Genesis Pharmaceuticals Enterprises, Inc.
Form 10QSB
May 15, 2008

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

FORM 10-QSB

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **March 31, 2008**

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ________________ to ______________

Commission file number: **333-86347**

GENESIS PHARMACEUTICALS ENTERPRISES, INC.
(Exact name of small business issuer as specified in it charter)

Florida	**65-1130026**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Middle Section, Longmao Street, Area A, Laiyang Waixiangxing Industrial Park
Laiyang City, Yantai, Shandong Province, People's Republic of China 710075
(Address of principal executive offices)

(0086) 535-7282997
(issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
Yes o No x

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 9, 2008, there were 390,478,760 shares of the issuer's common stock outstanding.

Transitional Small Business Disclosure Format (Check one): Yes o No x

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

GENESIS PHARMACEUTICALS ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2008

ASSETS

		(Unaudited)
CURRENT ASSETS:		
Cash	$	21,574,044
Restricted cash		3,488,604
Marketable equity securities		2,112,500
Accounts receivable, net of allowance for doubtful accounts of $62,625		20,589,289
Accounts receivable - related parties		2,019,278
Inventories		5,542,846
Other receivables		284,908
Other receivables - related parties		85,680
Advances to suppliers		894,741
Other assets		2,271
Total current assets		56,594,161
PLANT AND EQUIPMENT, net		11,081,056
OTHER ASSETS:		
Restricted marketable securities		2,826,413
Debt issuance cost, net		306,825
Intangible assets, net		9,777,832
Total other assets		12,911,070
Total assets	$	80,586,287

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$	3,448,086
Short term bank loans		2,713,200
Notes payable		3,488,604
Other payables		3,736,397
Other payables - related parties		28,560
Accrued liabilities		545,885
Liabilities assumed from reorganization		1,352,997
Taxes payable		10,521,050
Total current liabilities		25,834,779
		671,296

CONVERTIBLE DEBT, net of discount $4,328,704 as of March 31, 2008		
COMMITMENTS AND CONTINGENCIES		-
SHAREHOLDERS' EQUITY:		
Common Stock ($0.001 par value, 600,000,000 shares authorized, 390,478,760 shares issued and outstanding)		390,480
Paid-in-capital		22,803,151
Captial contribution receivable		(7,711,000)
Retained earnings		28,934,053
Statutory reserves		3,740,456
Accumulated other comprehensive income		5,923,072
Total shareholders' equity		54,080,212
Total liabilities and shareholders' equity	$	80,586,287

The accompanying notes are an integral part of these statements.

GENESIS PHARMACEUTICALS ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED MARCH 31, 2008 AND 2007
(UNAUDITED)

	Three months ended March 31		Nine months ended March 31	
	2008	2007	2008	2007
REVENUES:				
Sales	$ 26,231,191	$ 18,472,649	$ 66,648,051	$ 52,876,082
Sales - related party	1,869,092	455,580	4,611,849	2,963,871
TOTAL REVENUE	28,100,283	18,928,229	71,259,900	55,839,953
COST OF SALES	6,337,822	5,388,811	17,744,379	15,724,047
GROSS PROFIT	21,762,461	13,539,418	53,515,521	40,115,906
RESEARCH AND DEVELOPMENT EXPENSE	967,930	953,560	2,170,240	10,441,060
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	12,136,164	9,658,803	29,269,330	18,491,304
INCOME FROM OPERATIONS	8,658,367	2,927,055	22,075,951	11,183,542
OTHER (INCOME) EXPENSE, NET				
Other expenese, net	1,217,477	-	1,136,534	-
Non-operating (income) expense	(529)	11,224	(232)	5,642
Interest expense, net	526,509	69,233	925,993	204,671
Loss from discontinued business	228,812	-	341,743	-
OTHER EXPENSE, NET	1,972,269	80,457	2,404,038	210,313
INCOME BEFORE PROVISION FOR INCOME TAXES	6,686,098	2,846,598	19,671,913	10,973,229
PROVISION FOR INCOME TAXES	2,211,265	970,025	6,808,625	3,567,857
NET INCOME	4,474,833	1,876,573	12,863,288	7,405,372

OTHER COMPREHENSIVE INCOME:				
Unrealized (loss) gain on marketable securities	(270,351)	-	1,347,852	
Foreign currency translation adjustment	1,960,948	368,537	3,428,779	673,047
COMPREHENSIVE INCOME	$ 6,165,430	$ 2,245,110	$ 17,639,919	$ 8,078,419
WEIGITED AVERAGE NUMBER OF SHARES:				
Basic	389,605,134	84,545,655	260,297,377	84,131,121
Dilulted	393,292,698	90,950,796	263,271,624	89,658,922
EARNINGS PER SHARE:				
Basic	$ 0.01	$ 0.02	$ 0.05	$ 0.09
Diluted	$ 0.01	$ 0.02	$ 0.05	$ 0.08

The accompanying notes are an integral part of these statements.

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FOR THE NINE MONTHS ENDED MARCH 31, 2008 AND 2007
(UNAUDITED)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,863,288	$ 7,405,372
Loss from discontinued operations	341,743	-
Income from continued operations	13,205,031	7,405,372
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation	375,456	253,063
Amortization of intangible assets	113,578	75,772
Amortization of debt issuance costs	47,583	-
Amortization of debt discount	671,296	-
Allowance for bad debts	(112,459)	
Loss on sale of marketable securities	19,819	-
Unrealized loss on marketable securities	1,150,516	-
Deferred compensation expense	28,750	-
Change in operating assets and liabilities		
Accounts receivable	(7,246,740)	(3,308,650)
Accounts receivable - related parties	(1,403,383)	(245,420)
Notes receivables	59,790	(29,473)
Inventories	27,542	1,065,113
Other receivables	(254,886)	(937)
Other receivables - related parties	(81,384)	
Advances to suppliers	(488,064)	(10,316)
Other assets	96,538	1,282,175
Accounts payable	1,159,105	(2,324,940)
Accrued liabilities	301,290	58,191
Other payables	2,146,659	(1,355,440)
Other payables - related parties	(962,509)	(592,232)
Liabilities from discontinued operations	(1,162,133)	-
Taxes payable	10,006,057	2,011,128
Net cash provided by operating activities	17,697,452	4,283,404
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	605,882	-
Payment for land use right	(8,246,830)	-
Purchase of equipment	(401,302)	(58,469)
Cash receipt from reverse acquisition	534,950	-
Net cash used in investing activities	(7,507,300)	(58,469)
CASH FLOWS FINANCING ACTIVITIES:		
Proceeds from sale of common stock	337,500	-
Proceeds from sale of treasury stock	1,977	-
Payments for dividend	(10,520,000)	-
Payments for debt issuance cost	(354,408)	-
Proceeds from convertible debt	5,000,000	-
Proceed from officers	27,128	-
Payments for bank loans	(5,425,600)	(1,273,300)

Proceeds from bank loans		3,255,360		-
Notes payable		5,361,849		725,702
Restricted cash		(5,361,849)		(725,702)
Net cash used in financing activities		(7,678,043)		(1,273,300)
EFFECTS OF EXCHANGE RATE CHANGE IN CASH		1,324,727		166,101
INCREASE IN CASH		3,836,836		3,117,736
CASH, beginning of the period		17,737,208		3,371,598
CASH, end of the period	$	21,574,044	$	6,489,334

The accompanying notes are an integral part of these statements.

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GENESIS PHARMACEUTICALS ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(UNAUDITED)

Note 1 - Organization

Genesis Pharmaceuticals Enterprises, Inc., (the “Company” or “Genesis”), was originally incorporated in Florida on August 15, 2001 under the name Genesis Technology Group, Inc. with a principal business objective to operate as a business development and marketing firm that specialized in advising and providing a turnkey solution for small and mid-sized Chinese companies entering Western markets. On October 1, 2007, Genesis executed a Share Acquisition and Exchange Agreement (“Exchange Agreement”) by and among Genesis, Karmoya International Ltd., a British Virgin Islands company (“Karmoya”), and the shareholders of 100% of Karmoya’s capital stock (the “Karmoya Shareholders”). After the closing of the share exchange transaction, Karmoya became the Company’s wholly owned subsidiary and the Company’s primary operations now consist of the business and operations of Karmoya and its subsidiaries. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

Cash	$	534,950
Prepaid expenses		40,620
Marketable equity securities		370,330
Other assets		7,083
Restricted marketable securities		1,746,809
Restricted marketable securities held for short term loans		3,250,000
Accounts payable and accrued liabilities		(1,085,323)
Loan payable		(515,000)
Other liabilities assumed from acquisition		(452,001)
Minority interest		(121,063)
Net assets acquired	$	3,776,405

Subsequent to the share exchange agreement in October 2007, the Company discontinued the business development and marketing segment that the Company focused on prior to the reverse merger as described in Note 6. The business development and marketing segment represented 100% of the Company’s sales prior to October 1, 2007. Liabilities of the business development and marketing segment are reclassified as liabilities assumed from reorganizations in the Consolidated Balance Sheet. The results of operations and cash flows of the business development and marketing segment have been reported in the Consolidated Financial Statements as discontinued operations. Except for Genesis Pharmaceuticals Enterprises, Inc., all other entities that were consolidated into the Company prior to October 1, 2007 have been administratively dissolved.

Karmoya was established on July 18, 2007, under the laws of British Virgin Islands. Karmoya was established as a “special purpose vehicle” for the foreign capital raising activities of Laiyang Jiangbo Pharmaceutical Co., Ltd (“Laiyang Jiangbo”), a limited liability company formed under the laws of the People’s Republic of China (the “PRC” or “China”). China’s State Administration of Foreign Exchange (“SAFE”) requires the owners of any Chinese companies to obtain SAFE’s approval before establishing any offshore holding company structure for foreign financing as well as subsequent acquisition matters under an official notice known as “Circular 106” in PRC. On September 19, 2007, Karmoya was approved by local Chinese SAFE as a “special purpose vehicle” offshore company.

GENESIS PHARMACEUTICALS ENTERPRISES, INC. AND SUBSIDIARIES

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On September 20, 2007, Karmoya acquired 100% of Union Well International Limited ("Union Well"), a Cayman Islands corporation established on May 9, 2007. On September 17, 2007, Union Well established a wholly owned subsidiary, Genesis Jiangbo (Laiyang) Biotech Technology Co., Ltd. ("GJBT"), in the PRC as a wholly owned foreign limited liability company with registered capital of $12 million. GJBT develops, manufactures and sells health medicines.

Laiyang Jiangbo was formed under laws of the People's Republic of China in August 2003 with registered capital of $1,210,000 (RMB 10,000,000). On December 1, 2006, Laiyang Jiangbo's registered capital increased to $6,664,000 (RMB 50,000,000), on December 22, 2006, the registered capital has been funded by contribution of buildings to the Company. Laiyang Jiangbo produces and sells western pharmaceutical products in China and focuses on developing innovative medicines to address various medical needs for patients worldwide. Laiyang Jiangbo operates in 26 provinces in the PRC and is headquartered in Laiyang City, Shandong province, China.

On September 21, 2007, GJBT entered into a series of contractual arrangements (the "Contractual Arrangements") with Laiyang Jiangbo and its shareholders. Under the terms of the Contractual Arrangements, GJBT has control over the management of the business activities of Laiyang Jiangbo and holds a 100% variable interest in Laiyang Jiangbo. The Contractual Arrangements are comprised of a series of agreements, including a Consulting Services Agreement and an Operating Agreement, through which GJBT has the right to advise, consult, manage and operate each of Laiyang Jiangbo, and collect and own all of their respective net profits. Additionally, Laiyang Jiangbo's shareholders have granted their voting rights over Laiyang Jiangbo to GJBT. In order to further reinforce GJBT's rights to control and operate Laiyang Jiangbo, Laiyang Jiangbo and its shareholders have granted GJBT, the exclusive right and option to acquire all of their equity interests in Laiyang Jiangbo or, alternatively, all of the assets of Laiyang Jiangbo. Further Laiyang Jiangbo Shareholders have pledged all of their rights, titles and interests in Laiyang Jiangbo to GJBT. As both companies are under common control, this has been accounted for as a reorganization of entities and the financial statements have been prepared as if the reorganization had occurred retroactively. The Company consolidates Laiyang Jiangbo's results, assets and liabilities in its financial statements.

The reasons that Karmoya used the contractual arrangements to acquire control of Laiyang Jiangbo, instead of using a complete acquisition of Laiyang Jiangbo's assets or equity to make Laiyang Jiangbo a wholly-owned subsidiary of Karmoya, were as follows: (i) PRC laws governing share exchanges with foreign entities, which became effective on September 8, 2006, make the consequences of such acquisitions uncertain and (ii) other than by share exchange, PRC law would require Karmoya to acquire Laiyang Jiangbo be acquired for cash consideration and, at the time of the acquisition, Karmoya was unable to raise sufficient funds to pay the full appraised cash value for Laiyang Jiangbo's assets or shares as required under PRC law.

GENESIS PHARMACEUTICALS ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(UNAUDITED)

Note 2 - Summary of significant accounting policies

Basis of presentation

The financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). In the opinion of management, the accompanying balance sheet, and related interim statements of income, stockholders' equity and cash flows include all adjustments, consisting only of normal recurring items.

Principles of consolidation

The accompanying consolidated financial statements include the following entities:

Consolidated entity name:	Percentage of ownership
Karmoya International Ltd	100%
Union Well International Limited	100%
Genesis Jiangbo (Laiyang) Biotech Technology Co., Ltd.	100%
Laiyang Jiangbo Pharmaceuticals Co., Ltd	Variable Interest Entity

All significant inter-company transactions and balances have been eliminated in consolidation.

In accordance with FASB Interpretation No. 46R, Consolidation of Variable Interest Entities ("FIN 46R"), variable interest entities ("VIEs") are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

In connection with the adoption of FIN 46R, the Company concluded that Laiyang Jiangbo is a VIE and the Company is the primary beneficiary. Under FIN 46R transition rules, the financial statements of Laiyang Jiangbo are then consolidated into the Company's consolidated financial statements.

Foreign currency translation

The reporting currency of the Company is the U.S. dollar. The functional currency of the Company is the local currency, the Chinese Renminbi ("RMB"). Results of operations and cash flows are translated at average exchange rates during the period, assets and liabilities are translated at the unified exchange rate as quoted by the People's Bank of China at the end of the period, and equity is translated at historical exchange rates. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Asset and liability accounts at March 31, 2008 were translated at 7.02 RMB to $1.00. Equity accounts were stated at their historical rate. The average translation rates applied to income statements for the nine months ended March 31, 2008 and 2007 were 7.40 RMB and 7.87 RMB to $1.00, respectively. In accordance with Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," cash flows from the Company's operations is calculated based upon the local currencies using the average translation rate. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

GENESIS PHARMACEUTICALS ENTERPRISES, INC. AND SUBSIDIARIES

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Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. Gains and losses from foreign currency transactions are included in the results of operation and there are no material transaction gains or losses for the nine months ended March 31, 2008 and 2007.

Revenue recognition

Product sales are generally recognized when title to the product has transferred to customers in accordance with the terms of the sale. The Company recognizes revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 104 and Statement of Financial Accounting Standards No. ("SFAS") 48 "*Revenue Recognition When Right of Return Exists.*" SAB 104 states that revenue should not be recognized until it is realized or realizable and earned. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

The Company is generally not contractually obligated to accept returns. However, on a case by case negotiated basis, the Company permits customers to return their products. In accordance with SFAS 48, revenue is recorded net of an allowance for estimated returns. Such reserves are based upon management's evaluation of historical experience and estimated costs. The amount of the reserves ultimately required could differ materially in the near term from amounts included in the accompanying consolidated financial statements.

Shipping and handling costs related to costs of goods sold are included in selling, general and administrative costs. Shipping and handling costs amounted to $107,018 and $70,405, respectively, for the three months period ended March 31, 2008, and 2007. Shipping and handling costs amounted to $253,366 and $209,628, respectively, for the nine months ended March 31, 2008, and 2007.

Research and development

Research and development costs are expensed as incurred. The costs of material and equipment that are acquired or constructed for research and development activities, and have alternative future uses, either in research and development, marketing, or sales are classified as plant and equipment and depreciated over their estimated useful lives.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts and sales returns, the allowance for obsolete inventory, the useful life of property and equipment and intangible assets, and accruals for taxes due.

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Financial instruments

SFAS 107, “Disclosures about Fair Value of Financial Instruments” requires disclosure of the fair value of financial instruments held by the Company. SFAS 107 defines the fair value of financial instruments as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company considers the carrying amount of cash, accounts receivable, notes receivable, other receivables, prepayments, accounts payable, other payable, accrued liabilities, customer deposits, tax payable, and loans to approximate their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest.

Statement of cash flows

In accordance with SFAS 95, "Statement of Cash Flows," cash flows from the Company's operations is calculated based upon the local currencies using the average translation rate. Cash and cash equivalents are translated at the rate as of each reporting period. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

Stock-based compensation

The Company records stock based compensation expense pursuant to SFAS 123R. The Company estimates the fair value of the award using the Black-Scholes Option Pricing Model. Under SFAS 123R, the Company’s expected volatility assumption is based on the historical volatility of Company’s stock. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock compensation expense is recognized based on awards expected to vest, and there were no estimated forfeitures as the Company has a short history of issuing options. SFAS 123R requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

Concentration of risk

Cash includes cash on hand and demand deposits in accounts maintained with state-owned banks within the People’s Republic of China. For purposes of the statements of cash flows, the Company considers all highly liquid instruments purchased with a maturity of three months or less and money market accounts to be cash equivalents. Balances at financial institutions or state owned banks within the PRC are not covered by insurance. Total cash (including restricted cash balances) in banks at March 31, 2008 amounted to $25,178,370. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in bank accounts.

For the three months ended March 31, 2008 and 2007, three products accounted for 95% and 96%, respectively, of the Company’s total sales For the nine months ended March 31, 2008 and 2007, three products accounted for 95% and 96% of the Company’s total sales.

GENESIS PHARMACEUTICALS ENTERPRISES, INC. AND SUBSIDIARIES

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Three customers accounted for approximately 14.0% and 26.3%, respectively, of the Company's sales for the three months ended March 31, 2008 and 2007 and for 16.5% and 25.0% of sales for the nine months ended March 31, 2008 and 2007. These three customers represent 11.2% of the Company's total accounts receivable as of March 31, 2008.

Three suppliers accounted for approximately 66.2% and 83.8% respectively, of the Company's purchases for the three months ended March 31, 2008 and 2007 and for 59.5% and 77.5% of the purchases for the nine months ended March 31, 2008 and 2007. These three suppliers represent 60.1% of the Company's total accounts payable as of March 31, 2008.

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in the North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Restricted cash

The Company had restricted cash of $3,488,604 as of March 31, 2008. The restricted funds are kept as security deposits for bank acceptance related to the Company’s notes payable.

Investment in marketable securities and restricted marketable securities

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and re-evaluates such determinations at each balance-sheet date. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Marketable equity securities not classified as held-to-maturity or as trading, are classified as available-for-sale, and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders’ equity. The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market.

For marketable equity securities for which there is an other-than-temporary impairment, an impairment loss is recognized as a realized loss. The Company's investment impairment analysis generally includes review and analysis of several factors, including:

1. Discussions with each company's management to review the status of key internally established development milestones. As a result of the Company's strategic alliance with partner companies, the Company regularly has information regarding technology developments and business initiatives that was generally not available to the community.

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GENESIS PHARMACEUTICALS ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(UNAUDITED)

2. The Company's knowledge of partner company's activities relating to new agreements, new investor funding and achievements.

3. The Company's review of financial position, primarily the cash resources and operating cash flow, to determine if it was sufficient to continue to fund projected operations and ongoing technology development.

Additionally, the Company considers EITF Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-01"). According to EITF 03-01, a security is impaired when its fair value is less than its value, and an impairment is other than-temporary if the investor does not have the "ability and intent" to hold the investment forecasted recovery of its carrying amount. EITF 03-01 holds that the impairment of each security must be assessed ability-and-intent-to-hold criterion regardless of the severity or amount of the impairment. The Company intends to hold investment in marketable securities for a period of time sufficient to allow for any anticipated recovery in market value.

Accounts receivable

The Company has a policy of reserving for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are written off after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts receivable and accounts receivable-related parties, net of allowance for doubtful accounts outstanding at March 31, 2008 amounted to $22,608,567.

The activity in the allowance for doubtful accounts for accounts receivable for the period ended March 31, 2008 is as follows:

Beginning allowance for doubtful accounts	$	166,696
Recovery from bad debt expense		(112,459)
Foreign currency translation adjustments		8,388
Ending allowance for doubtful accounts	$	62,625

Inventories

Inventories, consisting of raw materials and finished goods related to the Company's products are stated at the lower of cost or market utilizing the weighted average method. The Company reviews its inventory periodically for possible obsolete goods in order to determine if any reserves are necessary. As of March 31, 2008, the Company has determined that no reserves are necessary.

Advances to suppliers

The Company advances monies to certain vendors for purchase of its material. The advances to suppliers are interest free and unsecured.

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GENESIS PHARMACEUTICALS ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

	Useful Life	
Building and building improvements	5-40	Years
Manufacturing equipment	5-20	Years
Office equipment and furniture	5-10	Years
Vehicle	5	Years

The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition.

The Company evaluates the carrying value of long-lived assets at least annually in accordance with SFAS 144. When estimated cash flows generated by those assets are less than the carrying amounts of the assets, the Company recognizes an impairment loss. Based on its review, the Company believes that, as of March 31, 2008, there were no impairments of its long-lived assets.

Intangible assets

Land use right - all land in the People's Republic of China is owned by the government. However, the government grants rights to use land for limited periods of time, depending on the planned use. The Company purchased land use rights on February 2008 and August 2004 for approximately $8,682,153 and $878,702, respectively. The costs of these rights are amortized using the straight-line method over the term of the land use rights of 50 years.

Patents and licenses include purchased technological know-how, secret formulas, manufacturing processes, technical, procedural manuals and the certificate of drugs production and is amortized using the straight-line method over the expected useful economic life of 5 years, which reflects the period over which the formulas, manufacturing processes, technical and procedural manuals are kept secret to the Company as agreed between the Company and the selling parties.

Intangible assets of the Company are reviewed at least annually or more often if circumstances dictate, to determine whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also reevaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives.

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	Useful Life	
Land Use Right	50	Years
Patents	5	Years
Licenses	5	Years

Income taxes

The Company utilizes SFAS 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. The Company adopted FASB Interpretation 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), as of January 1, 2007. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The adoption had no affect on the Company’s financial statements.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The adoption had no affect on the Company’s financial statements.

Deferred tax is calculated using tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it is related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Value added tax

The Company is subject to value added tax (“VAT”) for manufacturing products and business tax for services provided. The applicable VAT tax rate is 17% for products sold in the PRC. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of goods sold (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT). Under the commercial practice of the PRC, the Company paid VAT based on tax invoices issued. The tax invoices may be issued subsequent to the date on which revenue is recognized, and there may be a considerable delay between the date on which the revenue is recognized and the date on which the tax invoice is issued. In the event that the PRC tax authorities dispute the date of which revenue is recognized for tax purposes, the PRC tax office has the right to assess a penalty, which can range from zero to five times the amount of the taxes which are determined to be late or deficient. According to the PRC tax laws, any potential tax penalty payable on late or deficient payments of this tax could be between zero and five times the amount of the late or deficient tax payable, and will be expensed as a period expense if and when a determination has been made by the taxing authorities that a penalty is due.

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VAT on sales and VAT on purchases amounted to $4,806,574 and $259,075 for the three months ended March 31, 2008, and $3,216,601 and $120,401 for the three months ended March 31, 2007, respectively. VAT on sales and VAT on purchases amounted to $12,114,274 and $443,114 for the nine months ended March 31, 2008, and $9,494,356 and $223,104 for the nine months ended March 31, 2007, respectively. Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government. VAT taxes are not impacted by the income tax holiday.

Advertising

Advertising is expensed as incurred. Advertising expenses amounted to $2,018,895 and $3,529,481 for the three months ended March 31, 2008 and 2007, respectively. Advertising expenses amounted to $6,148,010 and $5,279,282 for the nine months ended March 31, 2008 and 2007, respectively.

Recent accounting pronouncements

In September 2006, the FASB issued SFAS 157, *"Fair Value Measurements",* which provides guidance for how companies should measure fair value when required to use a fair value measurement for recognition or disclosure purposes under generally accepted accounting principle (GAAP). SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact, if any; the adoption of SFAS 157 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115 ("FAS 159"). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of FAS 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently assessing the impact, if any; the adoption of SFAS 159 will have on its financial statements.

In June 2007, the FASB issued FASB Staff Position No. EITF 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for use in Future Research and Development Activities" ("FSP EITF 07-3"), which addresses whether nonrefundable advance payments for goods or services that used or rendered for research and development activities should be expensed when the advance payment is made or when the research and development activity has been performed. The Company is currently evaluating the effect of this pronouncement on financial statements.

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In December 2007, the FASB issued SFAS 141(R),*"Business Combinations"*, which replaces SFAS 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS 141(R) will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

In December 2007, the FASB issued SFAS No. 160,*"Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51"* ("SFAS 160"), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company has not determined the effect that the application of SFAS 160 will have on its consolidated financial statements.

Company reporting year end

For US financial statement reporting purposes beginning from 2007, the Company adopted June 30 as its fiscal year end.

Note 3 - Earnings per share

The Company reports earnings per share in accordance with the provisions of SFAS 128, "Earnings Per Share." SFAS 128 requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

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The following is a reconciliation of the basic and diluted earnings per share computations for the three months and nine months ended March 31, 2008 and 2007:

		2008		2007
For the three months ended March 31, 2008 and 2007				
Net income for basic and diluted earnings per share	$	4,474,833	$	1,876,573
Weighted average shares used in basic computation		389,605,134		84,545,655
Diluted effect of stock options and warrants		3,687,564		6,405,141
Weighted average shares used in diluted computation		393,292,698		90,950,796
Earnings per share:				
Basic	$	0.01	$	0.02
Diluted	$	0.01	$	0.02

		2008		2007
For the nine months ended March 31, 2008 and 2007				
Net income for basic and diluted earnings per share	$	12,863,288	$	7,405,372
Weighted average shares used in basic computation		260,297,377		84,131,121
Diluted effect of stock options and warrants		2,974,247		5,527,801
Weighted average shares used in diluted computation		263,271,624		89,658,922
Earnings per share:				
Basic	$	0.05	$	0.09
Diluted	$	0.05	$	0.08

For the three months and nine months ended March 31, 2008, 2,963,361 and 10,000,000 stock options and warrants at an exercise price of $0.25 and $0.32, respectively, were not included in the diluted earnings per share calculation because of the anti-diluted effect.

For the three months and nine months ended March 31, 2007, the following options and warrants are not included in the diluted earnings per share calculation because of the anti-diluted effect:

For three months ended March 31, 2007		For nine months ended March 31, 2007	
Outstanding option / warrants	Exercise price	Outstanding option / warrants	Exercise price
2,963,361	$ 0.304	2,963,361	$ 0.304
250,000	$ 0.310	7,400,000	$ 0.145
		250,000	$ 0.310

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Note 4 - Supplemental disclosure of cash flow information

Income taxes paid for the three month period ended March 31, 2008 and 2007 amounted to $132,957 and $19,103, respectively. Income taxes paid for the nine month period ended March 31, 2008 and 2007 amounted to $3,615,867 and $4,008,062, respectively

Interest paid for the three month period ended March 31, 2008 and 2007 amounted to $126,183 and $92,095, respectively. Interest paid for the nine month period ended March 31, 2008 and 2007 amounted to $331,341 and $232,727, respectively.

For the nine months period ended March 31, 2008, holders of preferred stock converted 15,400 shares of Series A Convertible Preferred Stock into 663,793 shares of common stock, par value $0.001 per share and holders of preferred stock converted 5,995,780 shares of Series B Convertible Preferred Stock into 299,789,000 shares of common stock, par value $0.001 per share. In Connection with the Exchange Agreement, the holders of options converted 8,806,250 options in a cashless exercise into 1,761,250 shares of common stock.

Note 5 - Marketable securities and restricted marketable securities

Marketable equity securities consist of investments in equity of publicly traded companies and are stated at market value based on the most recently traded price of these securities at March 31, 2008. The Company classifies marketable securities (current assets) as trading securities and restricted marketable securities, as available for sale securities (long-term assets).If the Company reclassifies its securities from available for sale securities to trading securities, the unrealized gains and losses on those re-classified securities are re-classified from the accumulated other comprehensive income in stockholders’ equity to the earnings. For the three months ended March 31, 2008 and 2007, total unrealized losses related to re-classifications of accumulated comprehensive income to earnings amounted to $641,689 and $0. For the nine months ended March 31, 2008 and 2007, total unrealized losses related to re-classifications of accumulated comprehensive income to earnings amounted to $641,689 and $0.

Realized gains and losses are determined by the difference between historical purchase price and gross proceeds received when the marketable securities are sold. For the purpose of computing realized gains and losses, cost is identified on a specific identification basis. For the three months ended March 31, 2008 and 2007, the Company recognized a loss of $95,504 and $0, respectively, from the sale of trading securities. For the nine months ended March 31, 2008 and 2007, the Company recognized a loss of $19,819 and $0, respectively, from the sale of trading securities. The Company also recognized an unrealized loss on trading securities of $1,159,509 and $0, respectively, for the three months ended March 31, 2008 and 2007 and $1,150,516 and $0 for the nine months ended March 31, 2008 and 2007, respectively, which has been reflected in the accompanying consolidated statements of income.

For the three months ended March 31, 2008 and 2007, the Company recorded an unrealized loss on available for sales securities of $270,351 and $0, respectively. For the nine months ended March 31, 2008 and 2007, the Company recorded an unrealized gain of $1,347,852 and $0, respectively. All unrealized gains and losses related to available for sale securities have been properly reflected as a component of accumulated other comprehensive income in stockholders’ equity.

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Note 6 - Discontinued operations

In connection with the reverse merger with Karmoya on October 1, 2007, the Company determined its operating strategy no longer supports its business development and marketing operations. Accordingly, the entire business development and marketing operation segment is reported as a discontinued operation.

The remaining liabilities of discontinued operations are presented in the balance sheet under the caption "liabilities assumed from reorganization", totaling $1,352,997.

The following table sets forth for the three months ended March 31, 2008 and 2007 indicated selected financial data of the Company's discontinued operations.

	2008	2007
Revenues	$ -	$
Cost of sales	-	
Gross profit	-	
Operating and other non-operating expenses	228,812	
Loss from discontinued operations	$ 228,812	$

The following table sets forth for the nine months ended March 31, 2008 and 2007 indicated selected financial data of the Company's discontinued operations.

	2008	2007
Revenues	$ -	$
Cost of sales	-	
Gross profit	-	
Operating and other non-operating expenses	341,743	
Loss from discontinued operations	$ 341,743	$

Note 7 - Inventories

As of March 31, 2008, inventories consisted of the following:

Raw materials	$ 3,083,214
Packaging materials	240,839
Finished goods	2,218,793
Total	$ 5,542,846

Note 8 - Plant and equipment

As of March 31, 2008, property and equipment consist of the following:

Building and building improvements	$ 10,694,208
Manufacturing equipment	1,083,159

Office equipment and furniture		325,624
Vehicle		330,581
Total		12,433,572
Less: accumulated depreciation		1,352,516
Total	$	11,081,056

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For the three months ended March 31, 2008 and 2007, depreciation expense amounted to $134,174 and $24,227, respectively. For the nine months ended March 31, 2008 and 2007, depreciation expense amounted to $375,456 and $253,063, respectively.

Note 9 - Intangible assets

At March 31, 2008, intangible assets consist of the following:

Land use right	$	9,719,167
Patents		528,360
License		22,777
Total		10,270,304
Less: accumulated amortization		492,472
Total	$	9,777,832

Total amortization expense for the three months ended March 31, 2008, and 2007 amounted to $55,289 and $20,526, respectively. Total amortization expense for the nine months ended March 31, 2008, and 2007 amounted to $113,578 and $75,772, respectively.

Note 10 - Advance to suppliers

The Company makes advances to certain vendors' for inventory purchases. The advances on inventory purchases amounted to $894,741 as of March 31, 2008.

Note 11 - Short term loans

Short term bank loans represent amounts due to various banks which are due within one year, and these loans can be renewed with the banks. The Company's short term bank loans consisted of the following:

Loan from Communication Bank, due September 2008. Interest Rate at 7.34% per annum, monthly interest payment. Guaranteed by related party, Jiangbo Chinese-Western Pharmacy	$	2,713,200
Total	$	2,713,200

Total interest expense on the short term loans amounted to $126,183 and $92,095 for the three months ended March 31, 2008. Total interest expense amounted to $370,884 and $232,727 for the nine months ended March 31, 2008 and 2007.

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Note 12 - Notes payable

Notes payable represent amounts due to various banks which are normally secured and are typically renewed. All notes payable are secured by the Company's restricted cash. The Company's notes payables consist of the following:

Commercial Bank, various amounts, due from April 2008 to August 2008.	$	3,488,604
Total	$	3,488,604

Note 13 - Related party transactions

Accounts receivable - related parties

The Company is engaged in business activities with three related parties, Jiangbo Chinese-Western Pharmacy, Laiyang Jiangbo Medicals, Co., Ltd and Yantai Jiangbo Pharmaceuticals Co., Ltd. For the three months ended March 31, 2008 and 2007, the Company recorded net revenues of $1,869,092 and $455,580, respectively, from sales to related parties. For the nine months ended March 31, 2008 and 2007, the Company recorded net revenues of $4,611,849 and $2,963,871, respectively, from sales to related parties. As of March 31, 2008, accounts receivable-related parties consisted of the following:

Receivable from product sales due from Jiangbo Chinese-Western Pharmacy	$	615,934
Receivable from product sales due from Laiyang Jiangbo Medicals, Co., Ltd.		616,966
Receivable from product sales due from Yantai Jiangbo Pharmaceuticals Co., Ltd.		786,378
Total accounts receivable-related parties	$	2,019,278

Accounts receivable due from related parties are expected to be paid in cash within three to six months.

Other receivable - related parties

The Company leases two of its buildings to Jiangbo Chinese-Western Pharmacy. For the nine months ended March 31, 2008 and 2007, the Company also recorded other income $81,384 and $76,398 from leasing the two buildings. As of March 31, 2008, the Company had $85,680 other receivable from related parties.

Other payable - related parties

Prior to fiscal year 2007, the Company received advances from its director, shareholders and related parties for its operating activities. The Company paid off these advances in March 2008 with cash. As of March 2008, the Company received $28,560 additional advances from it director for its operating activities. These advances are due on demand and bear interest at 7.05% for March 31, 2008. The interest rates for March 31, 2008 were calculated by using the Company's 2007 average outstanding bank loan interest rate. The amount is expected to be repaid in cash.

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At March 31, 2008, other payable-related parties consisted of the following:

Payable to Cao Wubo, Chief Executive Officer and Chairman of the Board, with annual interest at 7.05% for March 31, 2008 and unsecured	$	28,560
Total other payable-related parties	$	28,560

Note 14 - Taxes payable

The Company is subject to the United States federal income tax at a tax rate of 34%. No provision for income taxes in the U.S. has been made as the company had no U.S. taxable income during the nine months ended March 31, 2008.

The Company’s wholly owned subsidiaries Karmoya International Ltd. and Union Well International Ltd. were incorporated in the British Virgin Island (BVI) and Cayman Island. Under the current laws of the BVI and Cayman Island, the two entities are not subject to income taxes.

Before January 1, 2008, companies established in the PRC were generally subject to an enterprise income tax ("EIT") rate of 33.0%, which included a 30.0% state income tax and a 3.0% local income tax. The PRC local government has provided various incentives to companies in order to encourage economic development. Such incentives include reduced tax rates and other measures. On March 16, 2007, the National People's Congress of China passed the new Enterprise Income Tax Law ("EIT Law"), and on November 28, 2007, the State Council of China passed the Implementing Rules for the EIT Law ("Implementing Rules") which took effect on January 1, 2008. The EIT Law and Implementing Rules impose a unified EIT of 25.0% on all domestic-invested enterprises and FIEs, unless they qualify under certain limited exceptions. Therefore, nearly all FIEs are subject to the new tax rate alongside other domestic businesses rather than benefiting from the FEIT, and its associated preferential tax treatments, beginning January 1, 2008.

In addition to the changes to the current tax structure, under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a resident enterprise and will normally be subject to an EIT of 25.0% on its global income. The Implementing Rules define the term "de facto management bodies" as "an establishment that exercises, in substance, overall management and control over the production, business, personnel, accounting, etc., of a Chinese enterprise." If the PRC tax authorities subsequently determine that the Company should be classified as a resident enterprise, then the organization's global income will be subject to PRC income tax of 25.0%.

Laiyang Jianbo and GJBT were originally subject to 33% income tax rate and have not received any further tax exemption after the fiscal year ended June 30, 2007. Starting January 1, 2008, Laiyang Jianbo and GJBT are subject to an EIT rate of 25%.

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The table below summarizes the differences between the U.S. statutory federal rate and the Company's effective tax rate and as follows for the nine months period ended March 31, 2008.

	2008
U.S. Statutory rates	34.0%
Foreign income not recognized in the U.S	(34.0%)
China income taxes	30.2%
Total provision for income taxes	30.2%

Taxes payable as of March 31, 2008 are as follows:

Value added taxes	$	$5,850,440
Income taxes		3,425,169
Other taxes		1,245,441
Total	$	10,521,050

Note 15 - Convertible Debt

On November 7, 2007, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with Pope Investments, LLC (the "Investor") pursuant to the agreement, the Company issued and sold to the Investor, for $5,000,000 (a) 6% convertible subordinated debentures due November 30, 2010 (the "Debenture") and (b) a three-year warrant to purchase 10,000,000 shares of Genesis's common stock, par value $0.001 per share, at an exercise price of $0.32 per share, subject to adjustment as provided therein. The Debenture bears interest at the rate of 6% per annum and the initial conversion price of the Debentures is $0.25 per share. In connection with the offering, the Company placed in escrow 20,000,000 shares of its common stock.

The Company evaluated the application of EITF 98-5, "*Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios,"* and EITF 00-27,*"Application of Issue No. 98-5 to Certain Convertible Instruments"* and concluded that the convertible debenture has a beneficial conversion feature. The Company estimated the fair value of the beneficial conversion feature of the Debenture at $2,904,093 as a discount to par value. The fair value of the warrants was estimated at $2,095,907. The two amounts are recorded together as debt discount and amortized using the effective interest method over the three-year term of Debenture.

The fair value of the warrants granted with this private placement was computed using the Black-Scholes option-pricing model. Variables used in the option-pricing model include (1) risk-free interest rate at the date of grant (4.5%), (2) expected warrant life of 3 years, (3) expected volatility of 197%, and (4) zero expected dividends. The total estimated fair value of the warrants granted and beneficial conversion feature of the Debenture should not exceed the $5,000,000 Debenture, the calculated warrant value was used to determine the allocation between the fair value of the beneficial conversion feature of the Debenture and the fair value of the warrants.

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In connection with the private placement, the Company paid the placement agents a fee of $250,000 and incurred other expenses of $104,408, which were capitalized as deferred debt issuance costs and will be amortized to interest expense over the life of the debenture. During the nine months ended March 31, 2008, amortization debt issuance costs were $47,583. The remaining balance of debt issuance costs at March 31, 2008 was $306,825. The amortization of debt discounts was $416,666 and $671,296 for the three months and nine months ended March 31, 2008, which has been included in interest expense on the accompanying statement of operations. The balance of the debt discount is $4,328,704 at March 31, 2008.

The Company evaluated whether or not the secured convertible debentures contain embedded conversion options, which meet the definition of derivatives under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" and related interpretations. The Company concluded that since the secured convertible debentures had a fixed conversion rate of $0.25, the secured convertible debt was not a derivative instrument.

The Debenture bears interest at the rate of 6% per annum, payable in semi-annual installments on May 31 and November 30 of each year, with the first interest payment being due on May 31, 2008. The initial conversion price ("Conversion Price") of the Debentures is $0.25 per share. If the Company issues common stock at a price that is less than the effective Conversion Price, or common stock equivalents with an exercise or conversion price less than the then effective Conversion Price, the Conversion Price of the Debenture and the exercise price of the Warrant will be reduced to such price. The Debenture may not be prepaid without the prior written consent of the Holder. In connection with the Offering, the Company placed in escrow 20,000,000 shares of Common Stock issued by the Company in the name of the escrow agent. In the event the Company's consolidated Net Income Per Share (as defined in the Purchase Agreement), for the year ended June 30, 2008 is less than $0.038, the escrow agent shall deliver the 20,000,000 shares to the Investor.

Pursuant to the Purchase Agreement, the Company entered into a Registration Rights Agreement. Pursuant to the Registration Rights Agreement, the Company must file on each Filing Date (as defined in the Registration Rights Agreement) a registration statement to register the portion of the Registrable Securities (as defined therein) as permitted by the Securities and Exchange Commission's guidance. The initial registration statement must be filed within 90 days of the Closing Date and declared effective within 180 days following the Closing Date. Any subsequent registration statements that are required to be filed on the earliest practical date on which the Company is permitted by the Securities and Exchange Commission's guidance to file such additional registration statement. Such additional registration statements must be effective 90 days following the date on which it is required to be filed. In the event that the registration statement is not timely filed or declared effective, the Company will be required to pay liquidated damages. Such liquidated damages shall be, at the investor's option, either $1,643.83 or 6,575 shares of Common Stock per day that the registration statement is not timely filed or declared effective as required pursuant to the Registration Rights Agreement, subject to an amount of liquidated damages not exceeding either $600,000, 2,400,000 shares of Common Stock, or a combination thereof based upon 12% liquidated damages in the aggregate. In December 2006, the FASB issued FSP EITF 00-19-2, "Accounting for Registration Payments" which was effective immediately. This FSP amends EITF 00-19 to require potential registration payment arrangements treated as a contingency pursuant to FASB Statement 5 rather than at fair value.

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The financing was completed through a private placement to accredited investors and is exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended ("Securities Act"). The Company has not filed its registration statement as of May 14, 2008, and the investor has agreed to extend the initial registration filing date. For the nine months ended March 31, 2008, liquidated damage penalty has no material impact to the Company's financial statement.

The convertible debenture liability is as follows at March 31, 2008:

Convertible debenture note payable	$	5,000,000
Less: unamortized discount on debentures		(4,328,704)
Convertible debentures, net	$	671,296

Note 16 - Shareholder's equity

Common stock

On October 1, 2007, the Company executed a Share Acquisition and Exchange Agreement by and among the Company and Karmoya and the shareholders of 100% of the Karmoya's capital stock. At closing, the Company issued 5,995,780 shares of its Series B Voting Convertible Preferred Stock and 597 shares of its common stock to Karmoya's shareholders in exchange for 100% of Karmoya's capital stock.

On October 1, 2007, holders of 8,806,250 options converted the options into 1,761,250 shares of common stock, which reduced the Company's total number of outstanding options and warrants to 10,740,704.

In October 2007, the Company received $180,000 in funding from Greenview Capital through the sale of its common stock and issued 1,500,000 shares of its common stock with a Rule 144 restrictive legend.

