

TELECOM ARGENTINA SA
Form 6-K
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K
Report of Foreign Issuer

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

For the month of August 2013

Commission File Number: 001-13464

Telecom Argentina S.A.

(Translation of registrant's name into English)

Alicia Moreau de Justo, No. 50, 1107

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Telecom Argentina S.A.

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**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2013**

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UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2013 AND 2012

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(In millions of Argentine pesos or as expressly indicated)

1. General considerations

As required by CNV regulations, the Company has prepared its consolidated financial statements as of June 30, 2013 under IFRS. Additional information is given in Note 1 to the consolidated financial statements.

2. Telecom Group's activities for the six-month periods ended June 30, 2013 (1H13) and 2012 (1H12)

Total revenues and other income for 1H13 amounted to \$12,726 (+22% vs. 1H12), operating costs including depreciations, amortizations and gain on disposal of PP&E and impairment of PP&E and related assets amounted to \$10,666 (+25% vs. 1H12), operating income before depreciation and amortization amounted to \$3,624 representing 29% of consolidated revenues (+15% vs. 1H12), operating income amounted to \$2,060 (+9% vs. 1H12) and net income amounted to \$1,475 (+14% vs. 1H12). Net income attributable to Telecom Argentina amounted to \$1,454 in 1H13 (+14% vs. 1H12).

	1H13	1H12	Variation	
			\$	%
Revenues	12,713	10,380	2,333	22
Other income	13	9	4	44
Operating costs without depreciation and amortization	(9,102)	(7,250)	(1,852)	26
Operating income before depreciation and amortization	3,624	3,139	485	15
Depreciation and amortization	(1,399)	(1,258)	(141)	11
Gain on disposal of PP&E and impairment of PP&E and related assets	(165)	1	(166)	n/a
Operating income	2,060	1,882	178	9
Financial results, net	214	112	102	91
Net income before income tax expense	2,274	1,994	280	14
Income tax expense	(799)	(700)	(99)	14
Net income	1,475	1,294	181	14

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Attributable to:

Telecom Argentina (Controlling Company)	1,454	1,275	179	14
Non-controlling interest	21	19	2	11
	1,475	1,294	181	14

Basic and diluted earnings per share attributable to Telecom Argentina (in pesos)

1.48 1.30

• **Total revenues and other income**

During 1H13 consolidated total revenues increased 22% (+\$2,333 vs. 1H12) amounting to \$12,713 mainly fueled by the Broadband, data transmission and mobile businesses, while consolidated other income increased 44% (+\$4 vs. 1H12), mainly due to penalties imposed to suppliers in the Fixed Services segment.

	1H13	1H12	Variation \$	%
<u>Services</u>				
Voice Retail	1,297	1,218	79	6
Voice Wholesale	376	357	19	5
Internet	1,191	925	266	29
Data	441	338	103	30
Subtotal fixed services	3,305	2,838	467	16
Voice Retail	2,345	2,137	208	10
Voice Wholesale	966	863	103	12
Internet	872	569	303	53
Data	3,400	2,653	747	28
Subtotal Personal mobile services	7,583	6,222	1,361	22
Voice Retail	177	159	18	11
Voice Wholesale	65	38	27	71
Internet	124	67	57	85
Data	157	126	31	25
Subtotal Núcleo mobile services	523	390	133	34
Total services revenues	11,411	9,450	1,961	21
<u>Equipment</u>				
Fixed services	30	39	(9)	(23)
Personal mobile services	1,235	878	357	41
Núcleo mobile services	37	13	24	185
Total equipment revenues	1,302	930	372	40
Total revenues	12,713	10,380	2,333	22

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Services revenues amounted to \$11,411 (+21% vs. 1H12) and represented 90% of consolidated revenues (similar to 1H12). Equipment revenues increased 40%, amounting to \$1,302 and represented 10% of consolidated revenues (similar to 1H12).

Fixed services

During 1H13, services revenues generated by this segment amounted to \$3,305, +\$467 or 16% vs. 1H12, where Internet revenues have grown the most (+\$266 or 29% vs. 1H12), followed by data transmission services (+\$103 or 30% vs. 1H12) and voice retail services (+\$79 or 6% vs. 1H12).

Ø **Voice**

Voice retail revenues amounted to \$1,297 in 1H13 (+6% vs. 1H12). The results of this line of business are still affected by frozen tariffs of regulated services. Revenues from regulated services reached approximately 33% of the segment revenues in 1H13 (vs. 38% in 1H12).

Monthly Charges and Supplementary Services increased \$44 or 9% vs. 1H12, to \$548, as a consequence of an increase in supplementary services (not regulated), mainly due to an increase of their prices and, to a lesser extent, to the increase in the subscriber base.

Revenues generated by measured services (Local Measured Service, Domestic Long Distance and International Long Distance services) amounted to \$677, (+\$38 or 6% vs. 1H12), mainly due to the increase in the commercialization of domestic plans and domestic long distance services. In relative terms, revenues from domestic measured service increased the most with 7% vs. 1H12.

Voice wholesale revenues (including fixed and mobile interconnection revenues and lease of circuits, together with the revenues generated by the subsidiary Telecom USA amounting to \$30) amounted to \$376 in 1H13 (+5% vs. 1H12). Interconnection fixed and mobile revenues amounted to \$261. The other wholesale revenues amounted to \$115 in 1H13 (+\$11 or 11% vs. 1H12).

Ø **Internet**

Internet revenues amounted to \$1,191 (+\$266 or 29% vs. 1H12) mainly due to the expansion of the Broadband service (+3% of customers vs. 1H12) and an increase in average prices resulting in an improvement in the Average Monthly Revenue per User (ARPU), that amounted to \$119.3 pesos per month in 1H13 vs. \$96 pesos per month in 1H12). As of June 30, 2013, Telecom Argentina reached approximately 1,634,000 ADSL customers. These connections represent approximately 40% of Telecom Argentina s fixed lines in service (vs. 38% in 1H12).

Internet revenues represent 9% of consolidated revenues (similar to 1H12) and 36% of Fixed Services segment revenues (vs. 33% in 1H12).

Ø **Data**

Data transmission revenues amounted to \$441 (+\$103 vs. 1H12), where the focus was to strengthen Telecom Argentina s position as an integrated TICs provider (Datacenter, VPN, among others) for wholesale and government segments. The increase was mainly due to the growth of *Integra* and VPN IP services (private data networks services that replace the point to point services) in the retail segment, to the growth of IP traffic in the wholesale segment and to a slight increase in the Datacenter services monthly charges, especially in *Housing* services.

