 million or +29% vs. 1H16). The increase was mainly due to increases in salaries agreed by Telecom Personal with several trade unions for the unionized employees and also to non-unionized employees, together with related social security charges. The Personal Mobile Services segment had 4,462 and 4,861 employees as of June 30, 2017 and 2016, respectively.

*Interconnection costs and other telecommunications charges*

In 1H17 interconnection costs and other telecommunications charges amounted to P\$1,692 million, representing an increase of 12% from P\$1,509 million in 1H16. The increase was mainly due to higher TLRD costs.

Interconnection costs and other telecommunications charges included intersegment costs of P\$733 million and P\$713 million in 1H17 and 1H16, respectively, that are eliminated at the consolidated level.



*Fees for services, maintenance, materials and supplies*

During 1H17, fees for services, maintenance, materials and supplies increased 22% to P\$1,639 million from P\$1,348 million in 1H16.

The increase was mainly due to an increase in system licenses costs, increases in fees for services mainly related to call centers and to higher costs recognized to suppliers.

Fees for services, maintenance, materials and supplies expenses included intersegment costs of P\$302 million and P\$194 million in 1H17 and 1H16, respectively that are eliminated at the consolidated level.

*Taxes and fees with the Regulatory Authority*

Expenses related to taxes and fees with the Regulatory Authority increased 12% to P\$2,127 million in 1H17 from P\$1,901 million in 1H16. The increase was mainly due to the increase in revenues and the increase of the tax on deposits and withdrawals from bank accounts related to higher collections and payments to suppliers.

*Commissions*

During 1H17, costs related to commissions amounted to approximately P\$1,511 million, representing a decrease of 5% as compared to P\$1,583 million in 1H16. The decrease was mainly due to the decrease in agents' commissions as well as a decrease in collection commissions, CPP commissions and others.

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Commissions include intersegment cost of P\$50 million and P\$26 million in 1H17 and 1H16, respectively, that are eliminated at the consolidated level.

*Cost of equipment and handsets*

Cost of equipment and handsets amounted to P\$2,704 million (-\$163 million or -6% vs. 1H16) mainly due to a decrease in the units of handsets sold (-21% vs. 1H16) partially offset by an increase in the average unit cost of sales (+21% vs. 1H16).

Cost of equipment and handsets are net of costs capitalized as SAC (P\$26 million both in 1H17 and 1H16).

*Advertising*

During 1H17, we recorded P\$350 million in costs of advertising representing an increase of 25% as compared to P\$280 million recorded in 1H16, mainly due to the new advertising campaigns launched during 2017.

*Cost of VAS*

Cost of VAS amounted to P\$359 million (-P\$348 million or -49% vs. 1H16). The decrease was mainly due to the decrease of VAS sales as a consequence of the content suppliers deputation carried out within the content business general reorganization realized by Telecom Personal in 2016.

*Provisions*

During 1H17, we recorded P\$187 million in provisions compared to P\$51 million recorded in 1H16. The increase was mainly due to higher labor claims for approximately P\$108 million.

*Bad debt expenses*

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In 1H17 bad debt expenses amounted to P\$519 million (+28% vs. 1H16). The major increase was a consequence of higher aging of the accounts receivables and higher incidence of handset sales directly financed by Telecom Personal to its post-paid and *Abono Fijo* subscribers.

Table of Contents*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.

During 1H17, our other operating expenses amounted to P\$818 million compared to P\$721 million in 1H16. The increase was mainly due to higher prices on related services and the increase of rent prices, as a result of new agreements and the renegotiation of some of the existing ones.

Other operating expenses include intersegment costs of P\$108 million and P\$100 million in 1H17 and 1H16, respectively, that are eliminated at the consolidated level.

**Adjusted EBITDA**

An important operational performance measure used by the Company is Adjusted EBITDA. Adjusted EBITDA is defined as our net income less income taxes, financial results, depreciation and amortization and disposals and impairment of PP&E. We believe Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations such as capital structures, taxation and the age and book depreciation and amortization of PP&E and intangible assets, which may vary for different companies for reasons unrelated to operating performance. Although Adjusted EBITDA is not a measure defined in accordance with IFRS (a non-GAAP measure), our Management believes that this measure facilitates operating performance comparisons from period to period and provides useful information to investors, financial analysts and the public in their evaluation of our operating performance. Adjusted EBITDA does not have a standardized meaning and, accordingly, our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies.

The following table shows the reconciliation of Adjusted EBITDA to Net income:

	1H17	P\$ million	1H16	% of Change 2017-2016 Increase/(Decrease)
<b>Adjusted EBITDA</b>	<b>6,799</b>		<b>4,774</b>	<b>42</b>
Depreciation and amortization	(1,965)		(1,675)	17
Disposals and impairment of PP&E	(62)		(159)	(61)
Financial results, net	(159)		(900)	(82)
Income tax	(1,625)		(717)	127
<b>Net income</b>	<b>2,988</b>		<b>1,323</b>	<b>126</b>

Our Adjusted EBITDA from the Personal Mobile Services segment reached P\$6,799 million and P\$4,774 million in 1H17 and 1H16, respectively, representing 34% and 28% of total segment revenues in 1H17 and 1H16, respectively. The increase was mainly due to higher growth in revenues, partially offset by increases in operating costs (before depreciation and amortization).