On October 8, 2007, Series A preferred stockholder converted 15,400 shares of Series A Preferred Stock into 663,793 shares of common stock.

On October 11, 2007, the Company's board of directors and the majority holders of its capital stock approved amendments to its Articles of Incorporation by written consent, including: (1) a change of our corporate name to our current name, Genesis Pharmaceuticals Enterprises, Inc, (the "Name Change"), (2) a change of our principal officers and mailing address to our current address in the PRC (the "Address Change"), (3) a change in our registered agent and registered office in Florida (the "Registered Agent Change"), and (4) an increase in our authorized common stock from 200,000,000 to 600,000,000 shares (the "Authorized Share Amendment"). The Certificate of Amendment and Certificate of Change to our Articles of Incorporation to affect the Name Change, Address Change, Registered Agent Change and the Authorized Share Amendment was filed with Florida's Secretary of State on October 16, 2007.

On October 26, 2007, the shares of Series B Preferred Stock issued were converted, in the aggregate, into 299,789,000 shares of the Company's common stock.

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At inception, Karmoya issued 1,000 shares of common stock to its founder. The shares were valued at par value. On September 20, 2007, the Company issued 9,000 shares of common stock to nine individuals at par value. The balance of $10,000 is shown in capital contribution receivable on the accompanying consolidated financial statements. As part of its agreements with shareholders, the Company will receive the entire $10,000 in October 2007; As of March 31, 2008, the Company has not received the entire $10,000.

On September 20, 2007, Karmoya acquired 100% of Union Well. Union Well was established on May 9, 2007 with a registered capital of $1,000. The amount is shown in capital contribution receivable on the accompanying consolidated financial statements. The $1,000 is due in October 2007. As of March 31, 2008, the Company has not received the $1,000.

In February 2008, in conjunction with a settlement between the Company and one of the Company's former officers, the former officer exercised 1,500,000 of stock options for 1,500,000 shares of common stock and the remaining 941,406 options held by the former officer were cancelled, which reduced the Company's total number of outstanding options and warrants to 18,299,298.

Distribution payable

On September 30, 2007, the Company paid off its distribution due to its shareholders by a cash payment in the amount of $10,520,000.

Registered capital contribution receivable

On September 17, 2007, Union Well established GJBT in PRC as a 100% wholly owned foreign limited liability subsidiary ("WFOE") with registered capital of $12 million. PRC laws require the owner of the WFOE to contribute at least 15% of the registered capital within 90 days of its business license issuance date and the remaining balance is required to be contributed within two years of the business license issuance date. The Company funded $4,300,000 on November 8, 2007, and the remaining balance of $7,711,000 by September 17, 2009 required under the PRC law. These amounts are shown in registered capital contribution receivable in the accompanying consolidated financial statements.

Note 17 - Warrants

The exercise price of warrants issued in 2004 to purchase 2,963,361 shares of common stock was reduced to $0.25 per share in November 2007. The 2004 warrants contain full ratchet anti-dilution provisions to the exercise price, which due to the Company's November 2007 financing, resulted in the 2004 warrants to be exercisable at $0.25 per share. The provisions of the 2004 Warrants which result in the reduction of the exercise price remain in place. Of the 2,963,361 warrants, 2,305,172 shares are exercisable through January 15, 2009 and 658,189 are exercisable through March 29, 2009.

In Connection with the $5,000,000, 6% convertible subordinated debentures note, the Company issued a three-year warrant to purchase 10,000,000 shares of common stock, at an exercise price of $0.32 per share. The calculated fair value of the warrants granted with this private placement was computed using the Black-Scholes option-pricing model. Variables used in the option-pricing model include (1) risk-free interest rate at the date of grant (4.5%),

(2) expected warrant life of 3 years, (3) expected volatility of 197%, and (4) zero expected dividends.

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A summary of the warrants as of March 31, 2008 and changes during the period is presented below:

	Number of warrants outstanding	Number of warrants exercisable	Weighted average exercise price	Average remaining life (years)
Balance, October 1, 2007	2,963,361	2,963,361	$ 0.25	1.01
Granted	10,000,000	10,000,000	0.32	2.61
Exercised	-	-	-	-
Forfeited	-	-	-	-
Balance, March 31, 2008	12,963,361	12,963,361	$ 0.30	2.24

Note 18 - Stock options

At March 31, 2008, an aggregate of 5,335,937 stock options at an exercise price of $0.105 per share were held by two former officers. Those options were granted on July 1, 2007 and the fair value of this option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions dividend yield of -0- percent; expected volatility of 195 percent; risk-free interest rate of 4.5 percent and an expected holding periods of 3.5 years.

	Expected Life	Expected Volatility	Dividend Yield	Risk Free Interest Rate	Grant Date Fair Value
Former Executives	3.50 yrs	195%	0%	4.50%	$0.13

The following is a summary of the option activity:

	Number of options outstanding	Weighted average exercise price	Aggregate intrinsic value
Balance at October 1, 2007	16,583,593	$ 0.10	$ -
Granted	-	-	-
Converted	(8,806,250)	0.09	-
Cancelled	(941,406)	0.11	-
Exercised	(1,500,000)	0.11	-
Balance at March 31, 2008	5,335,937	$ 0.11	$ 880,430

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Following is a summary of the status of option outstanding at March 31, 2008:
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	Outstanding options			Exercisable options	
Exercise price	Number	Average remaining contractual life (years)	Average exercise price	Number	Weighted average exercise price
$0.105	5,335,937	2.75	$0.11	5,335,937	$0.11

Note 19 - Employee pension

The employee pension in the Company generally includes two parts: the first part to be paid by the Company is 30.6% of $128 for each qualified employee each month. The other part, paid by the employees, is 11% of $128 each month. For the three months ended March 31, 2008 and 2007, the Company made pension contributions in the amount of $9,337 and $7,394, respectively. For the nine months ended March 31, 2008 and 2007, the Company made pension contributions in the amount of $25,061 and $20,789, respectively.

Note 20 - Statutory reserves

The Company is required to make appropriations to reserve funds, comprising the statutory surplus reserve and discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of People's Republic of China ("PRC GAAP"). Appropriation to the statutory surplus reserve is required to be at least 10% of the after tax net income determined in accordance with PRC GAAP until the reserve is equal to 50% of the entities' registered capital. Appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors.

The statutory surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

The discretionary surplus fund may be used to acquire fixed assets or to increase the working capital to expend on production and operation of the business. The Company's Board of Directors decided not to make an appropriation to this reserve for 2007.

According to the Company's articles, the Company should appropriate 10% of the net profit as statutory surplus reserve. For the nine months ended March 31, 2008 and 2007, the Company appropriated to the statutory surplus reserve $1,582,820 and $740,537, respectively.

Note 21 - Accumulated other comprehensive income

The components of accumulated other comprehensive income as follows:

Balance at June 30, 2007	$	1,146,441

Foreign currency translation gain		3,428,779
Unrealized gain on marketable securities		1,347,852
Balance at March 31, 2008	$	5,923,072

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Note 22 - Commitments and contingencies

In September 2007, the Company entered into a three year Cooperative Research and Development Agreement (CRADA) with a provincial university. Under the CRADA, the University is responsible for designing, researching and developing designated pharmaceutical projects for the Company. Additionally, the University will also provide technical services and training to the Company. As part of the CRADA, the Company will pay RMB 24,000,000 (approximately $3.4 million) plus out of pocket expenses to the University annually and provide internship opportunities for students of the University. The Company will have the primary ownership of the designated research and development project results.

In November 2007, the Company entered into a five year cooperative Research and Development Agreement (CRADA) with a research institute. Under the CRADA, the institute is responsible for designing, researching and developing designated pharmaceutical projects for the Company. Additionally, the university will also provide technical services and trainings to the Company. As part of the CRADA, the Company will pay 6,000,000 RMB (approximately $814,000) to the institute annually. The Company will have the primary ownership of the designated research and development project results.

For the nine months ended March 31, 2008, the Company expensed $2,170,240 as research and development expense.

Legal proceedings

The following summarized the Company's pending and settled legal proceedings as of March 31, 2008:

Elizabeth Hiromoto et al v. Telecom Communications, Inc. et al. - Case No. 2:07-cv-07858-PSG-E, United States District Court, Central District of California (Western Division - Los Angeles)

On December 3, 2007, two individuals filed a lawsuit against the Company, its former Chief Executive Officer James Wang, and certain others, alleging breach of contract. As the date of this report, the Company is unable to estimate a loss, if any, the Company may incur related to this lawsuit. The Company plans to vigorously defend its position.

Fernando Praca, Plaintiff v.s. EXTREMA, LLC and Genesis Pharmaceuticals Enterprises, Inc.- Case No. 50 2005 CA 005317, Palm Beach County, Florida

Fernando Praca, former Director and former President of the Company's discontinued subsidiary, Extrema LLC, filed an action in Dade County, Florida against Extrema, LLC and the Company in June 2005 relating to damages arising from the sale of Extrema LLC to Genesis Technology Group, Inc. Praca had filed a Motion of Temporary Injunction but had not proceeded to move this case forward. The plaintiff has decided to reinitiate the legal action in March 2008. There has been no action in this case since September of 2005, and this case is not currently set for trial. As of the date of this report, the Company is unable to estimate a loss, if any, the Company may incur related expenses to this lawsuit. The Company plans to vigorously defend its position. If the case proceeds, we intend to respond aggressively.

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Kenneth Clinton vs. Genesis Pharmaceuticals Enterprises, Inc., GTEC Holdings, Capital Growth Financial, Inc., Gary L. Wolfson and Pacific Rim Consultants, Inc. - Case No. 50 2007 CA 023923, Palm Beach County, Florida

On December 21, 2007, Kenneth Clinton, a former director and former President of the Company, filed a lawsuit against the Company and certain entities and persons related to our predecessor Genesis Technology Group, Inc. The complaint alleges, among other things, breach of contract against the Company for an agreement to pay the plaintiff certain shares of other public companies (collectively, the "Reverse Merger Shares") in connection with reverse merger transactions arranged by our predecessor, and breach of contract against the Company for failure to allow the plaintiff to exercise certain stock options for shares in the Company or exchange such options for new shares in the Company. The plaintiff is seeking relief in the form of (1) delivery of the Reverse Merger Shares, or in the alternative damages in the amount of those shares, (2) a judgment against the Company to allow the plaintiff to exchange and exercise his stock option for shares in the Company, or in the alternative damages in the amount of those shares, and (3) a declaratory judgment regarding a pledge and escrow agreement with defendant Capital Growth Financial.

In February 2008, the Company entered into a settlement agreement and general release with Mr. Clinton whereby the Company agreed to allow Mr. Clinton exercise 1.5 million stock options issued under the Company's 2007 stock option plan for shares in the Company and released and discharged Mr. Clinton from any and all claims, demands or obligations. Mr. Clinton agreed to waive and releases the Company from any and all claims, demands or obligations.

Other litigation

The Company currently has pending before the American Arbitration Association the case of *CRG Partners, Inc.("CRG") and Genesis Technology Group, Inc. n/k/a Genesis Pharmaceuticals Enterprises, Inc.* In that matter, CRG seeks breach of contract damages from the Company for approximately 30 million shares of the Company's stock or a dollar amount equal to the value of the stock, estimated by CRG at approximately $10 million. As of the date of this report, the Company is unable to estimate a loss, if any, the Company may incur related expenses to this lawsuit. The Company plans to vigorously defend its position.

Note 23- Subsequent Event

In May 2008, the Company reached an agreement with Mr. Yang Lainkaun to amend a settlement agreement signed in September 2007. Mr. Yang agreed to accept 1,000,000 shares of Gold Horse International Inc. shares and $60,000 in cash instead of the previously agreed 840,000 shares and $120,000 in cash to settle the Company's obligation related to financing of Gold Horse International, Inc. At March 31, 2008, the Company recognized a loss of $133,800 which is recorded in loss from discontinued operations.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING INFORMATION

All statements contained in this Quarterly Report on Form 10-QSB ("Form 10-QSB") for Genesis Pharmaceuticals Enterprises, Inc., other than statements of historical facts, that address future activities, events or developments are forward-looking statements, including, but not limited to, statements containing the words "believe," "anticipate," "expect" and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results will conform to the expectations and predictions of management is subject to a number of risks and uncertainties that may cause actual results to differ materially.

Such risks include, among others, the following: international, national and local general economic and market conditions: our ability to sustain, manage or forecast our growth; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other factors referenced in this and previous filings.

Consequently, all of the forward-looking statements made in this Form 10-QSB are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations. As used in this Form 10-QSB, unless the context requires otherwise, "we" or "us" or "Genesis" or the "Company" means Genesis Pharmaceuticals Enterprises, Inc. and its subsidiaries.

Item 2. Management's Discussion and Analysis or Plan of Operation

The following discussion and analysis of the results of operations and financial condition of Genesis Pharmaceuticals Enterprises, Inc. for the nine months ended March 31, 2008 and 2007 should be read in conjunction with Genesis's financial statements and the notes to those financial statements that are included elsewhere in this Quarterly Report on Form 10-QSB. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the Risk Factors, and Cautionary Notice Regarding Forward-Looking Statements in this Form 10QSB. We use words such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions to identify forward-looking statements.

OVERVIEW

We were originally incorporated on August 15, 2001 in the State of Florida under the name Genesis Technology Group, Inc. On October 12, 2001, we consummated a merger with NewAgeCities.com, an Idaho public corporation originally formed in 1969. We were the surviving entity after the merger with the Idaho public corporation.

On October 1, 2007, we completed a share exchange transaction by and among us, Karmoya International Ltd., a British Virgin Islands company (“Karmoya”), and Karmoya’s shareholders. As a result of the share exchange transaction, Karmoya, a company which was established as a “special purpose vehicle” for the foreign capital raising activities of its Chinese subsidiaries, became our wholly owned subsidiary and our new operating business. Karmoya was incorporated under the laws of the British Virgin Islands on July 17, 2007 and owns 100% of the capital stock of Union Well International Limited, a Cayman Islands company (“Union Well”). Karmoya conducts its business operations through Union Well’s wholly owned subsidiary, Genesis Jiangbo (Laiyang) Biotech Technology Co., Ltd. (“GJBT”). GJBT was incorporated under the laws of the People’s Republic of China ("PRC") on September 16, 2007 and registered as a wholly foreign owned enterprise on September 19, 2007. GJBT has entered into consulting service agreements and equity-related agreements with Laiyang Jiangbo Pharmaceutical Co., Ltd. (“Laiyang Jiangbo”), a PRC limited liability company incorporated on August 18, 2003.

As a result of the share exchange transaction, our primary operations consist of the business and operations of Karmoya and its subsidiaries, which are conducted by Laiyang Jiangbo in the PRC. Laiyang Jiangbo produces and sells western pharmaceutical products in China and focuses on developing innovative medicines to address various medical needs for patients worldwide.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported net sales and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following accounting policies are the most critical to aid you in fully understanding and evaluating this management discussion and analysis:

Inventories

Inventories, consisting of raw materials and finished goods related to the Company’s products are stated at the lower of cost or market utilizing the weighted average method. The Company reviews its inventory periodically for possible obsolete goods or to determine if any reserves are necessary.

Revenue recognition

Product sales are generally recognized when title to the product has transferred to customers in accordance with the terms of the sale. The Company recognizes revenue in accordance with the Securities and Exchange Commission’s Staff Accounting Bulletin (SAB) No. 104, “*Revenue Recognition in Financial Statements*”, and Statement of Financial Accounting Standards (SFAS) No. 48 “*Revenue Recognition When Right of Return Exists.*” SAB 104 states that revenue should not be recognized until it is realized or realizable and earned. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectibility is reasonably assured.

The Company is generally not contractually obligated to accept returns. However, on a case by case negotiated basis, the Company permits customers to return their products. In accordance with SFAS 48 revenue is recorded net of an allowance for estimated returns. Such reserves are based upon management's evaluation of historical experience and estimated costs. The amount of the reserves ultimately required could differ materially in the near term from amounts included in the consolidated financial statements.

Recent accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements"* (SFAS 157), which provides guidance for how companies should measure fair value when required to use a fair value measurement for recognition or disclosure purposes under generally accepted accounting principle (GAAP). SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact, if any, the adoption of SFAS 157 will have on its financial statements.

In December 2006, FASB Staff Position No. EITF 00-19-2, *"Accounting for Registration Payment Arrangements,"* was issued. The FSP specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, *"Accounting for Contingencies."* The Company believes that its current accounting is consistent with the FSP. Accordingly, adoption of the FSP had no effect on its financial statements.

In June 2007, the FASB issued FASB Staff Position No. EITF 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for use in Future Research and Development Activities" ("FSP EITF 07-3"), which addresses whether nonrefundable advance payments for goods or services that used or rendered for research and development activities should be expensed when the advance payment is made or when the research and development activity has been performed.

In December 2007, the FASB issued SFAS 141(R), *"Business Combinations"*, which replaces SFAS 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS 141(R) will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51"* ("SFAS 160"), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company has not determined the effect that the application of SFAS 160 will have on its consolidated financial statements.

RESULTS OF OPERATIONS

Comparison of nine months and three months ended March 31, 2008 and 2007

The following table sets forth the results of our operations for the periods indicated:

	Three Months Ended March 31,				Nine Months Ended March 31			
	2008	2007	Change $	Change %	2008	2007	Change $	Change %
Change %								
SALES	$ 26,231,191	$ 18,472,649	$ 7,758,542	42%	$ 66,648,051	$ 52,876,082	$ 13,771,969	26.05%
SALES- RELATED PARTY	1,869,092	455,580	1,413,512	310.27%	4,611,849	2,963,871	1,647,978	55.6%
COST OF SALES	6,337,822	5,388,811	949,011	17.61%	17,744,379	15,724,047	2,020,332	12.85%
GROSS PROFIT	21,762,461	13,539,418	8,223,043	60.73%	53,515,521	40,115,906	13,399,615	33.4%
RESEARCH AND DEVELOPMENT	967,930	953,560	14,370	1.51%	2,170,240	10,441,060	(8,270,820)	(79.21)%
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	12,136,164	9,658,803	2,477,361	25.65%	29,269,330	18,491,304	10,778,026	58.29%
INCOME FROM OPERATIONS	8,658,367	2,927,055	5,731,312	195.8%	22,075,951	11,183,542	10,892,409	97.4%
OTHER EXPENSES	1,972,269	80,457	1,891,812	2351.33%	2,404,038	210,313	2,193,725	1043.08%
INCOME BEFORE PROVISION FOR INCOME TAXES	6,686,098	2,846,598	3,839,500	134.88%	19,671,913	10,973,229	8,698,684	79.27%
PROVISION FOR INCOME TAXES	2,211,265	970,025	1,241,240	127.96%	6,808,625	3,567,857	3,240,768	90.83%
NET INCOME	4,474,833	1,876,573	2,598,260	138.46%	12,863,288	7,405,372	5,457,916	73.7%
OTHER COMPREHENSIVE INCOME	1,690,597	368,537	1,322,060	358.73%	4,776,631	673,047	4,103,584	609.7%
COMPREHENSIVE INCOME	6,165,430	2,245,110	3,920,320	174.62%	17,639,919	8,078,419	9,561,500	118.36%

REVENUES. During the nine months ended March 31, 2008, we had revenues of $71,259,900 as compared to revenues of $55,839,953 for the nine months ended March 31, 2007, an increase of $15,419,947 or approximately 27.61%. Our revenues include sales to related parties of $4,611,849 as compared to $2,963,871for the nine months ended March 31, 2007, an increase of $1,647,978 or approximately 55.60%. For the three months ended March 31, 2008, we had revenues of $28,100,283 as compared to revenues of $18,928,229 for the three months ended March 31, 2007, and increase of $9,172,054 or 48.46%. For the three months ended March 31, 2008, we had revenues from related party sales of $1,869,092 as compared to $455,580 for the three months ended March 31, 2007, an increase of $1,413,512 or 310.27%. The overall increase in total revenue in the third quarter and the nine months of fiscal 2008 was primarily attributable to the increase of sales volume of our best selling products: Clarithromycin sustained-release tablets and Itopride Hydrochloride Granules. Additionally, we released a new product, Baobaole chewable tablets in the second quarter of fiscal 2008. We believe that our sales will continue to grow as we continue strengthening our sales force, enhancing our brand name recognition and improving the quality of our products.

COST OF SALES. Cost of sales for the nine months ended March 31, 2008 increased $2,020,332 or 12.85%, from $ 15,724,047 for the nine months ended March 31, 2007 to $17,744,379 for the nine months ended March 31, 2008. Cost of sales for the three months ended March 31, 2008 increased $949,011 or 17.61% from $5,388,811 for the three months ended March 31, 2007 to $6,337,822 for the three months ended March 31, 2008. The decrease in cost of sales as a percentage of net revenues for the nine months ended March 31, 2008, approximately 24.90% as compared to the nine months ended March 31, 2007, approximately 28.16%, and the decrease in cost of sales as a percentage of net revenue for the three months ended March 31, 2008, approximately 22.55% as compared to the three months ended March 31, 2007 approximately 28.47%, was primarily attributable to our ability to better manage raw material purchase prices, the high margin on the new product Baobaole chewable tables, more sales being generated from products with higher profit margins and more efficient production.

GROSS PROFIT. Gross profit was $53,515,521 for the nine months ended March 31, 2008 as compared to $40,115,906 for the nine months ended March 31, 2007, representing gross margins of approximately 75.10% and 71.84%, respectively. Gross profit was $21,762,461 for the three months ended March 31, 2008 as compared to $13,539,418 for the three months ended March 31, 2007, representing gross margins of approximately 77.45% and 71.53%, respectively. The increase in our gross profits was mainly due to decrease in cost of sales as a percentage of net revenue as we better managed raw material purchase prices and our product sales mixture to generate more sales from products with higher profit margins.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses totaled $29,269,330 for the nine months ended March 31, 2008, as compared to $ 18,491,304 for the nine months ended March 31, 2007, an increase of $10,778,026 or approximately 58.29%. Selling, general and administrative expenses totaled $12,136,164 for the three months ended March 31, 2008, as compared to $ 9,658,803 for the three months ended March 31, 2007, an increase of $2,477,361 or approximately 25.65% as summarized below:

	Three Months Ended		Nine Months Ended	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
Advertisement, marketing and promotion	$ 6,969,491	$ 7,295,921	$ 19,483,894	$ 13,884,825
Travel and entertainment-sales related	96,519	9,265	404,321	306,501
Depreciation and amortization	126,866	80,527	311,471	174,931
Shipping and handling	106,116	69,833	253,366	209,667
Salaries, wages, commissions and related benefits	4,577,685	2,160,925	7,255,133	2,916,535
Travel and entertainment-non sales related	58,263	4,958	214,589	18,471
Other	201,224	37,374	1,346,556	980,374
Total	$ 12,136,164	$ 9,658,803	$ 29,269,330	$ 18,491,304

The changes in these expenses during the nine months and three months ended March 31, 2008, as compared to the corresponding period in 2007 included the following:

· An increase of $5,599,069 or approximately 40.33% in advertisement, marketing and promotion spending for the nine months ended March 31, 2008 and an decrease of $326,430 or approximately 4.47% for the three months ended March 31, 2008 as compared to the corresponding period in fiscal 2007 were primarily due to TV commercials and magazine advertisements expenses to establish our Baobaole Chewable tablets brand name. Additionally, we also increase our marketing and promotional activities to promote our two other best selling products.

· Travel and entertainment -sales related expenses increased by $97,820 or approximately 31.92% for the nine months ended March 31, 2008 and $87,254 or approximately 941.76% for the three months ended March 31, 2008 as compared to the corresponding period in fiscal 2007 was primarily due to our marketing and sales travel related activities related to promoting our Baobole Chewable tablets and establishing the distribution network for the product.

· Shipping and handling expenses increased by $43,699 or approximately 20.84% for the nine months ended March 31, 2008 and $36,283 or 51.96% for the three months ended March 31, 2008 as compared to the corresponding period of fiscal 2007, primarily because increase in sales volume in fiscal year 2008.

· Depreciation and amortization increased by $136,540 or 78.05% for the nine months ended March 31, 2008 and $46,339 for the three months ended March 31, 2008 as compared to the corresponding period of fiscal 2007, primarily due to additional amortization expenses on the new patent obtained in late fiscal 2007 and additional land use right obtained in the 3rd quarter of fiscal 2008.

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Salaries, wages, commissions and related benefits increased by $4,338,598 or 148.76% for the nine months ended March 31, 2008 and $2,416,760 for the three months ended March 31, 2008 as compared to the corresponding period of fiscal 2007. The increases were primarily due to increase in commission payments to sales representatives as well as an increase in number of employees and sales representatives as a result of expanding our distribution network from 26 provinces and regions to 30 provinces and regions in fiscal 2008.

· An increase of $196,118 or approximately 1061.76% in travel and entertainment -non sales related expenses for the nine months ended March 31, 2008 and $53,305 or 1075.13% for the three months ended March 31, 2007 were primarily due to increase in corporate executives' and managers' travel related to public company related activities.

· Other selling, general and administrative expenses, which includes professional fees, utilities, office supplies and expenses increased by $366,182 or 37.35% for the nine months ended March 31, 2008 and increased by $163,850 or 438.41% for the three months ended March 31, 2008 as compared to the corresponding period in fiscal 2008 primarily due to more professional fees and other miscellaneous expense in fiscal 2008.

RESEARCH AND DEVELOPMENT COSTS. Research and development costs, which consist of cost of material used and salaries paid for the development of the Company's products and fees paid to third parties, totaled $2,170,240 for the nine months ended March 31, 2008, as compared to $10,441,060 for the nine months ended March 31, 2007, a decrease of $8,270,820 or approximately 79.21%. Research and development costs totaled $967,930 for the three months ended March 31, 2008, as compared to $953,560 for the three months ended March 31, 2007, an increase of $14,370 or approximately 1.51%. The significant decrease in research and development expenses for the nine months ended March 31, 2008 was mainly due to major spending on a research and development project conducted as well as payments for new drug clinical trials and project expenses in the second quarter of fiscal 2007. The Company completed several research and development projects in fiscal 2007 and those drugs are currently in the final process of being approved from the Chinese SFDA.

OTHER EXPENSES. Our other expenses consisted of financial expenses and non-operating expenses. We had other expenses of $2,404,038 for the nine months ended March 31, 2008 as compared to other expenses $210,313for the nine months ended March 31, 2007, an increase of $2,193,725or approximately 1043.08%. For the three months ended March 31, 2008, we had other expense of $1,972,269 as compared to $80,457 for the three months ended March 31, 2007, an increase of $1,891,812 or 2351.33%. The increase in other expenses was mainly due to unrealized loss on trading securities, amortization of the debt discount on convertible debenture created by the intrinsic value of the beneficial conversion feature in the debt and the fair value of the warrants issued in conjunction with the debt as well as loss from discontinued operation. Amortization expense on debt discount amounted to $671,296 for the nine months and $416,666 for three months ended March 31, 2008 and the amortization of debt issuance cost amounted to $47,583 for the nine months and $29,534 three months ended March 31, 2008.

NET INCOME. Our net income for the nine months ended March 31, 2008 was $12,863,288 as compared to $7,405,372for the nine months ended March 31, 2007, an increase of $5,457,916 or 73.70%. The net income for the three months ended March 31, 2008 was $4,474,833as compared to $1,876,573 for the three months ended March 31, 2007, an increase of $2,598,260 or 138.46%. The increase in net income is primarily attributable to increase in sales volume of our best selling products, as well as improved profit margin. Our management believes that net income will continue to improve as we will continue to offer better and more products and improve our manufacturing efficiency.

LIQUIDITY AND CAPITAL RESOURCES

Our working capital position increased $14,761,942 to $30,759,382 at March 31, 2008 from $15,997,440 at June 30, 2007. This increase in working capital is primarily attributable to an increase in cash balance of $3.8 million, an increase in marketable equity securities of approximately $2.1 million, an increase in accounts receivable of approximately $8.8 million, an increase in accounts receivable-related parties of approximately $1.5 million, an increase in other receivables and other receivables of $0.3 million, an increase in advance to suppliers of $0.5 million, a decrease in short term bank loans of $1.9 million, a decrease in notes payable of $4.9 million, a decrease in other payable-related parties of $1 million, and a payment of dividend of $10.5 million, and offset by a decrease in restricted cash of $4.9 million, a decrease in other assets of 0.1 million , an increase in accounts payable of $1.4 million, an increase in other payable of $2.4 million, an increase in accrued liabilities of $0.3 million, an increase in liabilities assumed from reorganization of $1.4 million and an increase in taxes payable of $10.5 million.

Net cash provided in operating activities for the nine months ended March 31, 2008 was $17,697,452 as compared to net cash provided by operating activities of $4,283,404 for the nine months ended March 31, 2007. For the nine months ended March 31, 2008, net cash provided in operating activities was primarily attributable to income from continued operations of $13.2 million, increase in accounts payable of $1.2 million, increase in other payable of $2.1 million, increase in accrued liabilities of $0.3 million and increase in taxes payable of $10 million, offset by increase in our accounts receivable and accounts receivable-related parties of $8.6 million, increase in other receivable and other receivable-related parties of $0.3 million and increase in advance to suppliers balances of $0.5 million, and increase in liabilities assumed from reorganization of $1.2 million. For the nine months ended March 31, 2007, net cash provided by operating activities was attributable primarily to our net income of $7.4 million, decrease in inventories of $1.1 million, decrease in our other assets of $1.3 million and increase in our tax payable of $2 million and offset by increases in our accounts receivable and accounts receivable-related parties of $3.5 million, decrease in accounts payable of $2.3 million, and decrease in other payable and other payable-related parties of $ 1.9 million.

Net cash used by investing activities for the nine months ended March 31, 2008 was $7,507,300 attributable to payments on land use rights of $8.2 million and purchases of equipments of $0.4 million and offset by cash acquired in reverse merger of $0.5 million and proceeds from the sale of marketable securities totaling $0.6 million. Net cash used in investing activities for the nine months ended March 31, 2007 amounted to $58,469 which attributable to purchases of equipment.

Net cash used in financing activities was $7,678,043 for the nine months ended March 31, 2008 and was attributable to payments on debt issuance cost of $0.4 million, payments on dividend payable of $10.5 million, payments for bank loans of $5.4 million and a decrease in notes payable of $5.4 million and offset by proceeds from bank loans of $3.3 million, proceeds from sale of common stock of $0.3 million, proceeds from issuance of convertible debt of $5 million, and decrease in restricted cash of $5.4 million. Net cash used in financing activities for the nine months ended March 31, 2007 amounted to $1.3 million which attributable to payments for bank loans of $1.3 million and decrease in notes payable of $0.7 million and offset by increase in restricted cash of $0.7 million.

We reported a net increase in cash for the nine months ended March 31, 2008 of $3,836,836 as compared to a net increase in cash of $3,117,736 for the nine months ended March 31, 2007.

On November 6, 2007, the Company entered into a Securities Purchase Agreement with Pope Investments, LLC ("Pope") pursuant to which the Company issued and sold to Pope for $5,000,000 (a) 6% convertible subordinated debentures due November 30, 2010 and (b) a three-year warrant to purchase 10,000,000 shares of the Company's common stock, par value $0.001 per share, at an exercise price of $0.32 per share, subject to adjustment as provided therein.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions, changing interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our determination of amounts presented in the tables, in order to assist in the review of this information within the context of our consolidated financial position, results of operations, and cash flows.

The following tables summarize our contractual obligations as of March 31, 2008, and the effect these obligations are expected to have on our liquidity and cash flows in future periods.

	Payments Due by Period				
	Total	Less than 1 year	1-3 Years	3-5 Years	5 Years +
	In Thousands				
Contractual Obligations:					
Bank Indebtedness	$ 6,201,804	$ 6,201,804	$ -	$ -	$ -
Research and Development Obligations	$ 11,936,320	$ 4,069,200	$ 6,510,720	$ 1,356,400	$ -
Purchase Obligations	$ -	$ -	$ -	$ -	$ -
Total Contractual Obligations:	$ 18,138,124	$ 10,271,004	$ 6,510,720	$ 1,356,400	$ -

Bank Indebtedness amounts include the short term bank loans amount and notes payable amount.

Off-balance Sheet Arrangements

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Related Party Transactions

Accounts receivable - related parties

The Company is engaged in business activities with three related parties, Jiangbo Chinese-Western Pharmacy, Laiyang Jiangbo Medicals, Co., Ltd and Yantai Jiangbo Pharmaceuticals Co., Ltd. For the nine months ended March 31, 2008 and 2007, the Company recorded net revenues of $4,611,849 and $2,963,871, respectively, from sales to related parties. For the three months ended March 31, 2008 and 2007, the Company recorded net revenues of $1,869,092 and $455,580, respectively, from sales to related parties. As of March 31, 2008, accounts receivable-related parties consisted of the following:

		March 31, 2008 (Unaudited)
Receivable from product sales due from Jiangbo Chinese-Western Pharmacy	$	615,934
Receivable from product sales due from Laiyang Jiangbo Medicals, Co., Ltd.		616,966
Receivable from product sales due from Yantai Jiangbo Pharmaceuticals Co., Ltd.		786,378
Total accounts receivable-related parties	$	2,019,278

Accounts receivable due from related parties are expected to be paid in cash within three to six months.

Other receivable - related parties

The Company leases two of its buildings to Jiangbo Chinese-Western Pharmacy with annual lease rate of 800,000 RMB (approximately $108,512). The Company recorded other income of $81,384 for the nine months ended March 31, 2008 from rent revenue from the buildings leased to the related party company. For the three months ended March 31, 2008, the Company recorded other income of $81,384 related to this lease. As of March 31, 2008, the Company's other receivable related party amounted to $85,680.

Other payable - related parties

From time to time, the Company received advances from its director, shareholders and related parties for its operating activities. These advances are short-term in nature. As of March 31, 2008, the Company's other payable- related party balance amounted to $28,560.

RISK FACTORS

You should carefully consider the risks described below together with all of the other information included in this report before making an investment decision with regard to our securities. The statements contained in or *incorporated into this offering that are not historic facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. If any of the following risks actually occurs, our business, financial condition or results of operations could be harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.*

Risks Relating to Our Business

Our limited operating history makes it difficult to evaluate our future prospects and results of operations.

We have a limited operating history. Laiyang Jiangbo commenced operations in 2003 and first achieved profitability in the fiscal year ended June 30, 2005. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by early stage companies in evolving industries such as the pharmaceutical industry in China. Some of these risks and uncertainties relate to our ability to:

- maintain our market position in the pharmaceuticals business in China;
- offer new and innovative products to attract and retain a larger customer base;
- attract additional customers and increase spending per customer;
- increase awareness of our brand and continue to develop user and customer loyalty;
- respond to competitive market conditions;
- respond to changes in our regulatory environment;
- manage risks associated with intellectual property rights;
- maintain effective control of our costs and expenses;
- raise sufficient capital to sustain and expand our business;
- attract, retain and motivate qualified personnel; and
- upgrade our technology to support additional research and development of new products.

If we are unsuccessful in addressing any of these risks and uncertainties, our business may be materially and adversely affected.

We May Need Additional Financing to Execute Our Business Plan

The revenues from the production and sale of pharmaceutical products and the projected revenues from these products may not be adequate to support our expansion and product development programs. We may need substantial additional funds to build our new production facilities, pursue further research and development, obtain regulatory approvals, market our products, and file, prosecute, defend and enforce our intellectual property rights. We will seek additional funds through public or private equity or debt financing, strategic transactions and/or from other sources. We could enter into collaborative arrangements for the development of particular products that would lead to our relinquishing some or all rights to the related technology or products.

There are no assurances that future funding will be available on favorable terms or at all. If additional funding is not obtained, we will need to reduce, defer or cancel development programs, planned initiatives or overhead expenditures, to the extent necessary. The failure to fund our capital requirements would have a material adverse effect on our business, financial condition and results of operations.

Our Success Depends On Collaborative Partners, Licensees and Other Third Parties Over Whom We Have Limited Control

Due to the complexity of the process of developing pharmaceuticals, our core business depends on arrangements with pharmaceutical institutes, corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, technology rights, manufacturing, marketing and commercialization of our products. We have several research collaborations. Our license agreements could obligate us to diligently bring potential products to market, make milestone payments and royalties that, in some instances, could be substantial, and incur the costs of filing and prosecuting patent applications. There are no assurances that we will be able to establish or maintain collaborations that are important to our business on favorable terms, or at all.

A number of risks arise from our dependence on collaborative agreements with third parties. Product development and commercialization efforts could be adversely affected if any collaborative partner:

- terminates or suspends its agreement with us;
- causes delays;
- fails to timely develop or manufacture in adequate quantities a substance needed in order to conduct clinical trials;
- fails to adequately perform clinical trials;
- determines not to develop, manufacture or commercialize a product to which it has rights; or
- otherwise fails to meet its contractual obligations.

Our collaborative partners could pursue other technologies or develop alternative products that could compete with the products we are developing.

The Profitability of Our Products Will Depend in Part on Our Ability to Protect Proprietary Rights and Operate Without Infringing the Proprietary Rights of Others

The profitability of our products will depend in part on our ability to obtain and maintain patents and licenses and preserve trade secrets, and the period our intellectual property remains exclusive. We must also operate without infringing the proprietary rights of third parties and without third parties circumventing our rights. The patent positions of pharmaceutical enterprises, including ours, are uncertain and involve complex legal and factual questions for which important legal principles are largely unresolved. The pharmaceutical patent situation outside the PRC is uncertain, is currently undergoing review and revision in many countries, and may not protect our intellectual property rights to the same extent as the laws of the PRC. Because patent applications are maintained in secrecy in some cases, we cannot be certain that we or our licensors are the first creators of inventions described in our pending patent applications or patents or the first to file patent applications for such inventions.

Most of our drug products have been approved by the PRC's Food and Drug Administration (SFDA) but have not received patent protection. For instance, Clarithromycin sustained-release tablets, one of our most profitable products, are produced by other companies in China. If any other company were to obtain patent protection for Clarithromycin sustained-release tablets in China, or for any of our other drug products, it would have a material adverse effect on our revenue.

Other companies may independently develop similar products and design around any patented products we develop. We cannot assure you that:

- any of our patent applications will result in the issuance of patents;
- we will develop additional patentable products;
- the patents we have been issued will provide us with any competitive advantages;
- the patents of others will not impede our ability to do business; or

- third parties will not be able to circumvent our patents.

A number of pharmaceutical, research, and academic companies and institutions have developed technologies, filed patent applications or received patents on technologies that may relate to our business. If these technologies, applications or patents conflict with ours, the scope of our current or future patents could be limited or our patent applications could be denied. Our business may be adversely affected if competitors independently develop competing technologies, especially if we do not obtain, or obtain only narrow, patent protection. If patents that cover our activities are issued to other companies, we may not be able to obtain licenses at a reasonable cost, or at all; develop our technology; or introduce, manufacture or sell the products we have planned.

Patent litigation is becoming widespread in the pharmaceutical industry. Such litigation may affect our efforts to form collaborations, to conduct research or development, to conduct clinical testing or to manufacture or market any products under development. There are no assurances that our patents would be held valid or enforceable by a court or that a competitor's technology or product would be found to infringe our patents in the event of patent litigation. Our business could be materially affected by an adverse outcome to such litigation. Similarly, we may need to participate in interference proceedings declared by the U.S. Patent and Trademark Office or equivalent international authorities to determine priority of invention. We could incur substantial costs and devote significant management resources to defend our patent position or to seek a declaration that another company's patents are invalid.

Much of our know-how and technology may not be patentable, though it may constitute trade secrets. There are no assurances that we will be able to meaningfully protect our trade secrets. We cannot assure you that any of our existing confidentiality agreements with employees, consultants, advisors or collaborators will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Collaborators, advisors or consultants may dispute the ownership of proprietary rights to our technology, for example by asserting that they developed the technology independently.

We May Encounter Difficulties in Manufacturing our Products

Before our products can be profitable, they must be produced in commercial quantities in a cost-effective manufacturing process that complies with regulatory requirements, including GMP, production and quality control regulations. If we cannot arrange for or maintain commercial-scale manufacturing on acceptable terms, or if there are delays or difficulties in the manufacturing process, we may not be able to conduct clinical trials, obtain regulatory approval or meet demand for our products. Production of our products could require raw materials which are scarce or which can be obtained only from a limited number of sources. If we are unable to obtain adequate supplies of such raw materials, the development, regulatory approval and marketing of our products could be delayed.

We Could Need More Clinical Trials or Take More Time to Complete Our Clinical Trials Than We Have Planned

Clinical trials vary in design by factors including dosage, end points, length, and controls. We may need to conduct a series of trials to demonstrate the safety and efficacy of our products. The results of these trials may not demonstrate safety or efficacy sufficiently for regulatory authorities to approve our products. Further, the actual schedules for our clinical trials could vary dramatically from the forecasted schedules due to factors including changes in trial design, conflicts with the schedules of participating clinicians and clinical institutions, and changes affecting product supplies for clinical trials.

We rely on collaborators, including academic institutions, governmental agencies and clinical research organizations, to conduct, supervise, monitor and design some or all aspects of clinical trials involving our products. Since these trials depend on governmental participation and funding, we have less control over their timing and design than trials we sponsor. Delays in or failure to commence or complete any planned clinical trials could delay the ultimate timelines for our product releases. Such delays could reduce investors' confidence in our ability to develop products, likely causing our share price to decrease.

We May Not Be Able to Obtain the Regulatory Approvals or Clearances That Are Necessary to Commercialize Our Products

The PRC and other countries impose significant statutory and regulatory obligations upon the manufacture and sale of pharmaceutical products. Each regulatory authority typically has a lengthy approval process in which it examines pre-clinical and clinical data and the facilities in which the product is manufactured. Regulatory submissions must meet complex criteria to demonstrate the safety and efficacy of the ultimate products. Addressing these criteria requires considerable data collection, verification and analysis. We may spend time and money preparing regulatory submissions or applications without assurances as to whether they will be approved on a timely basis or at all.

Our product candidates, some of which are currently in the early stages of development, will require significant additional development and pre-clinical and clinical testing prior to their commercialization. These steps and the process of obtaining required approvals and clearances can be costly and time-consuming. If our potential products are not successfully developed, cannot be proven to be safe and effective through clinical trials, or do not receive applicable regulatory approvals and clearances, or if there are delays in the process:

- the commercialization of our products could be adversely affected;
- any competitive advantages of the products could be diminished; and
- revenues or collaborative milestones from the products could be reduced or delayed.

Governmental and regulatory authorities may approve a product candidate for fewer indications or narrower circumstances than requested or may condition approval on the performance of post-marketing studies for a product candidate. Even if a product receives regulatory approval and clearance, it may later exhibit adverse side effects that limit or prevent its widespread use or that force us to withdraw the product from the market.

Any marketed product and its manufacturer will continue to be subject to strict regulation after approval. Results of post-marketing programs may limit or expand the further marketing of products. Unforeseen problems with an approved product or any violation of regulations could result in restrictions on the product, including its withdrawal from the market and possible civil actions.

In manufacturing our products we will be required to comply with applicable good manufacturing practices regulations, which include requirements relating to quality control and quality assurance, as well as the maintenance of records and documentation. We cannot comply with regulatory requirements, including applicable good manufacturing practice requirements, we may not be allowed to develop or market the product candidates. If we or our manufacturers fail to comply with applicable regulatory requirements at any stage during the regulatory process, we may be subject to sanctions, including fines, product recalls or seizures, injunctions, refusal of regulatory agencies to review pending market approval applications or supplements to approve applications, total or partial suspension of production, civil penalties, withdrawals of previously approved marketing applications and criminal prosecution.