Personal Mobile Services

During 1H13, total services revenues amounted to \$7,583, +\$1,361 or 22% vs. 1H12, being the principal business segment in revenues terms (60% of consolidated revenues in 1H13 and 1H12). Personal reached 19.3 million subscribers in Argentina (+3% vs. 1H12) maintaining the leadership in revenues in the mobile industry. Approximately 67% of the subscriber base is prepaid subscribers and 33% is postpaid subscribers (including Cuentas Claras plans and Mobile Internet dongles).

Ø **Voice**

Voice retail revenues amounted to \$2,345 in 1H13 (+10% vs. 1H12). The increase was mainly due to the increase in the lines billed, the increase in the average price as a result of a mix of plans, which in 1H13 tended toward higher-value plans, and to an increase in the subscriber base, specially Cuentas Claras subscribers.

Voice wholesale revenues amounted to \$966 in 1H13 (+12% vs. 1H12). The increase was mainly due to higher TLRD traffic and to an increase in roaming sales in the national segment.

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Ø **Internet**

Internet revenues amounted to \$872 (+\$303 or 53% vs. 1H12). This increase is mainly explained by the increase in consumption of Personal s subscribers, which was mainly fueled by the increase in the offer of services, plans and packs (including VAS) launched by Personal. This growth was fueled by new subscribers and the migration of existing ones to higher-value plans, partially offset by the revenues decrease generated by the decrease of Mobile Internet dongles subscribers.

Ø **Data**

Mobile data services revenues amounted to \$3,400 (+\$747 or 28% vs. 1H12). This increase was mainly due to the constant SMS sales increase as a result of several campaigns launched by Personal and especially the growth of the offers of SMS with contents, which represented an inter-annual increase of \$594. This increase was reflected both in prepaid and postpaid subscribers and is mainly due to the increase in average prices and, to a lesser extent, to the increase in the subscriber base.

As a consequence of the increase in the use of VAS (Internet and data), ARPU increased to \$63.8 pesos per month in 1H13 (vs. \$54.6 pesos per month in 1H12).

VAS revenues (data and Internet) amounted to \$4,272 (+33% vs. 1H12) and represented 56% of the services revenues of Personal Mobile Services segment (vs. 52% in 1H12).

Núcleo Mobile Services

This segment generated services revenues equivalent to \$523 during 1H13 (+\$133 or 34% vs. 1H12) mainly due to the increase in the subscriber base (+6%), to the appreciation of the Guaraní respect to the Argentine peso (+17% inter-annual) generating a positive effect in revenues conversion and the increase of Mobile Internet revenues (+85% vs. 1H12) related to the increase of subscribers traffic that have mobile equipment prepared for that purpose. As of June 30, 2013, Núcleo s subscriber base reached 2.4 million customers. Prepaid and postpaid subscribers (including Plan Control subscribers and mobile Internet subscribers) represented 80% and 20%, respectively in 1H13.

VAS revenues (data and Internet) amounted to \$281 (+46% vs. 1H12) and represented 54% of Núcleo Mobile Services segment services revenues (vs. 49% in 1H12).

Equipment

Revenues from equipment amounted to \$1,302, +\$372 or 40% vs. 1H12. This increase is mainly related to the Personal Mobile Services segment with an increase of \$357 vs. 1H12. The increase was mainly due to lower handsets sold (-21% vs. 1H12) and an increase in their average prices (+75% vs. 1H12). This situation was mainly generated by a subsidy reduction policy, the increase in average prices related to higher-value handsets demand, the business strategy to attract high-value subscribers and a decrease in discounts as a result of the finalization of commercial promotions. In the Núcleo Mobile Services segment the increase was mainly due to a higher number of handsets sold as a result of higher-value handsets and the launch of targeted promotions to capture new subscribers and retaining existing ones, associated to the effect of the appreciation of the Guaraní respect to the Argentine peso.

- **Operating costs**

Consolidated operating costs including depreciation, amortization and gain on disposal of PP&E and impairment of PP&E and related assets amounted to \$10,666 in 1H13, which represented an increase of \$2,159 or +25% vs. 1H12. The increase in costs is mainly a consequence of a higher revenues, higher expenses related to competition in mobile and Internet businesses, higher direct and indirect labor costs on the cost structure of the Group in Argentina, the increase in the average rates of the turnover tax, the increase in the provisions related to regulatory matters, the increase of VAS costs and the effect of the appreciation of the Guaraní (+17% inter-annual) respect to the Argentine peso, affecting the operations in Paraguay.

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	1H13	1H12	\$	Variation	%
Employee benefit expenses and severance payments	(1,873)	(1,492)	(381)		26
Interconnection costs and other telecommunication charges	(1,006)	(805)	(201)		25
Fees for services, maintenance, materials and supplies	(1,214)	(1,010)	(204)		20
Taxes and fees with the Regulatory Authority	(1,248)	(940)	(308)		33
Commissions	(1,242)	(1,053)	(189)		18
Agent commissions capitalized as SAC	218	153	65		42
Cost of equipment and handsets	(1,452)	(1,203)	(249)		21
Cost of equipment and handsets capitalized as SAC	164	244	(80)		(33)
Advertising	(286)	(314)	28		(9)
Cost of VAS	(301)	(122)	(179)		147
Provisions	(97)	(59)	(38)		64
Bad debt expenses	(165)	(148)	(17)		11
Recovery of restructuring costs	8	-	8		n/a
Other operating expenses	(608)	(501)	(107)		21
Subtotal	(9,102)	(7,250)	(1,852)		26
Depreciation of PP&E	(955)	(867)	(88)		10
Amortization of SAC and service connection costs	(432)	(380)	(52)		14
Amortization of other intangible assets	(12)	(11)	(1)		9
Gain on disposal of PP&E and impairment of PP&E and related assets	(165)	1	(166)		n/a
Total operating costs	(10,666)	(8,507)	(2,159)		25

The costs breakdown is as follows:

Employee benefit expenses and severance payments

Employee benefit expenses and severance payments amounted to \$1,873 (+\$381 or 26% vs. 1H12). The increase was mainly due to increases in salaries agreed by Telecom Argentina with several trade unions for the unionized employees and also to non-unionized employees, together with related social security charges. With a total headcount of 16,717 by the end of 1H13, slightly lower than 1H12 between employees and eventual employees, lines in service per employee reached 373 in the Fixed Services segment (slightly higher than 1H12), subscribers per employee reached 3,680 in the Personal Mobile Services segment (+1% vs. 1H12) and subscribers per employee reached 5,422 (+5% vs. 1H12) in the Núcleo Mobile Services segment.