**Depreciation and amortization**

During 1H17 depreciation of PP&E and amortization of intangible assets increased 17% to P\$1,965 million from P\$1,675 million in 1H16. The increase in PP&E depreciation amounted to P\$218 million, the increase in amortization of SAC amounted to P\$101 million and the decrease in amortization of other intangible assets amounted to P\$29 million.

**Disposals and impairment of PP&E**

Disposals and impairment of PP&E amounted to P\$62 million loss in 1H17 and P\$159 million loss in 1H16.

**Operating income**

In 1H17, our operating income from the Personal Mobile Services segment was P\$4,772 million, representing an increase of 62% from P\$2,940 million in 1H16. Operating income represented 24% and 17% of revenues in 1H17 and 1H16 for this segment, respectively. The increase in operating income was mainly due to the growth in service revenues, partially offset by increases in operating expenses and depreciation and amortization costs as explained above.

The following table shows our operating income from the Personal Mobile Services segment in 1H17 and 1H16 and its percentage of revenues in each period:

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	1H17	1H16	% of Change 2017-2016 Increase/(Decrease)
	(P\$ million / %)		
<b>Adjusted EBITDA (1)</b>	<b>6,799</b>	<b>4,774</b>	<b>42</b>
<i>As % of revenues</i>	<i>34</i>	<i>28</i>	
Depreciation and amortization	(1,965)	(1,675)	17
<i>As % of revenues</i>	<i>(10)</i>	<i>(10)</i>	
Disposals and impairment of PP&E	(62)	(159)	(61)
<b>Operating income</b>	<b>4,772</b>	<b>2,940</b>	<b>62</b>
<i>As % of revenues</i>	<i>24</i>	<i>17</i>	

(1) Adjusted EBITDA is a non-GAAP measure. See the purpose of use of Adjusted EBITDA and reconciliation of Adjusted EBITDA to Net income in section Adjusted EBITDA .

**Financial results, net**

During 1H17, the Personal Mobile Services segment financial results, net amounted to a net loss of P\$159 million compared to P\$900 million loss in 1H16. The decrease in the net financial loss compared to 1H16 was mainly due to lower foreign currency exchange net losses (+P\$206 million), higher interests on receivables (+P\$164 million vs. 1H16), higher interest on investments (+P\$132 million vs. 1H16) and lower interest on loans (-P\$164 million vs. 1H16).

**Income tax expense**

As previously mentioned, the income tax charge includes two effects (See Six-month periods ended June 30, 2017 and 2016 (A) Income tax expense ).

During 1H17, our Personal Mobile Services segment recorded an income tax expense of P\$1,625 million compared to P\$717 million in 1H16.

The income tax expense in 1H17 was mainly attributable to the recognition of current income tax expense (amounting to P\$1,978 million), partially offset by income generated by deferred tax on temporary differences (amounting to P\$353 million).

The income tax expense in 1H16 was mainly attributable to the recognition of current income tax expense (amounting to P\$748 million), partially offset by income generated by deferred tax on temporary differences (amounting to P\$31 million).

**Net income**

For 1H17 and 1H16, our Personal Mobile Services segment recorded net income of P\$2,988 million and P\$1,323 million, respectively. The increase was mainly due to an increase in our operating income, partially offset by an increase in income tax expense, as detailed above.

Table of Contents**(B.3) Núcleo Mobile Services Segment**

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

Results of operations from our Núcleo Mobile Services segment for 1H17 and 1H16 are comprised as follows:

	1H17 (3)	1H16 (4)	Total Change	
	P\$ million		%	P\$ million
Revenues (1)	1,320	1,257	5	63
Operating expenses (without depreciation and amortization)	(845)	(877)	(4)	32
<b>Adjusted EBITDA (2)</b>	<b>475</b>	<b>380</b>	<b>25</b>	<b>95</b>
Depreciation and amortization	(376)	(325)	16	(51)
Disposals and impairment of PP&E		1	(100)	(1)
<b>Operating income</b>	<b>99</b>	<b>56</b>	<b>77</b>	<b>43</b>
Financial results, net	(8)	(3)	167	(5)
Income tax expense	(17)	(16)	6	(1)
<b>Net income</b>	<b>74</b>	<b>37</b>	<b>100</b>	<b>37</b>

(1) Includes intersegment revenues of P\$3 million both in 1H17 and 1H16, respectively.

(2) Adjusted EBITDA is a non-GAAP measure. See the purpose of use of Adjusted EBITDA and reconciliation of Adjusted EBITDA to Net income in section Adjusted EBITDA .

(3) Includes Personal Envíos operations that are not material (Revenues 17, Adjusted EBITDA 1, Operating income 0 and Net loss 0).

(4) Includes Personal Envíos operations that are not material (Revenues 11, Adjusted EBITDA (3), Operating loss (4) and Net loss (4)).

**Revenues**

Revenues from our Núcleo Mobile Services segment for 1H17 and 1H16 are comprised as follows:

1H17	1H16	Total Change
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