Competitors May Develop and Market Pharmaceutical Products That Are Less Expensive, More Effective or Safer, Making Our Products Obsolete or Uncompetitive

Some of our competitors and potential competitors have greater product development capabilities and financial, scientific, marketing and human resources than we do. Technological competition from pharmaceutical companies is intense and is expected to increase. Other companies have developed technologies that could be the basis for competitive products. Some of these products have an entirely different approach or means of accomplishing the desired curative effect than products we are developing. Alternative products may be developed that are more effective, work faster and are less costly than our products. Competitors may succeed in developing products earlier than us, obtaining approvals and clearances for such products more rapidly than us, or developing products that are more effective than ours. In addition, other forms of treatment may be competitive with our products. Over time, our technology or products may become obsolete or uncompetitive.

Our Products May Not Gain Market Acceptance

Our products may not gain market acceptance in the pharmaceutical community. The degree of market acceptance of any product depends on a number of factors, including establishment and demonstration of clinical efficacy and safety, cost-effectiveness, clinical advantages over alternative products, and marketing and distribution support for the products. Limited information regarding these factors is available in connection with our products or products that may compete with ours.

To directly market and distribute our pharmaceutical products, we or our collaborators require a marketing and sales force with appropriate technical expertise and supporting distribution capabilities. We may not be able to further establish sales, marketing and distribution capabilities or enter into arrangements with third parties on acceptable terms. If we or our partners cannot successfully market and sell our products, our ability to generate revenue will be limited.

Our Operations and the Use of Our Products Could Subject Us to Damages Relating to Injuries or Accidental Contamination.

Our research and development processes involve the controlled use of hazardous materials. We are subject to PRC national, provincial and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and waste products. The risk of accidental contamination or injury from handling and disposing of such materials cannot be completely eliminated. In the event of an accident involving hazardous materials, we could be held liable for resulting damages. We are not insured with respect to this liability. Such liability could exceed our resources. In the future we could incur significant costs to comply with environmental laws and regulations.

If We Were Successfully Sued for Product Liability, We Could Face Substantial Liabilities That May Exceed Our Resources.

We may be held liable if any product we develop, or any product which is made using our technologies, causes injury or is found unsuitable during product testing, manufacturing, marketing, sale or use. These risks are inherent in the development of agricultural and pharmaceutical products. We currently do not have product liability insurance. We are not insured with respect to this liability. If we choose to obtain product liability insurance but cannot obtain sufficient insurance coverage at an acceptable cost or otherwise protect against potential product liability claims, the commercialization of products that we develop may be prevented or inhibited. If we are sued for any injury caused by our products, our liability could exceed our total assets.

We Have Limited Business Insurance Coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. We do not have any business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster may result in our incurring substantial costs and the diversion of our resources.

Our Success Depends on Attracting and Retaining Qualified Personnel

We depend on a core management and scientific team. The loss of any of these individuals could prevent us from achieving our business objective of commercializing our product candidates. Our future success will depend in large part on our continued ability to attract and retain other highly qualified scientific, technical and management personnel, as well as personnel with expertise in clinical testing and government regulation. We face competition for personnel from other companies, universities, public and private research institutions, government entities and other organizations. If our recruitment and retention efforts are unsuccessful, our business operations could suffer.

Risks Related to Our Corporate Structure

PRC laws and regulations governing our businesses and the validity of certain of our contractual arrangements are uncertain. If we are found to be in violation, we could be subject to sanctions. In addition, changes in such PRC laws and regulations may materially and adversely affect our business.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our contractual arrangements with our affiliated Chinese entity, Laiyang Jiangbo, and its shareholders. We are considered a foreign person or foreign invested enterprise under PRC law. As a result, we are subject to PRC law limitations on foreign ownership of Chinese companies. These laws and regulations are relatively new and may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

The PRC government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new PRC laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future PRC laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

We may be adversely affected by complexity, uncertainties and changes in PRC regulation of pharmaceutical business and companies, including limitations on our ability to own key assets.

The PRC government regulates the pharmaceutical industry including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the pharmaceutical industry. These laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be a violation of applicable laws and regulations. Issues, risks and uncertainties relating to PRC government regulation of the pharmaceutical industry include the following:

- we only have contractual control over Laiyang Jiangbo. We do not own it due to the restriction of foreign investment in Chinese businesses; and

- uncertainties relating to the regulation of the pharmaceutical business in China, including evolving licensing practices, means that permits, licenses or operations at our company may be subject to challenge. This may disrupt our business, or subject us to sanctions, requirements to increase capital or other conditions or enforcement, or compromise enforceability of related contractual arrangements, or have other harmful effects on us.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, pharmaceutical businesses in China, including our business.

In order to comply with PRC laws limiting foreign ownership of Chinese companies, we conduct our pharmaceutical business through Laiyang Jiangbo by means of contractual arrangements. If the PRC government determines that these contractual arrangements do not comply with applicable regulations, our business could be adversely affected.

The PRC government restricts foreign investment in pharmaceutical businesses in China. Accordingly, we operate our business in China through Laiyang Jiangbo. Laiyang Jiangbo holds the licenses and approvals necessary to operate our pharmaceutical business in China. We have contractual arrangements with Laiyang Jiangbo and its shareholders that allow us to substantially control Laiyang Jiangbo. We cannot assure you, however, that we will be able to enforce these contracts.

Although we believe we comply with current PRC regulations, we cannot assure you that the PRC government would agree that these operating arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. If the PRC government determines that we do not comply with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business.

Our contractual arrangements with Laiyang Jiangbo and its shareholders may not be as effective in providing control over these entities as direct ownership.

Since PRC law limits foreign equity ownership in companies in China, we operate our pharmaceutical business through an affiliated Chinese company, Laiyang Jiangbo. We have no equity ownership interest in Laiyang Jiangbo and rely on contractual arrangements to control and operate such business. These contractual arrangements may not be as effective in providing control over Laiyang Jiangbo as direct ownership. For example, Laiyang Jiangbo could fail to take actions required for our business despite its contractual obligation to do so. If Laiyang Jiangbo fails to perform under their agreements with us, we may have to rely on legal remedies under PRC law, which may not be effective. In addition, we cannot assure you that Laiyang Jiangbo's shareholders would always act in our best interests.

The Chairman of the Board of Directors of Laiyang Jiangbo has potential conflicts of interest with us, which may adversely affect our business.

Mr. Cao Wubo, our Chairman and Chief Executive Officer, is also the Chairman of the Board of Directors and General Manager of Laiyang Jiangbo. Conflicts of interests between his duties to our company and Laiyang Jiangbo may arise. As Mr. Cao is a director and executive officer of our company, he has a duty of loyalty and care to us under Florida law when there are any potential conflicts of interests between our company and Laiyang Jiangbo. We cannot assure you, however, that when conflicts of interest arise, Mr. Cao will act completely in our interests or that conflicts of interests will be resolved in our favor. In addition, Mr. Cao could violate his legal duties by diverting business opportunities from us to others. If we cannot resolve any conflicts of interest between us and Mr. Cao, we would have to rely on legal proceedings, which could result in the disruption of our business.

Risks Related to Doing Business in China

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. Since early 2004, the PRC government has implemented certain measures to control the pace of economic growth. Such measures may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition.

If PRC law were to phase out the preferential tax benefits currently being extended to foreign invested enterprises and “new or high-technology enterprises” located in a high-tech zone, we would have to pay more taxes, which could have a material and adverse effect on our financial condition and results of operations.

Previously, under PRC laws and regulations, a foreign invested enterprise may enjoy preferential tax benefits if it is registered in a high-tech zone and also qualifies as “new or high-technology enterprise”. As a foreign invested enterprise as well as a certified “new or high-technology enterprise” located in an economic development zone in Laiyang City, GJBT was entitled to a three-year exemption from enterprise income tax beginning from its first year of operation, a 7.5% enterprise income tax rate for another three years followed by a 15% tax rate so long as it continues to qualify as a “new or high-technology enterprise.” Furthermore, GJBT may apply for a refund of the 5% business tax levied on its total revenues derived from its technology consulting services. On March 16, 2007, the National People's Congress of China passed the new Enterprise Income Tax Law ("EIT Law"), and on November 28, 2007, the State Council of China passed the Implementing Rules for the EIT Law ("Implementing Rules") which took effect on January 1, 2008. The EIT Law and Implementing Rules impose a unified EIT of 25.0% on all domestic-invested enterprises and FIEs, unless they qualify under certain limited exceptions. Therefore, CJBT is subject to the new tax rate alongside other domestic businesses rather than benefiting from the FEIT, and its associated preferential tax treatments, beginning January 1, 2008. Loss of these preferential tax treatments could have a material and adverse effect on our financial condition and results of operations.

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Additionally, Under the PRC enterprise income tax (“EIT”) Law, an enterprise established outside of China with "de facto management bodies" within China is considered a resident enterprise and will normally be subject to an EIT of 25.0% on its global income. The Implementing Rules define the term "de facto management bodies" as "an establishment that exercises, in substance, overall management and control over the production, business, personnel, accounting, etc., of a Chinese enterprise." If the PRC tax authorities subsequently determine that the Company should be classified as a resident enterprise, then the organization's global income will be subject to PRC income tax of 25.0%.

Laiyang Jiangbo is subject to restrictions on making payments to us.

We are a holding company incorporated in the State of Florida and do not have any assets or conduct any business operations other than our investments in our affiliated entity in China, Laiyang Jiangbo. As a result of our holding company structure, we rely entirely on payments from Laiyang Jiangbo under our contractual arrangements. The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. See “Government control of currency conversion may affect the value of your investment.” Furthermore, if our affiliated entity in China incurs debt on its own in the future, the instruments governing the debt may restrict its ability to make payments. If we are unable to receive all of the revenues from our operations through these contractual or dividend arrangements, we may be unable to pay dividends on our ordinary shares.

Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct our business primarily through our affiliated Chinese entity, Laiyang Jiangbo. Our operations in China are governed by PRC laws and regulations. We are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us, our management or the experts named in the prospectus.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, most of our senior executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current structure, our income is primarily derived from payments from Laiyang Jiangbo. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and our affiliated entity to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

Fluctuation in the value of RMB may have a material adverse effect on your investment.

The value of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. Our revenues and costs are mostly denominated in RMB, while a significant portion of our financial assets are denominated in U.S. dollars. We rely entirely on fees paid to us by our affiliated entity in China. Any significant fluctuation in value of RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our stock in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would make any new RMB denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes. An appreciation of RMB against the U.S. dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our U.S. dollar denominated financial assets into RMB, as RMB is our reporting currency.

We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of SARS or another epidemic or outbreak. China reported a number of cases of SARS in April 2004. Any prolonged recurrence of SARS or other adverse public health developments in China may have a material adverse effect on our business operations. For instance, health or other government regulations adopted in response may require temporary closure of our production facilities or of our offices. Such closures would severely disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of SARS or any other epidemic.

Risks Related to an Investment in Our Securities

No Cash Dividends Will be Paid in the Foreseeable Future.

We do not anticipate paying cash dividends on our common stock in the foreseeable future and we may not have sufficient funds legally available to pay dividends. Even if the funds are legally available for distribution, we may nevertheless decide not to pay any dividends. We intend to retain all earnings for our operations.

The Application of the "Penny Stock" Rules Could Adversely Affect the Market Price of Our Common Stock and Increase Your Transaction Costs to Sell Those Shares.

As long as the trading price of our common shares is below $5 per share, the open-market trading of our common shares will be subject to the "penny stock" rules. The "penny stock" rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser's written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability or decrease the willingness of broker-dealers to sell our common shares, and may result in decreased liquidity for our common shares and increased transaction costs for sales and purchases of our common shares as compared to other securities.

Our Common Shares are Thinly Traded and, You May be Unable to Sell at or Near Ask Prices or at All if You Need to Sell Your Shares to Raise Money or Otherwise Desire to Liquidate Your Shares.

We cannot predict the extent to which an active public market for its common stock will develop or be sustained. However, we do not rule out the possibility of applying for listing on the Nasdaq National Market or other exchanges.

Our common shares have historically been sporadically or "thinly-traded" on the “Over-the-Counter Bulletin Board”, meaning that the number of persons interested in purchasing our common shares at or near bid prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained.

The market price for our common stock is particularly volatile given our status as a relatively small company with a small and thinly traded “float” and lack of current revenues that could lead to wide fluctuations in our share price. The price at which you purchase our common stock may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common stock at or above your purchase price if at all, which may result in substantial losses to you.

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The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or "risky" investment due to our lack of revenues or profits to date and uncertainty of future market acceptance for our current and potential products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; adverse outcomes; the termination of our contractual agreements with Laiyang Jiangbo; and additions or departures of our key personnel, as well as other items discussed under this "Risk Factors" section, as well as elsewhere in this Current Report. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price. However, we do not rule out the possibility of applying for listing on the Nasdaq National Market or other exchanges.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

Volatility in Our Common Share Price May Subject Us To Securities Litigation.

The market for our common stock is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may, in the future, be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

Our Corporate Actions are Substantially Controlled by our Principal Shareholders and Affiliated Entities.

Our principal shareholders and their affiliated entities own approximately 75% of our outstanding common shares, representing approximately 75% of our voting power. These shareholders, acting individually or as a group, could exert substantial influence over matters such as electing directors and approving mergers or other business combination transactions. In addition, because of the percentage of ownership and voting concentration in these principal shareholders and their affiliated entities, elections of our board of directors will generally be within the control of these shareholders and their affiliated entities. While all of our shareholders are entitled to vote on matters submitted to our shareholders for approval, the concentration of shares and voting control presently lies with these principal shareholders and their affiliated entities. As such, it would be difficult for shareholders to propose and have approved proposals not supported by management. There can be no assurances that matters voted upon by our officers and directors in their capacity as shareholders will be viewed favorably by all shareholders of our company.

The Elimination of Monetary Liability Against our Directors, Officers and Employees under Florida law and the Existence of Indemnification Rights to our Directors, Officers and Employees may Result in Substantial Expenditures by Us and May Discourage Lawsuits Against our Directors, Officers and Employees.

Our articles of incorporation contain specific provisions that eliminate the liability of our directors for monetary damages to our company and shareholders, and we are prepared to give such indemnification to our directors and officers to the extent provided by Florida law. We may also have contractual indemnification obligations under our employment agreements with our officers. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors and officers even though such actions, if successful, might otherwise benefit our company and shareholders.

Legislative Actions, Higher Insurance Costs and Potential New Accounting Pronouncements May Impact our Future Financial Position and Results of Operations.

There have been regulatory changes, including the Sarbanes-Oxley Act of 2002, and there may potentially be new accounting pronouncements or additional regulatory rulings that will have an impact on our future financial position and results of operations. The Sarbanes-Oxley Act of 2002 and other rule changes as well as proposed legislative initiatives following the Enron bankruptcy are likely to increase general and administrative costs and expenses. In addition, insurers are likely to increase premiums as a result of high claims rates over the past several years, which we expect will increase our premiums for insurance policies. Further, there could be changes in certain accounting rules. These and other potential changes could materially increase the expenses we report under generally accepted accounting principles, and adversely affect our operating results.

Past Activities Of Genesis And Its Affiliates May Lead To Future Liability.

Prior to the Exchange Agreement among Genesis, Karmoya and the Karmoya Shareholders executed on October 1, 2007, we engaged in businesses unrelated to our current operations. Neither Genesis's prior management nor any of its shareholders prior to the Exchange Transaction are providing indemnifications against any loss, liability, claim, damage or expense arising out of or based on any breach of or inaccuracy in any of their representations and warranties made regarding such acquisition, and any liabilities relating to such prior business against which we are not completely indemnified may have a material adverse effect on our company.

For example, we are aware of three lawsuits arising from past activities of Genesis, alleging breach of contract. Please see Item 1 of Part II, “Legal Proceedings”, for more information.

The market price for our stock may be volatile.

The market price for our stock may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- conditions in pharmaceutical and agricultural markets;
- changes in the economic performance or market valuations of other pharmaceutical companies;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- addition or departure of key personnel;
- fluctuations of exchange rates between RMB and the U.S. dollar;
- intellectual property litigation; and
- general economic or political conditions in China.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our stock.

We may need additional capital, and the sale of additional shares or other equity securities could result in additional dilution to our shareholders.

We believe that our current cash and cash equivalents, anticipated cash flow from operations and the net proceeds from a proposed offering will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

We will be subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of our internal controls over financial reporting. Our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may still decline to attest to our management's assessment or may issue a report that is qualified if it is not satisfied with our controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. Effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our stock. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

We will incur increased costs as a result of being a public company.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act and other new rules subsequently implemented by Securities and Exchange Commission have required changes in corporate governance practices of public companies. We expect these new rules and regulations to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. In addition, we will incur additional costs associated with our public company reporting requirements. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules, regulations and related forms, and that such information is accumulated and communicated to our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management is also responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control over financial reporting is 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.

Our 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 the Company;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our 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. 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. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and our principal financial officer of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

ITEM 3A(T) CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

(a) *Evaluation of disclosure controls and procedures*. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the applicable period to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

(b) Changes in Internal Control over Financial Reporting

During the fiscal quarter to which this report relates, there were no changes in the Company’s internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation and there were no corrective actions with regard to deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Except as discussed below, we are not a party to any pending legal proceeding, nor are we aware of any legal proceedings being contemplated against us by any governmental authority:

Elizabeth Hiromoto et al v. Telecom Communications, Inc. et al. - Case No. 2:07-cv-07858-PSG-E, United States District Court, Central District of California (Western Division - Los Angeles)

On December 3, 2007, two individuals filed a lawsuit against the Company, its former Chief Executive Officer James Wang, and certain others, alleging breach of contract. As the date of this report, the Company is unable to estimate a loss, if any, the Company may incur related to this lawsuit. The Company plans to vigorously defend its position.

Fernando Praca, Plaintiff v.s. EXTREMA, LLC and Genesis Pharmaceuticals Enterprises, Inc.- Case No. 50 2005 CA 005317, Palm Beach County, Florida

Fernando Praca, former Director and former President of the Company's discontinued subsidiary, Extrema LLC, filed an action in Dade County, Florida against Extrema, LLC and the Company in June 2005 relating to damages arising from the sale of Extrema LLC to Genesis Technology Group, Inc. Praca had filed a Motion of Temporary Injunction but had not proceeded to move this case forward. The plaintiff has decided to reinitiate the legal action in March 2008. As of the date of this report, the Company is unable to estimate a loss, if any, the Company may incur related expenses to this lawsuit. The Company plans to vigorously defend its position.

CRG Partners, Inc. and Genesis Technology Group, Inc., n/k/a Genesis Pharmaceuticals Enterprises, Inc. (ARBITRATION) - Case No. 32 145 Y 00976 07, American Arbitration Association, Southeast Case Management Center

On December 4, 2007, CRG Partners, Inc. ("CRG"), a former consultant of the Company, filed a demand for arbitration against the Company alleging breach of contract and seeking damages of approximately $10 million as compensation for consulting services rendered to the Company. The amount of damages sought by the claimant is equal to the dollar value as of 29,978,900 shares of the Company's common stock which the claimant alleges are due and owing to CRG. On December 5, 2007, we gave notice of termination of our relationship with CRG under the consulting agreement. The arbitration is scheduled to be conducted in Miami Dade County, Florida. We plan to vigorously defend our position.

Kenneth Clinton vs. Genesis Pharmaceuticals Enterprises, Inc., GTEC Holdings, Capital Growth Financial, Inc., Gary L. Wolfson and Pacific Rim Consultants, Inc. - Case No. 50 2007 CA 023923, Palm Beach County, Florida

On December 21, 2007, Kenneth Clinton, a former director and former President of the Company, filed a lawsuit against the Company and certain entities and persons related to our predecessor Genesis Technology Group, Inc. The complaint alleges, among other things, breach of contract against the Company for an agreement to pay the plaintiff certain shares of other public companies (collectively, the "Reverse Merger Shares") in connection with reverse merger transactions arranged by our predecessor, and breach of contract against the Company for failure to allow the plaintiff to exercise certain stock options for shares in the Company or exchange such options for new shares in the Company. The plaintiff is seeking relief in the form of (1) delivery of the Reverse Merger Shares, or in the alternative damages in the amount of those shares, (2) a judgment against the Company to allow the plaintiff to exchange and exercise his stock option for shares in the Company, or in the alternative damages in the amount of those shares, and (3) a declaratory judgment regarding a pledge and escrow agreement with defendant Capital Growth Financial.

In February 2008, the Company entered into a settlement agreement and general release with Mr. Clinton whereby the Company agreed to allow Mr. Clinton exercise 1.5 million stock options issued under the Company's 2007 stock option plan for shares in the Company and released and discharged Mr. Clinton from any and all claims, demands or obligations. Mr. Clinton agreed to waive and releases the Company from any and all claims, demands or obligations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following is a summary of the transactions by us during the period covered by this report involving sales of our securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act"). Except as noted below, we have sold or issued the following securities by reason of the exemption afforded under Section 4(2) of the Securities Act. Except as stated below, no underwriting discounts or commissions were payable with respect to any of the following transactions. The offers and sales of the following securities were exempt from the registration requirements of the Securities Act under Rule 506 insofar as (1) except as stated below, each of the investors was accredited within the meaning of Rule 501(a); (2) the transfer of the securities were restricted by us in accordance with Rule 502(d); (3) there were no more than 35 non-accredited investors in any transaction within the meaning of Rule 506(b), after taking into consideration all prior investors under Section 4(2) of the Securities Act within the twelve months preceding the transaction; and (4) none of the offers and sales were effected through any general solicitation or general advertising within the meaning of Rule 502(c):

In February 2008, in conjunction with a settlement between the Company and the Company's former officer, the former officer exercised 1,500,000 options and remaining 941,406 options held by the former officer were cancelled. The Company received $157,500 in cash and the proceed is used for working capital purposes.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Securities Holders.

There were no matters submitted to a vote of security holders during the period covered by this report.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit Number	Description
2.1	Articles of Merger between Genesis Technology Group and Newagecities.com (11)
2.2	Share Acquisition and Exchange Agreement by and among Genesis, Karmoya and Karmoya Shareholders dated October 1, 2007 (1)
3.1	Articles of Incorporation of Genesis Technology Group, Inc., a Florida corporation (11)
3.2	Amended and Restated Articles of Incorporation (11)

3.3	Articles of Amendment to Articles of Incorporation (2)
3.3	Bylaws of Genesis Technology Group, Inc., a Florida corporation (11)
4.1	Articles of Amendment to Articles of Incorporation, Preferences and Rights of Series A Preferred Stock (3)
4.2	Articles of Amendment to Articles of Incorporation, Preferences and Rights of Series B Voting Convertible Preferred Stock (4)
4.3	6% Convertible Subordinated Debenture, dated November 7, 2007 (5)
4.4	Common Stock Purchase Warrant, dated November 7, 2007 (5)
10.1	Genesis Technology Group, Inc. 2002 Stock Option Plan (6)
10.2	Genesis Technology Group 2002 Stock Option Plan, as amended (7)
10.3	Genesis Technology Group 2003 Stock Option Plan (8)
10.4	Genesis Technology Group 2004 Stock Option Plan, as amended (9)
10.5	Employment Agreement with Elsa Sung dated October 1, 2007 (4)
10.6	Securities Purchase Agreement, dated as of November 6, 2007, between Genesis Pharmaceuticals Enterprises, Inc. and Pope Investments, LLC (5)
10.7	Registration Rights Agreement, dated as of November 6, 2007, between Genesis Pharmaceuticals Enterprises, Inc. and Pope Investments, LLC (5)
10.8	Closing Escrow Agreement, dated as of November 6, 2007, by and among Genesis Pharmaceuticals Enterprises, Inc., Pope Investments, LLC and Sichenzia Ross Friedman Ference LLP (5)
31.1	Section 302 Certificate of Chief Executive Officer *
31.2	Section 302 Certificate of Chief Financial Officer *
32.1	Section 906 Certificate of Chief Executive Officer *
32.2	Section 906 Certificate of Chief Financial Officer *
99.1	Consulting Services Agreement between Genesis Jiangbo (Laiyang) Biotech Technologies Co., Ltd., and Laiyang Jiangbo Pharmaceutical Co., Ltd. dated September 21, 2007 (English Translation) (1)
99.2	Equity Pledge Agreement between Genesis Jiangbo (Laiyang) Biotech Technologies Co., Ltd., and Laiyang Jiangbo Pharmaceutical Co., Ltd. dated September 21, 2007 (English Translation) (1)

99.3	Operating Agreement between Genesis Jiangbo (Laiyang) Biotech Technologies Co., Ltd., and Laiyang Jiangbo Pharmaceutical Co., Ltd. dated September 21, 2007 (English Translation) (1)
99.4	Proxy Agreement between Genesis Jiangbo (Laiyang) Biotech Technologies Co., Ltd., and Laiyang Jiangbo Pharmaceutical Co., Ltd. dated September 21, 2007 (English Translation) (1)
99.5	Option Agreement between Genesis Jiangbo (Laiyang) Biotech Technologies Co., Ltd., and Laiyang Jiangbo Pharmaceutical Co., Ltd. dated September 21, 2007 (English Translation) (1)
99.6	Letter of Resignation from Gary Wolfson to the Board of Directors (1)
99.7	Letter of Resignation from Kenneth Clinton to the Board of Directors (1)
99.8	Letter of Resignation from Shaohua Tan to the Board of Directors (1)
99.9	Letter of Resignation from Adam Wasserman to the Board of Directors (1)

*Filed Herewith

(1) Incorporated by reference to exhibits filed with our Current Report on Form 8-K as filed on October 2, 2007.

(2) Incorporated by reference to exhibits filed with our Current Report on Form 8-K as filed on October 26, 2007.

(3) Incorporated by reference to exhibits filed with our Current Report on Form 8-K as filed on January 22, 2004.

(4) Incorporated by reference to exhibits filed with our Current Report on Form 8-K as filed on October 9, 2007.

(5) Incorporated by reference to exhibits filed with our Current Report on Form 8-K as filed on November 9, 2007.

(6) Incorporated by reference to exhibits filed with our registration statement on Form S-8 filed on March 26, 2002.

(7) Incorporated by reference to exhibits filed with our registration statement on Form S-8 as filed on December 17, 2002.

(8) Incorporated by reference to exhibits filed with our registration statement on Form S-8 as filed on June 5, 2003.

(9) Incorporated by reference to exhibit filed with our registration statement on Form S-8 as filed on September 30, 2005.

(10) Incorporated by reference to exhibits filed with our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2005 as filed on January 13, 2006.

(11) Incorporated by reference to exhibits filed with our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2007 as filed on January 15, 2008.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENESIS PHARMACEUTICALS ENTERPRISES, INC.
(Registrant)

Date: May 15, 2008

By: /s/ Cao Wubo

Cao Wubo
Chief Executive Officer and President

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ers. In view of the foregoing, as well as the contractual relationship that binds Adesol to the provision of said services, the Company s subsidiary is, at the closing date of these unaudited consolidated financial statements, executing the technical plan for migration presented.

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- **Audiovisual Communications Law of Uruguay**

On January 14, 2015, Law No. 19,307 was published in the Official Gazette of the Republic of Uruguay, which regulates the provision of radio, television, and other audiovisual communication services (hereinafter, the Audiovisual Communications Law). Section 202 of such law provides that the Executive Branch shall issue the implementing regulations for this law within a 120-day term as from the day following the publication of this law in the Official Gazette. As of the date of these consolidated unaudited financial statements, only Decree No. 45/015 has been issued, and the implementing regulations for most of the sections of this law are still pending. Such Decree provides that the concession for the use and allocation of the radio-electric spectrum for non-satellite audiovisual communication services shall be granted for a term of 15 years.

Section 54 of the Audiovisual Communications Law sets forth that an individual or legal entity cannot be allocated the full or partial ownership of more than six authorizations or licenses to provide television services to subscribers in the national territory of the Oriental Republic of Uruguay, which limit is reduced to three if one of the authorizations or licenses includes the district of Montevideo. Section 189 of this law sets forth that should such limits be exceeded as of the coming into force of the Law, the owners of those audiovisual communication services shall have to transfer the necessary authorizations or licenses so as not to exceed such limits within a term of 4 years as from the coming into effect of the Audiovisual Communications Law.

The subsidiary Adesol is analyzing the possible impact on its business that could be derived from the change in the regulatory framework and the eventual legal actions it may bring to safeguard its rights and those of its shareholders. That company is also monitoring the different unconstitutionality claims filed by other companies against certain sections of the above-mentioned law to consider if the decisions to be issued by the Supreme Court of Uruguay in those proceedings may be favorable to the position of Adesol in the future. As of April 7, 2016, 28 unconstitutionality claims had been brought against the above-mentioned law. As of the date of these financial statements, the Supreme Court of Uruguay has issued 28 decisions, whereby it declared the unconstitutionality of Section 39 subsection 3, Section 55, Section 56 subsection 1, Section 60 paragraph C, Section 98 subsection 2, Section 117 subsection 2, Section 143 and Section 149 subsection 2 of Law No. 19,307. It should be noted that in some of these judgments the Supreme Court dismissed the unconstitutionality claim filed by the claimant with respect to Section 54 of that Law.

ü **NEW GENERAL RULES**

New General Rules Governing ICT Services Licenses

On January 2, 2018, the Ministry of Modernization issued Resolution No. 697/2017, whereby it approved the new General Rules Governing ICT Services Licenses. This Resolution repealed the General Rules approved through Annex I of Decree No. 764/2000, as from the date it became effective (February 1, 2018), and it also repealed ENACOM Resolutions No. 2,483/2016 and No. 1,394/2016 (except for Section 12 of its Annex I, which will remain in effect). The Company has made presentations appealing to some aspects of this Resolution.

New General Rules Governing ICT Services Customers

On January 4, 2018, the Ministry of Modernization issued Resolution No. 733/2017, whereby it approved the new General Rules Governing ICT Services Customers. This Resolution became effective on March 5, 2018, repealing SC Resolutions No.490/1997, and Annexes I and III of SC Resolution No. 10,059/1999 and its supplementing regulations. Annex II of SC Resolution No. 10,059/1999 shall remain in effect, as applicable, until the enactment of the penalty regime provided under Section 63 of LAD. Such New General Rules repeal the current general rules governing mobile and basic telephony services customers, thus becoming the only general rules that govern ICT services customers, including Internet access services and subscription broadcasting services.

The Company has made a presentation to the Ministry of Modernization in relation to some disposals that affect their rights in the marketing of services under their responsibility (such as the 180-day period during which prepaid credit can be used, Section 56, which provides for compensation in favor of the customer, and Section 79, which establishes the obligation to replace any channels eliminated from the programming grid with other channels of similar quality).

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Number Portability Regulation

On April 4, 2018, the Ministry of Modernization issued Resolution No. 203/2018, whereby it approved the new General Rules Governing Number Portability, including fix telephony services, and approves the schedule of implementation of such services. This Resolution repeals Resolutions N° SC 98/2010, SC 67/2011 y SC 21/2013 and Resolution MINCOM E 170/2017, and its supplementing regulations. The Company is evaluating the impact of the new regulations issued in relation to the implementation of number portability for fixed telephony services reached by the standard. Through Resolution No. 401/2018, published on July 11, 2018, the Ministry of Modernization decided to extend for ninety (90) business days the term for the implementation of Stage 1 provided under the implementation schedule for fixed telephony service number portability. Said Resolution also provided that the ENACOM shall determine the way in which the Committee on Number Portability will be constituted and implemented.

Through Resolution No. 4,950/18 of August 14, 2018, the Board of the ENACOM decided to delegate to the owner of the first operational level of the National Directorate of Planning and Convergence of that Agency, the powers to: (i) approve the Processes and Technical and Operational Specifications of the Number Portability, (ii) approve the specification model for the selection of the Administrator of the Contract Database to be held between the Portable Service Providers and the Database Administrator and propose the modifications pertinent to the Committee on Number Portability, (iii) intervene with binding character in the procedure of contracting the Administrator of the Database.

This Resolution also provided that the Committee on Number Portability shall be composed of two representatives, a holder and an alternate, and approved the work schedule in order to carry out the correct implementation of the Number Portability.

Regulations Regarding New Interconnections and Accesses

On May 18, 2018, the Resolution No. 286/18 of the Ministry of Modernization was published in the Official Gazette, approving the new interconnection and access regulations, effective as of July 3, 2018, repealing the one approved by Decree 764/00.

According to the new Regulation, the terms, conditions and prices of Interconnection and Access may be freely set by the parties. These agreements cannot be discriminatory or set technical conditions that prevent, delay or hinder interconnection. Notwithstanding the foregoing, within 60 working days from the effective date, ENACOM will set provisional interconnection charges, in accordance with the provisions of Decree 1,340/16.

In addition, ICT service providers will be obliged to provide interconnection at the request of another ICT service provider, under technical and economic conditions no less favorable than those granted to themselves or to third parties. Also, the same quality of services as the one provided must be guaranteed.

Transparency in compensation must be guaranteed and ICT Providers of Services must not pay for functions or services that they do not need for the provision of their services.

Finally, the following are considered Essential Facilities: a) Origination or Local Termination; b) Co-location; c) Local Transit Service; d) Port; e) Signaling Function; f) Loop and Local Customer Sub-loop; g) the Transportation Service (LD), when there is no substitute offer for contracting; and h) any other function or network element that the authority determines as such, ex officio or at the request of a party. These facilities must be provided separately and respecting the charges that the authority establishes. For this purpose, ENACOM will establish reference values, which will function as maximum values, and lower values, which may be agreed between the parties.

From the entry into force of the regulation, on July 4, 2018, Telecom will have a period of 90 business days to present the Reference Offer to ENACOM. The ENACOM may observe it, requesting its correction, before registering it. Once registered, Telecom will have 180 consecutive days to renegotiate and adapt its current interconnection agreements, present them to the ENACOM and to make it public.

On August 14, 2018, ENACOM issued Resolution No. 4,952/18, establishing a provisional charge equivalent to US$0.0108 per minute of communication, without considering the different taxes and charges that may be applicable for the origination services or local termination in the mobile communications service networks. Likewise, it is established that for the purposes of applying the fixed charge, the unit of measurement will be the second.

As of the date of issuance of these unaudited consolidated financial statements, the determination of the termination charge in fixed service networks is still pending.

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- **Public consultation procedure on Infrastructure Sharing**

Through Resolution of the Secretariat of Information and Communication Technologies (SETIC) No. 18/2018 of August 24, 2018, it was declared the opening of the procedure provided for in Article 44 and following of the General Rules of Public Hearings and Consultation Documents for Communications, regarding the document Public Consultation on Infrastructure Sharing . On October 8, 2018, Telecom presented its opinions and observations on the document in consultation.

ü **DECREE NO. 1,060/2017 - DEVELOPMENT OF MOBILE COMMUNICATION SERVICES NETWORKS**

This Decree, published in the Official Gazette on December 21, 2017, provides for the facilitation of the development of mobile communication services networks, establishing, among other provisions, that the jurisdictions and agencies comprised in subsections a) and b) of Section 8 of Law No. 24,156 shall ensure TIC services, communication and independent operators of passive infrastructure multiple or shared access, for consideration, to passive infrastructures for the deployment of networks under neutral, unbiased, transparent, fair and non-discriminatory conditions, without the possibility of granting any exclusiveness or preference whatsoever, in fact or in law, provided that such access does not compromise the continuity and security of the services provided by its holder.

The Decree also provides that:

1) The Ministry of Modernization:

a. shall issue comprehensive general rules with supplementary regulations for infrastructure sharing;

b. shall develop, within a term of 180 days, a multi-year spectrum plan in order to maximize and increase the radioelectric resources for the deployment of next-generation mobile networks and SCM in order to support traffic growth and improve service quality;

c. shall issue supplementary or clarifying regulations relating to Section 29 of LAD, establishing efficient procedures and avoiding distortions in competition;

d. shall identify radioelectric spectrum frequency bands for the development of new services and wireless applications and issue regulations allowing for their shared and unauthorized use.

2) It shall substitute Section 3 of Decree No. 798 dated June 21, 2016 with the following:
SECTION 3.- Mobile communications service (SCM, for its Spanish acronym) is defined as wireless telecommunications service with multiple capabilities which, irrespective of its operating frequency, through the use of mobile network architectures and the use of digital access technology, supports low and high user mobility, allows for the interoperability with other fixed and mobile networks for worldwide roaming. Includes the STM, SRMC, PCS and SCMA and their technological evolution .

3) The frequencies that are allocated and authorized to SRCE may only be used to provide those services. The ENACOM may allocate frequencies to provide SCM and demand the return of the frequencies and migration of services pursuant to Section 28 and 30 of LAD, and its regulations, or, at the request of the interested party, apply Section 4, subsection b) of Decree No. 1,340 dated December 30, 2016, and its regulations, establishing an economic compensation in favor of the National Government.

4) SBT licensees may provide this service through the use of radioelectric spectrum frequencies using those allocated for the provision of 4G mobile services, notwithstanding the provision of fixed telephone service pursuant to Section 2, subsection a) of the PCS General Rules approved as an annex to Section 1 of Decree No. 266 dated March 10, 1998, through the execution of agreements with the licensees of those frequencies, which shall be reported to the ENACOM.

5) Delegate on the Ministry of Modernization the power to issue the penalty rules provided under Section 63 of LAD, which shall repeal the current rules approved under Decree No. 1,185 dated June 22, 1990, as amended and supplemented.

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ü **REGISTRATIONS AND AUTHORIZATIONS TO USE THE SPECTRUM THAT ARE NOW HELD BY THE COMPANY AS A RESULT OF CORPORATE REORGANIZATIONS OF TELECOM GROUP AND MERGER BY ABSORTION OF CABLEVISION (NOTES 4.f) AND 4.a) RESPECTIVELY):**

1) Personal:

On November 24, 2017, Telecom Argentina and Personal were served with ENACOM Resolution No. 4,545-E/2017, whereby that agency decided:

(i) to authorize Telecom Personal to transfer in favor of Telecom Argentina the registrations of Mobile Telephone Services, Cellular Mobile Radiocommunications Services; Personal Communications Services Area I, II, III, and Mobile Advanced Communications Services, as well as the resources, permits and frequencies granted in its name;

(ii) to revoke the licenses granted to Personal to render Data Transmission, Value Added and National and International Long-Distance Telephone Services;

(iii) to authorize the transaction reported by Telecom whereby the controlling companies Sofora Telecomunicaciones S.A. and Nortel Inversora S.A. are dissolved without liquidation pursuant to the Bidding Terms and Conditions approved under Decree No. 62/1990.

2) Cablevisión:

On December 22, 2017, Telecom Argentina and Cablevisión S.A. were served with ENACOM Resolution No. 5,644-E/2017, whereby that agency decided, among other things, to authorize Cablevisión S.A. to transfer in favor of Telecom Argentina:

(i) The Registration of physical and/or radioelectric link broadcasting services, including the permits/frequencies required to provide radioelectric link broadcasting services, as well as the area authorizations to provide those services (via physical and radioelectric link), which may operate in Area II, defined as provided under Decree No. 1,461/93, as amended, and the city of Rosario, Province of Santa Fe, and the city of Córdoba, Province of Córdoba, as from January 1, 2018, as provided under Section 5 of

Decree No. 1,340/2016, and in the rest of the areas authorized on the dates and in the modalities provided;

(ii) The SRCE; and

(iii) The authorizations and permits to use frequencies and allocations of numbering and sign-posting resources to provide the above-mentioned services held by Cablevisión S.A., pursuant to effective regulations, and the agreement executed by Nextel on April 12, 2017 (IF-2017-08818737-APN-ENACOM#MCO), whereby Telecom Argentina, in its capacity as absorbing company of Cablevisión S.A., shall, within a term of two years as from the date on which the merger is approved by the CNDC and the ENACOM or any agency that may substitute them in the future, return the radioelectric spectrum that exceeds the limit set under Section 5 of Resolution No. 171-E/17 issued by the Ministry of Communications and/or any regulation that may repeal it in the future. To those effects, the Company shall file with the ENACOM, no later than one year in advance upon the expiration of the two-year term, a proposal to conform to that limit. The ENACOM may accept the proposal, reject it and/or request a new filing with any changes it may deem appropriate.

In addition, through that Resolution, the ENACOM authorized the change of corporate control, pursuant to Section 33 of the LGS, in Telecom Argentina once the merger became effective and the shareholders agreement dated July 7, 2017 became effective in its entirety, as a result of which CVH became the controlling company of Telecom Argentina as surviving company of Cablevisión.

Such Resolution approved:

Law of audiovisual communications

(i) The relinquishment of the services registrations that are currently non-operative that had been requested by Cablevisión S.A. (People Notice service, Community Repeater, Public Telephony, Location of Vehicles and Alarm by radioelectric link and by Telecom (Community Repeater); and

(ii) The revocation of the licenses and registrations granted to Cablevisión S.A., now held by Telecom.

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In addition, the Resolution provides that:

(i) Telecom shall comply with Section 95 of Law No. 27,078, which provides for the conditions under which it may operate the physical and/or radioelectric link subscription television service, transcribed below:

a. The Company shall create a business unit to provide the audiovisual communication service and manage it separately from the public utility business unit;

b. It shall keep separate accounting records and bill the licensed services separately;

c. It shall not conduct anti-competitive practices such as tie-in practices and cross subsidies with funds from public utilities to licensed services;

d. It shall provide - when requested- to the competitors in licensed services access to its own support infrastructure, especially, posts, masts and ducts under market conditions. In the absence of agreement between the parties, the ENACOM shall intervene;

e. It shall not conduct anti-competitive practices concerning the rights to broadcast contents over its networks and facilitate a growing percentage to be established by the ENACOM to the distribution of contents from independent third parties; and

f. It shall respect the professional competences and job classifications of the workers in the different activities it is engaged in.

(ii) Telecom is declared to be an operator with a significant position in the retail market of Fixed Internet Access market in the locations detailed in the Report prepared by the National Directorate for the Development of Competition in Networks and Services of the ENACOM. As a result, it decided that:

a. Telecom shall, within 60 days as from the date the Resolution was issued, offer the Fixed Internet Access service in those locations at a price that may not be higher than the lowest price offered by the company in Area II for that service. If a similar service is not provided in that Area, it shall apply the lowest price offered at national level by the licensee for a similar service.

b. Telecom shall, within 60 days as from the date the Resolution was issued, report to the ENACOM and publish in its institutional website all the business plans, promotions and discounts for the Retail Internet Access service. Telecom shall ensure to other providers, under transparent, non-discriminatory and cost-oriented conditions, access to its own support infrastructure, especially, posts, masts and ducts.

As of the date of issuance of these unaudited consolidated financial statements, the Company has complied with such provisions.

All the provisions mentioned above shall be in effect for a term of 2 years as from the notice of the authorization granted by ENACOM, or until it has been verified that there is effective competition in all or in some of the locations involved. The ENACOM may extend or revoke that term.