Interconnection costs and other telecommunication charges

Interconnection costs and other telecommunication charges (including charges for TLRD, Roaming, Interconnection costs, cost of international outbound calls and lease of circuits) amounted to \$1,006 (+\$201 or 25% vs. 1H12) mainly due to higher traffic volume in the domestic market.

Fees for services, maintenance, materials and supplies

Fees for services, maintenance, materials and supplies amounted to \$1,214 (+\$204 or 20% vs. 1H12). The increase was mainly due to higher maintenance costs of radio bases, systems and buildings in the mobile services segments as a result of an increase of system licenses maintenance and higher costs of building maintenance. There were also increases in other maintenance costs and fees for services, mainly due to higher costs recognized to suppliers in all segments.

Taxes and fees with the Regulatory Authority

Taxes and fees with the Regulatory Authority (including turnover tax, IDC, municipal and other taxes) amounted to \$1,248 (+33% vs. 1H12), influenced mainly by the increase in revenues of fixed and mobile services, higher equipment sales and higher average rates of the turnover tax in Autonomous City of Buenos Aires, Córdoba, Chaco, Jujuy and Mendoza.

Commissions

Commissions (including Agent, distribution of prepaid cards and other commissions) amounted to \$1,242 (+\$189 or 18% vs. 1H12), mainly due to the increase in commercial agents' commissions (associated to higher revenues) as a result of higher customer's acquisition and retention, higher cards sales and prepaid recharges and the increase in collections.

In the other hand, agent commissions capitalized as SAC amounted to \$218, +\$65 or 42% vs. 1H12 and is directly related to the increase in the postpaid subscribers' base in the Personal Mobile Services segment and the increase in the commissions prices.

Cost of equipment and handsets

Cost of equipments and handsets amounted to \$1,452 (+\$249 or 21% vs. 1H12) mainly due to an increase in the average unit cost of sales related to higher-value handsets (+48% vs. 1H12) and to a decrease in the handsets sold (-21% vs. 1H12) in the Personal Mobile Services segment.

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On the other hand, SAC deferred costs from handsets sold to postpaid and Cuentas Claras subscribers amounted to \$164, -\$80 or -33% vs. 1H12. The lower capitalized amount was mainly due to the significant reduction of subsidies provided to customers in the Personal Mobile Services segment (10% in 1H13 vs. 25% in 1H12).

Advertising

Advertising amounted to \$286 (-\$28 or -9% vs. 1H12), mainly due to a reduction in the commercial campaigns of Personal and Arnet as compared to 1H12.

Cost of VAS

Cost of VAS amounted to \$301 (+\$179 vs. 1H12), mainly due to the increase of VAS sales in the Personal Mobile Services segment (mainly the SMS service) as a consequence of several campaigns launched by Personal and especially a higher offer oriented towards SMS usage.

Provisions

Provisions amounted to \$97, +\$38 or 64% vs. 1H12. The increase was mainly due to higher regulatory and customers claims (+\$30 vs. 1H12) and higher civil and commercial claims (+\$17 vs. 1H12), partially offset by lower labor claims (-\$9 vs. 1H12).

Bad debt expenses

Bad debt expenses amounted to \$165 (+\$17 vs. 1H12), representing approximately 1% of consolidated revenues in 1H13 and 1H12. The increase was mainly observed in Fixed Services segment and Personal Mobile Services segment as a consequence of higher aging of the accounts receivables.

Recovery of restructuring costs

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Recovery of restructuring costs amounted to \$8 in 1H13 and is related to the finalization of the Restructuring Plan initiated by the Telecom Group in the last quarter of 2012.

Other operating costs

Other operating costs amounted to \$608 (+\$107 vs. 1H12). The increase was mainly due to higher prices on related services, especially in transportation, freight and travel expenses, among others, in the operations in Argentina; and the increase of rent prices, as a result of new agreements and the renegotiation of some of the existing ones.

- **Operating income before depreciation and amortization**

Operating income before depreciation and amortization amounted to \$3,624 (+\$485 or 15% vs. 1H12), representing 29% of consolidated revenues in 1H13 (vs. 30% in 1H12). This growth was mainly fueled by the Personal Mobile Services segment (+\$291 or 13% vs. 1H12).

Depreciation and amortization

Depreciation and amortization amounted to \$1,399 (+\$141 or 11% vs. 1H12). The increase in PP&E depreciation amounted to \$88, the increase in amortization of SAC and service connection costs amounted to \$52 and the increase in amortization of other intangible assets of amounted to \$1. The increase in depreciation and amortization corresponds 28% to the Fixed Services segment and 72% to the mobile services segments.

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

Gain on disposal of PP&E amounted to \$7, +\$6 vs. 1H12, and is mainly related to the Fixed Services segment. Impairment of PP&E and related assets amounted to \$172 in 1H13 and is mainly related to the discontinuation of a commercial system of Personal (amounting to \$50) and to the write-down of some projects of Telecom Argentina that present uncertainty regarding their development and future associated cash flows (amounting to \$122).

- **Operating income**

Operating income amounted to \$2,060 in 1H13 (+\$178 or +9% vs. 1H12). The margin over consolidated revenues represented 16% in 1H13 (vs. 18% in 1H12). Personal Mobile Services segment shows the higher increase (+\$172 vs. 1H12).

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- **Financial results, net**

Financial results, net resulted in a net gain of \$214, representing an improvement of \$102 vs. 1H12. This was mainly due to higher financial interest on cash equivalents and investments (+\$134 vs. 1H12) and higher interests on receivables (+\$14 vs. 1H12), partially offset by a foreign currency exchange loss of \$186.

- **Net income**

Telecom Argentina reached a net income of \$1,475 in 1H13, +\$181 or +14% when compared to 1H12. Net income attributable to Telecom Argentina amounted to \$1,454 in 1H13, +\$179 or +14% as compared to 1H12.

- **Net financial assets**

As of June 30, 2013, Net financial assets (Cash and Cash Equivalents plus financial investments minus Financial debt) amounted to \$5,094, showing an increase of \$2,871 as compared to June 30, 2012 (amounting to \$2,223), mainly due to an increase in the generation of cash from operating activities of the Telecom Group. The Fixed Services segment has net financial assets of \$1,074, the Personal Mobile Services segment has net financial assets of \$4,164 and the Núcleo Mobile Services segment has net financial debt of \$144.

- **Capital expenditures (CAPEX)**

CAPEX composition for 1H13 and 1H12 is as follows:

	In millions of \$		% of participation		Variation	
	1H13	1H12	1H13	1H12	\$	%
Fixed Services	671	549	43%	41%	122	22
Personal Mobile Services	765	716	49%	53%	49	7
Núcleo Mobile Services	118	80	8%	6%	38	48
Total CAPEX	1,554	1,345	100%	100%	209	16

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PP&E CAPEX amounted to \$1,137 and intangible assets CAPEX amounted to \$417 in 1H13, while in 1H12 amounted to \$916 and \$429, respectively.

In relative terms, CAPEX represented 12% of consolidated revenues in 1H13 (13% in 1H12), and were intended mainly for the External wiring and network access equipment, Transmission and Switching equipment, Computer equipment and SAC.

PP&E and intangible assets additions (CAPEX plus materials additions) for 1H13 and 1H12 are as follows:

	In millions of \$		% of participation		Variation	
	1H13	1H12	1H13	1H12	\$	%
Fixed Services	789	619	46%	44%	170	27
Personal Mobile Services	768	716	45%	51%	52	7
Núcleo Mobile Services	149	78	9%	5%	71	91
Total additions	1,706	1,413	100%	100%	293	21

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

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF JUNE 30, 2013

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Telecom Group s net income amounted to \$662 in 2Q13, +\$76 or 13% vs. 2Q12. Net income attributable to Telecom Argentina amounted to \$652 in 2Q13 (+\$75 or 13% vs. 1Q12).

Total revenues and other income increased 27% vs. 2Q12 and operating income before depreciation and amortization amounted to \$1,825 (+\$333 or 22% vs. 2Q12), representing 27% of the consolidated revenues (vs. 28% in 2Q12). Operating income amounted to \$945 (+\$96 or 11% vs. 2Q12). Financial results, net amounted to \$79 (+\$28 or 55% vs. 2Q12), while income tax amounted to \$362 (+\$48 or 15% vs. 2Q12).

	2Q13	2Q12	Variation	
			\$	%
Revenues	6,649	5,254	1,395	27
Other income	4	5	(1)	(20)
Operating costs without depreciation and amortization	(4,828)	(3,767)	(1,061)	28
Operating income before depreciation and amortization	1,825	1,492	333	22
Depreciation and amortization	(708)	(643)	(65)	10
Gain on disposal of PP&E and impairment of PP&E and related assets	(172)	-	(172)	n/a
Operating income	945	849	96	11
Financial results, net	79	51	28	55
Net income before income tax expense	1,024	900	124	14
Income tax expense	(362)	(314)	(48)	15
Net income	662	586	76	13
Attributable to:				
Telecom Argentina (Controlling Company)	652	577	75	13
Non-controlling interest	10	9	1	11
	662	586	76	13
Basic and diluted earnings per share attributable to Telecom Argentina (in pesos)	0.66	0.59		

During 2Q13 consolidated revenues and other income increased 27% (+\$1,394 vs. 2Q12) amounting to \$6,653, mainly fueled by mobile services, Broadband and data transmission.

	2Q13	2Q12	Variation	
			\$	%
Services				
Voice Retail	668	611	57	9
Voice Wholesale	191	182	9	5

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Internet		616	467	149	32
Data		228	175	53	30
	Subtotal fixed services	1,703	1,435	268	19
Voice Retail		1,131	1,060	71	7
Voice Wholesale		518	438	80	18
Internet		481	293	188	64
Data		1,785	1,330	455	34
	Subtotal Personal mobile services	3,915	3,121	794	25
Voice Retail		90	73	17	23
Voice Wholesale		43	20	23	115
Internet		62	41	21	51
Data		79	63	16	25
	Subtotal Núcleo mobile services	274	197	77	39
	Total services revenues	5,892	4,753	1,139	24
<u>Equipment</u>					
Fixed services		16	21	(5)	(24)
Personal mobile services		717	473	244	52
Núcleo mobile services		24	7	17	243
	Total equipment revenues	757	501	256	51
	Total Revenues	6,649	5,254	1,395	27

Consolidated operating costs including depreciation, amortization and gain on disposal of PP&E and impairment of PP&E and related assets amounted to \$5,708 in 2Q13, which represented an increase of \$1,298 or +29% vs. 2Q12. The increase in costs is mainly a consequence of a higher revenues, higher expenses related to competition in mobile and Internet businesses, higher direct and indirect labor costs on the cost structure of the Group in Argentina, the increase in the average rates of the turnover tax, the increase in the provisions related to regulatory matters, the increase of VAS costs and the effect of the appreciation of the Guaraní respect to the Argentine peso, affecting the operations in Paraguay.

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			Variation	
	2Q13	2Q12	\$	%
Employee benefit expenses and severance payments	(1,005)	(815)	(190)	23
Interconnection costs and other telecommunication charges	(522)	(397)	(125)	31
Fees for services, maintenance, materials and supplies	(658)	(533)	(125)	23
Taxes and fees with the Regulatory Authority	(646)	(478)	(168)	35
Commissions	(637)	(528)	(109)	21
Agent commissions capitalized as SAC	115	77	38	49
Cost of equipment and handsets	(791)	(660)	(131)	20
Cost of equipment and handsets capitalized as SAC	61	138	(77)	(56)
Advertising	(132)	(150)	18	(12)
Cost of VAS	(170)	(62)	(108)	174
Provisions	(57)	(19)	(38)	200
Bad debt expenses	(72)	(79)	7	(9)
Recovery of restructuring costs	8	-	8	n/a
Other operating expenses	(322)	(261)	(61)	23
Subtotal	(4,828)	(3,767)	(1,061)	28
Depreciation of PP&E	(488)	(441)	(47)	11
Amortization of SAC and service connection costs	(213)	(197)	(16)	8
Amortization of other intangible assets	(7)	(5)	(2)	40
Gain on disposal of PP&E and impairment of PP&E and related assets	(172)	-	(172)	n/a
Total operating costs	(5,708)	(4,410)	(1,298)	29

CAPEX amounted to \$813 in 2Q13 and amounted to \$655 in 2Q12 (+\$158 or 24%).