With regard to the provision of Quadruple Play services, Section 7 of Decree No. 1,340 shall apply:

SECTION 7 - The providers of Information Technology and Communications Services that make joint service offerings shall detail the price of each of those services, including the breakdown of those prices and discounts or benefits applied to each service or product for the above-mentioned offerings. Pursuant to Section 2, subsection i) of Law No. 25,156 and to Section 1,099 of the Civil and Commercial Code of Argentina, those providers may not subject, in any way and under any condition, the purchase of any service to the purchase of another service, thus preventing the customer from purchasing any service separately or individually.

Finally, the Company shall file, within a term of 180 days, proof of the registration of the change of authorities in Cablevisión Holding S.A.

On June 29, 2018, the Secretary of Commerce issued Resolution No. 374/2018, whereby it authorized the merger transaction in the terms of paragraph a) of Article 13 of Law No. 25,156. (For more information, see Note 4.a).

ü ENACOM RESOLUTIONS NO. 840/18, NO. 1,196/18 AND NO. 4,353/18 NEW REGIME FOR RADIOELECTRIC SPECTRUM FEES

On February 27, 2018, Resolutions Nos. 840/18 and No. 1,196/18 were published in the Official Gazette. Through these Resolutions, the ENACOM updated the value of the Radioelectric Spectrum Fee per Unit and, in addition, it established a new regime for mobile communications services, which substantially increases the amounts to be paid in this regard.

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In accordance with the provisions of Resolution 4,353/18, published in the Official Gazette on May 24, 2018, the new Regime for Radio-electric Rights and Tariffs will not have an impact until August 31, 2018. This Resolution suspends the effects of Resolutions No. 840/18 and No. 1,196/18, from its publication until August 31, 2018. During this period, the Radioelectric Rights corresponding to the Mobile Communications Services (SRMC, STM, PCS and SCMA) that are accrued will be paid in accordance with the regime prior to the one established by Resolutions No. 840/18 and No. 1,196/18. The affidavits corresponding to the Mobile Communications Services (SRMC, STM, PCS and SCMA), which expire in the months of April and May 2018, that had not been prepared in accordance with the provisions of Resolution ENACOM No. 840/2018, must be submitted rectified and pay the resulting differences on October 10, 2018.

As of the date of issuance of these unaudited consolidated financial statements Telecom has submitted the rectifying affidavits corresponding to the months of March and April 2018 (due in April and May), and has paid (under protest) the respective amounts. It has also complied with the presentation and payment (under protest) of the affidavits for the month of September 2018 (due on October 10).

ü **BUY ARGENTINE ACT**

According to the provisions of Article 1 of Law No. 27,437, which is regulated by Decree No.800/2018 and Resolution No. 91/2018 of the Secretariat of Industry, Telecom Argentina - as a public fixed telephone service licensee - and their respective direct subcontractors, in the procurement of provisions and public works and services shall give preference to the purchase or lease domestic goods and services.

Article 2 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 15% when the offering of the good or services is carried out by companies qualified as Micro and SME, and 8% when the offering of the good or services is carried out by other companies. For comparison purposes, the price of imported goods shall include current import duties and taxes and all expenses required for its nationalization.

On the other hand, in the event of comparing prices between offers that are not of national origin, or if there are national offers, if they have been declared underestimated or ineligible, a margin of preference of one percent (1%) every 5 (five) percentage points of local integration on the gross value of production of the goods reached will be granted, up to a maximum margin of preference of eight percent (8%), according to the calculation criteria of Article 3 of Resolution No. 91/2018 of the Secretariat of Industry.

Article 5 of the mentioned law establishes that a good is of national origin when it has been produced or extracted in Argentina, provided that the cost of imported raw materials, inputs or imported materials does not exceed forty percent (40%) of its gross value of production.

The aforementioned law establishes that the contracting parties must announce the publication of the future contract whose amount is within the range of $1,300,000 and $5,000,000, which must be disseminated on the the National Contracting Office (NCO) website with an advance not less than 5 (five) business days from the deadline for receipt of bids for the contract and when the amount exceeds $5,000,000 they must be published in the Official Gazette and the NCO for a period of 2 business days with a minimum of 20 (twenty) days in advance of the deadline for receiving offers, computed from the day following the last publication (Article No. 19 of Decree No. 800/2018 and Article No. 10 of the Secretariat of Industry Resolution No. 91/2018), so as to provide all possible bidders timely access to information that enables them to participate in the mentioned tender.

Relating to services acquisitions, Law No. 18,875 applies, 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.

Additionally, Resolution No. 2,350/04 of the former CNC, approves 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 regulatory body establishes economic, administrative and criminal sanctions for the alleged breach of the obligations of Buy Argentine Act.

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, investment of time in the assembly of the required presentations with respect to the obligation to inform the annual investment plan as well as the semiannual affidavits of compliance of the Buy Argentine Act and associated administrative expenses.

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NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

a) Going Concern

The unaudited consolidated financial statements as of September 30, 2018 and 2017 have been prepared on a going concern basis as there is a reasonable expectation that Telecom Argentina and its subsidiaries will continue its operational activities in the foreseeable future (and in any event with a time horizon of more than twelve months).

b) Foreign Currency Translation

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

The unaudited financial statements of the Company s foreign subsidiaries are translated using the exchange rates in effect at the reporting date; for assets and liabilities while income and expenses are translated at the average exchange rates for the period. Exchange differences resulting from the application of this method are recognized in Other Comprehensive Income. The cash flows of foreign consolidated subsidiaries expressed in foreign currencies included in the unaudited consolidated financial statements are translated at the average exchange rates for each period.

c) Foreign Currency Transactions

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the foreign exchange rate prevailing at the reporting date. Exchange differences are recognized in the consolidated income statement and are included in Debt financial costs and Other financial results, net as Foreign currency exchange.

d) Consolidation

These unaudited consolidated financial statements include the consolidation of the assets, liabilities, results and cash flows of Telecom Argentina and its subsidiaries, as well as the consolidation in its financial statements of the assets, liabilities and results under joint control, according to the percentage of interest in the arrangements of the companies and joint ventures (Interests in joint operations, point d.2) jointly controlled by it; and, the interest owned by the Company in associates is recognized in one item (companies in which it exercises significant influence, see d.3) Investments in Associates.) The unaudited consolidated financial statements include the structured entities with the specifications mentioned in point d.4).

d.1) Control

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

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

All intercompany accounts and transactions between companies of Telecom´s Group have been eliminated in the preparation of these unaudited consolidated financial statements.

Financial statements of controlled companies are for the same period and has the same closing date of the parent s financial statements and are made using the same accounting policies of the Company.

Note 1.a) details the most significant consolidated subsidiaries, together with the interest percentages held directly or indirectly in each subsidiary s capital stock and votes as of September 30, 2018.

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The Company considers transactions with non-controlling companies that do not result in a loss of control as transactions among shareholders. A change in the equity interests held by the Company is considered as an adjustment in the book value of controlling interests and non-controlling interests to reflect the changes in its relative interests. The differences between the amount for which non-controlling interests is adjusted and the fair value of the consideration paid or received and attributed to the shareholders of the controlling company will be directly recognized in equity under a specific reserve in the equity attributed to the parent company.

d.2) Interests in Joint Operations

A joint operation is a contractual arrangement whereby a company and other parties undertake an economic activity that is subject to joint control, i.e., when the financial strategy and the operating decisions related to the company s activities require the unanimous consent of the parties sharing control.

In the cases of joint business arrangements executed through *Uniones Transitorias de Empresas* (UTE), considered joint operations under IFRS 11, the Company recognizes in its financial statements on a line-by-line basis the assets, liabilities and net income subject to joint control in proportion to its share in such arrangements. Telecom, upon absorbing the operations of Cablevisión, holds a 50% share in the UTE Ertach Cablevisión.

The UTE Ertach Cablevisión is engaged in the provision of data transmission services and the order channels required to integrate the provincial public administration agencies and the municipal agencies in a single data communication provincial network.

The UTE Ertach Cablevisión was created in April 2005 by the Board of Directors of Prima (absorbed by Cablevisión in 2016) and currently has an agreement, with the Ministry of the Chief of the Cabinet of Ministers of the Province of Buenos Aires. Which was approved under Decree No. 2017-166-E-GDEBA-GPBA issued by the Governor of the Province of Buenos Aires, provides for the data transmission services for the Single Provincial Data Communication Network implemented under the original Bid for a term of 24 months since May 1, 2017.

d.3) Investments in Associates

An associate is an entity over which the Company has significant influence, without exercising control, generally accompanied by equity holdings of between 20% and 50% of voting rights.

The associates net income and the assets and liabilities are disclosed in the unaudited financial statements using the equity method. Under the equity method, the investment in an associate is initially recorded at cost and the book value will be increased or decreased to recognize the investor s share in the statement of income for the period or in other comprehensive income obtained by the associate, after the acquisition date. The distributions received from the associate will reduce the book value of the investment.

The Company s investment in associates includes the goodwill identified at the time of the acquisition, net of any impairment losses. Goodwill is the excess of the acquisition cost over the Company s share in the net fair value of the associate s identifiable assets and liabilities (including contingent ones) measured at the acquisition date. Goodwill is included in the book value of the investment and tested for impairment as part of the investment.

Unrealized gains or losses on transactions between the Company (and its subsidiaries) and the associates are eliminated considering the Company s interest held in the associates.

If necessary, adjustments are made, to the associates financial statements so that their accounting policies are in line with those used by the Company.

When the Company ceases to have significant influence, any interest retained in the entity is re-measured to its fair value at the date when influence is lost, and the change in the book value is recognized in the statement of income. The fair value is the initial amount for the purposes of its subsequent accounting of the interest retained as associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. Consequently, the amounts previously recognized in Other Comprehensive Income may be reclassified to income statement.

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d.4) Consolidation of structured entities

The Company, through one of its subsidiaries, has executed certain agreements with other companies for the purpose of rendering on behalf of and by order of such companies certain installation services, collections, administration of subscribers, marketing and technical assistance, financial and general business advising, with respect to cable television services in Uruguay. In accordance with IFRS 10 Consolidated Financial Statements , these unaudited consolidated financial statements include the assets, liabilities and results of these companies. Since the Company does not hold an equity interest in these companies, the offsetting entry of the net effect of the consolidation of the assets, liabilities and results of these companies is disclosed under the line items Equity attributable to non-controlling interests and Net Income attributable to non-controlling interests .

Call Option Agreement of Adesol

On December 22, 2016, Adesol S.A. entered into a call option agreement (the Call Option Agreement) with the majority shareholder of the special purpose entities, whereby, Adesol has the right to exercise, until December 31, 2021, the irrevocable call option on the shares of those companies (the Call Option). If it exercises the Call Option, the purchase price has been preliminarily established in the amount of pesos 127,600,002, subject to an eventual adjustment in case certain circumstances provided under the Call Option Agreement occur.

In addition to the execution of the Call Option Agreement, Adesol S.A. paid to the grantor of the call option an option premium the amount of pesos 44,660,000. If Adesol S.A. does not exercise the Call Option, the seller shall irrevocably retain the amount paid by Adesol S.A., and the agreement will be terminated.

If it exercises the Call Option, the assignment, sale and transfer of the shares to Adesol shall be subject, as condition precedent, to the approval by the Communication Services Regulatory Agency of the Republic of Uruguay.

In addition, on December 28, 2017, the parties executed an amendment to the Option Agreement and the Seller sent a notice to Adesol, whereby: (i) the Call Option Period was extended for two additional years, thus the expiration date is December 31, 2023; (ii) the Purchase Price of the Shares was set precisely and definitively USD 5,011,747 and pesos 44,660,000; (iii) Adesol undertook to pay, within ten (10) business days as from December 30, 2017, a Supplement to the Option Premium in the amount of USD 4,500,000; and (iv) in the event that Adesol S.A. has paid the Seller the Supplement to the Option Premium and Adesol S.A. does not exercise the Call Option within the Call Option Period, the Seller undertakes to return to Adesol S.A., within ten business days as from the expiration of the Call Option Period, the amount of USD 2,500,000 received as partial payment of the Supplement to the Call Option Premium. In view of the above, on January 16, 2018, Adesol S.A. paid to the Seller the Supplement to the Call Option Premium. Such amount was allocated under Other deferred in the statement of changes in equity and amounts to $91 at the exchange rate prevailing at the time of its payment.

d.5) Business Combinations

The Company applies the acquisition method of accounting for business combinations. The consideration for each acquisition is measured at fair value (on the date of exchange) of the assets given, the liabilities incurred or assumed, and the equity instruments issued by the Company in exchange for the control of the acquired company. The costs related to the acquisition are expensed as incurred.

The consideration for the acquisition, if any, includes any asset or liability arising from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes to such fair value, identified during the measurement period, are adjusted against the acquisition cost.

The identifiable assets, liabilities and contingent liabilities of the acquired company that meet the conditions for recognition under IFRS 3 are recognized at fair value at the acquisition date, except for certain particular cases provided by such standard.

Any excess of the acquisition cost over the Company s share in the net fair value of the subsidiary s or associate s identifiable assets, liabilities and contingent liabilities measured at the acquisition date is recognized as goodwill. Any excess of the Company s share in the net fair value of the identifiable assets, liabilities and contingent liabilities over the acquisition cost, after its measurement at fair value, is immediately recognized in the income statement.

The acquisition cost comprises the consideration transferred, the amount of any non-controlling interest and the acquisition-date fair value of the acquirer s previously-held equity interest in the acquiree, if any.

The Company initially recognizes any non-controlling interest as per its share in the amounts recognized for the net identifiable assets of the acquired company.

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Specific matters relating to the merger between Telecom Argentina and Cablevisión

Taking into consideration the information disclosed under Note 1.c), the merger between Telecom Argentina and Cablevisión is recognized as a reverse acquisition. Consequently, the assets and liabilities of Cablevisión S.A. were recognized and measured in the unaudited financial statements at book value before the merger, while the identifiable assets and liabilities of Telecom Argentina S.A. were recognized at fair value as of the effective date of the merger (January 1, 2018). The goodwill obtained under the acquisition method was measured as the excess of the fair value of the consideration paid over the fair value of the net identifiable assets and liabilities of Telecom Argentina S.A. The retained earnings and other balances of shareholders equity recognized in the unaudited financial statements of the combined entity correspond to the sum of the respective balances of the individual financial statements of Telecom Argentina S.A. and Cablevisión S.A. immediately before the Merger, without considering Other Comprehensive Income neither the Cost from the increase in the interest held in the companies controlled by Telecom Argentina S.A., as approved by the shareholders at the Ordinary and Extraordinary Shareholders Meeting of Telecom Argentina and the Extraordinary Shareholders Meeting of Cablevisión held on August 31, 2017. In addition, share capital of Telecom was maintained as of before the merger and then the shares of Telecom issued according to the exchange ratio were added to the Capital Stock of Telecom before the merger, and recorded the contribution surplus as mentioned in following paragraphs.

Due to the fact that the Merger between Telecom and Cablevisión was a business combination carried out through an exchange of interests in equity, the consideration was determined based on the fair value of the shares of Telecom as of the effective date of the merger. The consideration amounted to $131,699, calculated based on a) the market price of the ADR of Telecom on the New York Stock Exchange (NYSE) on the last business day before the effective date of the transaction (January 1, 2018) of USD 36.63 per ADR and b) the equivalent outstanding ADR (193,831,921) as of the effective date, translated to pesos at the exchange rate prevailing on December 29, 2017, (last market day of 2017).

Pursuant to IFRS 3, the acquired net identifiable assets were measured at fair value, which estimated value amounted to $73,372. Of this amount, $1,326 corresponded to the non-controlling interest (valued as the proportionate share in the recognised amounts of the acquiree s identifiable net assets), measuring the net identifiable assets under the equity method. The allocation of the purchase price of the acquired net assets attributable to controlling shareholders generated a goodwill with an estimated value of $59,653.

In addition, the Company will disclose the new capital stock and generate the corresponding merger contribution surplus for $109,469 which will reflect mainly the difference between the fair value of the consideration transferred and the book value of the equity of Telecom Argentina before the effective date of the Merger.

The total fair value of the most important items transferred and the main adjustments to the book value as a result of the purchase price allocation are detailed below:

- The total fair value of the item Property, plant and equipment amounts to $62,747. $34,209 was the fair value adjustment allocated to Property, plant and equipment based on the comparative market analysis for buildings and automobiles, and the adjusted estimated replacement cost to reflect the deterioration due to use of the telecommunications fixed assets;

- The total value of the item Intangible Assets measured at fair value amounts to $40,186. $33,175 was the fair value adjustment allocated to Intangible Assets corresponding mainly to the amount paid in excess of the book value of Licenses (for $14,933) under the comparative market value method, customer relationship (for $9,280) under the discounted cash flows method and Brands (for $8,825) based on royalties on gross revenues.

The total value of the item Deferred income tax liabilities amounts to $16,739 (net of deferred income tax assets of $2.) Deferred income tax liabilities were recognized in the amount of $17,234 (of which $624 were offset with deferred income tax assets), using a rate between 25% and 30% on the temporary differences of the adjustments incorporated, taking into consideration the estimated time of reversal of each difference.

For detailed quantitative information, see Note 4.a to these unaudited consolidated financial statements.

The figures disclosed represent the best estimate made by the Company based on information available to date. If the Company obtains new information about the events and circumstances existing on the date of acquisition, it will introduce changes reassessing the fair value of the net assets already identified and/or identifying any additional assets or liabilities during the measurement period, which will not exceed one year as from the date of acquisition as provided under paragraph 45 of IFRS 3.

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d.6) Accounting treatment for the acquisition of the remaining shareholding (30%) of the subsidiary CV Berazategui

On April 4, 2018, the Company acquired shares representing 30% of the capital stock and votes of CV Berazategui for a total amount of US$ 8,968,000 (US Dollars Eight million nine hundred sixty-eight thousand), equivalent to $181 at the date of the transaction.

The remaining 70% of the capital stock and votes of CV Berazategui are owned by Pem, a company controlled by Telecom Argentina.

This operation represents a transaction between the controlling and non-controlling shareholders in the consolidated financial statements. For this reason, the non-controlling interest of $5, which represents 30% of the equity value of CV Berazategui, was adjusted and the difference between the purchase price of $181 and the non-controlling interest was recorded in Other deferred within Net Equity attributable to controlling shareholders as of September 30, 2018, in accordance with IFRS 10.

e) <u>Revenues</u>

Revenues are recognized to the extent the sales agreement has commercial substance, provided it is considered probable that economic benefits will flow to the Company and their amount can be measured reliably. Actual results may differ from these estimates.

Revenues are stated net of discounts and returns (such as handset returns). The Company discloses its revenues into two large groups: Services and equipment. Revenues from services are recognized over the time services are rendered to the customers. Revenues from sales of equipment are recognized at the point in time when the control is transferred and the performance obligation is performed.

Revenues from transactions that include more than one item have been recognized separately to the extent they have commercial substance on their own.

The sale prices identified in the different sales transactions are net prices of discounts (list price less discounts or bonifications if applicable). In those cases in which the payment is delayed over time, as for example in construction contracts, the effect of the time value of money must be withdrawn.

Financed sales are recognized at the value of future income discounted at a market rate assessed at the beginning of the transaction.

The main performance obligations of the Telecom Group are the following:

- *Mobile Services*

Telecom Group provides mobile services in Argentina and Paraguay through wireless networks. In addition, it provides IDEN telephony services.

Services revenues consist of monthly basic fees, airtime usage charges, roaming, TLRD, CPP charges (as from October 1 these charges will be no longer recognized as CPP and will be recognized as a call termination charge), charges for VAS (among them, call waiting, voicemail, SMS and multimedia) and other services.

Basic fees are generally billed monthly in advance, disclosed net of trade receivables until services are rendered.

Revenues from the sale of prepaid calling cards are recognized in the period during which traffic is used, or when the card expires, whichever occurs first. Remaining unused traffic for unexpired calling cards is shown as Deferred revenue on prepaid calling cards under Other liabilities.

Revenues from sales of mobile equipment consist mainly of the sale of handsets to customers, own agents and other distributors.

Generally, in cases of combined sales, the handset is sold with a discount in the price, but not when the handset is sold separately. In connection with mobile telephony service, it is generally offered at the same selling price, without any discount in case it is offered together with a handset. In those cases of combined sales, IFRS 15 (Revenue from Contracts with Customers), adopted by Telecom as from January 1, 2018, requires to allocate the selling price to each performance obligation according to its proportional standalone selling price for the agreed-upon stipulated contractual term.

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Taking into consideration that the customer pays for the handset the price net of the discount and that, under the application of the method detailed in the previous paragraph, the discount applied to the handset is assigned between handset sale revenues and service revenues, a contractual asset will be initially recognized. The contract of individuals is a contract for an indeterminate period which minimum is one month of service and the payment of the handset is net of discounts. In such cases, the contractual asset will be reversed within a period of one month. In the case of large customers, the contractual asset will decrease to the extent service revenues are recognized, and will be fully derecognized in the 24th month, that is the stipulated contractual term for this type of customers. The method used provides a faithful representation of the transfer of goods or services in mobile services contracts in which more than one good or service is offered.

- *Internet Services*

Internet revenues mainly consist of monthly fees received from residential and corporate customers for data transmission (including private networks, dedicated lines, broadcasting signal transport and videoconferencing services) and Internet services (mainly high-speed subscriptions - broadband).

Non-refundable up-front connection fees (revenues at a point in time), generated at the beginning of the relationship with the customers, are deferred and charged to income over the term of the contract or, in the case of indefined period contracts, over the average period of the customer relationship.

- *Cable Television Services*

Cable Television Services comprise the operation of cable television networks installed in different locations of Argentina and Uruguay. In addition, Tuves holds a license for the provision of DATH services in Paraguay.

Cable television basic fees are billed in advance and are recognized as revenues when services are provided.

Revenues from the installation (one-time revenues) non-refundable of these services are deferred and charged to income over the average term during which clients maintain their subscription to the service.

- *Fixed Telephony and Data services*

Domestic fixed telephony services revenues mainly consist of monthly basic fees, measured service and monthly fees for additional services (among others, call waiting, itemized billing and voicemail).

Basic fees are generally billed monthly in advance, disclosed net of trade receivables, and are recognized as revenues when services are provided.

Non-refundable up-front connection fees for fixed telephony and data services (one-time revenues), generated at the beginning of the relationship with the customers, are deferred and charged to income over the term of the contract or, in the case of indefinite period contracts, over the average period of the customer relationship.

Reconnection fees charged to customers when resuming service after suspension are deferred and recognized ratably over the average life for those customers who are assessed a reconnection fee. Associated direct expenses are also deferred over the estimated customer relationship period up to an amount equal to or less than the amount of deferred revenues. Generally, reconnection revenues are higher than its associated direct expenses.

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method). This method provides a faithful representation of the transfer of assets in construction contracts, given that revenues are recognized to the extent of the progress of the construction. When the outcome of a construction contract can be estimated reliably, the revenues and costs associated with the construction contract are recognized as revenues and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenues, the expected losses are immediately recognized as expenses. When the outcome of a construction contract cannot be estimated reliably, contract revenues are recognized only to the extent that the costs incurred are likely to be recovered.

As of September 30, 2018 revenues from construction contracts were recognized for $139 and cost of construction contracts were recognized for $106. In relation to construction contracts; $296 of deferred revenues and $408 of inventories were recognized as of September 30, 2018.

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f) Financial Instruments

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

f.1) Financial Assets

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

(a) the Company s business model for managing the financial assets; and

(b) the contractual cash flow characteristics of the financial asset.

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

(a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and

(b) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets include:

Cash and Cash Equivalents

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

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

Time deposits are valued at their amortized cost.

Investments in mutual funds are carried at fair value. Gains and losses are included in Other Financial Results, net - Interest and Gains on investments.

The Company has investments in Government Bonds that depending on the business model established by the Company´s Management were valued at amortized cost or at fair value.

Trade and Other Receivables

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

As mentioned in section e) Revenues, in accordance with IFRS 15 contractual assets, either current or non-current, are initially recognized at fair value and subsequently measured at amortized cost, less allowances for doubtful accounts, if any.

Investments

Government Bonds include the Bonds issued by National, Provincial and Municipal Governments. Depending on the business model adopted by Management, Bonds may be valued at amortized cost or at fair value and its results are recognized under Other Financial Results, net - Interest and Gains on other investments.

Time deposits are valued at amortized cost.

Investments in mutual funds are carried at fair value. Gains and losses are included in Other Financial Results, net - Interest and Gains on investments.

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

Other investments in Government Bonds are valued at fair value.

The 2003 telecommunications fund is recorded at fair value.

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Impairment of Financial Assets

At the time of initial recognition of financial assets (and at each closing), the Company estimates the expected losses to be generated by the assets, with an early recognition of a provision, pursuant to IFRS 9.

With regard to trade receivables, and using the simplified approach provided by such standard, the Company measures the allowance for doubtful accounts for an amount equal to the lifetime expected credit losses. For the rest of the financial instruments, the expected credit losses for the next 12 months must be recognized (lifetime expected losses over the contractual payments of the financial instrument of which the default is estimated in the next 12 months), except the case of significant increase in the financial instrument s credit risk so the lifetime expected credit losses must be recorded, that is the expected credit losses for the full term of the financial instrument.

The expected losses to be recognized are calculated based on a percentage of uncollectibility per maturity ranges of each financial credit. For such purposes, the Company analyzes the performance of the financial assets by type of market. Such historical percentage must contemplate the future collectibility expectations regarding those credits and, therefore, those estimated changes in performance.

Derecognition of Financial Assets

The Company derecognizes a financial asset when the contractual rights to the cash flows of such assets expire or when it transfers the financial asset and, therefore, all the risks and benefits inherent to the ownership of the financial asset are transferred to another entity. If the Company retains substantially all the risks and benefits inherent to the ownership of the transferred asset, it will continue to recognize it and will recognize a liability for the amounts received.

f.2) Financial Liabilities

Financial liabilities comprise trade payables (excluding Derivatives, if applicable), financial debt, salaries and social security payables (see point n) below), Dividends payable and certain liabilities included in Other Liabilities.

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

Derecognition of Financial Liabilities

The Company shall derecognize a financial liability (or part of it) when it has been extinguished, i.e., when the obligation specified in the corresponding agreement is discharged, cancelled or expires.

f.3) Derivatives

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

All derivative financial instruments are measured at fair value in accordance with IFRS 9. Derivative financial instruments qualify for Hedge Accounting if and only if all of the following conditions are met:

a) The hedging relation consists only of hedging instruments and eligible hedged items;

b) The hedging relation and the risk management strategy and purpose are formally designated and documented since its inception; and

c) the hedge is expected to fulfill the efficacy requirements described in Note 21.c Hedge Accounting.

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

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

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

For additional information about derivatives operations during the nine-month periods ended September 30, 2018 and 2017, see Note 21.c.

g) **Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost is determined under the weighted average price method. The net realizable value represents the estimated selling price in the ordinary course of business less the applicable variable selling expenses. In addition, the Company estimates and records allowances for obsolete and slow-moving inventories.

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

The value of inventories does not exceed its recoverable value at the end of the period.

h) **PP&E**

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

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

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

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

In addition, PP&E costs include those related to the installation that allows the customer to connect to the service, in Fixed network and transportation. Those costs comprise labor costs and the materials required to install wiring.

Borrowing costs attributable to the acquisition or construction of certain capital assets are capitalized as part of the cost of these assets until they are ready for their intended use or sale, under IAS 23 (Borrowing Costs .) The assets in respect of which borrowing costs are capitalized are those that necessarily take a substantial period of time to get ready for their intended use (qualifying assets under IAS 23).

The value of PP&E does not exceed its recoverable value estimated at the end of the period.

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

	Estimated Useful Life (in years)
Real Estate	45 - 50
Fixed Network and Transportation	3 - 20
Mobile Network Access	3 - 7
Tower and Pole	10 - 20
Switching Equipment	5 - 10
Computer Equipment	3 - 5
Vehicles	5
Goods lent to customers at no cost	2 - 5
Power Equipment and Installations	2 - 15
Machinery, diverse equipment and tools	2 - 10

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

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i) <u>Intangible Assets</u>

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

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

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

Intangible assets comprise the following:

- Incremental Costs from the Acquisition of Contracts

Certain direct incremental costs incurred for the acquisition of new subscribers are capitalized as intangible assets to the extent the conditions for the recognition of an intangible asset are met, pursuant to IFRS 15, i.e. provided the Company expects to recover those costs and provided they are costs that the Company would not have incurred if the contract had not been successfully obtained.

Subsequently, said assets will be amortized under the straight-line method over the contractual relationship of the related transferred service.

- 3G/4G licenses

As described in Note 2.e Spectrum, it includes 3G and 4G frequencies awarded by the SC to Personal in November 2014 and June 2015. In accordance with Section 12 of the Auction Terms and Conditions, they were granted for a period of 15 years as from the date of awarding notification.

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

Pursuant to Section 4.d) of PEN Decree No. 1,340/16 and Resolution No. 528/2018, which is described in Note 2.e), the remaining useful life of the frequencies included in Lot 8 of the auction was re-estimated. In consequence, the 700Mhz bands will finish amortizing in January 2033.

In addition, the licenses that had been previously awarded to Nextel whose useful life is calculated as from the beginning of the provision of the Advanced Mobile Communication Services SCMA or upon expiration of the 18-month term provided under Section 10.1, subsection a), Annex I, Decree No. 764/2000 for the beginning of the provision of the Services, whatever occurs first.

- PCS license (Argentina)

The Company s Management, based on an analysis of the relevant characteristics of this license, has considered the license having an indefinite useful life since there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. This license is subject to a recoverability assessment.

Assets with an indefinite useful life must be tested for impairment at least on an annual basis.

No impairment losses have been recorded for those intangible assets at period-end.

- Núcleo´s licenses

PCS license is amortized under the straight-line method over 60 months, ending its amortization in fiscal year 2017.

On June 2017, Núcleo required the renovation of that license. Before the due date, the Conatel issued, according to the Telecommunication law, resolutions of precarious extensions of that license that have a life of 90 days extensible, for one time, for the same period, so it seems to have those definite renovations on the following months. During the second quarter 2018, the PCS license was renewed for approximately $64, which amortizes in 60 months.

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The 700 MHz- band spectrum licenses acquired by Núcleo during the first quarter of 2018 for US$24 million are amortized over a term of 5 years.

- SRCE License

SRCE License has indefinite useful life. At the end of the period, no impairment losses have been recognized on these intangible assets.

- Customer relationship

It comprises mainly contracts with Telecom s customers that were incorporated as a result of the merger between Telecom and Cablevisión (see Note 3.d.5). They are amortized over the estimated term of the relationship with the acquired customers. Likewise, Tuves Paraguay s customer portfolio is included. For fixed-telephony customer such term was estimated at 10 years, for mobile telephony customers in Argentina it was estimated at 6 years, and for mobile telephony customers in Paraguay it was estimated at 5 years.

- Brands

It includes the Brand Cablevisión, which is amortized over 50 years, and the Brand Flow, which is amortized over 3 years. In addition, as a result of the Merger described under Note 4.a), the brands of Telecom (Telecom , ARNET and Personal , both in Argentina and in Paraguay) which are not amortized because they have been considered of indefinite useful life.

- Other

It includes Exclusivity Rights, Rights of Use, among others. The average useful life is estimated at 5 and 28 years.

j) <u>Goodwill</u>

Goodwill is recognized as a difference between the fair value of the consideration paid and the amount of the non-controlling interest (if any) less the fair value of the net assets identified in each business combination. Goodwill has indefinite useful life and its recoverable value must be assessed at least once a year.

No impairment losses have been recorded for goodwill at period-end.

k) **Leases**

Finance Leases

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

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

As of September 30, 2018 Telecom Group does not have current financial lease agreements or residual value of fixed assets acquired by financial leases.

Operating Leases

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

In the normal course of business, the Company leases cell sites, switch sites, satellite capacity and circuits (among others) under various non-cancellable operating leases. Rental expenses are included under Interconnection and transmission costs and Other operating income and expenses items lines in the consolidated income statement during the term of the lease.

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I) **Impairment of PP&E, Intangible Assets and Goodwill**

The Company assesses whether there are any indicators of impairment of the assets that are subject to amortization. Both internal and external factors are considered for this purpose. Internal factors include, among others, obsolescence or physical damage of the asset, and significant changes in the extent to which, or manner in which, an asset is used or expected to be used and internal reports that may indicate that the economic performance of the asset is, or will be, worse than expected. External sources include, among others, the market value of the asset, significant changes in the legal, economic, technological or markets environment, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

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

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

Where it is not possible to estimate the recoverable value of an individual asset, the Company estimates the recoverable value of the cash-generating unit to which the asset belongs.

Intangible assets with an indefinite useful life and goodwill are not subject to amortization and are tested at least annually for impairment. The only intangible assets with an indefinite useful life held by the Company as of September 30, 2018 are the PCS license in Argentina, the brands acquired with the business combination (see Note 4.a) and the SRCE license. Its recoverable amount is determined based on the value in use, which is estimated using discounted net cash flows projections.

For the periods presented, the Company estimates that there is not indicator of impairment of the assets that are subject to amortization, with the exception of those related to the process of modernization and replacement of its mobile network access technology in the Argentine Republic and a group of longstanding work in progress.

The net effects of the constitution and recovery of the above-mentioned impairments are recorded under Impairment of PP&E , which is described under Note 23.

m) <u>Other Liabilities</u>

Pension Benefits

Argentine laws provide for pension benefits to be paid to retired employees from government pension plans and/or privately managed fund plans to which employees may elect to contribute. Amounts payable to such plans are accounted for on an accrual basis. The Company does not sponsor any stock option plan.

Pension benefits shown under Other liabilities represent accrued benefits under collective bargaining agreements for employees who retire upon reaching normal retirement age, or earlier due to disability in Telecom Argentina. Benefits consist of the payment of a single lump sum equal to the salary of one month for each five years of service at the time of retirement due to retirement age or disability. The collective bargaining agreements do not provide for other post-retirement benefits such as life insurance, health care, and other welfare benefits.

The net periodic pension costs are recognized in the income statement, segregating the financial component, as employees render the services necessary to earn pension benefits. However, actuarial gains and losses should be presented in the statements of comprehensive income. Actuarial assumptions and demographic data, as applicable, were used to measure the benefit obligation as required by IAS 19 revised. The Company does not make plan contributions or maintain separate assets to fund the benefits at retirement.

The actuarial assumptions used are based on market interest rates, past experience and Management s best estimate of future economic conditions. Changes in these assumptions may impact future benefit costs and obligations. The main assumptions used in determining expense and benefit obligations are the following for 2017, and continue for 2018:

	2017
Discount Rate (1)	4.6% - 9.2%
Projected increase rate in compensation	8.0% - 16.3%

1) Represents estimates of real interest rate rather than nominal rate.

Additional information on pension benefits is provided in Note 17.

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Plan de Ahorro a Largo Plazo (Long-Term Savings Plan)

During the last quarter of 2007, the Management of Cablevisión, together with its subsidiaries, began to implement a long-term savings plan for certain executives (directors and managers comprising the executive payroll), which became effective in January 2008. Executives who adhere to such plan undertake to contribute regularly a portion of their salary (variable within a certain range, at the employee s option) to a fund that will allow them to strengthen their savings capacity. In addition, each company where those executives render services will match the sum contributed by such executives. This matching contribution will be added to the fund raised by the employees. Under certain conditions, the employee may access such funds upon termination of their participation in the long-term savings plan.

In addition, such plan provides for certain special conditions for those managers who were in the executive payroll before January 1, 2007. Such conditions consist of supplementary contributions made by each company to the plan related to the executive s years of service with the Company.

During 2013, certain changes were made to the savings system, though maintaining in its essence the operation mechanism and the main characteristics with regard to the obligations undertaken.

Pursuant to IAS No. 19, the above-mentioned savings plan qualifies as a Defined Contribution Plan, which means that the companies contributions shall be charged to income on a monthly basis as from the date the plan becomes effective.

As of September 30, 2018, there are no outstanding amounts related to those supplementary contributions, due to the fact that the plan was discontinued as of December 31, 2017.

The item Other Liabilities also includes deferred revenues, among which the following stand out:

Deferred revenues on prepaid calling cards

Revenues from unused traffic and data packs for unexpired calling cards are deferred and recognized as revenue when the minutes and the data are used by customers or when the card expires, whichever happens first. For more information, see Note 3.e) Revenues Mobile services.

Deferred revenues on connection fees

Non-refundable up-front connection or installation fees for fixed telephony, data, cable and Internet services are deferred over the term of the contract, or in the case of indefinite period contracts, over the average period of customer relationship. For more information, see Note 3.e) Revenues   Fixed Telephony and Data services, Internet services and Cable television services.

Deferred Revenues related to Customer Loyalty Programs

The fair value of the award credits regarding the Company and Núcleo s customer loyalty program is accounted for as deferred revenue and recognized as revenue until the award credits are redeemed or expire, whichever occurs first.

Deferred Revenues on International Capacity Leases

Under certain network capacity purchase agreements, the Company sells excess purchased capacity to other carriers. Revenues are deferred (like Other liabilities   Deferred Revenues on International Capacity Leases) and recognized as services are provided. Those revenues are recorded under   Fixed Telephony and Data services   line item.

Government grants for the acquisition of PP&E

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

n) Salaries and Social Security Payables

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

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

o) **<u>Taxes Payable</u>**

Includes mainly: Income Tax, Other National Taxes, Provincial Taxes and Municipal Taxes. The main taxes that represent an expense for the Company are the following:

Income Tax

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

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

As per Argentinean Tax Law, income taxes payables have been computed on a separate return basis (i.e., the Company is not allowed to prepare a consolidated income tax return). The Company records income taxes in accordance with IAS 12.

Deferred taxes are recognized using the liability method, which provides for the assessment of net deferred tax assets or liabilities based on temporary differences. Temporary differences arise when the tax base of an asset or liability differs from their carrying amounts in the statement of financial position, whose future reversal affects tax results. The deferred tax asset / liability is disclosed under a separate item of the Unaudited Consolidated Financial Statements.

A deferred income tax asset or liability is recognized on those differences, except for those differences related to investments in subsidiaries abroad that generate a deferred income tax liability due to the difference in the income tax rates, only in those cases where the timing of the reversal of the temporary difference is controlled by the Company and it is not probable that the temporary difference will reverse in the foreseeable future.

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

A deferred tax asset shall be subjected to a recoverability test at the end of every reporting period. The company shall reduce the carrying amount of the deferred tax asset if it is probable that future taxable income will not be available before its prescription that allows applying the tax deductions of the deferred tax asset. This reduction could be reversed in future periods, to the extent that the Company recovers the expectation of enough future taxable income to apply these deductions.

The legal rate in force in the Argentine Republic for the current period is 30% (years beginning on January 1, 2018 to December 31, 2019, inclusive) established by Law No. 27,430 of December 29, 2017. This law establishes that from January 1, 2020 onward, the legal rate will be 25%. The current legal rate for the nine-month period ended September 30, 2017 was 35%.

For the determination of the deferred tax as of September 30, 2018, the Company has considered, according to the guidelines of IAS 12, the moments in which the temporary differences will be reversed in order to apply the corresponding rate based on the provisions by Law No. 27,430.

The collection of dividends from the investment in a foreign company is achieved by the income tax at the general tax rate. Likewise, the Argentine legislation allows computing as a tax credit the sums paid for analogous taxes abroad.

In Uruguay, the statutory income tax rate is 25% for the periods presented.

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The statutory income tax rate in Paraguay was 10% for the periods presented. As per Paraguayan Tax Law, dividends paid are computed with an additional income tax rate of 5% (this is the criterion used by Núcleo for the recording of its deferred tax assets and liabilities, representing an effective tax rate of 15%). In addition, a deferred tax liability is recognized in Telecom Argentina due to the effect of the difference in the profit tax rates between Argentina and Paraguay on Núcleo accumulated profits because it is probable that these accumulated results flow as dividends and generate a future payment of income tax in Telecom Argentina in accordance with the Argentine law principle of worldwide income .

The statutory income tax rate in the United States was 39.5% for the year ended December 31, 2017. Since January 1, 2018, a new Income Tax Law is applicable in the United States, which modifies the flat federal rate to 21% changing the total legal income tax rate from 39.5% to 26.5%.

Tax on Minimum Presumed Income

In Argentina, the Tax on Minimum Presumed Income (*impuesto a la ganancia mínima presunta*) is supplementary to income tax. The Company assesses this tax at the effective rate of 1% on the taxable assets at year-end. The Company s tax liability for each year/period will be equal to the higher of the tax on assets assessment or the income tax liability assessed at the legally effective rate on the estimated taxable income for the year/period. However, if the tax on assets exceeds the income tax liability in any given fiscal year, the excess may be creditable against any excess of income tax liability over the tax on assets in any of the following ten fiscal years.

Notwithstanding the provisions of the law, pursuant to AFIP Instruction No. 2/2017, companies shall not be subject to tax on minimum presumed income as long as they recognized accounting and tax losses in the relevant fiscal period. Under those circumstances, pursuant to the ruling of the Supreme Court of Argentina in the lawsuit Hermitage S.A. , it shall be enough to demonstrate that the minimum income presumed under the law does not exist.

In addition, Law No. 27,260 establishes that tax on minimum presumed income will lose its effectiveness as from fiscal years beginning on or after January 1, 2019.

If corresponds, the tax on assets balance has been capitalized in the unaudited consolidated financial statements because we estimate that the amounts paid and to be paid for this tax will be recoverable within the statute of limitations, based on the subsidiaries current business plans.

Declaration as Fulfilled Taxpayer

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 and Cablevisión have already filed this request related to the payment of the tax on personal property as substitute taxpayer on behalf of Shareholders.

Notwithstanding, it cannot be assured that in the future, Telecom Argentina and Cablevisión can fulfill those requirements and maintain the referred exemption.

Provincial Taxes: Turnover Tax

This tax is levied on companies based in Argentina for the activities carried out in each province of the country. Rates differ depending on the jurisdiction where revenues are earned for tax purposes and on the nature of revenues (for example, sale of services and equipment).

Other taxes and levies

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

Tax Reform and Consensus on - Laws No. 27,429, 27,430 and 27,432

Tax Reform

On December 29, 2017, the PEN issued Law No. 27,430, which establishes a comprehensive reform of the tax system effective as from 2018.

The Law introduces, among other things, changes to income tax (both corporate and individual matters), Value Added Tax (VAT), excise taxes, employer social security contributions, the tax procedure regime and the criminal tax regime.

The main changes that have an impact on corporate income tax are the following:

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Income Tax

- *Changes to corporate income tax rate and withholding on distributed dividends*

The new changes reduce the corporate income tax rate from 35% to 30% for fiscal years beginning on or after January 1, 2018 up to and including December 31, 2019, and to 25% for fiscal years beginning on or after January 1, 2020.

In addition, the Law establishes a withholding tax regime on distributed dividends at a rate of 7% for distributions of profits generated during fiscal years beginning on or after January 1, 2018 up to and including December 31, 2019, and at a rate of 13% for distributions of profits generated during fiscal years beginning on or after January 1, 2020.

The new withholding rates apply only to distributions made to shareholders who are Argentine resident individuals and to nonresident shareholders.

Additionally, the Law repeals the equalization tax (i.e., 35% withholding on dividend distributions exceeding accumulated taxable income) for distributions of profits generated during fiscal years beginning on or after January 1, 2018.