4. Summary of comparative consolidated statements of financial position

	2013	June 30, 2012	2011
Current assets	8,987	5,277	3,505
Non-current assets	11,089	10,012	8,959
Total assets	20,076	15,289	12,464
Current liabilities	6,801	5,019	4,300
Non-current liabilities	1,729	1,620	1,232
Total liabilities	8,530	6,639	5,532
Equity attributable to Telecom Argentina (Controlling Company)	11,349	8,503	6,790
Equity attributable non-controlling interest	197	147	142
Total Equity	11,546	8,650	6,932
Total liabilities and equity	20,076	15,289	12,464

5. *Summary of comparative consolidated income statements*

	2Q13	2Q12	2Q11	1H13	1H12	1H11
Revenues and other income	6,653	5,259	4,457	12,726	10,389	8,601
Operating costs	(5,708)	(4,410)	(3,486)	(10,666)	(8,507)	(6,672)
Operating income	945	849	971	2,060	1,882	1,929
Financial results, net	79	51	(2)	214	112	17
Net income before income tax expense	1,024	900	969	2,274	1,994	1,946
Income tax expense	(362)	(314)	(333)	(799)	(700)	(670)
Net income	662	586	636	1,475	1,294	1,276
Other comprehensive income, net of tax	(34)	(4)	13	29	21	60
Total comprehensive income	628	582	649	1,504	1,315	1,336
Attributable to Telecom Argentina (Controlling Company)	631	574	635	1,473	1,289	1,301
Attributable to non-controlling interest	(3)	8	14	31	26	35

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF JUNE 30, 2013

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TELECOM ARGENTINA S.A.

6. *Statistical data (in physical units)*v *Fixed services**Voice and data services*

	1H13		1H12		1H11		1H10		1H09	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
Equipment lines	3,822,550	14,813	3,803,566	3,755	3,803,500	2,906	3,834,383	(9,426)	3,849,527	142
NGN lines	1,108,227	15,744	987,053	31,741	923,348	43,010	776,820	22,160	634,212	29,056
Installed lines (a)	4,930,777	30,557	4,790,619	35,496	4,726,848	45,916	4,611,203	12,734	4,483,739	29,198
Lines in service (b)	4,113,753	4,467	4,148,431	10,061	4,118,583	8,279	4,065,580	7,627	4,025,882	17,461
Customers lines (c)	4,032,588	5,166	4,064,287	9,796	4,033,168	8,932	3,975,017	8,751	3,933,480	17,907
Public phones installed	35,040	(834)	38,594	(564)	42,270	(1,273)	47,021	(1,662)	53,703	(2,161)
Lines in service per 100 inhabitants (d)	20.4	-	20.7	-	20.7	-	20.6	-	20.6	-
Lines in service per employee (e)	373	2	370	-	372	(5)	368	2	360	1

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

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

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

Internet

	1H13		1H12		1H11		1H10		1H09
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated
Total ADSL subscribers	1,634,000	8,000	1,594,000	28,000	1,457,000	(13,000)	1,274,000	42,000	1,110,000

v **Mobile services**

Personal

	1H13		1H12		1H11		1H10		1H09	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
Post-paid subscribers	2,437,000	22,000	2,296,000	70,000	1,988,000	102,000	1,660,000	47,000	1,519,000	47,000
Cuentas Claras plans	3,644,000	61,000	3,232,000	56,000	2,887,000	73,000	2,737,000	30,000	2,774,000	(48,000)
Prepaid subscribers	12,905,000	142,000	12,714,000	42,000	12,125,000	284,000	10,727,000	273,000	9,236,000	404,000
Dongles (*)	321,000	(32,000)	481,000	8,000	392,000	51,000	210,000	36,000	57,000	12,000
Total subscribers	19,307,000	193,000	18,723,000	176,000	17,392,000	510,000	15,334,000	386,000	13,586,000	415,000

Lines per employee	3,680	-	3,651	-	3,789	-	3,907	-	3,642	-
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Núcleo

	1H13		1H12		1H11		1H10		1H09	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
Post-paid subscribers	29,000	-	29,000	(1,000)	27,000	1,000	24,000	-	23,000	-
Plan control subscribers	278,000	8,000	238,000	11,000	207,000	8,000	170,000	9,000	148,000	5,000

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Prepaid subscribers	1,906,000	18,000	1,849,000	20,000	1,664,000	60,000	1,604,000	-	1,580,000	(69,000)
Dongles (*)	162,000	20,000	119,000	9,000	76,000	13,000	26,000	7,000	4,000	4,000
Subtotal mobile	2,375,000	46,000	2,235,000	39,000	1,974,000	82,000	1,824,000	16,000	1,755,000	(60,000)
Internet subscribers - Wimax	6,000	-	7,000	-	9,000	-	11,000	-	13,000	(3,000)
Total subscribers	2,381,000	46,000	2,242,000	39,000	1,983,000	82,000	1,835,000	16,000	1,768,000	(63,000)

Lines per employee (**)	5,422	-	5,174	-	4,634	-	4,375	-	4,199	-
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(*) Corresponds to mobile Internet subscribers with post-paid, Cuentas Claras , Plan control and prepaid contracts.

(**) Internet Wimax subscribers are not included.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF JUNE 30, 2013

Table of Contents**TELECOM ARGENTINA S.A.****7. Consolidated ratios**

	1H13	1H12	1H11
Liquidity (1)	1.32	1.05	0.82
Solvency (2)	1.35	1.30	1.25
Locked-up capital (3)	0.55	0.65	0.72

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

8. Outlook

In this fiscal year the growth prospects for fixed line services are expected to continue in line with the evolution experienced in recent years as a result of the market maturity. Arnet Broadband business got well-positioned to continue to capture market opportunities.

The mobile business is expected to continue expanding its subscriber base, although at more moderate rates than those of recent years. Mobile Internet is expected to continue to gain further presence among our customer base, especially as a result of the leadership of Personal in the smartphone's commercialization. Value Added Services are expected to continue to be one of the key sources of revenues growth. Personal is expected to continue to work on expanding the mobile Internet experience, considering the access restriction to additional spectrum faced by the mobile operators in the national market. Coverage expansion and speed access improvement to 3G and HSDPA+ networks, and the more complete portfolio of advanced mobile devices will be the drivers to success in its operation in the Argentine market.

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The strategy implemented by the Company's Management sets and our investments plans forth the basic standards that will enable the Telecom Group to reach its objectives of improving quality of service, strengthening its market position and increasing operating efficiency to meet the growing demands of the dynamic telecommunication market in which it operates. The Telecom Group's innovation and investment plans are based on this future vision and on its commitment to its country and people.

Enrique Garrido
Chairman of the Board of Directors

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF JUNE 30, 2013

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

(In millions of Argentine pesos)

	Note	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
ASSETS			
Current Assets			
Cash and cash equivalents	2	4,233	3,160
Investments	2	981	563
Trade receivables	2	2,466	2,181
Other receivables	2	534	449
Inventories	2	773	633
Total current assets		8,987	6,986
Non-Current Assets			
Trade receivables	2	19	23
Deferred income tax assets	2	137	62
Other receivables	2	230	119
Investments	2	54	70
Property, plant and equipment (PP&E)	2	9,161	9,035
Intangible assets	2	1,488	1,514
Total non-current assets		11,089	10,823
TOTAL ASSETS		20,076	17,809
LIABILITIES			
Current Liabilities			
Trade payables	2	4,359	3,659
Deferred revenues	2	402	362
Financial debt	2	51	43
Salaries and social security payables	2	574	635
Income tax payables	2	579	458
Other taxes payables	2	608	552
Dividends payables	2	15	-
Other liabilities	2	56	40
Provisions	6	157	134
Total current liabilities		6,801	5,883
Non-Current Liabilities			
Trade payables	2	24	20
Deferred revenues	2	343	329
Financial debt	2	122	101
Salaries and social security payables	2	109	128
Deferred income tax liabilities	2	124	220
Income tax payables	2	11	12
Other liabilities	2	54	51
Provisions	6	942	907
Total non-current liabilities		1,729	1,768
TOTAL LIABILITIES		8,530	7,651
EQUITY (see Unaudited Condensed Consolidated Statement of Changes in Equity)			
Equity attributable to Telecom Argentina (Controlling Company)		11,349	9,959

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Equity attributable to Non-controlling interest		197	199
TOTAL EQUITY	7	11,546	10,158
TOTAL LIABILITIES AND EQUITY		20,076	17,809

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

Adrián Calaza
Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

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

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

	Note	<u>Three-month periods</u> <u>ended June 30,</u>		<u>Six-month periods</u> <u>ended June 30,</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues	2	6,649	5,254	12,713	10,380
Other income	2	4	5	13	9
Total revenues and other income		6,653	5,259	12,726	10,389
Employee benefit expenses and severance payments	2	(1,005)	(815)	(1,873)	(1,492)
Interconnection costs and other telecommunication charges	2	(522)	(397)	(1,006)	(805)
Fees for services, maintenance, materials and supplies	2	(658)	(533)	(1,214)	(1,010)
Taxes and fees with the Regulatory Authority	2	(646)	(478)	(1,248)	(940)
Commissions	2	(522)	(451)	(1,024)	(900)
Cost of equipments and handsets	2	(730)	(522)	(1,288)	(959)
Advertising	2	(132)	(150)	(286)	(314)
Cost of VAS	2	(170)	(62)	(301)	(122)
Provisions	6	(57)	(19)	(97)	(59)
Bad debt expenses	2	(72)	(79)	(165)	(148)
Recovery of restructuring costs	2	8	-	8	-
Other operating expenses	2	(322)	(261)	(608)	(501)
Depreciation and amortization	2	(708)	(643)	(1,399)	(1,258)
Gain on disposal of PP&E and impairment of PP&E and related assets	2	(172)	-	(165)	1
Operating income		945	849	2,060	1,882
Finance income	2	260	134	465	264
Finance expenses	2	(181)	(83)	(251)	(152)
Net income before income tax expense		1,024	900	2,274	1,994
Income tax expense	2	(362)	(314)	(799)	(700)
Net income for the period		662	586	1,475	1,294
Attributable to:					
Telecom Argentina (Controlling Company)		652	577	1,454	1,275
Non-controlling interest		10	9	21	19
		662	586	1,475	1,294
Earnings per share attributable to Telecom Argentina basic and diluted	1.d	0.66	0.59	1.48	1.30

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

Adrián Calaza
Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

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TELECOM ARGENTINA S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions of Argentine pesos)

	<u>Three-month periods</u>		<u>Six-month periods</u>	
	<u>ended June 30,</u>		<u>ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net income for the period	662	586	1,475	1,294
Other components of the Statements of Comprehensive Income				
Currency translation adjustments (non-taxable)	(34)	(4)	29	21
Other components of the comprehensive income, net of tax	(34)	(4)	29	21
Total comprehensive income for the period	628	582	1,504	1,315
Attributable to:				
Telecom Argentina (Controlling Company)	631	574	1,473	1,289
Non-controlling interest	(3)	8	31	26
	628	582	1,504	1,315

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

Adrián Calaza
Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

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

(In millions of Argentine pesos)

	Equity attributable to Telecom Argentina									
	Outstanding shares		Owners Contribution Treasury shares		Treasury shares acquisition cost (2)	Legal reserve	Special reserve for IFRS implemen- tation	Voluntary reserve for future dividends payments	Voluntary reserve for capital investments (2)	Voluntary reserve for future investments
	Capital nominal value (1)	Inflation adjustment	Capital nominal value (1) (2)	Inflation adjustment (2)						
Balances as of January 1, 2012	984	2,688	-	-	-	451	-	-	-	-
Dividends from Núcleo (3)	-	-	-	-	-	-	-	-	-	-
Legal Reserve (4)	-	-	-	-	-	122	-	-	-	-
Voluntary reserve for future investments (4)	-	-	-	-	-	-	-	-	-	2,553
Dividends (4)	-	-	-	-	-	-	-	-	-	-
<u>Comprehensive income:</u>										
Net income for the period	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Balances as of June 30, 2012	984	2,688	-	-	-	573	-	-	-	2,553
Balances as of January 1, 2013	984	2,688	-	-	-	573	-	-	-	2,553
Dividends from Núcleo (5)	-	-	-	-	-	-	-	-	-	-
Legal Reserve (6)	-	-	-	-	-	153	-	-	-	-
Special reserve for IFRS implementation (6)	-	-	-	-	-	-	-	351	-	-
Voluntary reserve for future dividends payments (6)	-	-	-	-	-	-	-	-	1,000	-
Voluntary reserve for capital	-	-	-	-	-	-	-	-	-	1,200

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investments (6)										
Voluntary reserve for future investments (6)	-	-	-	-	-	-	-	-	-	351
Treasury Shares Acquisition (2)	(3)	(9)	3	9	(83)	-	-	-	-	-
<u>Comprehensive income:</u>										
Net income for the period	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	-	-	-	-	-	-	-	-	-	-
Balances as of June 30, 2013	981	2,679	3	9	(83)	726	351	1,000	1,200	2,904

(1) As of June 30, 2013, total shares (984,380,978), of \$1 Argentine peso of nominal value each, were issued and fully paid. As of June 30, 2013, 3,273,182 were treasury shares.