- *Gain/Loss on purchase-sale of shares.*

The Law maintains the 15% capital gains tax rate for Argentine resident individuals or foreign beneficiaries (in the case of foreign beneficiaries, it is calculated on the presumed net gain equal to 90% of the sale price). In the case of local legal entities, the Law establishes a general rate of 30% for fiscal years 2018 and 2019, and 25% for the following years.

In the case of individuals residing in Argentina, however, the results derived from transfers of shares are exempted from income tax to the extent that the transfer consists in a public placement authorized by the CNV or that the transactions were carried out in markets authorized by that agency under segments that guarantee price/time priority and by crossing of offers (such as the shares of Telecom Argentina) or carried out through a public tender offering and/or exchange authorized by the CNV.

The foregoing exemption will also be applicable to foreign beneficiaries to the extent that such beneficiaries do not reside in, and the funds do not come from, non-cooperative jurisdictions (in these cases, the rate will be 35% instead of 15%.) In the case of foreign beneficiaries, the exemption will also be applicable, among other things, to income from depositary receipts or certificates issued abroad when those shares, were issued by entities domiciled in Argentina (ADRs).

- *Assets - Tax Revaluation*

The Law established the revaluation, on a general basis of the cost of several assets -in case of transfers- and the revaluation of the depreciation of property, plant and equipment, for all the acquisitions or investments made as from January 1, 2018 based on the variation of the Internal Wholesale Price Index (IWPI) as from that date (the effect is included in these Unaudited Consolidated Financial Statements). However, on October 24, 2018 the Chamber of Representatives, gave half sanction to the Draft Law that is expected to replace the use of the IWPI by the Consumer Price Index (CPI).

In addition, the Law established an optional regime for the revaluation for tax purposes of assets located in Argentina that generate taxable income. In the case of the Company, the revaluation option is applicable to assets existing as of December 31, 2017. Pursuant to the Law, the new tax value of the assets will be determined by applying a revaluation factor, set forth in the Law, according to the calendar year of the asset s acquisition or construction, to the tax value originally assessed, each year or period since the asset s acquisition or construction. In the case of real estate or movable property subject to amortization, the value may be assessed by an appraiser under certain conditions.

The Law imposes a one-time special tax on the amount of the revaluation. Such tax is not deductible from income tax. The applicable rate will vary depending on the type of assets:

Real estate (qualifying as property, plant and equipment) 8%

Real estate (qualifying as inventories): 15%

Shares, quotas and other participations owned by resident individuals: 5%

All other assets: 10%

The option must be exercised on all the taxpayer s assets that integrate the same category of assets. Once the option is exercised, the taxpayer is able to calculate the amortization and cost in the income tax over the revalued assets. Likewise, such revaluation is updated on the base of the variation of IWPI since January 1, 2018. However, on October 24, 2018 the Chamber of Representatives, gave half sanction to the Draft Law that is expected to replace the use of the IWPI by the CPI.

The amounts resulting from the revaluation will be considered for the purpose of determining the amortization of the assets and their computable cost under certain conditions and limitations.

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The Law requires taxpayers that opt for the special asset revaluation regime to waive any judicial or administrative claims for the purpose of requesting the application, for tax purposes, of adjustments of any kind, with respect to the period of the option. Any taxpayers that have filed such claims with respect to fiscal years closed before the Law becomes effective are required to withdraw such claims and rights invoked (See Note 15 Income Tax - Actions for recourse filed with the Tax Authority).

In addition, Decree No. 353/18, modified by Decree No. 613/18, provides that the revaluation option may be exercised until the last business day of the twelfth calendar month immediately after the option period and that AFIP may extend that term to a maximum of 60 calendar days in the case of fiscal years closed before April 25, 2018. AFIP General Resolution No. 4,249, amended by AFIP General Resolution No. 4,287, granted, for the cases listed above, the extension of the term mentioned above and also provided for formal filing requirements and the possibility of paying taxes due in cash or in an installment plan, that, for large companies, will consist in payments on account of 20% and a maximum of 4 installments with a monthly interest of 1.50%.

The Company is conducting analyses and calculations in order to assess the convenience of opting for the application of the asset revaluation regime.

- *Inflation Adjustment*

Notwithstanding the above-mentioned regime, Law No. 27,430 provides that, effective as from fiscal years beginning on or after January 1, 2018, the inflation adjustment procedure set out in Title VI of the income tax law shall be applicable in fiscal years in which the variation of the accumulated IWPI in the 36 months immediately preceding the end of the relevant fiscal year, is higher than 100%.

In the first and second year as from its effectiveness, this procedure shall be applicable as long as the accumulated variation of the IWPI, calculated from the beginning of the first year to the end of each year, is one or two thirds higher than the percentage mentioned above, respectively.

As of the date of issuance of these unaudited consolidated financial statements, this provision has not been regulated yet. However, on October 24, 2018 the Chamber of Representatives, gave half sanction to the draft Law that is expected to replace the use of the IWPI by the CPI and that in relation to the first, second and third year after its enforcement, this procedure will be applicable if the variation of that index, calculated from the beginning and until the end of each of those years, exceeds a fifty-five percent, a thirty percent and a fifteen percent for the first, second and third year of application, respectively. Likewise, such draft Law foresees that the restatement for positive or negative inflation, depending on the case, corresponding to the first, second and third fiscal year beginning on January 1, 2018 that must be calculated in order to verify the anticipated assumptions, should be recognized one third in that fiscal period and the remaining two thirds, in equal parts, in the next two immediate fiscal periods.

Internal Taxes and Tax Collection ENARD

The Law No. 27,430 also provides for an increase in the effective internal tax rate applicable to mobile telephone services from 4.16% to 5.26%, effective for taxable events executed as from March 1, 2018. In addition, the law repeals collection at source of the charge imposed for the benefit of the ENARD.

In addition, pursuant to Decree No. 979/2017, as from November 15, 2017, the effective tax rate (for internal taxes) on the sale of imported mobile phones and other wireless network equipment is reduced from 20.48% to 11.73%. Such rate, pursuant to Law No. 27,430, will decrease gradually until its complete phase out as from January 1, 2024. In the case of goods manufactured in Tierra del Fuego, the rate is set at 0% as from November 15, 2017.

Tax on deposits to and withdrawals from bank accounts

Pursuant to Law No. 27,432, the PEN may establish that the percentage of the tax rate on bank credit and debits that to date may not be creditable against income tax, be gradually reduced by up to 20% per year as from January 1, 2018. The PEN may provide that, by 2022, it be fully creditable against income tax. On May 7, 2018, Decree 409/2018 was published. It established that for transactions reached at the general tax rate, it can be computed as an advance payment up to 33% of the tax originated in both the accredited amounts and the debited and for the other taxable events achieved by the tax. In the case of operations taxed at a reduced rate, the computation as credit of the tax will be 20%.

These provisions are applicable to advances and balances of income tax corresponding to fiscal periods beginning on or after January 1, 2018, for tax credits originated in taxable events that occurred since that date.

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Social Security

Also, the Law No. 27,430 gradually reduces the percentage of employers social security contributions paid by large companies from 21% to 19.5% by 2022.

The Law establishes a non-taxable base for calculating employers social security contributions of $2,400 Argentine pesos for 2018, which will increase to $12,000 Argentine pesos by 2022. The Law gradually phases out employers contributions creditable against VAT.

Tax Consensus

On the other hand, on January 2, 2018, Law No. 27,429 - Tax Consensus was published in the Official Gazette. Said Law approves the Tax Consensus signed between the National Executive Branch and the representatives of the Provinces and the Autonomous City of Buenos Aires.

The tax consensus seeks to harmonize the tax structures of the different jurisdictions to promote employment, investment and economic growth and to promote uniform policies. For such purpose, the National Government, the Provinces and the Autonomous City of Buenos Aires agreed to fulfill certain commitments. Among the commitments undertaken by the Provinces, the most relevant are, with respect to Turnover Tax, the immediate elimination of differential treatments based on the place of business or the location of the taxpayer s establishment or the location where goods are manufactured and the establishment of exemptions and the application of tax rates that shall not exceed those set forth for each activity and period in the Annex to the Consensus (in the case of communications 5% in 2018, which will decrease to 3% by 2022, and in the case of mobile telephony 7% in 2018, which will decrease to 5% by 2022.) As to stamp tax rates, for certain activities and contracts, the establishment of a maximum stamp tax rate of 0.75% as from January 1, 2019, with a gradual decrease until its complete phase out as from January 1, 2022 and the repeal of all payroll taxes.

p) Provisions

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

If the effect of the time value of money is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized as finance expenses. For more information, see Note 18.

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

q) <u>Dividends</u>

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

r) <u>Debt Financial Costs and Other Financial Results, net</u>

Debt Financial costs and other financial results, net, are recorded as incurred and include:

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

s) Acquisition of Treasury Shares

In connection with the Treasury Shares Acquisition Process described in Note 20 d) to these unaudited consolidated financial statements, the Company has applied the guidance set forth in IAS 32, which provides, consistently with the CNV Regulations, that any instruments of its own equity acquired by the Company must be recorded at the acquisition cost and must be deducted from Equity under the caption Treasury shares acquisition cost . No profit or loss resulting from holding such instruments of own equity shall be recognized in the income statement. If the treasury shares are sold, the account Treasury shares acquisition cost shall be cancelled and the difference between the net realizable value of the treasury shares sold and its acquisition cost shall be recorded, if positive, within Equity under the Treasury shares negotiation premium caption. If such difference is negative, the resulting amount shall be recorded within Equity under the Treasury shares negotiation discount caption.

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t) Earnings per Share

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

u) Adoption of IFRS 15 (Revenue from Contracts with Customers)

As from January 1, 2018, the Company adopted IFRS 15 (Revenue from Contracts with Customers.) The Company opted for the modified retrospective application of IFRS 15, as provided under such standard. Though the application is retrospective, the accumulated impact of the initial application is recognized as an adjustment to retained earnings initial balance of the year of initial application (only for contracts that are not completed contracts as of the date of initial application).

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

The impact of IFRS 15 is mainly related to mobile telephony contracts that include handset sales together with services in mobile services contracts (first sale of equipment or renewal of customer s equipment together with postpaid and abono fijo services charges).

The standard requires assigning the selling price to each performance obligation according to its proportional standalone selling price, being the main performance obligations of those contracts the handset and the service revenues, considering an estimated service term which varies depending on the contract s enforceability according to the type of customers (currently 24 months for large customers and indeterminate term for individuals).

These amendments introduced by IFRS 15 initially generated an early recognition of handset sales revenues that will have an impact on accumulated income (due to the partial retroactive application of such standard) against the recognition of contractual assets. Such increase is due to the fact that the discounts given to the customer on handsets is assigned, under IFRS 15, between the sale of handsets and the services. Before the application of this standard, said discount was only allocated to the sale of handsets.

Considering the above mentioned, this standard generated a reassignment of revenues, increasing equipment sales revenues and reducing the recognition of services revenues. It will cause the initial recognition of a contractual asset that will decrease to the extent service revenues are recognized, which will ceased to recognize fully at the end of the stipulated contractual term.

The initial effect of the application of such method generated a contractual asset of $781, offset with an increase in deferred tax liabilities of $234 and an increase in accumulated income as of January 1, 2018 in the amount of approximately $547 (net of income tax) attributable to Telecom Argentina (controlling company.)

Consequently, as a result of applying that standard, the Company recorded an increase in handset sale revenues of $421 and a decrease in service revenues of $357 for the nine-month period ended September 30, 2018 (generating a net increase in revenues of $64), net of a tax effect of $19. Consequently, the net income tax effect of the above-mentioned reassignment of revenues amounted to approximately $45 of net income (pesos 0.02 per share). As of September 30, 2018, the contractual asset amounts to $64, disclosed under current and non-current trade receivables.

On the other hand, the capitalization of handset subsidies occasionally granted by the Company to new postpaid subscribers was discontinued in light of the interpretations of the new standard maintaining the capitalization of the commissions paid for the acquisition of postpaid and Abono fijo customers in the mobile telephony and Internet segment as incremental costs of obtaining contracts under IFRS 15, because these costs are necessary to obtain new contracts with customers and only if they continue satisfying the capitalization conditions under the IFRS.

The decrease in the residual value of the capitalized handset subsidies generated an effect on Retained Earnings as of January 1, 2018 in the amount of $61 (lower retained earnings of $85 net of income tax of $24), of which $56 is attributable to controlling shareholders ($79, net of income tax of $23) and $5 to non-controlling shareholders ($6, net of income tax of $1.) The non-capitalization of handset subsidies as from 2018 generated an increase in the Cost of handset sales of approximately $94 and a decrease in amortization of approximately $75 for the nine-month period ended September 30, 2018 (impact of a loss of $19, which net of income tax of $6, would amount to $13).

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v) Adoption of the Amendments to IFRS 9 Financial Instruments

As from January 1, 2018, the Company adopted the amendments to IFRS 9, which basically incorporate requirements related to the recognition of expected credit losses of financial assets, as follows:

- In the case of trade receivables, the allowance for doubtful accounts must be measured in an amount equal to the lifetime expected credit losses.

- For the rest of the financial instruments, the expected credit losses for the next 12 months must be recognized (lifetime expected losses over the contractual payments of the financial instrument of which the default is estimated in the next 12 months), except the case of significant increase in the financial instrument s credit risk so the lifetime expected credit losses must be recorded, i.e. The expected credit losses for the full term of the financial instrument.

Expected credit losses related to trade receivables generated an effect on Retained Earnings as of January 1, 2018 in the amount of $489 (an increase in the allowance of $665 - of which $166 correspond to previously existing receivables in Cablevisión -, net of income tax of $176), of which $475 is attributable to controlling shareholders ($648, net of income tax of $173) and $14 to non-controlling shareholders ($17, net of income tax of $3). On the other hand, the effect of applying that standard for the nine-month period in 2018 generated an increase in bad debts of $297 net of the tax effect of $89, amounted to a net loss of $208 (net loss attributable to controlling company amounted to approximately $200, pesos 0.09 per share).

w) Use of Estimates

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

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

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

Item or Account	Estimates
Revenues	Revenue recognition is influenced by estimates on: • the expected duration of the relationship with the customer for deferred revenues regarding upfront connection fees; • traffic and consumption measures.
Useful lives and residual value of PP&E and Intangible assets	PP&E and intangible assets, except for indefinite useful life intangibles, are depreciated or amortized on a straight-line basis over their estimated useful lives. The determination of the depreciable amount of the assets and their useful lives involves significant judgment. The Company periodically reviews, at least at each financial year-end, the estimated useful lives of its PP&E and amortizable intangible assets.
Recoverability of PP&E and intangible assets with finite useful life	At least at every annual closing date, an assessment is made regarding whenever events or changes in circumstances indicate that PP&E and amortizing intangible assets may be impaired. The recoverable amount is the higher of the fair value (less costs to sell) and its value in use. The identification of impairment indicators and the estimation of the value in use for assets (or groups of assets or cash generating units) require management to make significant judgments concerning the validation of impairment indicators, expected cash flows and applicable discount rates. Estimated cash flows are based on significant Management s assumptions about the key factors that could affect future business performance such as the future market share, competition level, capital expenditures, salary increases, foreign exchange rates evolution, capital structure, capital cost, etc. For the years presented, the Company estimated that there are no indicators of impairment of assets that are subject to amortization, with the exception of those mentioned in the point l) of this note. However, changes in our current expectations and operating assumptions, including changes in our business strategy, technology, competition and changes in market conditions, could significantly impact these judgments and/or assumptions and could require future adjustments to the recorded assets.
Recoverability of Intangible assets with indefinite useful life and goodwills	The Telecom Group determined that the Company s PCS license, SRCE license and the brands acquired through the business combination of Note 4.a) met the definition of an indefinite-lived intangible asset for the years presented and tests it annually for impairment. In addition, the Company records goodwill that is not amortized and that should be tested for impairment on an annual basis. The recoverability assessment of an indefinite-lived intangible asset and goodwills requires our Management to make assumptions about the future cash flows expected to be derived from such asset. Estimated cash flows are based on significant Management s assumptions about the key factors that could affect future business performance such as the future market share, competition level, capital expenditures, salary increases, foreign exchange rates evolution, capital structure, discount rate, etc. The discount rate used to determine the discounted cash flow is an annual US dollar rate of approximately 10.5%. Our judgments regarding future cash flows may change due to future market conditions, business strategy, the evolution of technology and other factors. These changes, if any, may require adjustments to the carrying

	amount of the PCS license, brands, SRCE license and Goodwill.
Income Tax: recoverability assessment of deferred tax assets and other tax receivables Deferred income tax measuring	Income taxes (current and deferred) are calculated in each company of the Telecom Group according to a reasonable interpretation of the tax laws in effect in each jurisdiction where the companies operate. The recoverability assessment of deferred tax assets sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets takes into account the estimate of future taxable income based on the Company s projections and on conservative tax planning. The recoverability assessment of the tax receivable related to the actions of recourse filed by the Company s related to income tax inflation adjustment (Note 15) is based on the existing legal arguments on this matter and the behavior of the National Tax Authority in revising the actions of recourse filed by the Company. Additionally, by Law No. 27,430, the corporate income tax rate for argentine companies decreases as detailed under Note 3.o). Therefore, for the measuring of deferred tax, the fiscal year of future reversals of temporary differences that originate deferred tax/liability has been estimated, applying the income tax rate of each reversal period. The actual moment of the future income and tax deductions may differ from the estimated, and may produce impact in future income.
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 for discounting long term receivables denominated in U.S. dollars is 8.32%. The discount rate for long-term debt in pesos is in a range of 29%-40%. On the other hand, Telecom has long-term debts in U.S. dollars that are discounted at a rate of 7.5%.
Measurement of the fair value of certain financial instruments	The fair value of a financial instrument is the amount at which the instrument could be purchased or sold in an orderly transaction between market participants and duly informed, based on mutual independence. If there is a quoted market price available for an instrument in an active market, the fair value is calculated based on that price. If there is not a quoted market price available for a financial instrument, its fair value is estimated based on the price established in recent transactions involving the same or similar instruments and, if not, based on valuation techniques regularly used in financial markets. The Company uses its judgment to select a variety of methods and makes assumptions based on market conditions at closing. For more information on the determination of those values, see Note 21.
Provisions	The Company is subject to proceedings, lawsuits and other claims related to labor, civil, tax, regulatory and other matters. In order to determine the proper level of provisions, Management assesses the likelihood of any adverse judgments or outcomes related to these matters as well as the range of probable losses that may result from the potential outcomes. Internal and external legal counsels are consulted on these matters. A determination of the amount of provisions required, if any, is made after careful analysis of each individual issue. The determination of the required provisions may change in the future due to new developments in each matter, changes in jurisprudential precedents and tribunal decisions or changes in its method of resolving such matters, such as changes in settlement strategy.
Allowance for Doubtful Accounts	The recoverability of trade receivables is measured by considering the aging of the accounts receivable balances, the necessity or request of customers to unsubscribe, historical write-offs, public sector and corporate customer creditworthiness and changes in the customer payment terms, as well as the estimates regarding future performance, determining the expected credit loss according to the guidelines of IFRS 9. If the financial condition of the customers were to deteriorate, the actual write-offs could be higher than expected.
Business Combinations (Note 3.d.5)	In connection with the accounting treatment of the business combination referred to in Note 4.a), the Company has identified the assets and liabilities of the acquiree and the estimation of their fair value as of the date of the business combination. With regard to those assets that are subject to amortization or depreciation, the Company made an estimation of their useful lives. Any change in the estimates made by the Company may affect the valuation of the identified assets and liabilities and could generate an impact in results of operations.

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

New Standards and Interpretations issued by the IASB not in force

IFRS 16 (Leases)

In January 2016, IFRS 16 was issued.

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

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

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

a) Must have the right to obtain substantially all the economic benefits of the identified assets and

b) Must have the right to direct the use of the identified asset.

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

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

IFRIC 23 (Uncertainty over Income Tax Treatments)

On October 2017, IASB issued IFRIC 23. In case of uncertainty over tax treatments, this IFRIC provides that: (i) if uncertain tax treatments must be assessed separately; (ii) the assumptions used by the tax authority over the tax treatments (the company will have to assess if it s probable that the tax authority will accept the uncertain tax treatment assuming that the taxation authority is going to assess such uncertain tax treatment); (iii) how a company measures the tax income (loss), the tax bases, taxes and fiscal credits not deducted and tax rates (assessment of the probability of occurrence); and (iv) how the changes in facts and circumstances are considered.

The new standard is effective for fiscal years beginning on or after January 1, 2019 and earlier application is permitted. The Company does not expect impacts on the application of this amendment on the consolidated statements of financial position, results of operations or cash flows.

NOTE 4 ACQUISITION OF COMPANIES AND CORPORATE REORGANIZATION PROCESSES

a) Merger between Telecom Argentina (absorbing company for legal purposes) and Cablevisión (absorbed company for legal purposes)

On June 30, 2017, the Boards of Directors of Telecom Argentina S.A. and Cablevisión S.A. approved a pre-merger commitment whereby Telecom Argentina S.A., in its capacity as absorbing company, absorbed Cablevisión S.A., pursuant to the provisions of Sections 82 and 83 of the General Corporations Law No. 19,550 and subject to corporate and regulatory approvals (the Merger). The Ordinary and Extraordinary Shareholders Meeting of Telecom Argentina S.A. and the Extraordinary Shareholders Meeting of Cablevisión S.A. held on August 31, 2017 approved the pre-merger commitment and, in the case of Cablevisión S.A., its consequent dissolution on the Effective Date of the Merger and, in the case of Telecom Argentina S.A., the amendment of the Bylaws and the increase of its capital stock.

The purpose of the Merger is for the Company, in its capacity as surviving company under the merger, to offer in an efficient manner, in line with the national and international trend, technological products for media and telecommunications that converge the different separate or independent modalities in which voice, data, sound and video transmission wired and wireless services are provided, into a single product or a series of products to be provided to users as a whole, for its own benefit and for the benefit of the users and consumers of those multiple individual services. Both companies understood that their respective operating and technical structures are highly complementary and could be optimized through a structural consolidation, achieving synergies and efficiencies in the development of convergence products along with the demand of the market.

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Pursuant to Section 83, subsection c) of the LGS, the parties have set the following exchange ratio: 1 common share of Cablevisión S.A. (either a Class A Share of Cablevisión S.A. or a Class B Share of Cablevisión S.A.) for each 9,871.07005 new shares of Telecom Argentina S.A. (the Exchange Ratio). This Exchange Ratio was deemed reasonable, from a financial standpoint, by the independent professional appraisers J.P Morgan Securities LLC and Lion Tree Advisors LLC.

On October 31, 2017, the parties subscribed the Final Merger Agreement pursuant to Section 83, subsection 4) of the LGS, subject to the regulatory authorization from the ENACOM requested by Telecom Argentina S.A. and Cablevisión S.A. on September 6, 2017. This authorization was granted through ENACOM Resolution No. 5,644-E/2017, notified to the Company on December 22, 2017.

Having all the conditions to which the Merger was subject been met under the terms of Section Seven of the Pre-Merger Commitment and the Final Merger Agreement, on January 1, 2018, the parties signed the Minutes regarding the Transfer of Operations of Cablevisión S.A. to Telecom Argentina S.A.

As a result, the Effective Date of the Merger is January 1, 2018 with the consequent change of control in the Company, being Cablevisión Holding S.A. the new controlling company.

On August 22, 2018, through Resolution RESFC 2018-19688-APN-DIR-CNV 2018, CNV conformed the Merger, the amendment of the bylaw of Telecom Argentina and its increase in capital stock as a result thereof. The Merger, the amendment of the bylaw and the increase of capital stock of Telecom Argentina were registered before the General Board of Corporations on August 30, 2018 under No. 16,345, L. 91, Tº Share Corporations.

In addition, on July 7, 2017, Cablevisión Holding S.A. accepted an offer for a call option granted by Fintech Advisory Inc. for the acquisition of an equity interest of 13.51% in Telecom Argentina (which represents approximately 6% of Telecom Argentina s post-merger capital stock) for USD 634,275,282 (the Option). The maximum term to exercise the Option was one year as from July 7, 2017. Likewise, CVH had to pay to Fintech Advisory Inc., within a term of thirty days as from July 7, 2017, an option premium of USD 3,000,000, which was settled on July 2017.

On October 5, 2017, Cablevisión Holding S.A. made a prepayment of the aggregate exercise price under the Option for USD 634,275,282. On December 27, 2017, Cablevisión Holding S.A. exercised the Option, choosing to receive, an additional equity interest in VLG of 21.55% (which represents an indirect interest of approximately 6% in Telecom as of the effective merger date).

In addition, within the framework of the option agreement, its price was finally established at USD 628,008,363.

Under the Pre-Merger Commitment and the Final Merger Agreement and the notice received from Fintech Telecom LLC (Fintech Telecom) and Fintech Media LLC (Fintech Media) on December 29, 2017 informing about a corporate reorganization process whereby Fintech Telecom absorbed Fintech Media and VLG Argentina Escindida LLC (a company spun off from VLG) under a merger by acquisition process effective as of the Effective Date of the Merger, the shares which issuance was decided upon by the Board of Directors of Telecom Argentina on the Effective Date of the Merger as a consequence of the Merger were delivered: i) to Fintech Telecom LLC: 342,861,748 Class A shares; ii) to Cablevisión Holding S.A.: 406,757,183 Class D shares; and iii) to VLG: 434,909,475 Class D shares.

Consequently, the capital stock of Telecom Argentina as of January 1, 2018 is now composed as follows:

	Outstanding Shares	**Treasury Stock**	**Total Capital Stock**
Class of Shares			
Class A	683,856,600	-	**683,856,600**
Class B	627,930,005	15,221,373	**643,151,378**
Class C	234,748	-	**234,748**
Class D	841,666,658	-	**841,666,658**
Total	**2,153,688,011**	**15,221,373**	**2,168,909,384**

Fintech, controlling company of Telecom Argentina until December 31, 2017, a limited liability company incorporated in Delaware (United States of America), is a company fully and directly controlled by Fintech Advisory Inc. and its core business is the holding, directly and indirectly, of the interest in Telecom Argentina. Fintech Advisory Inc. is a company incorporated in Delaware (United States of America) fully controlled by Mr. David Martínez. Fintech Advisory Inc. is a company engaged in investing and managing equity interests and corporate and government debt securities, mainly in emerging markets.

CVH, controlling company of Telecom Argentina as from January 1, 2018, is an Argentine sociedad anónima, a corporation with limited liability incorporated in Argentina, which is mainly engaged in investing in businesses and stock companies existing or to be created, which are mainly engaged in rendering Information Technology and Communication Services (TIC Services) and Audiovisual Communication Services. Its controlling shareholder is GC Dominio S.A.

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As from the Effective Date of the Merger, (i) all the assets and liabilities, including the assets subject to registration, licenses, rights and obligations that belong to Cablevisión S.A. are deemed to have been incorporated to the equity of Telecom Argentina S.A., (ii) Telecom Argentina S.A. continued with the operations of Cablevisión S.A., thus generating the corresponding operating, accounting and tax effects, (iii) the management and representation of Cablevisión S.A. was taken over by the management and representatives of Telecom Argentina S.A., iv) Cablevisión S.A. was dissolved without liquidation.

The Merger, the capital stock increase as a result of the Merger, and the amendment of the Bylaws of Telecom Argentina were administratively conformed by the CNV and later registered in the Public Registry of Commerce under the IGJ on August 30, 2018.

Resolution No. 374/2018 issued by the Secretary of Commerce - Approval of the merger between Telecom and Cablevisión

On June 29, 2018, through Resolution No. 374/2018, the Secretary of Commerce authorized under the terms of paragraph a), Article 13 of Law No. 25,156 the merger transaction whereby Telecom absorbed Cablevisión. In said resolution, as part of the approval of the merger, the Secretary of Commerce also (i) approved the assignment of 143,464 residential subscribers of the Internet service rendered by Telecom under the brand ARNET to Universo Net S.A. (The aforementioned assignment was completed during the third quarter of 2018), (ii) accepted the conduct undertaking filed by Telecom, Cablevisión, Cablevisión Holding and Fintech, whereby Telecom undertook to limit the integrated marketing of subscription television services by physical link with the mobile communications service until certain conditions are fulfilled, and (iii) accepted the conduct undertaking filed by Telecom, Cablevisión, Cablevisión Holding and Fintech, whereby Telecom undertook to offer the possibility that any current or new Internet service provider may provide the retail broadband service by leveraging the use of its copper network under ADSL technology under the terms described in said resolution.

The Merger was accounted for under the acquisition method, as described under IFRS 3 and as a reverse acquisition whereby Cablevisión (acquirer for accounting purposes) absorbs Telecom (acquiree for accounting purposes.) See the accounting treatment of the merger between Telecom and Cablevisión under Note 3.d.5) - Specific matters relating to the merger between Telecom Argentina and Cablevisión.

The following are the net identifiable assets of Telecom as of January 1, 2018 incorporated to these unaudited consolidated financial statements. The figures disclosed below represent the best estimate made by the Company based on information available to date. If the Company obtains new information about the events and circumstances existing on the date of acquisition, it will introduce changes reassessing the fair value of the net assets already identified and/or identifying any additional assets or liabilities during the measurement period, which will not exceed one year as from the date of acquisition as provided under paragraph 45 of IFRS 3.

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The identifiable assets and liabilities of Telecom Argentina (acquiree for accounting purposes) incorporated as of January 1, 2018 and the impact of the purchase price allocation recorded in the consolidated statement of income for the three-month and nine-month periods ended September 30, 2018 are the following:

	Telecom (Accounting acquiree) (1)	Retained earnings adjustments (2)	Business Combination effect IFRS 3 (3)		Total identified assets net incorporated as of January 1, 2018
ASSETS					
Cash and cash equivalents	2,831	-	-		2,831
Trade receivables	8,636	157	(656)	(4)	8,137
Other current assets	6,771	-	32	(4)	6,803
Total current assets	**18,238**	**157**	**(624)**		**17,771**
Deferred income tax assets	626	-	(624)		2
Investments	2,657	-	3		2,660
Goodwill	2	-	59,653		59,655
Property, plant and equipment	28,538	-	34,209	(4)	62,747
Intangible assets	7,096	(85)	33,175		40,186
Other Non-current assets	431	125	(125)	(4)	431
Total non-current assets	**39,350**	**40**	**126,291**		**165,681**
TOTAL ASSETS	**57,588**	**197**	**125,667**		**183,452**
LIABILITIES					
Total current liabilities	**21,987**	**-**	**7**		**21,994**
Deferred income tax liabilities	48	83	16,610		16,741
Other non-current liabilities	11,674	-	18		11,692
Total non-current liabilities	**11,722**	**83**	**16,628**		**28,433**
TOTAL LIABILITIES	**33,709**	**83**	**16,635**		**50,427**
Capital nominal value Outstanding shares	969	-	(15)		954
Inflation adjustment Outstanding shares	2,646	-	-		2,646
Capital nominal value - Treasury shares	15	-	-		15
Inflation adjustment Treasury shares	42	-	-		42
Treasury shares acquisition cost	(461)	-	-		(461)
Contributed Surplus	-	-	109,469		109,469
Legal reserve	734	-	-		734
Special reserve for IFRS implementation	351	-	-		351
Voluntary reserve for capital investments	461	-	-		461
Reserve for future investments	9,730	-	-		9,730
Other comprehensive results	972	-	(972)		-
Equity attributable to non-controlling interest	(3)	-	3		-
Retained earnings	7,630	128	-		7,758
Equity Attribuibled to Telecom Argentina	**23,086**	**128**	**108,485**		**131,699**
Non-controlling interest	**793**	**(14)**	**547**		**1,326**
TOTAL EQUITY	**23,879**	**114**	**109,032**		**133,025**
TOTAL LIABILITIES AND EQUITY	**57,588**	**197**	**125,667**		**183,452**

(1) In accordance to unaudited consolidated financial statements as of December 31, 2017, approved by the Board of Director on March 7, 2018. Tuves Paraguay goodwill of $2 was reclassified from intangible assets to Goodwill.

(2) Retained earnings adjustments are related to initial amounts of Telecom Argentina before the merger in relation to the application of IFRS 9 and 15 since fiscal year 2018 (See Note 3.u and 3.v).

(3) Book value adjustments of Net Assets of Telecom in order to recognized them at fair value in accordance to IFRS 3.

(4) In the estimation of the fair value of these items, were substracted $1,677 of allowances.

Impact of the purchase price allocation recognized in the consolidated results	**Three-month period ended September 30, 2018**	**Nine-month period ended September 30, 2018**
Revenues	(5)	(16)
Operating costs without depreciation and amortization	(27)	(127)
Depreciation, amortization and impairment of PP&E	(1,852)	(5,049)
Operating income	**(1,884)**	**(5,192)**
Financial results, net	9	24
Loss before income tax expense	**(1,875)**	**(5,168)**
Income tax	562	1,550
Net loss for the period	**(1,313)**	**(3,618)**
Attribuibled to controlling Company	**(1,300)**	**(3,579)**
Non-controlling interest	**(13)**	**(39)**

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b) Acquisition of Nextel

On September 10, 2015, the Board of Directors of Cablevisión approved the assignment of the rights and obligations held by Grupo Clarín S.A. (Grupo Clarín) under an offer it had submitted to NII Mercosur Telecom, S.L.U. and NII Mercosur Móviles, S.L.U. (hereinafter, the Sellers) for the acquisition of 49% of the capital stock of NEXTEL and an option to acquire, together with its subsidiary Televisión Dirigida S.A., subject to certain conditions -among them, the regulatory approvals- 51% of the remaining capital stock. The price of the transaction was USD 165 million (out of this amount, USD 80 million accounts for 49% and USD 85 million accounts for 51%) plus the right to collect an additional amount of up to USD 13 million subject to the fulfillment of certain conditions. The offer submitted by Grupo Clarín was subject to the acceptance of the Sellers. On September 11, 2015, the Sellers accepted the offer submitted by Grupo Clarín and, on the same date, the Sellers accepted the assignment of the rights under such offer in favor of Cablevisión, offering Cablevisión the acquisition of 49 % of the capital stock of NEXTEL and the option to acquire the remaining 51%. In order to guarantee the rights and obligations under the offer, the capital stock owned by NII Mercosur Móviles, S.L.U. was pledged (subject to registration with the Public Registry of Commerce). The transaction was completed on September 14, 2015, upon payment by Cablevisión and its subsidiary of an aggregate USD 159. The companies undertook to create a guarantee fund with the US$6 million balance to cover any potential liabilities of NEXTEL (this fund was set up on October 7, 2015). In addition, upon the fulfillment of certain conditions precedent, on October 1, 2015, Cablevisión paid to the Sellers the additional amount of US$12.73 million. On June 3, 2016, the assignment of 49% of the capital stock of NEXTEL in favor of Cablevisión was registered with the IGJ. Under the terms of the offer, NEXTEL would continue to be controlled and operated by the Sellers until the option to acquire the remaining 51% of the capital stock had been exercised.

As of December 31, 2015, the call option was not legally exercisable and uncertainties remained regarding the obtainment of the required regulatory authorization. As of December 31, 2015, Cablevisión did not have control over NEXTEL taking into consideration the elements provided under IFRS 10. Therefore, it did not consolidate NEXTEL as of such date. In January 2016, the regulatory framework changed and the regulatory authorization of the transaction was no longer necessary.

Subsequently, on January 27, 2016, Cablevisión and its subsidiary Televisión Dirigida S.A. decided to exercise the option to acquire the remaining 51% of the capital stock and votes of NEXTEL, and, consequently, Cablevisión became the holder of 51.4% of the capital stock and votes of NEXTEL and Televisión Dirigida S.A. became the holder of the remaining 48.6%. To such effect, on the same date, NEXTEL s management took notice of the release of the pledge that had been set up to guarantee the rights and obligations under the offer. On July 26, 2016, the IGJ registered the assignment of the remaining 51% of the capital stock.

On June 30, 2016, Cablevisión s subsidiary Televisión Dirigida S.A. transferred to Cablevisión 392,774,929 membership interests with nominal value of peso 1 each and entitled to a vote per membership interest, representing 48.5% of the capital stock of NEXTEL. Televisión Dirigida S.A. also transferred to Pem 1,000,000 membership interests with nominal value of peso 1 each and entitled to one vote per membership interest, representing 0.1% of the capital stock. As a result of these transactions, the shareholders of NEXTEL hold the following interests: i) - Cablevisión became the holder of 809,236,480 membership interests with nominal value of $1 and entitled to one vote per membership interest, representing 99.9% of the capital stock and votes; ii) PEM S.A. became the holder of 1,000,000 membership interests with nominal value of $1 and entitled to one vote per membership interest, representing 0.1% of the capital stock and votes. Those transactions were registered with the IGJ on November 25, 2016.

On December 28, 2016, PEM S.A. transferred to Cablevisión 1,000,000 membership interests with nominal value of peso 1 each and entitled to one vote per membership interest, representing 0.1% of the capital stock and votes of NEXTEL. As a result of the assignment of the membership interests described above, Cablevisión became the holder of 810,236,480 membership interests with nominal value of $1 and entitled to one vote per membership interest, representing 100% of the capital stock and votes of NEXTEL. Said transfer was registered with the IGJ on March 27, 2017.

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c) Acquisition of companies, holders of radioelectric spectrum in the 900 Mhz and 2.5 Ghz bands

In June 2016, Cablevisión, with its subsidiary NEXTEL, acquired 100% (97% owned by NEXTEL and the remaining 3% owned by Cablevisión) of the capital stock of Fibercomm S.A. and Gridley Investments S.A. both owners of 100% of the capital stock of Trixco S.A., holder of licenses for the use of the radioelectric spectrum in 900 Mh bands. NEXTEL acquired 100% of the capital stock of WX Telecommunications LLC (in accordance with the LGS, WX Telecommunications S.A.U.) and Greenmax Telecommunications LLC (in accordance with the LGS, Greenmax Telecommunications S.A.U), which are the controlling companies of Skyonline Argentina S.A., Netizen S.A., Infotel S.A. and Callbi S.A., among the most important subsidiaries. The latter render wireless telecommunications services and hold licenses for the use of the radioelectric spectrum in the 2.5 Ghz bands. The aggregate price for those transactions was USD 138.2 million, equivalent to $2,036.

During the year ended December 31, 2016, Cablevisión completed the process of allocating the acquisition cost of 100% (97% to Nextel and the remaining 3% to Cablevisión) of the capital stock of Fibercomm S.A. and Gridley Investments S.A., both owners of 100% of the capital stock of Trixco S.A., and calculated goodwill from this acquisition in the amount of $801.7, included under Goodwill in the consolidated statement of financial position, taking into consideration that the valuation of the identifiable assets, liabilities and contingent liabilities at the interest percentage acquired is lower than the acquisition cost.

d) Corporate Reorganization of Cablevisión

d.1) On March 31, 2017, Cablevisión s Board of Directors approved the Pre-Merger Commitment executed among Cablevisión, Nextel, Greenmax Telecommunications S.A.U., WX Telecommunications S.A.U., Gridley Investments S.A., Trixco S.A., Fibercomm S.A., Netizen S.A, Eritown Corporation Argentina S.A., Skyonline de Argentina S.A., Infotel Argentina S.A., Nextwave Argentina S.A. and Callbi S.A., whereby, as of the merger date, Cablevisión, in its capacity as absorbing company, will continue with the operations of Nextel, Greenmax Telecommunications S.A.U., WX Telecommunications S.A.U., Gridley Investments S.A., Trixco S.A., Fibercomm S.A., Netizen S.A, Eritown Corporation Argentina S.A., Skyonline de Argentina S.A., Infotel Argentina S.A., Nextwave Argentina S.A. and Callbi S.A. (the Absorbed Companies) thus generating the corresponding operating, accounting and tax effects. That merger was approved by the shareholders of Cablevisión at the Extraordinary Shareholders Meeting held on May 17, 2017. On July 11, 2017, the public deed related to the merger was issued.

On September 18, 2017, the ENACOM authorized, under Resolution No. 2017-1734 APN ENACOM# MM, the transfer of the registrations, numbering and sign-posting resources, authorizations and frequency use permits granted to Nextel, Trixco S.A., Callbi S.A., Infotel Argentina S.A., Skyonline de Argentina S.A., Netizen S.A. and Eritown Corporation Argentina S.A. in favor of Cablevisión.

As a result of the above-mentioned corporate reorganization process, the Absorbed Companies were dissolved without liquidation and Cablevisión assumed all the activities, receivables, property and all the rights and obligations of the above-mentioned companies, existing as of the first day of October 2017, or any that may exist or arise due to previous or subsequent acts or activities.

On December 1, 2017, the CNV issued Resolution RESFC-2017-19134-APN-DIR#CNV, whereby it granted the administrative approval of the above-mentioned merger and, on February 23, 2018, the merger was registered with the IGJ under No. 3,469, Book 88 Volume of Stock Companies.

d.2) On August 16, 2016, the Board of Directors of Cablevisión approved the Pre-Merger Commitment executed between Cablevisión, Copetonas Video Cable S.A., Dorrego Televisión S.A., Fintelco S.A., Indio Rico Cable Color S.A., Primera Red Interactiva de Medios Argentinos (PRIMA) S.A. (Prima), Cable Video Sur S.A., Wolves Televisión S.A. and Tres Arroyos Televisora Color S.A., whereby, on the effective date of the merger -October 1, 2016- (Effective Date of the Merger), Cablevisión, as absorbing company, continued with the operations of Copetonas Video Cable S.A., Dorrego Televisión S.A., Fintelco S.A., Indio Rico Cable Color S.A., Prima, Cable Video Sur S.A., Wolves Televisión S.A. and Tres Arroyos Televisora Color S.A. (the Absorbed Companies), thus generating the corresponding operating, accounting and tax effects. As a result of the above-mentioned corporate reorganization process, the Absorbed Companies were dissolved without liquidation. That merger was approved by the shareholders of Cablevisión at the Extraordinary Shareholders Meeting held on September 27, 2016, and on April 20, 2017 it was registered with the Public Registry of Commerce.

In addition, at the Extraordinary Shareholders Meeting held on September 27, 2016, the shareholders also unanimously approved: (i) the amendment of Section Three of the Bylaws in order to conform the core business of Cablevisión to the new regulatory framework of LAD and LSCA, and (ii) the amendment of Sections Nine and Ten of the Bylaws in order to eliminate the Executive Committee. Both amendments of the Bylaws were registered with the Public Registry of Commerce.

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Cablevisión made a filing with the ENACOM in order to inform that Agency of the corporate reorganization to be implemented, so that it would consequently register under the name of the absorbing company, the Area Authorizations required to exploit Cable Television Services corresponding to Copetonas Video Cable S.A., Dorrego Televisión S.A., Indio Rico Cable Color S.A., Cable Video Sur S.A., and Tres Arroyos Televisora Color S.A. The license for Wolves Televisión S.A. was abandoned because Cablevisión already has an Area Authorization in the jurisdiction where Wolves Televisión S.A. exploited the cable television service.