(2) Corresponds to 3,272,182 shares of \$1 Argentine peso of nominal value each, equivalent to 0.33% of total capital. The treasury shares acquisition costs amounted to \$83. See Note 7 Equity to the consolidated financial statements.

(3) As approved by the Ordinary Shareholders Meeting of Núcleo held on March 16, 2012.

(4) As approved by the Ordinary Shareholders Meeting held on April 27, 2012.

(5) As approved by the Ordinary Shareholders Meeting of Núcleo held on March 22, 2013.

(6) As approved by the Ordinary Shareholders Meeting held on May 21, 2013 (second tranche).

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

Adrián Calaza
Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

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

(In millions of Argentine pesos)

		<u>Six-month periods</u>	
		<u>ended June 30,</u>	
	<u>Note</u>	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Net income for the period		1,475	1,294
Adjustments to reconcile net income to net cash flows provided by operating activities			
Bad debt expenses and other allowances		222	154
Depreciation of PP&E	2	955	867
Amortization of intangible assets	2	444	391
Consumption of materials	2	76	57
Gain on disposal of PP&E	2	(7)	(1)
Impairment of PP&E and related assets	2	172	-
Recovery of restructuring costs	6	(8)	-
Provisions	6	140	105
Interest and other financial losses		(41)	(33)
Income tax expense	2	799	700
Income tax paid	3	(842)	(977)
Net increase in assets	3	(851)	(420)
Net increase (decrease) in liabilities	3	774	(24)
Total cash flows provided by operating activities		3,308	2,113
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
PP&E acquisitions	3	(1,425)	(1,363)
Intangible assets acquisitions	3	(384)	(420)
Proceeds from the sale of PP&E		10	1
Investments not considered as cash and cash equivalents	3	(403)	-
Total cash flows used in investing activities		(2,202)	(1,782)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from financial debt	3	43	-
Payment of financial debt	3	(18)	(8)
Payment of interest	3	(8)	(7)
Payment of cash dividends	3	(16)	(820)
Treasury shares acquisition	3 / 7	(83)	-
Total cash flows used in financing activities		(82)	(835)
<u>NET FOREIGN EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS</u>			
		49	42
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,073	(462)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		3,160	2,818
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		4,233	2,356

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

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

Adrián Calaza
Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

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TELECOM ARGENTINA S.A.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2013 AND 2012

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

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GLOSSARY OF TERMS

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in these unaudited consolidated financial statements.

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

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

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

Company or Telecom Argentina: Telecom Argentina S.A.

CPCECABA: The *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires*.

D&A: Depreciation and amortization.

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

IAS: International Accounting Standards.

IASB: International Accounting Standards Board.

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IDC: Tax on deposits to and withdrawals from bank accounts.

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

LSC (Ley de Sociedades Comerciales): Argentine Corporations Law.

Micro Sistemas: Micro Sistemas S.A.

Nortel: Nortel Inversora S.A. Telecom Argentina's controlling company.

Núcleo: Núcleo S.A.

NYSE: New York Stock Exchange.

OCI: Other Comprehensive Income.

Personal: Telecom Personal S.A.

PP&E: Property, plant and equipment.

Regulatory Bodies: Collectively, the SC and the CNC.

RT: Technical resolutions issued by the FACPCE.

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

SAC: Subscriber Acquisition Costs.

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

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

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

Springville: Springville S.A.

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

Telecom Group: Telecom Argentina and its consolidated subsidiaries.

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TELECOM ARGENTINA S.A.

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

Telecom USA: Telecom Argentina USA Inc.

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

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

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TELECOM ARGENTINA S.A.

NOTE 1 BASIS OF PREPARATION OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

a) **Basis of preparation and significant accounting policies**

These consolidated financial statements have been prepared in accordance with RT 26 as adopted by the CPCECABA, and as required by the CNV.

For the preparation of these consolidated financial statements, the Company has elected to make use of the option provided by IAS 34, so, these consolidated financial statements do not include all the information required in an annual financial statement, and must be read jointly with the 2012 annual consolidated financial statements which can be consulted at the Company's website (www.telecom.com.ar/inversores).

For the preparation of these consolidated financial statements, the Company followed the same accounting policies applied in its most recent annual consolidated financial statements with the exception of:

1) *The valuation of Pension benefits included in Other non-current liabilities*

In connection with these pension benefits granted to Telecom Argentina's unionized employees, the Company has applied IAS 19 revised (Employee Benefits), issued by the IASB in June 2011, which introduced modifications related to the recognition of actuarial gains and losses, the presentation of changes in assets and liabilities arising from defined benefit plans (which should be presented within OCI), as well as greater disclosure requirements for defined benefit plans. IAS 19 revised is mandatory for periods beginning on or after 1 January 2013. The adoption of this standard would generate a reduction of \$0.2 in Retained Earnings at the beginning of year 2013 with charge to OCI. Based on materiality grounds for the Telecom Group, the opening balance of Retained Earnings has not been changed and the provisions of the new standard have been applied in the determination of fiscal year 2013 results of operations.

2) *Acquisition of treasury shares*

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In connection with the Treasury Shares Acquisition Process described in Note 7 to the consolidated financial statements, the Company has applied the guidance set forth in IAS 32, which provides, consistently with the CNV Regulations, that any instruments of its own equity acquired by the Company must be recorded at the acquisition cost and must be deducted from Equity under the caption Treasury shares acquisition cost. No profit or loss resulting from holding such instruments of own Equity shall be recognized in the income statement. If the treasury shares are sold, the account Treasury shares acquisition cost shall be recorded within Equity under the Treasury shares negotiation premium caption. If such difference is negative, the resulting amount shall be recorded within Equity under the Treasury shares negotiation discount caption.