In addition, Prima and Cablevisión made a filing with the ENACOM in order to request that Agency to register the license that had been granted to Prima in favor of Cablevisión as a consequence of the corporate reorganization process. On August 25, 2017, the ENACOM authorized, through Resolution No. 2017-339 APN ENACOM# MM, the transfer of the registrations of national and international long-distance telephony services, as well as the numbering and signposting resources, frequencies and radioelectric authorizations granted to it in favor of Cablevisión.

e) Corporate Reorganization of the Shareholders of Cablevisión

At the Extraordinary Shareholders Meetings of CV B Holding S.A., Vistone S.A. and Southtel Holdings S.A. The Direct Shareholders of Cablevisión - held on September 28, 2016, the shareholders approved the Pre-Merger Commitment executed between Grupo Clarín, the Direct Shareholders of Cablevisión and Compañía Latinoamericana de Cable S.A. (CLC), whereby, on the Effective Date of the Merger - October 1, 2016- Grupo Clarín, as absorbing company, continued with the operations of the Direct Shareholders of Cablevisión and CLC, thus generating the corresponding operating, accounting and tax effects. As a result of the above-mentioned corporate reorganization process, the Direct Shareholders of Cablevisión were dissolved without liquidation and Grupo Clarín assumed all the activities, receivables, property and all the rights and obligations of the above-mentioned companies, existing on the Effective Date of the Merger, or any that may exist or arise due to previous or subsequent acts or activities.

Upon executing the corresponding Final Merger Agreement, Cablevisión notified the ENACOM of the change of shareholder structure in Cablevisión, which did not entail a change of control pursuant to Section 13 of Law No. 27,078 and, therefore, an authorization is not required.

On September 28, 2016, the shareholders of Grupo Clarín approved the merger by absorption of the Direct Shareholders of Cablevisión and CLC. In addition, at such Shareholders Meeting, the shareholders of Grupo Clarín S.A. approved the partial spin-off for the creation of a new company domiciled in the City of Buenos Aires under the name Cablevisión Holding S.A. The equity subject to the spin-off comprises the direct (upon the execution of the merger) and indirect equity interests of Grupo Clarín in Cablevisión and in GCSA Equity, LLC.

On April 27, 2017, both corporate reorganization processes (merger and spin-off-incorporation) were registered with the IGJ and, as from May 1, 2017, the controlling company of Cablevisión (directly and indirectly) was Cablevisión Holding S.A.

f) Corporate Reorganization of Telecom Argentina

f.1) Redemption of the shares of Sofora

In March 2017, WAI offered Sofora and, Sofora, with the consent of Fintech, its controlling shareholder, accepted an offer to redeem in two tranches all of the 140,704,640 shares issued by Sofora held by WAI pursuant to Sections 223 and 228 of the LGS. As a result of the redemption, Sofora agreed to pay to WAI an amount equal to the nominal value of the shares issued by Sofora, equivalent to pesos 140,704,640 and issue in the name of WAI one or more dividend certificates (Class A Bono de Goce) which will serve as proof of the rights of WAI to collect dividends for a total amount of up to USD 470 million less the amounts paid to redeem the shares of Sofora held by WAI (equivalent to USD 8,683,596.)

Subsequently, Dividend Certificates were issued in two tranches for a total of USD 461,316,404 (the first tranche on May 23, 2017 for USD 245,036,017, and the second tranche on June 22, 2017 for USD 216,280,387), together with the respective agreed-upon stock redemption.

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The main general terms and conditions of the dividend certificates (Class A Bono de Goce) provided that: (i) they will only grant rights to collect declared dividends at the sole discretion of Sofora for up to the maximum amount provided under the respective bond; (ii) they will be entitled to collect the amount of dividends provided for in the respective bond in preference to the other shareholders of Sofora; (iii) all the payments under those bonds shall be made with realized and liquid profits of Sofora; (iv) the maximum amount of dividends receivable under those bonds shall increase on June 1 of each year for an amount equivalent to 2% per annum applied to the outstanding balance as of May 31 of each year; (v) they may be redeemed by Sofora at any time after 36 months counted as from the date of issuance or after payment of 60% of its value at the time of issuance, whichever occurs later; and (vi) in the event Sofora is absorbed by another company that continues with the activities of Sofora, the preference under the dividend certificates (Class A Bono de Goce) will be maintained only with respect to those shares of the surviving company received by the shareholders of Sofora under the exchange ratio provided for under said merger so that this preference does not affect the other shareholders of the absorbing company, i.e., in the case of the reorganization mentioned in point f.2) of this note (the Reorganization of Telecom Group) the preference of the dividend certificates (Class A Bono de Goce) will only be verified with respect to Class A shares of Telecom Argentina received by Fintech and will not affect Class B shares or Class C shares of Telecom Argentina.

Taking into consideration that the Reorganization of Telecom Group, described in the following point, has entered into effect, Telecom Argentina assumed all the rights and obligations of Sofora as issuer of the Class A Exchange Bonds. Under no circumstance the rights to collect dividends under the dividend certificates (Class A Bono de Goce) shall affect the rights to collect dividends that belong to the holders of Class B Shares or Class C Shares or any other class of shares of Telecom Argentina.

The dividend certificates (Class A Bono de Goce) have been paid in full through the dividends in respect of which they were entitled to collect.

f.2) Corporate Reorganization of the Telecom Group

On March 31, 2017, each of the Boards of Directors of Sofora, Personal and Nortel and Telecom Argentina approved a pre-merger commitment, whereby Telecom Argentina would absorb Nortel, Sofora and Personal in accordance with the provisions of sections 82 and 83 of the LGS.

The General Ordinary and Extraordinary Shareholders Meetings of Telecom Argentina and Telecom Personal held on May 23, 2017, and the General Extraordinary Shareholders Meetings of Nortel and Sofora held on May 22, 2017 approved the Reorganization of Telecom Group.

In addition, at the above-mentioned General Ordinary and Extraordinary Shareholders Meeting of Telecom Argentina, the shareholders approved:

i. the conversion of up to 161,039,447 Class A Shares, with nominal value of $1 and entitled to one vote per share into the same number of Class B Shares, with nominal value of $1 and entitled to one vote per share to be delivered to the holders of Preferred Class B Shares of Nortel, as explained in Section 4th of the related pre-merger commitment (the conversion was effective on December 15, 2017); and

ii. the amendment of the following sections of the Bylaws:

a. Section 4: to establish a dynamic conversion procedure for the shares representing capital stock from one Class to the other with equal political and equity rights; and

b. Section 5: to allow the total or partial redemption of fully-paid shares in accordance with the provisions of Section 223 of LGS and allow the issuance of bonds given in exchange for redeemed shares according to the provisions of Section 228 on the mentioned Law.

iii. The elimination of Section 9 of the Bylaws, which includes limitations for transferring Class A Shares, which is effective since the authorization by the ENACOM of the dissolution of Nortel under the Reorganization of the Telecom Group and the distribution to holders of Nortel s Class B Preferred Shares of a portion of Class A Shares of Telecom Argentina through its conversion to Class B Shares in accordance with the provisions of the corresponding pre-merger commitment.

On March 21, 2018, the amendment of the Bylaws mentioned in points ii) and iii) was registered with the IGJ.

At the Shareholders Meetings of Telecom Personal, Nortel and Sofora, the shareholders approved the dissolution without liquidation of the respective companies pursuant to Section 94, subsection 7 of the LGS as a consequence of its incorporation to Telecom Argentina under the Reorganization of Grupo Telecom.

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The companies involved in the Reorganization requested the ENACOM the following authorizations provided under the pre-merger commitment.

a) ENACOM authorization for releasing the shares that comprised the second redemption tranche of Sofora s common shares (owned by WAI representing 15% of Sofora s capital stock) of the allocation to the main core of shares of the investment consortium for the acquisition, in the process of privatization of ENTel, of the Sociedad Licenciataria Norte (currently Telecom Argentina) pursuant to the provisions of Decree No. 62/90 issued on January 5, 1990 and the terms of such privatization and Resolution No. 111/2003 issued by the SC on December 10, 2003.

b) ENACOM authorization for the dissolution of Nortel as a result of the Reorganization of the Telecom Group and the distribution to the holders of Nortel s Class B Preferred Shares of a portion of Telecom Argentina s Class A Shares through its conversion to Telecom Argentina s Class B Shares pursuant to the corresponding pre-merger commitment.

c) ENACOM authorization for the transfer to Telecom Argentina, as a result of the Reorganization of the Telecom Group, of all licenses for the provision of ICT Services and the registrations of ICT Services, together with the corresponding permissions for the use of frequencies, which were granted or awarded to Telecom Personal.

On June 16, 2017, the ENACOM Authorization referred to in a) above was granted through Resolution No. RESOL-2017-5120-APN-ENACOM # MCO.

Since the Reorganization of the Telecom Group was approved at all the General and Special shareholders meetings of the companies involved, and since the term for the opposition of creditors in accordance with the applicable regulations has expired, on November 13, 2017, Telecom Argentina, Nortel, Sofora, and Telecom Personal executed the final merger agreement which was filed with the Argentine regulatory authorities in accordance with the respective applicable regulations.

On November 24, 2017, the Company, Personal, Nortel and Sofora were served with Resolution No. 2017-4545-APN-ENACOM#MM, whereby the ENACOM granted the authorizations mentioned in sections b) and c) mentioned above.

The effective date of the reorganization of Telecom Group began at 00.00 hs of December 1, 2017, date on which the Chairmen of the Boards of Directors of the companies that were part of the Telecom Group signed the Minutes regarding the Transfer of Operations.

As a consequence of the reorganization and with effect as of the date thereof: (i) all the equities of Sofora, Personal and Nortel were fully transferred to Telecom Argentina at the book values of such items in the respective special-purpose unconsolidated financial statements. According to this, Telecom Argentina acquired all rights, obligations and responsibilities of any nature of Personal, Sofora and Nortel; (ii) Telecom Argentina is the surviving company of all the activities developed by Personal, Sofora and Nortel; (iii) Personal, Sofora and Nortel were dissolved without liquidation. On March 21, 2018, the Reorganization and the dissolution without liquidation of each of the absorbed companies was registered with the IGJ.

As a consequence of the Reorganization of Telecom Group:

- A portion of the Class A Shares issued by Telecom Argentina was distributed to Fintech as the only holder of the common shares of Sofora;

- The remaining Class A Shares issued by Telecom Argentina were converted to Class B Shares of Telecom Argentina;

- All Class B Shares issued by Telecom Argentina held by Nortel (including Class B Shares as a result of the conversion mentioned above) were distributed to the holders of Nortel Class B Preferred Shares.

Telecom Argentina did not issue any new Class B Shares or Class A Shares in connection with the Reorganization of Telecom Group.

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NOTE 5 CASH AND CASH EQUIVALENTS AND INVESTMENTS. ADDITIONAL INFORMATION ON THE UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

a) Cash and cash equivalents and Investments

Cash and cash equivalents and investments consist of the following:

	September 30, 2018	December 31, 2017
Cash and cash equivalents		
Cash and Banks	4,697	3,468
Time deposits	3,500	22
Mutual funds	377	917
Other investments at fair value	178	7
Other investments at amortized cost	985	-
Total cash and cash equivalents	**9,737**	**4,414**
Investments		
Current		
Government bonds at fair value	2,294	34
Government bonds at amortized cost	582	2
Mutual funds	1	74
Time deposits	2,283	-
Other investments at amortized cost	1,454	-
Total current investments	**6,614**	**110**
Non- current		
Government bonds at amortized cost	5,158	-
Investments in associates (*)	365	250
2003 Telecommunications Fund	1	-
Total non-current investments	**5,524**	**250**

(*) Information on Investments in associates is detailed below:

Financial position information:

Companies	Main activity	Country	Percentage of capital stock owned and voting rights	Valuation as of 09.30.2018	Valuation as of 12.31.2017

Ver T.V. S.A. (1)	Cable televisión station	Argentina	49.00	218	141
Teledifusora San Miguel Arcángel S.A. (1) (2) (3)	Cable televisión station	Argentina	50.10	90	60
La Capital Cable S.A. (2)	Closed-circuit television	Argentina	50.00	50	43
Other minor investments in associates at equity method				7	6
Total				**365**	**250**

(1) Data about the issuer arise from extra-accounting information.

(2) Direct and indirect interest.

(3) Despite owning a percentage higher than a 50% of interest, the Company does not have the control in accordance with the requirements of IFRS.

Earnings information:

	Nine-months periods ended September 30, 2018	2017
Ver TV S.A.	77	66
Teledifusora San Miguel Arcángel S.A.	30	29
La Capital Cable S.A.	22	21
Total	**129**	**116**

b) Additional information on the unaudited consolidated statements of cash flows

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

For purposes of the statements of cash flows, cash and cash equivalents comprise cash, bank current accounts and short-term highly liquid investments (with a maturity of three months or less from the date of acquisition). Bank overdrafts are disclosed in the statement of financial position as financial debts and its flows in the cash flow statements as proceed and payment of financial debt, because they are part of the short-term financial structure of the Telecom s Group.

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Changes in assets/liabilities components:

	September 30, 2018	September 30, 2017
Net decrease (increase) in assets		
Trade receivables	(5,315)	(434)
Other receivables	(1,844)	(164)
Inventories	(881)	116
	(8,040)	**(482)**
Net increase (decrease) in liabilities		
Trade payables	9,555	299
Salaries and social security payables	725	221
Taxes payables	176	(136)
Other liabilities and Provisions	472	(130)
	10,928	**254**

Main non-cash operating transactions

Offsetting of dividends receivable with financial debt	5	8

Main Financing activities components

The following table presents the main financing activities components:

Bank overdrafts	52	-
Bank loans	21,414	215
By purchase of equipment	722	500
Companies under section 33 - Law No. 19,550 and related parties	-	4
Total financial debt proceeds	**22,188**	**719**
Notes	(1,476)	-
Bank loans	(226)	(157)
By purchase of equipment	(861)	(660)
Total payment of debt	**(2,563)**	**(817)**
Bank overdrafts	(28)	-
Notes - Interests and related expenses	(659)	(262)
Bank loans - Interests and related expenses	(1,638)	(10)
By NDF, purchase of equipment and others	240	(216)
Companies under section 33 - Law No. 19,550 and related parties	-	(1)
Total payment of interest and related expenses	**(2,085)**	**(489)**

Cash dividends from the Company

On January 31, 2018, the Board of Directors of Telecom Argentina approved:

1. the reversal of $9,729,418,019 Argentine pesos of the Reserve for future cash dividends of Telecom Argentina as of December 31, 2017, and its distribution as cash dividends in two installments: i) $2,863,000,000 Argentine pesos on February 15, 2018 and ii) $6,866,418,019 Argentine pesos on April 30, 2018, being the Board empowered to make such payment on an earlier date if it deems it convenient in the future;

2. the distribution of $5,640,728,444 Argentine pesos as advance cash dividends under the provisions of Section 224, 2nd paragraph of the General Corporations Law, corresponding to the net profit (liquid and realized) of the period ranging from January 1, 2017 to September 30, 2017 as it arises from the special-purpose unconsolidated financial statements of Telecom Argentina as of September 30, 2017, which were settled on February 15, 2018; and

3. the distribution of $4,502,777,155 Argentine pesos as distribution of interim cash dividends under the provisions of Section 224, 2nd paragraph of the General Corporations Law, corresponding to the net profit (liquid and realized) of the period ranging from January 1, 2017 to September 30, 2017 as it arises from the special-purpose unconsolidated financial statements of Cablevisión S.A.-absorbed by Telecom Argentina- as of September 30, 2017, which were settled on February 15, 2018.

Dividends mentioned in items 2 and 3 above, were subsequently ratified by the Ordinary General Shareholers Meeting of April 25, 2018.

In conclusion, on February 15, 2018 and on March 21, 2018, the Company paid dividends for a total of $13,006,505,599 Argentine pesos and $6,866,418,019 Argentine pesos, respectively, corresponding to the above-mentioned distributions.

Payment by Telecom of the dividends declared by Cablevisión S.A.

- ***Fiscal Year 2018***

On January 8, 2018, Telecom Argentina, as surviving company of Cablevisión S.A. paid the dividends declared by Cablevisión S.A. on December 18, 2017 for $4,077,790,056 Argentine pesos.

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- ***Fiscal Year 2017***

On March 30, 2017, the Ordinary and Extraordinary Annual General Shareholders Meeting of Cablevisión decided to allocate the sum of $1,600,000,000 to the distribution of cash dividends payable in pesos or US dollars in two installments of $800,000,000. As of September 30, 2017, all distributed cash dividends were cancelled.

Cash dividends from associates

- ***Fiscal Year 2018***

Dividends paid by Núcleo

In May 2018, Núcleo paid dividends to the non-controlling shareholders for a total of $161. These dividends were approved at the Ordinary General Shareholders Meeting of Núcleo at its meeting held on April 24, 2018.

Dividends collected from Ver TV

During the first half of 2018, dividends were collected from Ver T.V. for $18. These dividends were declared during year 2017, and as of December 31, 2017, they were pending collection.

Dividends collected from Teledifusora San Miguel Arcángel

During the first half of 2018, dividends were collected from Teledifusora San Miguel Arcángel for $8. These dividends were declared during year 2017, and as of December 31, 2017, they were pending collection.

Dividends collected from La Capital Cable

In June 2018, dividends were collected from La Capital Cable for $15, of which $5 were offset with financial debt with the company. These dividends were approved at the Ordinary Annual General Shareholders Meeting of June 14, 2018.

- ***Fiscal year 2017***

Dividends paid by CV Berazategui

During the first half of 2017, CV Berazategui paid dividends to non-controlling interests for a total of $6. These dividends were approved by the Ordinary General Shareholders Meeting at its meeting held on April 25, 2017.

Dividends collected from Ver TV

In February 2017, Ver T.V. approved dividends for $77 of which $38 corresponded to Cablevisión according to its interests. Such dividends were collected during the first quarter of 2017.

During the month of June 2017, Ver T.V. approved dividends for $104 of which $51 correspond to the Company according to its interests. As of September 30, 2017, $13 of such dividends were collected.

Dividends collected from La Capital Cable

In May 2017, La Capital Cable voted dividends for $21 of which $10 corresponded to Cablevisión according to its shareholdings. Such dividends were collected during the second quarter of 2017, of which $8 were offset with financial debt with said company.

Dividends collected from Teledifusora San Miguel Arcángel

In June 2017, Teledifusora San Miguel Arcángel approved dividends for $24 of which $12 corresponded to Cablevisión according to its interests. As of September 30, 2017, such dividends were collected.

In August 2017, Teledifusora San Miguel Arcángel approved dividends for $69 of which $34 corresponded to the Company according to its interests. As of September 30, 2017, $3 of such dividends were collected.

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Additional information required by IAS 7

	Balances as of December 31, 2017	Incorporation by merger (Note 4.a)	Cash Flows (a)	Accrued interests	Exchange differences and currency translation adjustments and Others (b)	Balances as of September 30, 2018
Bank overdrafts	-	135	52	-	-	**187**
Bank loans principal	194	8,194	21,188	-	31,718	**61,294**
Notes principal	9,325	2,158	(1,476)	-	12,824	**22,831**
NDF	-	17	369	5	(391)	**-**
Accrued interests and related expenses	4	1,758	(2,454)	2,506	2,400	**4,214**
By purchase of equipment	1,317	-	(139)	28	1,148	**2,354**
Companies under section 33 - Law No. 19,550 and related parties	4	-	-	1	(5)	**-**
Total current and non-current financial debt (Note 13)	**10,844**	**12,262**	**17,540**	**2,540**	**47,694**	**90,880**

(a) Correspond to $22,188 of debt proceeds, $2,563 of principal payments and $2,085 of interest and related expenses payments.

(b) Others includes: (391) that were reclassified to Other receivables and (5) that were offset with dividends receivable.

NOTE 6 TRADE RECEIVABLES

Trade receivables consist of the following:

	September 30, 2018	December 31, 2017
Current Trade receivables		
Ordinary receivables	14,542	2,196
Contractual asset IFRS 15 (Note 3.u)	45	-
Companies under section 33 - Law No. 19,550 and related parties (Note 27.c)	80	40
Allowance for doubtful accounts	(1,714)	(483)
	12,953	**1,753**
Non-current trade receivables		

Ordinary receivables	44	-
Contractual asset IFRS 15 (Note 3.u)	19	-
	63	**-**
Total trade receivables, net	**13,016**	**1,753**

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

	September 30,	
	2018	2017
At the beginning of the fiscal year	**(483)**	**(347)**
IFRS 9 retained earnings adjustment (Note 3.v)	(166)	-
Additions Bad debt expenses	(1,990)	(384)
Currency translation adjustments	925	314
At the end of the period	**(1,714)**	**(417)**

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NOTE 7 OTHER RECEIVABLES

Other receivables consist of the following:

		September 30, 2018	December 31, 2017
Current other receivables			
Prepaid expenses		1,607	408
Tax credits		1,317	86
Advances to suppliers		120	28
Settlement Pendings accounts		291	-
Guarantee deposits		24	76
Expenditure reimbursement		190	-
NDF (Note 21) (*)		1,373	-
Restricted funds (Note 18)		60	18
Companies under section 33 - Law No. 19,550 and related parties (Note 27.c)		103	118
Receivables from sale of customer relationship		68	-
Other		756	94
	Subtotal	**5,909**	**828**
Allowance for current other receivables		(13)	-
		5,896	**828**
Non-current other receivables			
Prepaid expenses		446	30
Advances to suppliers		-	165
Tax credits		75	40
Restricted funds (Note 18)		69	-
NDF (Note 21) (*)		106	-
Regulatory Credits (Núcleo)		156	-
Guarantee deposits		47	-
Credit of indemnity for Tuves Paraguay acquisition		61	-
Receivables from sale of customer relationship		124	-
Other		339	2
	Subtotal	**1,423**	**237**
	Total other receivables	**7,319**	**1,065**

(*) Includes 1,470 of financial NDF.

Movements in the Allowance for current other receivables are as follows:

	September 30, 2018	September 30, 2017
At the beginning of the year	**-**	**-**
Increases	(13)	-
At the end of the period	**(13)**	**-**

NOTE 8 INVENTORIES

Inventories consist of the following:

	September 30, 2018	December 31, 2017
Mobile handsets and others	2,424	-
Radio equipment and others	57	115
Fixed telephones and equipment	6	-
Inventories for construction projects	408	-
Subtotal	**2,895**	**115**
Allowance for obsolescence of inventories	(64)	(32)
	2,831	**83**

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

	September 30, 2018	September 30, 2017
At the beginning of the year	**(32)**	**-**
Additions	(32)	(40)
At the end of the period	**(64)**	**(40)**

NOTE 9 GOODWILL

	September 30, 2018	December 31, 2017
Telecom Argentina (Note 4.a) (1)	59,657	-
Telemas S.A. (2)	706	399
Negocios Cablevisión	3,710	3,710
	64,073	**4,109**

(1) Includes $4 corresponding to the goodwill of Tuves Paraguay. The increase with respect to the balance as of January 1, 2018 corresponds to the currency translation adjustment.

(2) Indirect subsidiary throughout its participation in Adesol. The increase in the amounts with respect to balance as of December 31, 2017 corresponds to currency translation adjustments.

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NOTE 10 PROPERTY, PLANT AND EQUIPMENT

	September 30, 2018	December 31, 2017
PP&E before allowances and impairment	97,782	22,137
Valuation allowance for obsolecense and impairment of materials	(191)	(57)
Impairment of PP&E	(78)	-
	97,513	**22,080**

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

	September 30, 2018	September 30, 2017
At the beginning of the year	**(57)**	**(37)**
Additions	(127)	(9)
Uses and currency translation adjustements	(7)	-
At the end of the period	**(191)**	**(46)**

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

	September 30, 2018	September 30, 2017
At the beginning of the year	**-**	**-**
Additions	(78)	-
At the end of the period	**(78)**	**-**

Details on the nature and movements are as follows:

	Gross value as of December 31, 2017	Incorporation by merger (Note 4.a)	CAPEX	Currency translation adjustments	Transfers and reclassifications	Decreases	Gross value as of September 30, 2018
Real estate	714	13,132	2	435	96	(3)	**14,376**
Switching equipment	-	2,506	121	2,078	216	-	**4,921**
Fixed network and transportation	12,371	20,656	2,917	2,126	6,401	(1,235)	**43,236**

Mobile network access	30	7,665	7	2,137	1,861	(210)	**11,490**
Tower and pole	44	3,044	-	687	155	-	**3,930**
Power equipment and Installations	-	3,707	-	602	349	-	**4,658**
Computer equipment	1,447	4,243	441	3,295	755	(2)	**10,179**
Goods lent to customers at no cost	2,696	151	749	841	1,958	(1,309)	**5,086**
Vehicles	420	804	259	58	-	(45)	**1,496**
Machinery, diverse equipment and tools	619	152	19	32	106	-	**928**
Other	58	320	2	98	49	-	**527**
Asset retirement obligations	90	-	-	-	-	(2)	**88**
Construction in progress	5,277	3,941	5,674	275	(3,588)	(17)	**11,562**
Materials	4,118	2,426	11,858	297	(8,358)	(50)	**10,291**
Total	**27,884**	**62,747**	**22,049**	**12,961**	**-**	**(2,873)**	**122,768**
Total as of September 30, 2017	**20,185**	**-**	**8,366**	**19**	**-**	**(2,892)**	**25,678**

	Accumulated depreciation as of December 31, 2017	**Depreciation**	**Currency translation adjustments**	**Decrease and reclassifications**	**Accumulated depreciation as of September 30, 2018**	**Net carrying value as of September 30, 2018**	**Net carrying value as of December 31, 2017**
Real estate	(153)	(475)	(377)	-	(1,005)	**13,371**	**561**
Switching equipment	-	(535)	(1,787)	-	(2,322)	**2,599**	**-**
Fixed network and transportation	(3,915)	(4,966)	(1,425)	1,227	(9,079)	**34,157**	**8,456**
Mobile network access	(27)	(1,353)	(1,475)	33	(2,822)	**8,668**	**3**
Tower and pole	(9)	(430)	(373)	-	(812)	**3,118**	**35**
Power equipment and Installations	-	(545)	(409)	-	(954)	**3,704**	**-**
Computer equipment	(442)	(1,824)	(2,929)	1	(5,194)	**4,985**	**1,005**
Goods lent to customers at no cost	(422)	(1,679)	(715)	1,309	(1,507)	**3,579**	**2,274**
Vehicles	(239)	(188)	(45)	11	(461)	**1,035**	**181**
Machinery, diverse equipment and tools	(499)	(105)	(24)	-	(628)	**300**	**120**
Other	(38)	(75)	(79)	-	(192)	**335**	**20**
Asset retirement obligations	(3)	(9)	-	2	(10)	**78**	**87**
Construction in progress	-	-	-	-	-	**11,562**	**5,277**
Materials	-	-	-	-	-	**10,291**	**4,118**
Total	**(5,747)**	**(12,184)**	**(9,638)**	**2,583**	**(24,986)**	**97,782**	**22,137**
Total as of September 30, 2017	**(4,771)**	**(2,809)**	**(4)**	**2,460**	**(5,124)**	**20,554**	

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NOTE 11 INTANGIBLE ASSETS

Intangible assets consist of the following:

	Gross value as of December 31, 2017	Incorporation by merger (Note 4.a)	CAPEX	Currency translation adjustments	Decreases	Gross value as of September 30, 2018
3G/4G licenses	1,860	11,998	-	-	-	**13,858**
PCS license (Argentina)	-	7,138	-	-	-	**7,138**
Núcleo´s licenses	-	-	627	338	-	**965**
SRCE license	517	-	-	-	-	**517**
Customer relationship	-	10,682	-	180	(266)	**10,596**
Brands	23	8,825	-	-	-	**8,848**
Incremental Cost from the adquisition of contracts	-	-	792	27	-	**819**
Other	225	1,543	578	34	-	**2,380**
Total	**2,625**	**(*) 40,186**	**1,997**	**579**	**(266)**	**45,121**
Total as of September 30, 2017	**2,146**	**-**	**479**	**-**	**-**	**2,625**

	Accumulated amortization as of December 31, 2017	Amortization	Currency translation adjustments	Decreases	Accumulated amortization as of September 30, 2018	Net carrying value as of September 30, 2018	Net carrying value as of December 31, 2017
3G/4G licenses	-	(608)	-	-	(608)	**13,250**	**1,860**
PCS license (Argentina)	-	-	-	-	-	**7,138**	**-**
Núcleo´s licenses	-	(66)	(36)	-	(102)	**863**	**-**
SRCE license	(39)	-	-	-	(39)	**478**	**478**
Customer relationship	-	(1,893)	(12)	188	(1,717)	**8,879**	**-**
Brands	(8)	-	-	-	(8)	**8,840**	**15**
Incremental Cost from the adquisition of contracts	-	(162)	(23)	-	(185)	**634**	**-**
Other	(210)	(70)	(2)	-	(282)	**2,098**	**15**
Total	**(257)**	**(2,799)**	**(73)**	**188**	**(2,941)**	**42,180**	**2,368**
Total as of September 30, 2017	**(225)**	**(31)**	**-**	**-**	**(256)**	**2,369**	

(*) Includes $(85) Retained earnings adjustment. Note 3.u).

NOTE 12 TRADE PAYABLES

Trade payables consist of the following:

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

	September 30, 2018	December 31, 2017
Current		
Suppliers and commercial accruals	23,635	3,589
Companies under sect. 33 Law No. 19,550 and Related Parties (Note 27.c)	522	297
	24,157	**3,886**
Non-current		
Suppliers and commercial accruals	1,279	-
	1,279	**-**
Total trade payables	**25,436**	**3,886**

NOTE 13 FINANCIAL DEBT

Financial debt consists of the following:

	September 30, 2018	December 31, 2017
Current		
Bank overdrafts principal	187	-
Bank loans principal	46,316	52
Notes principal	2,227	-
By purchase of equipment	1,320	852
Accrued interest and related expenses	2,684	29
Companies under sect. 33 Law No. 19,550 and Related Parties (Note 27.c)	-	4
	52,734	**937**
Non-current		
Notes principal	20,604	9,325
Bank loans principal	14,978	142
By purchase of equipment	1,034	465
Accrued interest and related expenses	1,530	(25)
	38,146	**9,907**

Total financial debt	**90,880**	**10,844**

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Bank overdrafts

As of September 30, 2018, Telecom Argentina had bank overdrafts amounting to approximately $187.

Bank and other financing entities loans

The following are the main conditions of bank loans as of September 30, 2018:

IFC and IIC loans

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

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

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

On April 7, 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 maturing in September 2022, payable in 8 equal half-yearly installments since the 24th month, with a 6 month LIBOR + 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.

The funds were effectively disbursed by IIC on September 18, 2017 (approximately $1,723).

Syndicated Loan

At its meeting held on January 31, 2018, the Board of Directors of the Company approved the execution of a syndicated loan agreement with several banks for up to a total of US$1,000 million, which will accrue compensatory interest at an annual rate equal to LIBOR for each period of interest accrual plus an applicable margin.

On February 2, 2018, the Company entered into a term loan agreement with Citibank, N.A., HSBC México, S.A., Multiple Banking Institution, Grupo Financiero HSBC, Industrial and Commercial Bank of China Limited, JPMorgan Chase Bank, N.A. y Banco Santander, S.A., in his capacity as a lender, Citigroup Global Markets Inc., HSBC México, S.A., Multiple Banking Institution, Grupo Financiero HSBC, Industrial and Commercial Bank of China Limited, JPMorgan Chase Bank, N.A. y Santander Investment Securities Inc. as organizers, Citibank N.A. as an administrative agent and the Branch of Citibank N.A. in Argentina, as a local custodian agent for an aggregate principal amount of US$1,000 million (the Original Loan). On February 9 and March 9, 2018, the Company borrowed US$650 million and US$350 million, respectively, under the Term Loan Agreement, that matures in February 2019. The proceeds of the Loans were used to finance capital expenditures, working capital and other general corporate purposes. The Loan bear interest at an annual rate equivalent to LIBOR plus the following margins: 1.25 percentage points during the first four months, 1.50 percentage points, during the following two months, 1.75 percentage points during the following three months and 2.25 percentage points during the last three months prior to the maturity date. Interest is payable quarterly or semiannually, at the Company s option. The Company is permitted to make voluntary prepayments at any time without premium or penalty. The Company is required to make prepayments under the Loans (without payment of a premium) with net cash proceeds from bilateral or syndicated bank financings in excess of US$500 million, or underwritten offerings or private placements of any non-Peso denominated debt securities of the Company governed by a law other than the laws of Argentina with a tenor of at least three years. The Company is also required to prepay the Original Loans upon the occurrence of a change of control, at each lender s option.

Subsequently, on October 8, 2018, the Company entered into a new agreement with Citibank, N.A., HSBC Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch, JPMorgan Chase Bank, N.A. and Banco Santander, S.A., in its capacity as lenders, Citibank, N.A., HSBC Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, Industrial and Commercial Bank of China Limited, Dubai (DIFC) Branch, JPMorgan Chase Bank, N.A. and Banco Santander, S.A. as organizers, Citibank N.A. as an administrative agent and the Citibank N.A. branch established in Argentina, as agent of local custody, for an aggregate principal amount of US$ 500 million (which can be increased, in accordance with the terms and conditions thereof) and to 48 months of term (the Loan).

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The disbursed capital will accrue compensatory interest at an annual rate equivalent to LIBOR plus the following margin: 4.50 percentage points during the first year after the disbursement, 5.00 percentage points, during the second year and 5.25 percentage points from the date that is two years after the disbursement and until the expiration date; and will be payable quarterly in arrears.

The Company requested a disbursement of US$ 500 million on October 17, 2018. The funds were used to partially pre-pay the Original Loan. Additionally, in accordance with the provisions of the loan, the Company made an additional payment of US$ 100 million of the Original Loan, (as a condition precedent to the execution of the loan, the Company and the remaining parties of the Original Loan had agreed to a mandatory pre-cancellation amount equivalent to at least US$ 100 million). With these pre-cancellations, there has been a remaining amount of US$ 400 million of the Original Loan.

Other bank loans

As of September 30 2018, the Company mantains other bank loans for:

a) US$4.5 million in a loan agreement with the Bank ICBC for financing imports, accruing interest at an annual rate of 6.0%, due in January 2022,

b) US$3.2 million in a loan agreement with the Bank Itaú for financing imports, accruing interest at an annual rate of 5.0%, due in February 2020, and

c) US$10.0 million in a loan agreement with the Bank Macro for financing imports accruing interest at an annual rate of 6.2%, due in August, 2019.

Núcleo

The following table shows the outstanding loans with different local financing entities in Paraguay and their main terms as of September 30, 2018:

Principal nominal value (in millions of Guaraníes)	Amortization term	Book value (in million of pesos)	
		Current	Non-current
60,000	1.0 years	279	139
25,000	1.2 years	174	-
283,000	5.7 years	-	1,975
368,000		**453**	**2,114**

The weighted average annual rate of these loans is 8.36% in Guaraníes and the weighted average amortization term of these loans is approximately 3 years.

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

Global Programs for the issuance of Notes

Cablevisión

On April 20, 2016, at the Annual General Ordinary and Extraordinary Shareholders Meeting of Cablevisión, the shareholders of Cablevisión approved, among other matters: i) the extension of the authorization of the Global Program for the Issuance of Notes (the Program), which had been granted at the Annual General Ordinary and Extraordinary Shareholders Meeting of Cablevisión on April 28, 2014, increasing the maximum amount of the outstanding notes that may be issued under this Program from a nominal value outstanding at any time of USD 500,000,000 (or its equivalent in other currencies) to USD 1,000,000,000 (or its equivalent in other currencies). The Shareholders Meeting renewed the delegation on the Board of Directors of the broadest powers in connection with the Program. The Board of Directors may subdelegate all or some powers interchangeably to one or more directors or managers of the Company; and ii) the extension of the authorization of the Short-Term Debt Securities (VCPs , for its Spanish acronym) program under the terms that had been originally approved.

On June 1, 2016, pursuant to its delegated powers, the Board of Directors of Cablevisión authorized the issuance of Class A Notes for a nominal value of USD 500,000,000 (the Class A Notes), at a fixed annual nominal interest rate of 6.50%, payable semi-annually as from June 2016, with final maturity in June 2021. Proceeds will be used for:

(i) The settlement of the outstanding debt as of that date;

(ii) The investment in fixed assets and other capital expenditures with the balance of the net proceeds (approximately USD 89,100,000).

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On October 30, 2017, within the framework of the merger between Cablevision and Telecom Argentina (Note 4.a), Cablevision called for an Extraordinary Noteholders Meeting in order to request its holders of Class A Notes, the amendment and/or removal of certain clauses (or parts there of) of the Indenture Agreement executed on June 15, 2016 between Cablevision, Deutsche Bank Trust Company Americas, Deutsche Bank S.A. and Deutsche Bank Luxembourg S.A.

On December 11, 2017, the holders of Class A Notes held an Extraordinary Noteholders Meeting with a quorum of 81.8621626 % of the total capital and votes under the Notes. At that Shareholders Meeting, the shareholders unanimously decided to approve the amendment and/or removal of certain clauses (or parts thereof) of the Indenture Agreement executed on June 15, 2016 between the Company, Deutsche Bank Trust Company Americas, Deutsche Bank S.A. and Deutsche Bank Luxembourg S.A.

As a result of the amendment of the Indenture referred to above, the Company s covenants under the Notes include: (i) limitation on the issuance of guarantees by the Company and its subsidiaries; (ii) merger by acquisition and consolidation, (iii) limitation on incurring debt above certain approved ratios, and (iv) limitation on the issuance and sale of significant subsidiaries shares with certain exceptions, among others, certain clauses that restricted sales of assets under certain conditions, certain payments and related party transactions under certain circumstances and the distribution of dividends, were eliminated.

Cablevision Notes were assumed by the Company on January 1, 2018 due to the merger (Note 4.a).

For this purpose, Telecom Argentina, as successor of Cablevisión S.A., the Deutsche Bank Trust Company Americas, as Trustee and Banco Comafi S.A., as trustee representative in Argentina, have signed a supplement to the Trust Agreement formalizing the absorption of the Notes of Cablevisión S.A. by Telecom Argentina S.A.

Telecom Argentina

On December 28, 2017, Telecom Argentina held an Ordinary Shareholders Meeting that approved a Notes Global Program for a maximum outstanding amount of US$3,000 million or its equivalent in other currencies. The delegation of powers in the Board of Directors was also approved to determine and modify the terms and conditions of the Program as well as to establish the issuance opportunities.

Under the aforementioned program, Telecom Argentina submitted a prospectus for the issuance of Notes to the CNV that was approved on April 24, 2018. Subsequently, on April 25, 2018, the CNV approved the prospectus supplement corresponding to the Notes. Class 1 for a nominal value of up to US$ 500,000,000 (extendable up to US$ 1,000,000,000). This supplement was extended several times, finally expiring on August 3, 2018.

In accordance with the provisions governing the placement mechanism of the Notes provided in the Prospectus Supplement, Telecom Argentina decided to temporarily suspend, until further notice, the period of placement of the Notes. Telecom Argentina will publish a complementary notice to the Prospectus Supplement, announcing the date on which the Offer Period will be resumed and the Award Date.

Personal

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

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

On October 20, 2016, the CNV authorized the extension and expansion of the mentioned Program through Resolution No. 18,277. Within such Program, Personal issued notes in four series of which two are in force as of September 30, 2018, having cancelled Series I and III on their respective due dates:

TELECOM ARGENTINA S.A.

a) **Series II**

Issuance date: December 10, 2015.

Amount involved: $149,000,000

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

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

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

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

b) **Series IV**

Issuance date: November 16, 2016.

Amount involved: US$77,900,400

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

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

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

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

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

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

The terms and conditions of the Notes issued by Personal provide for certain events of default which are considered standard for these kinds of operations.

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

Personal Notes were assumed by the Company on December 1, 2017 due to the Reorganization, Note 4.f.2).

As of the date of issuance of these unaudited consolidated financial statements, Telecom is in compliance with its respective loans agreements commitments.

Until September 30, 2018, the Company had repurchased approximately US$0.5 million and US$26.8 million nominal value of capital) corresponding to Cablevisión s notes and Series IV Personal, respectively. Additionally, as of the date of issuance of these unaudited consolidated financial statements, the Company has repurchased approximately US$2.7 million (nominal value) of the Series IV Personal Notes. These transactions were carried out at the value of the fair value of each repurchase date, which did not differ significantly from its book value at that date.

Loans for purchase of equipment

As of September 30, 2018, the Company has debt agreements corresponding to financing for the purchase of equipment, the which amounts to approximately US$55.4 million. Such contracts have an average maturity term of between 36 and 49 months with partial repayments and accrue an average annual interest of 5.25%.

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NOTE 14 SALARIES AND SOCIAL SECURITY PAYABLES

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

The compensations policies for Directors and Managers of the Company and its subsidiaries have a scheme that includes fixed and variable components. While fixed compensations are dependent upon the level of responsibility required for the position and its market competitiveness, variable compensations are driven by the goals established on an annual basis and also by the fulfillment of long and medium term goals.

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

Salaries and social security payables consist of the following:

	September 30, 2018	December 31, 2017
Current		
Salaries, annual complementary salaries, vacation and bonuses	3,427	1,136
Social security payables	920	614
Termination benefits	221	1
	4,568	**1,751**
Non-current		
Termination benefits	245	-
	245	**-**
Total salaries and social security payables	**4,813**	**1,751**

Compensation for the Key Managers of Telecom Group for the periods ended September 30, 2018 and 2017 are shown in Note 27.e).

NOTE 15 DEFERRED INCOME TAX ASSETS/LIABILITIES

Deferred Income tax assets and liabilities, net and the actions for recourse tax receivable of Telecom Group are presented below:

	September 30, 2018	December 31, 2017
Tax carryforward	(6,608)	(3)
Allowance for doubtful accounts	(689)	(182)
Provisions	(1,048)	(268)
Inventory	(221)	-
Pension and termination benefits	(184)	-
PP&E and Intangible assets	17,170	746
Cash dividends from foreign companies	361	-
Mobile handsets financed sales	187	-
Other deferred tax liabilities (assets), net	310	(71)
Total deferred tax liabilities, net	**9,278**	**222**
Actions for recourse tax receivable	(774)	-
Total deferred tax liability, net	**8,504**	**222**
Net deferred tax assets	**(78)**	**(44)**
Net deferred tax liabilities	**8,582**	**266**

As of September 30, 2018, the Company and some subsidiaries have a cumulative Tax carryforward of approximately $22,027, which calculated considering statutory income tax rate represent a deferred tax asset of approximately $6,608. The Telecom Group estimates that non-recoverable cumulative Tax carryforward amounted to $0.4 as of that date.

Following, the detail of the maturities of estimated Tax carryforward is disclosed:

Company	Tax carryforward generation year	Tax carryforward amount as of 09.30.2018 (in millions $)	Tax carryforward expiration year
Inter Radios	2015	8	2020
Pem	2016	1	2021
Inter Radios	2017	1	2022
Telecom Argentina	2018	22,013	2023
Inter Radios	2018	4	2023
		22,027	

Income tax benefit (expense) consists of the following:

	Nine-month periods ended September 30, 2018	2017
	Profit (loss)	
Current tax expense	(82)	(2,352)
Deferred tax benefit	8,687	(53)
Income tax benefit (expense)	**8,605**	**(2,405)**

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Income tax benefit (expense) differed from the amounts computed by applying the Company s statutory income tax rate to pre-tax (loss) income as a result of the following:

	Nine-month periods ended September 30, 2018	2017
	Profit (loss)	
Pre-tax (loss) income	(27,145)	6,961
Non taxable items - Earnings from associates	(129)	(116)
Non taxable items Other	114	74
Subtotal	**(27,160)**	**6,919**
Weighted statutory income tax rate (*)	30%	35%
Income tax expense at weighted statutory tax rate	**8,143**	**(2,422)**
Difference of statutory tax rates in foreign subsidiaries	-	25
Recovery of minimum presumed income tax	-	(8)
Income tax on cash dividends of foreign companies	(34)	-
2018 CAPEX amortization update	496	-
Income tax benefit (expense)	**8,605**	**(2,405)**

(*) Effective income tax rate based on weighted statutory income tax rate in the different countries where the Company has operations. The statutory tax rate in Argentina was 35% for 2017, is 30% for the years 2018-2019 and will be 25% for the year 2020 and onwards (see Note 3.o). In Paraguay is 10% plus an additional rate of 5% in case of payment of dividends for all the periods presented and in the USA the effective tax rate was 39.5% for 2017 and 26.5% for 2018 onwards.

Income tax - Actions for recourse filed with the Tax Authority

Section 10 of Law No. 23,928 and Section 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 determined its income tax obligations in accordance to those provisions, without taking into account the income tax inflation adjustment.

After the economic crisis of 2002, many taxpayers began to question the legality of the provisions suspending the income tax inflation adjustment. Also, the Argentine Supreme Court of Justice issued its verdict in the Candy case July 3, 2009 in which it stated that particularly for fiscal year 2002 and considering the serious state of disturbance of that year, the taxpayer could demonstrate that not applying the income tax inflation adjustment resulted in confiscatory income tax rates.

More recently, the Argentine Supreme Court of Justice applied a similar criterion to the 2010, 2011 and 2012 fiscal years in the cases brought by Distribuidora Gas del Centro (October 14, 2014, February 6, 2015 and April 10, 2016), enabling the application of income tax inflation adjustment for periods not affected by a severe economic crisis such as 2002.

According to the above-mentioned new legal background that the Company took knowledge during 2015, and after making the respective assessments, Telecom Argentina filed during 2015, 2016 and 2017 actions for recourse with the AFIP to claim the full tax overpaid for fiscal years 2009, 2010, 2011 and 2012 for a total amount of $509 plus interest, under the argument that the lack of application of the income tax inflation adjustment is confiscatory.

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

Consequently, the income tax determined in excess qualifies as a tax credit in compliance with IAS 12 and the Company recorded a non-current tax credit of $774 as of September 30, 2018. For the measurement and update of the tax credit, the Company has estimated the amount of the tax determined in excess for the years 2009-2017 weighting the likelihood of certain variables according to the jurisprudential antecedents known until such date. The Company s Management will assess Tax Authority s resolutions related to actions of recourse filed as well as the jurisprudence evolution in order to, at least annually, remeasure the tax credit recorded.

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NOTE 16 TAXES PAYABLES

Taxes payables consist of the following:

	September 30, 2018	December 31, 2017
Current		
Income tax (*)	29	1,437
Other national taxes	1,140	322
Provincial taxes	505	23
Municipal taxes	159	76
	1,833	**1,858**
Non- current		
Other national taxes	29	3
	29	**3**
Total taxes payables	**1,862**	**1,861**

(*) Includes 4 corresponding to Tax Regularization Regime - Law No. 26,476 as of September 30, 2018.

Information on the composition of Income tax benefit (expense) included in the unaudited consolidated financial statements is disclosed Note 15.

NOTE 17 OTHER LIABILITIES

Other liabilities consist of the following:

• revenues received from connection fees for fixed telephony, cable television, data and Internet, nonrefundable;

- revenues collected by remaining traffic and packages of data from unexpired cards;
- the value assigned to the points delivered by customer loyalty programs in the mobile telephony;
- the advanced collection of revenues from services of international capacity;
- the advanced collection of construction projects;
- deferred revenue from government subsidies for the acquisition of PP&E;
- pension benefits; and
- any liability not included in the other liability items.

	September 30, 2018	December 31, 2017
Current		
Deferred revenues on prepaid calling cards	732	20
Deferred revenues on connection fees and international capacity leases	173	79
Deferred revenues on construction projects	296	-
Mobile customer loyalty programs	123	-
Compensation for directors and members of the Supervisory Committee	40	-
Companies under sect. 33 Law No. 19,550 and Related Parties (Note 27.c)	3	3
Other (*)	228	1
	1,595	**103**
Non-current		
Deferred revenues on connection fees and international capacity leases	408	134
Pension benefits (Note 3.m)	265	-
Mobile customer loyalty programs	189	-
Other (*)	53	-
	915	**134**
Total other liabilities	**2,510**	**237**

(*) Includes deferred revenue from subsidiaries for government subsidies for the acquisition of PP&E.

Movements in the pension benefits are as follows:

	September 30,	
	2018	2017
At the beginning of the year	**-**	-
Incorporation by merger (Note 4.a)	214	-
Service cost (*)	15	-
Interest cost (**)	43	-
Payments	(7)	-
At the end of the period	**265**	-

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

(**) Included in Other Financial expenses, net.

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NOTE 18 PROVISIONS

The Company is a party to several civil, tax, commercial, labor and regulatory proceedings and claims that have arisen in the ordinary course of business. In order to determine the proper level of provisions, Management of the Company, based on the opinion of its internal and external legal counsel, assesses the likelihood of any adverse judgments or outcomes related to these matters as well as the range of probable losses that may result from the potential outcomes. A determination of the amount of provisions required, if any, is achieved after careful analysis of each individual case.

The determination of the required provisions may change in the future due to new developments or unknown facts at the time of the evaluation of the claims or changes as a matter of law or legal interpretation. Consequently, as of September 30, 2018, the Company has established provisions in an aggregate amount of $3,871 to cover potential losses under these claims and certain amounts deposited in the Company s bank accounts have been restricted as to their use due to some judicial proceedings. As of September 30, 2018, these restricted funds totaled $129 (included under Other receivables, net line item in the consolidated statement of financial position).

Provisions consist of the following:

		Additions						
	Balances as of December 31, 2017	**Incorporation by merger (Note 4.a)**	**Capital**	**Interest (i)**	**Reclassifications**	**Reclassifications against debts**	**Payments**	**Balances as of September 30, 2018**
Current								
Provisions	**-**	406	50	-	198	60	(223)	**491**
Total current provisions	**-**	**406**	**50**	**-**	**198**	**60**	**(223)**	**491**
Non- Current								
Provisions	**856**	1,255	507	375	(198)	-	(90)	**2,705**
Asset retirement obligations	**236**	371	10	66	-	-	(8)	**675**
Total non-current provisions	**1,092**	**1,626**	**517**	**441**	**(198)**	**-**	**(98)**	**3,380**
Total provisions	**1,092**	**2,032**	**(ii) 567**	**441**	**-**	**60**	**(321)**	**3,871**

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

(ii) Charged $521 to Other operating income and expenses and $46 to currency translation adjustments.

	Balances as of December 31, 2016	Additions Capital	Additions Interest (iii)	Payments	Balances as of September 30, 2017
Non- Current					
Provisions	**727**	155	19	(99)	**802**
Asset retirement obligations	**228**	15	12	(22)	**233**
Total non-current provisions	**955**	**170**	**31**	**(121)**	**1,035**
Total provisions	**955**	**(iv) 170**	**31**	**(121)**	**1,035**

(iii) Charged to finance costs, net, interest for provisions line item.

(iv) 155 charged to Other operating income and expenses and 15 charged to PP&E (CAPEX).

1. Probable Contingent liabilities

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

a) Profit sharing bonds

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

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

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

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

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

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

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

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

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

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

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

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

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

As of September 30, 2018, the Company s Management, with the advice of its legal counsel, has recorded the provisions for contingencies that it estimates are sufficient to cover the risks associated with these legal actions, having considered the available legal background as of the date of issuance of these unaudited consolidated financial statements.

Federación Argentina de las Telecomunicaciones and others against Telecom Argentina S.A. in relation to worker shareholding participation

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

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

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

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

On December 20, 2017, the Court of First Instance on Labor Matters No. 19 dismissed the claim on the grounds that the claimant lacks of active legitimization because it is an individual claim, not a collective one. The claimant filed an appeal, which is pending before Chamber 7 of the Court of Appeals.

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

b) *Former sales representative claims of Personal and Nextel*

Former sales representatives of Personal and Nextel have brought legal actions for alleged improper termination of their contracts and have submitted claims for payment of different items such as commission differences, value of the customers portfolio and lost profit, among other matters. The Company´s Management 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 lower amounts than those claimed. As of the date of issuance of these unaudited consolidated financial statements, some legal actions are in the discovery phase and with expert opinions in progress.

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

c) *Regulator s Penalty Activities*

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

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

Telecom Argentina has recorded provisions that it deems sufficient to cover the above mentioned sanctions and charges, estimating that they should not prosper in amounts individually higher than 200 thousand UT (9,380 argentine pesos) per each alleged violation against its clients in the normal course of business, in accordance with the legal and regulatory analysis performed as of September 30, 2018. If Telecom Argentina and its legal advisors arguments do not prevail, the Management of Telecom Argentina estimates that the amount of provisions for regulatory charges and sanctions might be increased in approximately $61 as of September 30, 2018.

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d) *Task Solutions against/ Telecom Personal S.A. S/ Ordinario S.A. and Task Solutions against/Telecom Argentina S.A. S/ Ordinario*

Task Solutions S.A., a company whose main activity was the contact center, promoted a lawsuit against Telecom Argentina and Telecom Personal, claiming the amount of $408,721,835 for damages and losses suffered during the contractual relationship between those companies, as well as the non-renewal of the relationship between them. Task Solutions S.A. maintains that its only contractual relationship was with the defendant companies and that the non-renewal of their relationship caused its cessation of payments. On August 27, 2018, the claims were answered, the facts and the compensation claimed were denied and the Company requested the unconstitutionality of the punitive damages claimed. The Company reproved the amounts already paid in relation to labor items. Likewise, a claim was made for the amounts that eventually will have to be paid for that same concept in the future. Such estimation may be modified in relation to the proof that is produced in the case.

As of September 30, 2018, the Company s Management, with the assistance of its legal advisors, has established provisions that it considers sufficient to cover the risks arising from the judgments indicated, taking into account the arguments and jurisprudential background available at the date of issuance of these unaudited consolidated financial statements.

2. Possible Contingencies

In addition to the possible contingencies related to regulatory matters described in Note 2 d) *SU Fund in Telecom Argentina in relation to its original license for the provision of the SBT* and in the last paragraph of section Regulator s Penalty Activities mentioned above, is a summary of the most significant claims and legal actions for which no provisions have been established, although it cannot be ensured the final outcome of these lawsuits:

a. Radioelectric Spectrum Fees

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 s Management believes that it has strong legal arguments to defend its position, which are actually confirmed by Resolution ENACOM No. 840/18. On August 15, 2017, Personal received a note for the differences owed, and on August 31, 2017 presented the corresponding administrative note. Personal s Management believes that it has strong legal arguments to defend its position. However, it cannot be assured that such arguments will be accepted by the

ENACOM.

The difference resulting from both sets of liquidation criteria is of approximately $717 since October 2016, plus interests.

b. *Consumidores Financieros Asociación Civil para su Defensa claim*

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

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

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

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

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

c. *Lawsuit against Personal on changes in services prices*

In June 2012 the consumer trade union Proconsumer filed a lawsuit against Personal claiming that the company did not provide the clients with enough information regarding the new prices for the services provided by Personal between May 2008 and May 2011. It demands the reimbursement to certain customers Abono Fijo - of an amount of a period of two months since the alleged inconsistencies of the plaintiff.

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

The Company answered the complaint and made a proposal that was rejected by the Supreme Court of Justice of the Nation, which ordered that the case continued in commercial courts. The cause was open to trial and the parties are producing the evidence offered.

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

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

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

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

This claim is substantially similar to other claims made by a consumer association (Proconsumer) where collective representation of customers is also invoked. As of the date of issuance of these unaudited consolidated financial statements, this claim is at preliminary stage since the demand notifications of everyone involved have not yet been finalized.

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

e. *Claims of some Content Providers to the Company*

In the framework of the general reorganization of the content business started out by Personal in 2016, and given the 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, four of those companies initiated and obtained in court, 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.

On February 24, 2017, the ENACOM notified Personal the Resolution 2017-1122-APN-ENACOM # MCO (Resolution No. 1,122), which set out that Mobile Operators providers of audiotext and mass calling Value Added Services may receive, in every respect, a percentage that should not exceed 40% of the services invoiced on behalf and to the order those providers. 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 s Management, with the assistance of its legal advisors and due to its solid grounds, filed an administrative appeal against Resolution No. 1,122 before the former Ministry of Communications. In addition, Personal has brought legal actions to safeguard its rights.

On the other hand, it should be noted that the Company has renewed the commercial agreements with most of the providers of these contents, which are still in force.

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On September 29, 2017, the ENACOM notified Personal with ENACOM Resolution No. 2,408/17, whereby it rejected the reconsideration appeals filed by Movistar and Claro against Resolution No. 1,122, and the suspension of the effects of said resolution requested by Personal, Movistar and Claro. In addition, in the same act, it rejected the reconsideration appeal filed by Personal against ENACOM Note No. 29/17 (in connection with the supplier MOVICLIPS). The appeal filed by Personal against Resolution No. 1,122 with the former Ministry of Communications is still pending resolution.

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

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

In 2015 the Company took knowledge of an adverse court ruling in a similar trial, promoted by the same consumers association against other mobile operator. Currently it is pending judgment.

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

g. *Claims by Trade Unions for Union Contributions and Payments*

The unions FOEESITRA, SITRATEL, SILUJANTEL, SOEESIT, FOETRA, SUTTACH and the Union of telephony workers and employees of Tucumán (Sindicato de Obreros y Empleados Telefónicos de Tucumán) filed 7 legal actions against Telecom Argentina claiming the union contributions and payments set forth in the respective Collective Bargaining Agreements (CBA) corresponding to the third party employees rendering services to Telecom Argentina, for the not prescribed term of 5 years, plus the damages caused by the lack of payment of such items. (The items claimed are the Special Fund and the Solidarity Contribution).

The unions mentioned sustain that Telecom Argentina is jointly liable for the payment of the above-mentioned contributions and payments, based on the provisions of sections 29 and 30 of the Labor Contract Law and the nonperformance of the CBA as to its obligation to inform the Union on the hiring of third parties.

All claims were answered and procedural terms are suspended. In all cases, new hearings were appointed in the terms of art. 80 and the parties requested a new suspension of terms as a result of possible extrajudicial negotiations. The suits are for an undetermined amount.

Although the Company s management considers that there are strong arguments for these actions to be decided on its favor, as there is no case law in the matter, no assurance can be given on the final outcome of these claims.

h. *Claim for damages between Supercanal Holding S.A. and Cablevisión*

Multicanal has filed several legal actions seeking the nullity of: i) all the ordinary shareholders meetings held by Supercanal Holding S.A. from the year 2000 until February 2018; and ii) the sureties granted by Supercanal S.A. securing bank loans granted exclusively for the benefit of the controlling group of Supercanal Holding S.A. (Grupo Uno S.A. and its affiliates). In addition, a legal action was filed seeking the dissolution and liquidation of Supercanal Holding S.A. together with a legal action seeking the removal of all the members of the Board of Directors and the Supervisory Committee and the dissolution of Supercanal Capital N.V. Supercanal Holding S.A. On March 29, 2000 Supercanal Holding S.A. filed for concurso preventivo (judicial restructuring proceedings) with National Court of First Instance on Commercial Matters No. 20, Clerk s Office No. 40, and the proceedings began on March 27, 2001.

Upon the revocation of an injunction initially granted in favor of Multicanal S.A. in the case entitled Multicanal S.A. c/Supercanal Holding S.A. s/sumario , where it sought to nullify the January 25, 2000 Extraordinary Shareholders Meeting of Supercanal Holding S.A. where it was resolved to reduce the capital stock of Supercanal Holding S.A. to $12,000 pesos and a subsequent increase thereof to $83,012,000 pesos, Multicanal S.A. was notified on December 12, 2001 of the filing by Supercanal Holding S.A. of a claim for the damages allegedly caused to it by the issue of the injunction that was subsequently revoked. The alleged damage is that the suspension of the effects of the meeting of January 25, 2000 would have led Supercanal Holding S.A. to suspend payments. Multicanal S.A. answered to such claim by denying all liability on the grounds that Supercanal Holding S.A. s inability to pay its obligations when due had begun before the date of the suspension of the shareholders meeting according to documentation provided by the plaintiff itself. Furthermore, the suspension of the meeting did not prevent the capitalization of Supercanal Holding S.A. through other alternative means. Based on the factual and legal findings of the case, Cablevisión, as Multicanal s continuing company considers that the claim should be rejected in its entirety, and that the legal costs should be borne by the plaintiff. The case is in the discovery period. In addition, the court of First Instance has dismissed Supercanal Holding S.A. s request that it be allowed to sue without paying court fees or costs and that decision has been confirmed by the National Court of Appeals.

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On June 15, 2018, Telecom Argentina, Grupo Clarín, Supercanal and América TV executed a settlement agreement in order to terminate the claims existing among the parties. Those companies executed a framework agreement whereby, among other issues, América TV expressly waived its claim for the exhibition of its signals América TV and A24 in Cablevisión s (now Telecom Argentina s) programming grid, waiving its right to bring any claims in that regard and recognizing that it has nothing to claim against Telecom Argentina for any other cause as of the date of the agreement. In addition, a share transfer agreement was executed whereby Telecom Argentina -in its capacity as successor of Cablevisión-absorbing company of Multicanal- assigned in favor of Supercablecanal S.A. the shares- and all the rights inherent to them- it holds and owns in Supercanal and Supercanal Holding S.A. as of the date of execution of the agreement. Pursuant to the settlement agreement, the parties have agreed that all costs of the proceedings shall be borne by Supercanal S.A.

i. *Resolution No. 50/10 and subsequent ones of the Secretariat of Domestic Trade of the Nation (SCI for its Spanish abbreviation)*

SCI Resolution No. 50/10 approved certain rules for the sale of pay television services. These rules provide that cable television operators must apply a formula to calculate their monthly subscription prices. The price arising from the application of the formula was to be informed to the Office of Business Loyalty (Dirección de Lealtad Comercial) between March 8 and March 22, 2010, having cable television operators to adjust such amount semi-annually and inform the result of such adjustment to such Office.

Even though as of the date of these unaudited consolidated financial statements, the Company cannot assure the actual impact of the application of this formula, given the vagueness of the variables provided by Resolution No. 50/10 to calculate the monthly subscription prices, the Company believes that such Resolution is arbitrary and bluntly disregards its freedom to contract, which is part of the freedom of industry and trade, and therefore it has filed the pertinent administrative claims and will proceed to file the necessary legal actions requesting the suspension of the Resolution s effects and ultimately the nullification thereof.

Even though the Company and/or some of its subsidiaries, like other companies in the industry, have strong constitutional arguments to support their position, it cannot be assured that the final outcome of this issue will be favorable. Therefore, the Company may be forced to modify the price of its pay television subscription, which could significantly affect the revenues of its core business. This creates a general scenario of uncertainty regarding the Company s business that could significantly affect the recoverability of its relevant assets. Notwithstanding the foregoing, it should be noted that as of the date of these unaudited consolidated financial statements, according to the decision issued on August 1, 2011 in re LA CAPITAL CABLE S.A. c/ Ministerio de Economía-Secretaría de Comercio Interior de la Nación , the Federal Court of Appeals of the City of Mar del Plata has ordered the SCI to suspend the application of Resolution No. 50/10 with respect to all cable television licensees represented by the Argentine Cable Television Association (ATVC , for its Spanish abbreviation). Upon being notified to the SCI and the Ministry of Economy on September 12, 2011, such decision became fully effective and may not be disregarded by the SCI. The National Government filed an appeal against the decision issued by the Federal Court of Appeals of Mar del Plata to have the case brought before the Supreme Court. Such appeal was dismissed, for which the National Government filed a direct appeal to the Supreme Court, which has also been dismissed.

On June 1, 2010, the SCI imposed a $5 fine on Cablevisión alleging that it had failed to comply with the information regime set forth by Resolution No. 50/10 and invoking the Consumer Defense Law to impose such penalty. The fine was appealed and submitted to the Federal Court of Appeals on Administrative Matters, Chamber No. 5, which decided to reduce the fine to $300,000 pesos. The Company appealed this decision by filing an extraordinary appeal with the Supreme Court of Argentina.

On March 10, 2011 SCI Resolution No. 36/11 was published in the Official Gazette. This resolution falls within the framework of SCI Resolution 50/10. Resolution No. 36/11 sets forth the parameters to be applied to the services to be provided by Cablevisión to its subscribers. The Company believes that Resolution No. 36/11 is illegal and arbitrary, since it is grounded on Resolution 50/10, which is absolutely null and void. Since the application of Resolution No. 50/10 has been suspended, the application of Resolution No. 36/11, which falls within the framework of the former, is also suspended. Subsequently, the SCI issued Resolutions No. 65/11, 92/11, 123/11, 141/11, 10/11, 25/12, 97/12, 161/12, 29/13, 61/13, 104/13, 1/14, 43/14 and 93/14 pursuant to which it extended the effectiveness of Resolution No. 36/11 up to and including September 2014, and adjusted the cable television subscription price to $152 pesos. The Company believes, however, that given the terms under which the Federal Court of the City of Mar del Plata granted the preliminary injunction, which ordered the SCI to suspend the application of Resolution No. 50/10 with respect to all cable television licensees represented by ATVC (among them, the Company and its subsidiaries), and also given the fact that Resolutions No. 36/11, 65/11, 92/11, 123/11, 141/11, 10/11, 25/12, 97/12, 161/12, 29/13, 61/13, 104/13, 1/14, 43/14 and 93/14 limit to apply Resolution No. 50/10, the Company continues to be protected by the preliminary injunction, and therefore the normal operation thereof will not be affected.

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On September 23, 2014, the Court issued a decision in re Municipalidad de Berazategui c/ Cablevisión ordering the remission of the cases relating to these resolutions to the jurisdiction of the Federal Court of Mar del Plata, that had issued the decision on the collective action in favor of ATVC.

Currently, all the claims relating to this matter are pending before the Federal Court of Mar del Plata. The judge has not yet ordered discovery proceedings in respect of the main claim, La Capital Cable v. National Government s/ Ordinary Proceeding .

Decisions made on the basis of these unaudited consolidated financial statements shall consider the potential impact that the above-mentioned resolutions might have on the Company and its subsidiaries, and the Company s unaudited consolidated financial statements should be read in light of such uncertainty.

The Company´s Management, with the assistance of its legal advisors, considers that it has strong arguments for its defense.

j. *Resolution No. 16,765 of the CNV*

On March 16, 2012, CNV issued Resolution No. 16,765 whereby it ordered the conduction of a preliminary investigation (sumario) against Cablevisión, its directors and members of the Supervisory Committee for an alleged failure to comply with its reporting duties. The CNV considers that this deprived investors of the possibility to become fully aware of the decision issued by the Supreme Court of Argentina in re Recurso de Hecho deducido por el Estado Nacional Ministerio de Economía y Producción en la causa Multicanal S.A. y otro c/ CONADECO Dto. 527-05 (which as of this date has been resolved) and that a series of issues relating to the information required by the CNV regarding the Extraordinary Meeting of Class 1 and 2 Noteholders held on April 23, 2010 would not have been disclosed.

On April 4, 2012, the Company filed a response requesting that its defenses be sustained and that all charges against it be dismissed. The discovery stage has been closed and the legal brief has been submitted.

The Company and its legal advisors believe that the Company has strong arguments in its favor. Nevertheless, the Company cannot assure that the outcome of the preliminary investigation proceeding will be favorable.

k. *Resolution No. 17,769 of the CNV*

On August 28, 2015, Cablevisión was served notice of Resolution No. 17,769 dated August 13, 2015 whereby the CNV the conduction of a preliminary investigation (sumario) against Cablevisión and its directors, members of the Supervisory Committee and the Head of Market Relations for an alleged delay in the submission of the required documentation relating to the registration of the authorities appointed in the General Meeting of Shareholders of Cablevisión held on April 30, 2000 and the update of the particulars of its registered office in the Autopista de Información Financiera.

On January 20, 2016, the preliminary hearing was held pursuant to Section 138 of Law No. 26,831 and Section 8, Subsection b.1. of Section II, Chapter II, Title III of the Regulations (amended text of 2013).

The Company and its advisors believe that same has strong arguments in its favor on this matter, but no assurance can be given that the outcome of the preliminary investigation proceeding will be favorable.

l. *Televisora Privada del Oeste S.A. against/ Grupo Clarín S.A. y otros s/ ordinario*

On May 30, 2013, the Company was served notice of a claim in the case TELEVISORA PRIVADA DEL OESTE S.A. c/ GRUPO CLARÍN S.A. Y OTROS s/ ORDINARIO , Record No. 99,078/2011. The claim seeks damages resulting from certain decisions made in respect of Televisora Privada del Oeste S.A., such as maintaining the license and/or the investment after the merger of Multicanal S.A. with Cablevisión. Cablevisión and Grupo Clarín, among others, are defendants in such lawsuit. Cablevisión, Grupo Clarín S.A. and Pem S.A. were notified of the claim and have answered it in due time and form. The proceeding is now in the discovery stage.

According to the opinion of the Company s legal advisors, the chances of success of the claim are low because the damages claimed are clearly overstated, the actual damage invoked does not exist and the claim is procedurally inappropriate, both on a factual and on a legal basis. In view of the degree of conflict that has arisen among the parties and the length of time it is taking to reach a solution, the Company cannot ascertain the outcome of this claim.

m. *Additional rate for the Impuesto a la Renta Comercial, Industrial o de Servicios (Tax on Commercial, Industrial or Services Revenues or IRACIS)*

On April 5, 2017, a subsidiary of the Company received a notice from the Under-Secretary of Taxes of the Republic of Paraguay, whereby that subsidiary was informed that it had failed to determine the additional IRACIS rate on the retained earnings of the companies merged in 2014.

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The Company´s subsidiary considers that it has strong arguments to support its position, but no assurance can be given on the final outcome of this claim.

3. Remote Contingencies

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

4. Contingency Asset

a. *AFA Plus Project Claim*

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

From 2012 and in compliance with its contractual obligations, the Company made investments and incurred in expenses amounting to $182 as of September 30, 2018, of which $143 are included in PP&E for the provision and installation of equipment and the execution of civil works for improving the football stadiums, registration centers equipment, inventories and material storage and attend other expenses directly associated with AFA Plus Project.

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

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

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

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

In October 2015, the Company formally demanded that AFA pay the amounts due ($179.2 plus interest from its implementation). AFA rejected the claim but agreed to resume negotiations for a closing agreement which then was suspended by the AFA electoral process.

In January 2016 both parties resumed conciliatory negotiations, while the Company reserved its right to exercise legal claims on the amounts due.

In June 2016 the Company initiated a compulsory pre-judicial mediation procedure. The first audience, held on July 12, 2016, was attended by both parties. A second audience was held on August 3, 2016 and a third and the last one was held on August 23, 2016, which resulted in no agreement between the parties.

As of the date of issuance of these unaudited consolidated financial statements, the Company initiated a new prejudicial mediation procedure which was finished without agreement on February 15, 2018, and its preparing the lawsuit against AFA in order to claim the owed amounts through the judicial system. The Company s Management with the assistance of its external advisor believes that they have strong legal arguments for claiming and are evaluating the actions to be followed for recovering the investments and expenses made.

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It is worth mentioning that the impairment recorded by the Company arising from the uncertainties related to the recoverable value of assets recognized by the AFA Plus Project (Works in Progress and Materials amounting to $143 as of September 30, 2018) have been only recorded for the purpose to comply with accounting standards and in no way involves giving up or limiting the rights given to the Company as a genuine creditor for the AFA Plus Project agreement.

NOTE 19 COMMITMENTS

a) Purchase commitments

The Company has entered into various purchase orders amounting in the aggregate to approximately $33,385 as of September 30, 2018 (of which $8,519 corresponds to PP&E commitments), primarily related to the supply of switching equipment, external wiring, infrastructure agreements, inventory and other service agreements.

b) Commitments assumed from the acquisition of Spectrum by Personal

The Auction Terms and Conditions convened by SC Resolution No. 38/14 established high and demanding obligations of coverage and network deployment, which would require significant investments in PP&E that were estimated at the time of submission of Personal´s bid in approximately US$450 million over the next five years and whose failure could result in sanctions and adverse effects to Personal.

Some of the obligations included in the Terms and Conditions are the following:

- Extend the SRMC, STM and PCS coverage in such a way that it reaches all locations with at least 500 inhabitants in a time period that would not exceed 60 months.

- Upgrade the network infrastructure in a time period that would not exceed 60 months, in such a manner that in all the network locations where mobile Internet services are offered a minimum of 1 Mbps per user be guaranteed in the downlink for SRMC, STM and PCS.

- For the SCMA (Annex III of Terms and Conditions) progressive coverage obligations in the Argentine Republic territory are established, in five differenced stages, completed in the 60-month-period with coverage in locations with more than 500 inhabitants.

For further detail of the obligations involved, see SC Resolution No.37/14, No. 38/14 and its amendments and supplementary regulations.

The terms will be counted as stipulated in this respect by Section 4 d) of Decree 1,340/16 (see Note 2.e).

NOTE 20 EQUITY

Equity includes:

	September 30, 2018	December 31, 2017
Equity attributable to Controlling Company	108,000	11,694
Equity attributable to non-controlling interest	2,931	567
Total equity (*)	**110,931**	**12,261**

(*) Additional information is given in the unaudited consolidated statements of changes in equity.

(a) Capital Stock

As of September 30, 2018, the total capital stock of Telecom Argentina amounted to $2,168,909,384 pesos, represented by the same number of common book-entry shares with nominal value of $1 peso, of which 2,153,688,011 are entitled to one vote per share, since 15,221,373 are treasury shares that were acquired by the Company.

All of the Class B Shares and Class C Shares and 340,994,852 Class A Shares of Telecom Argentina are authorized for public offering granted by the CNV and the SEC. Class B Shares are listed and traded on the leading companies panel of the BYMA and the NYSE.

Each American Depositary Share (ADS) represents 5 Class B shares of the Company and is traded on the NYSE under the ticker symbol TEO.

As of December 31, 2017, the total capital stock of Telecom Argentina amounted to pesos 984,380,978, represented by the same number of common book-entry shares with nominal value of $1 peso, of which 969,159,605 are entitled to one vote per share, since 15,221,373 are treasury shares that were acquired by the Company.

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Pursuant to the Pre-Merger Commitment and the Final Merger Agreement, mentioned in Note 4.a), Telecom Argentina issued, effective as of January 1, 2018, 342,861,748 Class A Shares and 841,666,658 Class D, all of them common book-entry shares, with nominal value of $1 peso and entitled to one vote per shares, which have been fully paid in. The Merger, the consequent increase in the capital stock and the modification of the company bylaws were registered with the Public Registry of Commerce under the IGJ on August 30, 2018. For more information, see Note 4.a) to the unaudited consolidated financial statements.

These unaudited consolidated financial statements were prepared taking into consideration the provisions of IFRS 3 (Business Combinations). As a consequence of the foregoing and as explained in the Basis of Presentation (Note 1.a), the shareholders equity as of December 31, 2017 and its evolution in the statement of changes in equity for the nine-month period ended September 30, 2017 presented as comparative information arise from the information reported by Cablevisión (acquirer for accounting purposes).

The capital stock of Cablevisión as of December 31, 2017 and December 31, 2016 amounted to pesos 1,200,000,000 represented by 120,000 common book-entry shares with nominal value of pesos 10,000 and entitled to one vote per share, as decided at the General Extraordinary Shareholders Meeting held on June 30, 2016.

The breakdown of the capital stock of Cablevisión as of December 31, 2017 was as follows:

Shareholders	Number of Shares	Equity Interest
CVH (1) (3)	34,425	28.7
VLG (1)	61,581	51.3
Fintech Media LLC (2)	17,212	14.3
CVH (2)	6,782	5.7
Total	**120,000**	**100.0**

(1) Class A shares.

(2) Class B shares.

(3) CVH held a 50% equity interest in VLG.

The dissolution of Cablevisión, due to the Merger, was registered in the Public Registry of Commerce in charge of IGJ on August 30, 2018 under No. 16346, L° 91 T° of Stock Companies.

(b) Share Ownership Plan

In 1992, a Decree from the Argentine government, which provided for the creation of the Company upon the privatization of ENTel, established that 10% of the capital stock then represented by 98,438,098 Class C shares was to be included in the PPP (an employee share ownership program sponsored by the Argentine government). Pursuant to the PPP, the Class C shares were held by a trustee for the benefit of former employees of the state-owned company who remained employed by the Company and who elected to participate in the plan. In 1999, Decree No. 1,623/99 of the Argentine government eliminated the restrictions on some of the Class C shares held by the PPP, although it excluded Class C shares of the Fund of Guarantee and Repurchase subject to an injunction against their use. In March 2000, the shareholders meeting of the Company approved the conversion of up to unrestricted 52,505,360 Class C shares into Class B shares (these shares didn t belong to the Fund of Guarantee and Repurchase), most of which was sold in a secondary public offering in May 2000.

As required by the executive committee of PPP, the Annual Shareholders Meetings held on April 27, 2006, approved that the power for the additional conversion of up to 41,339,464 Class C ordinary shares into the same amount of Class B ordinary shares, be delegated to the Board of Directors. That delegation does not include 4,593,274 Class C shares of the Fund of Guarantee and Repurchase, that 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 (Garcias de Vicchi) , with respect to which the Annual Shareholders Meetings considered that there were legal impediments to approve that delegation of faculties for their conversion to Class B . As of December 31, 2011, the 41,339,464 Class C shares had been converted to Class B in eleven tranches.

With the injunction measure issued in the case Garcías de Vicchi having been revoked, the Board of Directors of the Company convened the Ordinary and Extraordinary General Meeting and the Special Meeting of Class C Shares, that were held on December 15, 2011, and approved the power for the additional conversion of up to 4,593,274 Class C shares into the same amount of Class B shares in one or more tranches, be delegated to the Board of Directors. As of December 31, 2016, 4,358,526 Class C shares have already been converted into Class B shares in 10 tranches.

As of the date of issuance of these unaudited consolidated financial statements, 234,748 Class C shares are still pending to be converted into Class B shares.

(c) Capital Market Act - Law No. 26,831 and amendments

On December 28, 2012 the new Capital Market Law (Law No. 26,831) was published in the Official Gazette. This Law eliminates self-regulation of the capital market; grants new powers to the CNV and supersedes Law No. 17,811 and Decree No. 677/01, among other rules. The Law became effective on January 28, 2013. Since that date, governs the universal scope of the Statutory Regime of Public Offer of Mandatory Acquisition.

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Productive Financing Law

On May 11, 2018, Productive Financing Law No. 27,440 was published in the Official Gazette. This law established several amendments to the Capital Markets Law No. 26,831 regarding the extent of the powers of the CNV; the exercise of preemptive rights on shares offered through public offering in the case of capital increases; private placements; public tender offers; the jurisdiction of the federal commercial courts of appeals to review the resolutions issued or sanctions imposed by the CNV, among other amendments.

With regard to public tender offers, under the previous regime, the offeror was obliged to formulate a fair price to be fixed by weighing the results of different company valuation methods, with a minimum floor related to the average market price for the six-month period immediately preceding the date of the agreement. Pursuant to the amendments introduced by Law No. 27,440 to the Capital Markets Law, the obligation is objective and consists in offering the higher of two existing prices: the price that the offeror would have paid or agreed during the 12 months immediately preceding the first day of the public tender offer period, and the average price of the securities subject to the offer during the semester immediately preceding the date of the announcement of the transaction under which the change of control is agreed upon.

(d) Acquisition of Treasury Shares

The Company s Ordinary Shareholders Meeting held on April 23, 2013, which was adjourned until May 21, 2013, approved at its second session of deliberations, the creation of a Voluntary Reserve for Capital Investments of $1,200, granting powers to the Company s Board of Directors to decide its total or partial application, and to approve the methodology, terms and conditions of such investments.

In connection with the above mentioned, on May 22, 2013, the Board of Directors approved a Company s Treasury Shares Acquisition Program in the market in Argentine pesos (the Treasury Shares Acquisition Program) so as to avoid any possible damages to the Company and its shareholders derived from fluctuations and unbalances between the shares price and the Company s solvency, for the following maximum amount and deadline:

- Maximum amount to be invested: $1,200.
- Deadline for the acquisitions: until April 30, 2014.

According to the offer made on November 7, 2013 by Fintech for the acquisition of the controlling interest of the Telecom Italia Group in Telecom Argentina, Telecom Argentina suspended the acquisition of treasury shares and its Board of Directors considered appropriate to request the opinion of the CNV on the applicability of the new provisions contained in the rules issued by that entity (Title II, Chapter I, Art.13 and concurring) with respect to the continuation of the Treasury Shares Acquisition Program.

The CNV did not answer the Company s request and the Telecom Argentina s Board of Directors, at its meeting held on May 8, 2014, decided to conclude the request considering that the Treasury Shares Acquisition Program finished on April 30, 2014, which had been approved by Telecom Argentina s Board of Directors Meeting held on May 22, 2013.

Telecom Argentina s Board of Directors, at its meeting held on June 27, 2014, decided to request a new opinion from the CNV to confirm whether Telecom Argentina is obliged to refrain from acquiring treasury shares in the market under Section 13, Chapter I, Title II of the CNV rules (NT 2013).

Pursuant to Section 67 of Law No. 26,831, the Company should sell its treasury shares within three years of the date of acquisition, although the Company´s Shareholders Meetings provides an extension. Pursuant to Section 221 of the LGS, the rights of treasury shares shall be suspended until such shares are sold, and shall not be taken into account to determine the quorum or the majority of votes at the Shareholders Meetings. No restrictions apply to Retained Earnings as a result of the creation of a specific reserve for such purposes named Voluntary Reserve for Capital Investments , which as of September 30, 2018 amounts to $461.

The Company s Shareholders Meeting held on April 29, 2016 approved a three-year extension to the term established in Section 67 of Law No. 26,831 for the disposal of the treasury shares.

As of September 30, 2018 the Company owns 15,221,373 treasury shares, representing 0.70% of its total capital. The acquisition cost of these shares in the market amounted to $461.

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(e) Law No. 27,260 of Historical Repair to Retired and Pensioned

On July 22, 2016, Law No. 27,260 of Historic Reparation for Retired Persons and Pensioners , abolishing Law No. 27,181 on Declaration of public interest of the protection of the social participations of the National State that make up the investment portfolio of the Sustainability Guarantee Fund of the Argentine Pension Integrated System in its Section 35, was published in the Official Gazette. In addition, Section 30 of Law No. 27,260 provides that the transfer of shares of public corporations authorized by the CNV that are part of the FGS is banned without a previous and express authorization of the Federal Congress if, as a result of such transfer, the FGS s holding of the above referred securities becomes less than 7% of the aggregate assets of the FGS. The following exceptions apply: *1. Tender offers addressed to all holders of such assets at a fair price authorized by the CNV, pursuant to the terms of Chapters II, III and IV of Title III of Law No. 26,831. 2. Swaps of shares for other shares of the same or another corporation as a result of a merger, split or other corporate reorganization.*

(f) Decree No. 894/2016: exercise of corporate, political and economic rights by the ANSES

On July 28, 2016, Decree No. 894/2016 was published in the Official Gazette, providing that in those corporations which shares are part of the Sustainability Guarantee Fund of the Argentine Pension Integrated System portfolio, the corporate, political and economic rights corresponding to such shares shall not be exercised by the Secretary of Economic Politics and Development Planning, but shall instead be exercised by the Federal Management of Social Security (ANSES).

In addition, Decree No. 894/2016 provides that the Directors appointed by ANSES shall have the functions, duties and powers provided in the LGS, the Capital Market Law No. 26,831 and their complementary regulations, all other rules applicable to corporations in which they act as directors, and their bylaws and internal regulations, and that they shall be exposed to all the liabilities applicable under such rules, not being subject to the provisions of Decree No. 1,278/2012 and No.196/2015 (the latter in connection with its delimitation of responsibility).

NOTE 21 FINANCIAL INSTRUMENTS

a) Categories of financial assets and financial liabilities

The following tables set out, for financial assets and liabilities as of September 30, 2018 and as of December 31, 2017, the supplementary disclosures on financial instruments required by IFRS 7 and the detail of gains and losses established by IFRS 9.

As of September 30, 2018	Amortized cost	Fair value accounted through profit or loss	Fair value accounted through other comprehensive Income	Amortized cost
Assets				
Cash and cash equivalents (1)	9,182	555	-	**9,737**
Investments	9,477	2,295	-	**11,772**
Trade receivables	13,016	-	-	**13,016**
Other receivables (2)	1,687	1,166	313	**3,166**
Total	**33,362**	**4,016**	**313**	**37,691**
Liabilities				
Trade payables	25,436	-	-	**25,436**
Financial debt	90,880	-	-	**90,880**
Salaries and social security payables	4,813	-	-	**4,813**
Other liabilities and dividends payables (2)	467	-	-	**467**
Total	**121,596**	**-**	**-**	**121,596**

(1) Includes 4,697 as of September 30, 2018, corresponding to Cash and banks, which were measured as financial assets at amortized cost by the Company.

(2) Only includes financial assets and liabilities according to the scope of IFRS 7.

As of December 31, 2017	Amortized cost	Fair value accounted through profit or loss	Fair value accounted through other comprehensive Income	Total
Assets				
Cash and cash equivalents (1)	3,490	924	-	**4,414**
Investments	2	108	-	**110**
Trade receivables	1,753	-	-	**1,753**
Other receivables (2)	918	-	-	**918**
Total	**6,163**	**1,032**	**-**	**7,195**
Liabilities				
Trade payables	3,886			**3,886**
Financial debt	10,844	-	-	**10,844**
Salaries and social security payables	1,751	-	-	**1,751**
Other liabilities (2)	4,315	-	-	**4,315**
Total	**20,796**	**-**	**-**	**20,796**

(1) Includes 3,468 as of December 31, 2017, corresponding to Cash and banks, which were measured as financial assets at amortized cost by the Company.

(2) Only includes financial assets and liabilities according to the scope of IFRS 7.

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Gains and losses by category 9 months of 2018

	Net gain/(loss)	Of which interest
Financial assets at amortized cost	11,329	1,073
Financial liabilities at amortized cost	(60,408)	(2,540)
Financial assets at fair value through profit or loss	3,346	-
Total	**(45,733)**	**(1,467)**

Gains and losses by category 9 months of 2017

	Net gain/(loss)	Of which interest
Financial assets at amortized cost	19	-
Financial liabilities at amortized cost	(1,287)	(487)
Financial assets at fair value through profit or loss	56	127
Total	**(1,212)**	**(360)**

b) Fair value hierarchy and other disclosures

IFRS 7 establishes a hierarchy of fair value, based on the information used to measure the financial assets and liabilities and also establishes different valuation techniques. According to IFRS 7, valuation techniques used to measure fair value shall maximize the use of observable inputs.

The measurement at fair value of the financial instruments of the Telecom Group are classified according to the three levels set out in IFRS 7:

- Level 1: Fair value determined by quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Fair value determined based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (e.g. as prices) or indirectly (e.g. derived from prices).

- Level 3: Fair value determined by unobservable inputs where the reporting entity is required to develop its own assumptions.

Financial assets and liabilities recognized at fair value as of September 30, 2018 and as of December 31, 2017, their inputs, valuation techniques and the level of hierarchy are listed below:

Mutual Funds: These investments are included in Cash and cash equivalents and Investments. The Telecom Group has other short-term investments amounting to $378 and $991 as of September 30, 2018 and as of December 31, 2017, respectively. The fair value is based on information obtained from active markets and corresponds to quoted market prices as of year-end; therefore, its valuation is classified as Level 1.

Government bonds: These bonds are included in Investments in the consolidated statement of financial position. As of September 30, 2018 and as of December 31, 2017 the Telecom Group has Government bonds in an amount of $2,294 and $34, respectively. The fair value was determined using information from active markets, valuing each bond to its closing year market value, so, its valuation qualifies as Level 1.

Other investments at fair value: These investments are included in Cash and Cash equivalents and in Investments. The Company has other investments at fair value in an amount of $178 and $7 as of September 30, 2018 and December 31, 2017, respectively. Fair Value was determined using information from active markets, valuing each investment to its closing year market value, so, its valuation qualifies as Level 1.

Derivative financial instruments (Forward contracts to purchase US dollars at fixed exchange rates): The fair value of the Telecom Group s NDF contracts, disclosed below in the chapter Hedge Accounting was determined by information obtained in the most representative financial institutions in Argentina, the derivative financial instruments valuation was classified as Level 2.

During the nine-month periods ended September 30, 2018 and 2017, there were no transfers between Levels of the fair value hierarchy.

According to IFRS 7, it is also required to disclose fair value information about financial instruments whether or not recognized at fair value in the balance sheet, for which it is practicable to estimate fair value. The financial instruments which are discussed in this section include, among others, cash and cash equivalents, investments at amortized cost, accounts receivable, accounts payable and other instruments.

Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair value, the Company s fair values should not be compared to those of other companies.

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The methods and assumptions used to estimate the fair values of each class of financial instrument falling under the scope of IFRS 7 as of September 30, 2018 and as of December 31, 2017 are as follows:

Cash and banks

Carrying amounts approximate its fair value.

Time deposits and Other investments at amortized cost (included in Cash and cash equivalents)

The Telecom Group considers as cash and cash equivalents all short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months. The carrying amount reported in the statement of financial position approximates fair value.

Current and non-current Investments valued at amortized cost

As of September 30, 2018, fair value of investments valued at amortized cost amounts to $8,810 and its carrying value amounts to $9,477. As of December 31, 2017 fair value of those investments approximates fair value.

Trade receivables

Carrying amounts are considered to approximate fair value due to the short term nature of these accounts receivables. Noncurrent trade receivables have been recognized at their amortization cost, using the effective interest method and are not significant. All amounts that are assumed to be uncollectible within a reasonable period are written off and/or reserved.

Trade payables

The carrying amount of accounts payable reported in the consolidated statement of financial position approximates its fair value due to the short term nature of these accounts payable. Noncurrent trade payables have been discounted.

Financial Debt

As of September 30, 2018, loans fair value amounts to $90,359 and its carrying value amounts to $90,880. As of December 31, 2017 loans fair value amounts to $11,459 and its carrying value amounts to $10,844.

Salaries and social security payables

The carrying amount of Salaries and social security payables, reported in the consolidated statement of financial position approximates its fair value.

Other receivables, net (except for NDF) and other liabilities

The carrying amount of other receivables, net and other liabilities reported in the consolidated statement of financial position approximates its fair value.

c) Hedge accounting

The Telecom Group believes that a hedging relationship qualifies for hedge accounting if all of the following conditions established by the IFRS 9 are met:

a) The hedging relationship consists only of eligible hedging instruments and hedged items;

b) At the beginning of the hedge relationship, there is a formal designation and documentation of the hedging relationship and objective and strategy for risk management of the Company for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity assesses whether the hedging relationship meets the requirements of hedge effectiveness (including analysis of sources of hedge ineffectiveness and how to determine the hedge ratio); and

c) The hedging relationship satisfies the following requirements of hedge effectiveness:

(i) the economic relationship between the hedged item and the hedging instrument;
(ii) the effect of credit risk is not predominant in respect of changes of value coming from this economic relationship, and

(iii) the coverage ratio of the hedging relationship is the same as the one provided by the amount of the hedged item that really covers the entity and the amount of the hedging instrument that the entity actually uses to cover that amount of the hedged item.

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<u>During year 2017 and the nine-month period ended September 30, 2018</u>

b. LIBOR Hedges

During 2017, the Telecom Argentina entered into several NDF agreements to hedge the fluctuation of LIBOR from the International Finance Corporation loan amounting to US$400 million. The agreements effective from March 15, 2017 hedge an amount if US$300 million, while those effective from September 15, 2017 hedge the outstanding US$100 million. Such NDF allow fixing the variable rate all along the loan term in a range between 2.087% and 2.4525% nominal annual rate (resulting in a weight average of 2.2258%).

As of September 30, 2018, Telecom recognized a receivable of $282, which is included in other receivables ($189 current and $93 non-current). Additionally, during the nine-month period ended September 30, 2018, Telecom recognizes losses of $6 related to those contracts that are included in Debt financial expenses in Financial results.

During 2017, Telecom Argentina entered into several NDF agreements to hedge the fluctuation of LIBOR from the International Finance Corporation loan amounting to US$40 million. Such NDF were agreed in two tranches of US$20 million each one, both of them starting on March 15, 2018 and fixing the variable rate all along the term of the loan to 2.1325% and 2.085% nominal annual rate, respectively.

As of September 30, 2018, Telecom recognized a receivable of $33, which is included in other receivables ($20 current and $13 non-current). Additionally, during the nine-month period ended September 30, 2018, Telecom recognizes gains of $2 related to those contracts, that are included in Debt financial expenses in Financial results.

c. Exchange rate Hedges

During 2017, Telecom Argentina entered into several NDF agreements to hedge the fluctuation of the exchange rate from the International Finance Corporation loan amounting to US$53.5 million fixing the average exchange rate in $18.30 pesos, expiring between February and April 2018.

During first half of 2018, some NDF agreements expire, recognizing a gain of $51 including in Exchange differences in in Financial results.

In 2018, Telecom Argentina entered into several NDF agreements to hedge the fluctuation of the exchange rate from the International Finance Corporation loan and Notes Series IV amounting to US$81.5 million fixing the average exchange rate in $26.16 pesos/USD, expiring in June 2018, August 2018, September 2018, February 2019 and March 2019 and US$15 million fixing the average exchange rate in $26.37 pesos/USD, expiring in November, 2018, respectively. In the months of June, August and September, contracts for US$35 million expired, over which Telecom recognized gains of $244 that are included in Foreign currency exchange gains in Financial Results, net.

As of September 30, 2018, Telecom recognized a receivable of $1,155, which is included in Other receivables with counterpart in Foreign currency exchange gains in Financial Results, net.

On the other hand, during 2017, Telecom Argentina entered into agreements (NDF) to hedge exchange rate fluctuations of certain commercial obligations for an amount of US$6.3 million, with an average exchange rate of 18.94 pesos per dollar, maturing in March and August 2018. For such agreements, Telecom has recognized gains of $16 that are included in Foreign currency exchange gains in Financial Results, net.

In 2018, Telecom Argentina entered into several NDF agreements to hedge the fluctuation of the exchange rate of certain commercial obligations for an amount of US$100 million, fixing the average exchange rate in $38.82 pesos/USD expiring in August 2018, September 2018 and October 2018. In the months of August and September, contracts for US$65 million expired, over which Telecom recognized gains of $181 that are included in Foreign currency exchange gains in Financial Results, net.

As of September 30, 2018, Telecom maintains a receivable of $9 for commercial NDF that is included in Other Receivables Current and has recognized a gain of $9 included in Foreign currency exchange gains in Financial Results, net.

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Offsetting of financial assets and financial liabilities

The information required by the amendment to IFRS 7 as of September 30, 2018 is as follows:

	As of September 30, 2018			
	Trade receivables	**Other receivables (1)**	**Trade payables**	**Other liabilities (1)**
Current and noncurrent assets (liabilities) - Gross value	14,279	3,184	(26,699)	(485)
Offsetting	(1,263)	(18)	1,263	18
Current and noncurrent assets (liabilities) Booked value	**13,016**	**3,166**	**(25,436)**	**(467)**

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

As of December 31, 2017, Offsetting of financial assets and financial liabilities did not exist.

The Telecom Group offsets the financial assets and liabilities to the extent that such offsetting is provided by offsetting agreements and provided that the Group has the intention to make such offsetting, in accordance with requirements established in IAS 32. The main financial assets and liabilities offset correspond to transactions with other national and foreign operators including interconnection, CPP and Roaming (being offsetting a standard practice in the telecommunications industry at the international level that the Telecom Group applies regularly). Offsetting is also applied to transactions with agents.

NOTE 22 REVENUES

Revenues include:

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2018	2017	2018	2017

Mobile Services	12,113	628	34,511	1,865
Internet Services	8,013	4,580	22,448	11,308
Cable Television Services	7,545	4,911	21,417	15,022
Fixed and Data Services	4,839	292	13,086	998
Other services revenues	267	95	448	392
Subtotal Services revenues	**32,777**	**10,506**	**91,910**	**29,585**
Equipment revenues	2,538	39	7,584	193
Total Revenues	**35,315**	**10,545**	**99,494**	**29,778**

NOTE 23 OPERATING EXPENSES

Operating expenses disclosed by nature of expense amounted to $79,550 and $21,344 for the nine-month periods ended September 30, 2018 and 2017, respectively. The main components of the operating expenses are the following:

[redacted]

	Profit (loss)		Profit (loss)	
Employee benefit expenses and severance payments				
Salaries, Social security expenses and benefits	(5,750)	(1,786)	(15,966)	(4,784)
Severance indemnities and termination benefits	(633)	(48)	(1,237)	(124)
Other employee expenses	(159)	(101)	(393)	(258)
	(6,542)	**(1,935)**	**(17,596)**	**(5,166)**
Fees for services, maintenance, materials and supplies				
Maintenance and materials	(1,526)	(744)	(4,618)	(2,042)
Fees for services	(2,003)	(473)	(4,567)	(1,314)
Directors and Supervisory Committee s fees	(21)	(3)	(60)	(9)
	(3,550)	**(1,220)**	**(9,245)**	**(3,365)**
Taxes and fees with the Regulatory Authority				
Turnover tax	(1,506)	(417)	(4,374)	(890)
Municipal taxes	(332)	(213)	(1,075)	(524)
Other taxes and fees	(936)	(139)	(2,560)	(767)
	(2,774)	**(769)**	**(8,009)**	**(2,181)**

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[redacted]

	Profit (loss)		Profit (loss)	
Cost of equipment and handsets				
Inventory balance at the beginning of the year/period	(2,445)	(175)	(115)	(267)
Plus:				
Incorporation by merger (Note 4.a)	-	-	(1,854)	-
Purchases	(2,200)	(74)	(6,262)	(137)
Other	(24)	-	(34)	-
Less:				
Inventory balance at the end of the period	2,895	151	2,895	151
	(1,774)	**(98)**	**(5,370)**	**(253)**
Other operating income and expenses				
Provisions	(187)	(70)	(521)	(155)
Rentals and internet capacity	(775)	(170)	(1,931)	(496)
Other	(953)	(231)	(2,956)	(614)
	(1,915)	**(471)**	**(5,408)**	**(1,265)**
Depreciation, amortization and impairment of PP&E				
Depreciation of PP&E	(4,517)	(1,001)	(12,184)	(2,809)
Amortization of intangible assets	(965)	(6)	(2,799)	(31)
Disposals of PP&E	(152)	-	(191)	-
Impairment of PP&E	24	-	(78)	-
	(5,610)	**(1,007)**	**(15,252)**	**(2,840)**

Operating expenses, disclosed per function are as follows:

Concept	**Operating costs**	**Commercialization costs**	**Administration costs**	**Total 09.30.2018**	**Total 09.30.2017**
Employee benefit expenses and severance payments	(9,683)	(5,315)	(2,598)	(17,596)	(5,166)
Interconnection costs and other telecommunication charges	(3,203)	-	-	(3,203)	(554)
Fees for services, maintenance, materials and supplies	(4,586)	(2,939)	(1,720)	(9,245)	(3,365)
Taxes and fees with the Regulatory Authority	(7,892)	(88)	(29)	(8,009)	(2,181)
Commissions and advertising	(131)	(6,156)	(46)	(6,333)	(1,462)
Cost of equipment and handsets	(5,370)	-	-	(5,370)	(253)
Programming and content costs	(7,144)	-	-	(7,144)	(3,874)
Bad debt expenses	-	(1,988)	(2)	(1,990)	(384)
Other operating income and expenses	(3,845)	(1,034)	(529)	(5,408)	(1,265)
Depreciation, amortization and impairment of PP&E	(11,574)	(2,474)	(1,204)	(15,252)	(2,840)
Total as of 09.30.2018	**(53,428)**	**(19,994)**	**(6,128)**	**(79,550)**	**-**

Total as of 09.30.2017	**(13,567)**	**(4,430)**	**(3,347)**	**-**	**(21,344)**

Operating leases

Future minimum lease payments from of non-cancellable operating lease agreements as of September 30, 2018, and as of December 31, 2017 are as follows:

	Less than 1 year	1-5 years	More than 5 years	Total
December 2017	467	391	25	**883**
September 2018	1,720	2,276	378	**4,374**

Further information is provided in Note 3.k) to these unaudited consolidated financial statements.

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NOTE 24 FINANCIAL RESULTS, NET

	Three-month periods ended September 30, 2018	2017	Nine-month periods ended September 30, 2018	2017
	Profit (loss)		Profit (loss)	
Interests on debts (*)	(1,167)	(164)	(2,540)	(479)
Foreign currency exchange losses on debts (**)	(25,449)	(405)	(45,546)	(854)
Other financial expenses on debts	36	20	106	46
Total Debt financial expenses	**(26,580)**	**(549)**	**(47,980)**	**(1,287)**
Interests and gains on investments	473	(3)	1,073	97
Taxes and bank expenses	(395)	(122)	(1,002)	(364)
Foreign currency exchange gains on cash equivalents	1,324	15	2,862	19
Foreign currency exchange (losses) gains on the rest of the items (***)	(1,857)	(48)	(3,180)	3
Financial discounts on assets, debts and other	21	5	1	13
Gains (losses) on operations with notes and bonds	836	1	1,491	(26)
Interests on provisions	(185)	3	(441)	(31)
Financial expenses on pension benefits	(14)	-	(43)	-
Other	6	3	1	(13)
Total other financial results, net	**209**	**(146)**	**762**	**(302)**
Total financial results, net	**(26,371)**	**(695)**	**(47,218)**	**(1,589)**

(*) Includes 5 and (5) corresponding to net income (losses) generated by NDF in the three-month and nine-month periods ended September 30, 2018, respectively.

(**) Includes 849 and 1,451 corresponding to net income generated by NDF in the three-month and nine-month periods ended September 30, 2018, respectively.

(***) Includes 189 and 205 corresponding to net income generated by NDF in the three-month and nine-month periods ended September 30, 2018, respectively.

NOTE 25 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income (loss) attributable to owners of the Parent by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares issued and dilutive potential common shares at the closing of the period. Since the Company has no dilutive potential common stock outstanding, there are no dilutive earnings per share amounts.

For the nine-month and three-month periods ended September 30, 2018, the weighted average number of shares outstanding amounted to 2,153,688,011 due to the changes caused by the Treasury Shares Acquisition Process that began in May 2013, as described in Note 20.d) to these unaudited consolidated financial statements.

For the nine-month and three-month periods ended September 30, 2017, the Company has divided the net income attributable to the shareholders of the Controlling Company of each period based on 1,184,528,406 ordinary shares, which arise as a result of multiply 120,000 ordinary shares of Cablevisión outstanding for such period (see Note 1.c)) by the exchange ratio established in the pre-merger commitment (1 ordinary share of Cablevisión for each 9,871.07005 new shares of Telecom Argentina).

NOTE 26 FINANCIAL RISK MANAGEMENT

Financial risk factors

Telecom Group is exposed to the following financial risks in the ordinary course of its business operations:

- market risk: stemming from change in exchange rates and interest rates in connection with financial assets that have been originated and financial liabilities that have been assumed.
- credit risk: representing the risk of the non-fulfillment of the obligations undertaken by the counterpart with regard to the liquidity investments of the Telecom Group;
- liquidity risk: connected with the need to meet short-term financial commitments.

These financial risks are managed by:

- the definition of guidelines for directing operations;
- the activity of the Board of Directors and Management which monitors the level of exposure to market risks consistently with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved;

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The policies to manage and the sensitivity analyses of the above financial risks by Telecom Group are described below.

Market risk

One of the main Telecom s market risks is its exposure to changes in foreign currency exchange rates in the markets in which it operates principally Argentina, Uruguay and Paraguay.

Foreign currency risk is the risk that the future fair values or cash flows of a financial instrument may fluctuate due to exchange rate changes. Telecom s exposure to exchange variation risks is related mainly to its operating activities (when income, expenses and investments are denominated in a currency other than the Telecom Group s functional currency).

Telecom has part of its commercial debt nominated in US$ and euro. Additionally, holds part of its financial debt is denominated in US$ at variable rate.

The financial risk management policies of the Group are directed towards diversifying market risks by the acquisition of goods and services in the functional currency and minimizing interest rate exposure by an appropriate diversification of the portfolio. This may also be achieved by using carefully selected derivative financial instruments to mitigate long-term positions in foreign currency and/or adjustable by variable interest rates (See Note 21).

Additionally, the Telecom Group has cash and cash equivalents and investments mostly denominated in foreign currency that are also sensitive to changes in peso/dollar exchange rates and contribute to reduce the exposure to trade payables in foreign currency.

Financial assets and liabilities denominated in foreign currencies as of September 30, 2018 and December 31, 2017, are the following:

	September 30, 2018	**December 31, 2017**
	In equivalent millions of pesos	
Assets	24,006	3,058
Liabilities	(108,134)	(11,131)

Assets (Liabilities) Net	**(84,128)**	**(8,073)**

In order to reduce this net position in foreign currency Telecom has NDF as of September 30, 2018 amounting to US$96.5 million, therefore the net liability not hedged amounts to US$1,943 million as of September 30, 2018.

Exchange rate risk Sensitivity analysis

Based on the composition of the consolidated statement of financial position as of September 30, 2018, which is a net liability position in foreign currency of $84,128 equivalent to US$2,039.5 million, Management estimates that every variation in the exchange rate of $1 peso against the U.S. dollar and proportional variations for Euro and Guaraníes against the Argentine peso, plus or minus, would result in a variation of approximately $2,040 of the consolidated amounts of foreign currency position.

If we consider only the portion not covered by derivative financial instruments, the net liability position totaled $80,147 equivalent to approximately US$1,943 million, and a variation of the exchange rate of 1 peso as described in the previous paragraph, would generate a variation of approximately $1,943 in the consolidated financial position in foreign currency.

This analysis is based on the assumption that this variation of the Argentine peso occurred at the same time against all other currencies.

This sensitivity analysis provides only a limited, point-in-time view of the market risk sensitivity of certain of the financial instruments. The actual impact of market foreign exchange rate changes on the financial instruments may differ significantly from the impact shown in the sensitivity analysis.

Interest rate risk Sensitivity analysis

In relation to changes in interest rates, Telecom group has debt with variable rates as of September 30, 2018 (See Note 13).

Within its structure of financial debt, the Telecom Group has bank overdrafts denominated in argentine pesos accruing interest at rates that are reset at maturity, notes and foreign bank loans denominated in U.S. dollar and guaraníes that bear interest at a variable and fixed rate.

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The Company has financial debts at variable rate, which amounts approximately to $62,024 as of September 30, 2018.

In order to reduce the effect of changes in interest rates, Telecom has NDF that amounts to US$440 million as of September 30, 2018, that convert variable rate into fixed rate, therefore the net financial debt not hedged amounts to $43,874 as of September 30, 2018.

Management believes that any variation of 10 bps in the agreed interest rates would become in the following results of $44.

This analysis is based on the assumption that this change in interest rates occurs at the same time and for the same periods.

This sensitivity analysis provides only a limited point of view of the sensitivity to market risk of certain financial instruments. The actual impact of changes in interest rates of financial instruments may differ significantly from this estimate.

Credit risk

Credit risk represents Telecom Group s exposure to possible losses arising from the failure of commercial or financial counterparts to fulfill their assumed obligations. Such risk stems principally from economic and financial factors, or from the possibility that a default situation of a counterpart could arise or from factors more strictly technical, commercial or administrative.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Telecom Group s maximum theoretical exposure to credit risk is represented by the carrying amount of the financial assets and trade receivables, net recorded in the consolidated statement of financial position.

Date due	Cash and cash equivalents	Investments	Trade receivables, net	Other receivables, net	Total
Total due	-	-	3,178	-	3,178
Total not due	9,737	11,772	9,838	3,166	34,513
Total as of September 30, 2018	**9,737**	**11,772**	**13,016**	**3,166**	**37,691**

The accruals to the allowance for doubtful accounts are recorded: (i) for an exact amount on credit positions that present an element of individual risk (bankruptcy, customers under legal proceedings with the Company); (ii) on credit positions that do not present such characteristics, by customer segment considering the aging of the accounts receivable balances, expected credit losses, customer creditworthiness and changes in the customer payment terms. Total overdue balances not covered by the allowance for doubtful accounts amount to $3,178 as of September 30, 2018 ($1,030 as of December 31, 2017).

Regarding the credit risk relating to the asset included in the Net financial debt or asset , it should be noted that the Telecom evaluates the outstanding credit of the counterparty and the levels of investment, based, among others, on their credit rating and the equity size of the counterparty. Deposits are made with leading high-credit-quality banking and financial institutions and generally for short-term periods.

Telecom serves a wide range of customers, including residential customers, businesses and governmental agencies. As such, the Telecom Group s account receivables are not subject to significant concentration of credit risk.

In order to minimize credit risk, Telecom also pursues a diversification policy for its investments of liquidity and allocation of its credit positions among different first-class financial entities. Consequently, there are no significant positions with any one single counterpart.

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Liquidity risk

Liquidity risk represents the risk that the Telecom Group has no funds to accomplish its obligations of any nature (labor, commercial, fiscal and financial, among others).

The Group s working capital breakdown and its main variations are disclosed below:

	September 30, 2018	December 31, 2017	Variation
Trade receivables	12,953	1,753	11,200
Other receivables (not considering financial NDF)	4,532	828	3,704
Inventories	2,831	83	2,748
Current liabilities (not considering financial debt)	(32,644)	(11,676)	(20,968)
Operative working capital - negative	**(12,328)**	**(9,012)**	**(3,316)**
Over revenues (annualized)	*9.3%*	*23.9%*	
Cash and cash equivalents	9,737	4,414	5,323
Financial NDF	1,364	-	1,364
Investments	6,614	110	6,504
Current financial debt (*)	(52,734)	(937)	(51,797)
Net Current financial (liabilitiy) asset	**(35,019)**	**3,587**	**(38,606)**
Negative operating working capital (current assets current liabilities)	**(47,347)**	**(5,425)**	**(41,922)**
Liquidity rate	**0.45**	**0.57**	**(0.12)**

(*) As of the date of these unaudited consolidated financial statements U$S600 million were cancelled in advance mainly with the funds from the new loan for US$500 million at a 4-year term (see Note 13).

The Telecom Group has a typical working capital structure corresponding to a company with intensive capital that obtains spontaneous financing from its suppliers (especially PP&E) for longer terms than those it provides to its customers. According to this, the negative operating working capital amounted to $12,328 as of September 30, 2018 (increasing $3,316 vs. December 31, 2017) mainly due to the incorporation of negative operating working capital of Telecom that amounts to $7,339 partially offset by higher levels of suppliers financing.

During years 2017 and 2018, the Telecom Group continued obtaining funds to the financial market (See Notes 13 and 29), used to pay its investments, operative working capital, and other corporative expenses and refinancing part of its financial debts in the framework of its permanent policy of optimizing the term, rate and structure of its financial debts. The Group has an excellent credit rating. The Company has several financing sources and several offers from first-class international institutions to diversify its current 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 Company s management evaluates the national and international macroeconomic context to take advantage of market opportunities that allows it preserving its financial health for the benefit of its investors.

The Telecom Group manages its cash and cash equivalents and its financial assets trying to match the term of investments with those of its obligations. Cash and cash equivalents position is invested in highly liquid short-term instruments.

The Telecom Group maintains a liquidity policy that includes cash through its normal course of business. The Telecom Group has consolidated cash and cash equivalents amounting to $9,737 (equivalent to US$236 million) as of September 30, 2018 (as of December 31, 2017 amounted to $4,414, equivalent to US$236 million). Telecom has bank credits and a program of Notes that allow to finance its short-term obligations and an investment plan in addition to the operative cash flow for the next years. On December 28, 2017, Telecom Argentina held an Ordinary General Meeting that approved a Global Program of Issuance of Notes for up to a maximum outstanding amount of US$3,000 million or its equivalent in other currencies, as mentioned in Note 13 of the unaudited consolidated financial statements.

The table below contains a breakdown of financial liabilities into relevant maturity groups based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity Date	**Trade payables**	**Financial Debt**	**Salaries and social security payables**	**Other liabilities**	**Total**
Due	2,746	-	-	-	**2,746**
October 2018 thru September 2019	21,482	53,829	4,573	414	**80,298**
October 2019 thru September 2020	531	7,663	129	16	**8,339**
October 2020 thru September 2021	307	27,336	82	4	**27,729**
October 2021 and thereafter	700	5,847	69	33	**6,649**
	25,766	**94,675**	**4,853**	**467**	**125,761**

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Capital management

The primary objective of the Telecom Group s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments considering the business evolution and changes in the macroeconomic conditions. In relation to the merger, there has been an increase in capital in relation to the size of the merger Company, amounting to $2,169.

To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders and the level of indebtedness.

The company does not have to comply with regulatory capital adequacy requirements.

NOTE 27 - BALANCES AND TRANSACTIONS WITH COMPANIES UNDER SECTION 33 - LAW No. 19,550 AND RELATED PARTIES

a) Controlling Company

As of September 30, 2018, CVH is the controlling company of Telecom Argentina, holding directly and indirectly 38.81% of the total capital stock of the Company, upon the effectiveness of the Merger described under Note 4.a on January 1, 2018 and the effectiveness of the shareholder agreement signed on July 7, 2017 mentioned in this note. The change of control was authorized under ENACOM Resolution No. 5,644-E/2017.

Until November 30, 2017 Nortel was the holder of the 54.74% of the total capital stock of the Company, whereby it exercised control of the Company under the provisions of Section 33 of LGS. As of that date, Nortel held all of the Class A shares (51% of total capital stock of the Company) and 7.64% of the Class B shares (3.74% of total capital stock of the Company).

As a result of the Company s Treasury Shares Acquisition Process described in Note 20.d), Nortel s equity interest in Telecom Argentina amounted to 55.60% of the Company s outstanding shares as of November 30, 2017. It is important to mention that

Pursuant to Section 221 of the LGS, the rights of treasury shares shall be suspended until such shares are sold, and shall not be taken into account to determine the quorum or the majority of votes at the Shareholders Meetings.

All of the common shares of Nortel belonged to Sofora until November 30, 2017 and represented 78.38% of the capital stock of Nortel.

Sofora s capital stock consisted of common stock shares, with nominal value of $1 peso each and entitled to one vote per share. As of November 30, 2017, Sofora s total shares were held by Fintech, as a result of the total redemption of Sofora s shares held by WAI during the fiscal year 2017 (see Note 4 f.1.). As of September 30, 2018, Fintech owns all Class A shares (31.53% of the total capital stock of the Company) and ADRs that represent rights over 186,999,612 Class B shares representing 8.62% of the total capital stock of the Company.

Shareholders Agreement: Fintech - CVH

On July 7, 2017 CVH, VLG, Fintech Media LLC, Fintech Advisory Inc., GC Dominio S.A. (all of them direct or indirect shareholders of Cablevisión S.A.) and Fintech Telecom LLC (direct or indirect shareholder of Telecom Argentina) entered into a shareholders agreement that governs the exercise of their rights as shareholders of the Company. The Shareholders´ Agreement establishes basically:

- the representation in the corporate bodies, provided that subject to the fulfillment of certain conditions and as long as CVH holds a certain percentage of Telecom Shares, CVH shall be entitled to designate the majority of the directors, members of the Executive Committee, Audit Committee, Supervisory Committee, CEO and any other Key Employee (other than the CFO and the Internal Auditor). CVH shall also be entitled to nominate the Chairman of the Board of Directors and Fintech to nominate de Vice chairman of the Board of Directors.

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- a scheme of supermajorities and required votes for the approval by the Shareholders´ Meetings or Board of Directors´ Meetings, respectively, of certain matters such as: i) the approval of the Business Plan and the Annual Budget of Telecom Argentina; ii) amendments of the bylaws, iii) changes in Independent Auditors, iv) the creation of committees of the Board of Directors, v) hiring of Key Employees as defined in the Shareholders´ Agreement (Key employees will be proposed by CVH, except for the CFO and the internal auditor); vi) merger of Telecom or any other controlled entity, vii) acquisitions of certain assets, viii) sale of certain assets, ix) capital increases; x) incurrence of indebtedness over certain limits, xi) capital investments not contemplated in the Business Plan and the Annual Budget above certain amounts; xii) related party transactions, xiii) contracts that may impose restrictions to the distribution of dividends; xiv) new lines of business or discontinuing existing lines of business; xv) contracting for significant amounts not contemplated in the Business Plan and the Annual Budget, among others.

Public Tender Offer due to change of control

On June 21, 2018, the Company was informed that CVH (or the Offeror) of the promotion and formulation of a Mandatory Public Tender Offer (PTO) due to change of control for all the Class B common shares issued by Telecom Argentina listed on Bolsas y Mercados Argentinos S.A. (BYMA) (including the Class C common shares issued by Telecom Argentina that were converted into Class B common shares within the stipulated term) which CVH was obliged to perform because CVH had effectively obtained a controlling interest in the Company. CVH attached a copy of the public announcement of the PTO, pursuant to applicable regulations, which was published in Diario Clarín on June 23, 24 and 25 and in BYMA s Daily Bulletin on June 21, 2018 (the PTO Announcement).

In said PTO Announcement, CVH informed that, notwithstanding the fact that Fintech Telecom LLC is not obliged under the applicable standards to promote, formulate or launch a PTO and that it has not taken part in the determination or formulation of any of the terms and conditions of the PTO, as provided under the agreement executed between the shareholders of Telecom Argentina, Fintech Telecom LLC has undertaken with regard to CVH to pay and acquire 50% of the shares that will be acquired under the PTO (notwithstanding CVH s right to acquire by itself the first 43,073,760 Class B shares).

The price offered in the PTO Announcement for the Class B common shares issued by Telecom Argentina that are listed on BYMA (including the Class C common shares issued by Telecom Argentina that were converted into Class B common shares within the stipulated term) and that are not directly or indirectly held by CVH or Fintech Telecom LLC (the Shares , or in singular, the Share) tendered by their holders for its acquisition during the Offer Reception Period is One Hundred Ten Pesos and Eighty-Five Cents (Pesos 110.85) per Share (less any cash dividend per share as may be payable by Telecom Argentina from the date of the PTO Announcement to the date of actual payment of the PTO price and other expenses such as fees for transfer, rights, fees, commissions, taxes, rates or contributions) (the PTO Price), which will be paid in pesos in Argentina.

On July 5, 2018, the Board of Directors of Telecom Argentina, in compliance with the provisions of article 3 c), Chapter II, Title III of the Rules of the CNV, expressed the opinion that the Price of the OPA has been fixed in the mandatory terms foreseen in the current legal regime in accordance with Article 88, section I of the Capital Markets Law and issued the Board Report set forth in said Rules.

On September 21, 2018, the Company received a communication from CVH informing the issuance of the resolution dated September 20, 2018, in the case of Cablevisión Holding S.A. against/National Securities Commission s/Precautionary Measures Expte. 7998/2018, in process in the Federal Civil and Commercial Court No. 3, pursuant to which, as an interim precautionary measure, the CNV must refrain from issuing and ruling on the authorization of the PTO promoted and formulated by CVH on the June 21, 2018, until the precautionary measure requested is resolved pursuant to the provisions of art. 4 of the Law No. 26,854.

As of the date of these unaudited consolidated financial statements, the terms of the PTO have not been approved yet by the CNV.

b) Related Parties

For the purposes of these unaudited consolidated financial statements, related parties are those individuals or legal entities which are related (in terms of IAS 24) to Fintech Telecom LLC and CVH, except companies under sect. 33 of the LGS.

For the periods presented, Telecom and Cablevision has not conducted any transactions with Key Managers and/or persons related to them, except the mentioned in e) below.

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c) **Balances with Companies under section 33 - Law No. 19,550 and Related Parties**

- **Companies under section 33 - Law No. 19,550 Controlling companies**

	Type of related party	September 30, 2018	December 31, 2017
CURRENT LIABILITIES			
Dividends payables			
CVH	Controlling company	-	1,400
VLG	Shareholder	-	2,093
Fintech Media LLC	Shareholder	-	585
		-	**4,078**

- **Companies under section 33 - Law No. 19,550 Associates**

[redacted]			
CURRENT ASSETS			
[redacted]			
La Capital Cable S.A.	Associate	37	23
[redacted]			
Ver TV S.A.	Associate	47	68
[redacted]			
CURRENT LIABILITIES			
[redacted]			
Televisora Privada del Oeste S.A.(2)	Associate	3	3
[redacted]			
Financial Debt			
[redacted]			
		-	**4**

- **Related parties**

	Type of related party	September 30, 2018	December 31, 2017
CURRENT ASSETS			
Trade receivables			

Other Related parties	Related party	80	40
		80	**40**
CURRENT LIABILITIES			
Trade payables			
Other Related parties	Related party	522	297
		522	**297**

(1) Include 65 and 91 as of September 30, 2018 and as of December 31, 2017, respectively corresponding to dividends receivable.

(2) Associate Company throughout PEM.

d) Transactions with Companies under section 33 - Law No. 19,550 and related parties

- **Companies under section 33 - Law No. 19,550 Controlling companies**

[redacted]

Grupo Clarín S.A. (1)	Other services revenues	Controlling company	-	1
[redacted]				
			Operating costs	
[redacted]				
CVH	Advisory services	Controlling company	-	(38)
[redacted]				
			Finance results	
[redacted]				
CVH	Interests on loans granted	Controlling company	-	12
[redacted]				

(1) It ceased to be Cablevisión´s controlling company as of May 1, 2017. Note 4.e).

- **Companies under section 33 - Law No. 19,550 Associates**

[redacted]

La Capital Cable S.A.	Services revenues	Associate	7	5
[redacted]				
			17	**19**
[redacted]				
La Capital Cable S.A.	Fees for services	Associate	(14)	(8)
[redacted]				

[redacted]		
	Finance results	
[redacted]		
	(1)	(1)

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- **Related Parties** (2)

[redacted]				
Other Related parties	Advertising sales	Related Party	22	21
[redacted]				
			71	**46**
[redacted]				
Other Related parties	Programming costs	Related Party	(978)	(720)
[redacted]				
Other Related parties	Advisory services	Related Party	(151)	(131)
[redacted]				
Other Related parties	Other purchases	Related Party	(64)	(20)
[redacted]				

(2) Includes mainly operations with the following related parties through the Grupo Clarín S.A.: Arte Radiotelevisivo Argentino S.A., Arte Gráfico Editorial Argentino S.A., Unir S.A., Impripost S.A., Tele Red Imagen S.A., GC Gestión Compartida S.A. y Compañía De Medios Digitales S.A.

The transactions discussed above were made on terms no less favorable to the Telecom Group than would have been obtained from unaffiliated third parties. The Board of Directors approved transactions representing more than 1% of the total shareholders equity of the Company, after being approved by the Audit Committee in compliance with Law No. 26,831.

Cablevisión agreements with its shareholders

On June 28, 2008, Cablevisión and Grupo Clarín executed a supplementary agreement to the technical assistance agreement, effective as of September 26, 2006, whereby they amended the volume of the services rendered by Grupo Clarín and the mechanism used to determine that company s annual fee.

On January 6, 2017 and January 5, 2016 respectively, the agreements were amended, setting Grupo Clarín s annual fees. On April 30, 2017 the contract was terminated as a consequence of the change of controlling company (See Note 4.e).

On May 1, 2017 Cablevisión and Cablevisión Holding S.A., entered into a contract for advisory services and technical assistance under which the parties set the volume of services to be received from Cablevisión Holding S.A. and the way in which the annual fee shall be determined.

On the occasion of the merger described in Note 4.a), the contracts for advisory services and technical assistance subscribed between Cablevisión and CVH have been left without effects.

e) Key Managers

Compensation for Directors and Key Managers of Telecom Argentina for the nine-month period ended September 30, 2018, and for Directors and Key Managers of Cablevisión for the nine-month period ended September 30, 2017, including social security contribution, amounted to $232 and $73, respectively, and was recorded as expenses under the line item Employee benefits expenses and severance payments .

As of September 30, 2018, an amount of $112 remained unpaid.

Telecom Argentina has recorded a provision of $50 for the fees of its Board of Directors members for the nine-month period ended September 30, 2018. The fees to the Board of Directors of Cablevisión for the nine-months period ended September 30, 2017 amounted to approximately $10.

The members and alternate members of the Board of Directors do not hold executive positions in the Company or Company s subsidiaries.

NOTE 28 RESTRICTIONS ON DISTRIBUTION OF PROFITS

Under the LGS, the by-laws of the Company and rules and regulations of the CNV, a minimum of 5% of net income for the year in accordance with the statutory books, plus/less previous years adjustments and accumulated losses, if any, must be appropriated by resolution of the shareholders to a legal reserve until such reserve reaches 20% of the outstanding capital (common stock plus inflation adjustment of common stock). On May 21, 2014, Telecom Argentina reached the maximum amount of its Legal Reserve according to LGS and CNV provisions previously disclosed and continues in the same way after the merger with Cablevisión.

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NOTE 29 SUBSEQUENT EVENTS TO SEPTEMBER 30, 2018

International Finance Corporation Loan

On October 30, 2018, within the framework of its permanent optimization policy for the term, rate and structure of its financial liabilities Telecom Argentina has accepted a proposal from the International Finance Corporation (IFC) for the evaluation and mobilization of funds with for the purpose of financing investment needs, working capital and refinancing of liabilities for an amount of up to US$350 million.

Alejandro Urricelqui
Chairman of the Board of Directors

Free translation from the original in Spanish for publication in Argentina

LIMITED REVIEW REPORT ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders, President and Directors of

Telecom Argentina S.A.

Legal address: Alicia Moreau de Justo 50

City of Buenos Aires

Tax Code No.: 30-63945373-8

Introduction

We have reviewed the accompanying interim consolidated financial statements of Telecom Argentina S.A. and its subsidiaries (Telecom or the Company), which comprise the consolidated statement of financial position as of September 30, 2018, the consolidated statements of income and of comprehensive income for the nine and three-month periods ended September 30,2018, the consolidated statements of changes in equity and of cash flows for the nine-month period ended September 30, 2018 and selected explanatory notes.

The balances and other information for the fiscal year 2017 and interim periods are an integral part of the above-mentioned financial statements and therefore they should be considered in relation with those financial statements.

Management responsibility

The Board of Directors of the Company is responsible for the preparation and presentation of the financial statements in accordance with the accounting framework established by the National Securities Commission (CNV). As indicated in note 1.c) to the interim consolidated financial statements mentioned in the first paragraph, such accounting framework is based on the application of the International Financial Reporting Standards (IFRS) and, particularly, on International Accounting Standard No. 34 Interim Financial Information (IAS 34). Such standards have been adopted by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE), and were applied in the preparation of the interim consolidated financial statements mentioned in the first paragraph, with the sole exception of International Accounting Standard No. 29 (IAS 29), which was excluded by the CNV from its accounting framework.

Scope of our review

Our review was limited to the application of the procedures established under International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity (ISRE 2410), approved by the International Auditing and Assurance Standards Board (IAASB) and adopted as a review standard in Argentina by Technical Pronouncement No. 33 of the FACPCE. A review of interim financial information consists of inquiries of Company personnel responsible for preparing the information included in the interim consolidated financial statements and of analytical and other review procedures. This review is substantially less in scope than an audit performed in accordance with International Auditing Standards; consequently, a review does not enable us to obtain assurance that we would became aware of all significant matters that could be identified in an audit. Therefore, we do not express an opinion on the consolidated financial position, the consolidated comprehensive income and the consolidated cash flow of the Company.

Conclusion

On the basis of our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements mentioned in the first paragraph of this report are not prepared, in all material respects, in accordance with the accounting framework established by the CNV.

Emphasis of matter

Without modifying our conclusion, we draw attention to:

a) note 1.e) to the interim consolidated financial statements, which qualitatively describes the difference between the accounting framework established by the CNV and the IFRS, considering that the application of IAS 29 was excluded by the CNV from its accounting framework.

b) the information contained in note 18.2.i) to the interim consolidated financial statements, which describes the situation related to the resolution issued by the regulator to calculate the monthly fee payable by the users of television services, whose decision cannot be foreseen to date.

Report on compliance with current regulations

In compliance with provisions currently in force, we inform, as regards Telecom, that:

a) The interim consolidated financial statements of Telecom are transcribed into the Inventory and Balance Sheet book and are in compliance, as regards matters within our field of competence, with the provisions of the Commercial Companies Law and pertinent resolutions of the National Securities Commission;

b) The separate interim financial statements are derived from accounting records kept in their formal respects in conformity with legal provisions;

c) We have read the Operating and financial review and prospects, on which, as regards those matters that are within our competence, we have no observations to make;

d) As of September 30, 2018, the debt of Telecom accrued in favor of the Argentine Integrated Social Security System, as shown by the Company s accounting records, amounted to $462,757,508.88, and was not due at that date.

City of Buenos Aires, November 7, 2018

PRICE WATERHOUSE & CO. S.R.L.

(Partner)

C.P.C.E.C.A.B.A. Tº 1 Fº 17

Dr. Carlos A. Pace

Public Accountant (UBA)

C.P.C.E.C.A.B.A. T° 150 F° 106

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CORPORATE INFORMATION	

- **INDEPENDENT AUDITORS** Price Waterhouse & Co S.R.L. (member of PricewaterhouseCoopers)

- **STOCK MARKET INFORMATION** (Source: Bloomberg)

BYMA

Quarter	Market quotation ($/share) High	Low	Volume of shares traded (in millions)
3Q17	109.25	93.00	9.0
4Q17	140.70	106.75	6.4
1Q18	156.20	124.85	6.5
2Q18	126.90	102.55	8.5
3Q18	147.00	97.7	5.8

NYSE*

Quarter	Market quotation (US$/ADS*) High	Low	Volume of ADSs traded (in millions)
3Q17	31.69	26.39	15.4
4Q17	39.70	30.43	13.2
1Q18	39.55	31.09	12.7
2Q18	31.14	17.74	24.5
3Q18	20.21	15.91	20.1

* Calculated at 1 ADS = 5 shares

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