3) *Government bonds issued in foreign currency*

Personal acquired bonds issued by the National Government during June 2013. Although such bonds are carried at amortized cost, as explained in Note 3 Significant Accounting Policies of the most recent annual consolidated financial statements, they are denominated in US Dollars and they bear interest in such foreign currency. The internal rate of return used to apply the amortized cost method has been estimated on the basis of the US Dollar cash flows that will be generated by these securities at maturity and their fair value at acquisition. The acquisition cost in US Dollars was adjusted by applying the above mentioned rate and the resulting value was translated into Argentine pesos using the exchange rate as of the date of measurement. The currency exchange difference generated by the purchase of such Government bonds was recorded in item Foreign currency exchange losses.

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

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

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

Publication of these consolidated financial statements for the period ended June 30, 2013 was approved by resolution of the Board of Directors meeting held on July 29, 2013.

b) Financial statement formats

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

- the consolidated statements of financial position have been prepared by classifying assets and liabilities according to current and non-current criterion. Current assets and liabilities are those that are expected to be realized/settled within twelve months after the period-end;
- the consolidated income statements have been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group as evaluated by the Management, and are in line with the industrial sector of telecommunications;
- the consolidated statements of comprehensive income include the profit or (loss) for the period as shown in the consolidated income statement and all components of other comprehensive income;
- the consolidated statements of changes in equity have been prepared showing separately (i) profit (loss) for the period, (ii) other comprehensive income (loss) for the period, and (iii) transactions with owners in their capacity as owners (controlling and non-controlling);
- the consolidated statements of cash flows have been prepared by presenting cash flows from operating activities according to the indirect method, as permitted by IAS 7.

These consolidated financial statements contain all material disclosures required under IAS 34. Some additional disclosures required by the LSC and/or by the CNV have been also included.

c) **Segment reporting**

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

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

Information regarding segment reporting is included in Note 4.

d) **Net income per share**

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

For the three-month and six-month periods ended June 30, 2012, the weighted average number of shares outstanding totaled 984,380,978 shares. For the three-month and six-month periods ended June 30, 2013 the weighted average number of shares outstanding totaled 983,800,181 and 984,090,580 shares, respectively. The weighted average number of shares takes into account the weighted average effect of the changes caused by the Treasury Shares Acquisition Process that began in May 2013. For further information, see Note 7 to the consolidated financial statements.

Table of Contents**TELECOM ARGENTINA S.A.****NOTE 2 BREAKDOWN OF THE MAIN ACCOUNTS****CONSOLIDATED STATEMENT OF FINANCIAL POSITION****CURRENT ASSETS****a) Cash and cash equivalents**

	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Cash	12	12
Banks	120	120
Time deposits	3,817	2,624
Mutual funds	190	404
Government bonds (*)	82	-
Loan to Nortel (Note 5.c)	12	-
	4,233	3,160

(*) See Note 10 - Recent developments corresponding to the six-month period ended June 30, 2013 for the Telecom Group.

b) Investments

	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Investments over 90 days maturity	905	540
Provincial government bonds	46	20
Argentine companies notes	21	1
Loan to Nortel (Note 5.c)	9	2
	981	563

c) Trade receivables

	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Fixed services	882	853
Personal mobile services	1,744	1,469
Núcleo mobile services	91	61
	Subtotal	2,383
Allowance for doubtful accounts	(251)	(202)
	2,466	2,181

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

	<u>June 30,</u> <u>2013</u> <u>(6 months)</u>	<u>December 31,</u> <u>2012</u> <u>(12 months)</u>
At the beginning of the year	(202)	(170)
Additions Bad debt expenses	(165)	(275)
Uses	116	243
At the end of the period/year	(251)	(202)

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	<u>June 30.</u> <u>2013</u>	<u>December 31.</u> <u>2012</u>
d) Other receivables		
Prepaid expenses	243	206
Prepaid expenses related parties (Note 5.c)	90	-
Tax credits	53	54
Expenditure reimbursement	43	38
Restricted funds	19	13
Receivables for suppliers indemnities	-	61
Compensation Fund	-	19
Other	101	73
	Subtotal	464
Allowance for other receivables	(15)	(15)
	534	449

Movements in the allowance for other receivables are as follows:

	<u>June 30.</u> <u>2013</u> <u>(6 months)</u>	<u>December 31.</u> <u>2012</u> <u>(12 months)</u>
At the beginning of the year	(15)	(12)
Additions	-	(3)
At the end of the period/year	(15)	(15)

	<u>June 30.</u> <u>2013</u>	<u>December 31.</u> <u>2012</u>
e) Inventories		
Mobile handsets	821	626
Fixed telephones and equipment	14	15
	Subtotal	641
Allowance for obsolescence of inventories	(62)	(8)
	773	633

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

	<u>June 30,</u> <u>2013</u> <u>(6 months)</u>	<u>December 31,</u> <u>2012</u> <u>(12 months)</u>
At the beginning of the year	(8)	(19)
Additions	(57)	(14)
Uses	3	25
At the end of the period/year	(62)	(8)
	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
NON-CURRENT ASSETS		
f) Trade receivables		
Fixed services	17	23
Núcleo mobile services	2	-
	19	23
	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
g) Deferred income tax assets		
<i>Net deferred income tax assets in Argentina (Telecom Argentina)</i>		
Allowance for doubtful accounts	48	40
Provisions	248	248
Termination benefits	56	63
Other deferred income tax assets, net	125	108
Deferred income tax liabilities in Argentina		
PP&E and intangible assets	(350)	(405)
	In Argentina	54
<i>Net deferred income tax assets abroad (Núcleo and Springville)</i>		
Tax loss carryforwards	1	1
Allowance for doubtful accounts	3	2
PP&E	10	11
Valuation allowance	(1)	(1)
Deferred income tax liabilities abroad		
Other deferred income tax liabilities	(3)	(5)
	Abroad	8
	137	62
	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
h) Other receivables		
Prepaid expenses related parties (Note 5 c)	126	-
Credit on SC Resolution No. 41/07 and IDC	85	85
Prepaid expenses	80	86
Restricted funds	24	22
Tax credits	17	17
Credit on minimum presumed income tax	4	4
Other	9	7
	Subtotal	221
Allowance for regulatory matters	(85)	(85)

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Allowance for other receivables	(17)	(17)
Write-down for prepaid expenses (i)	(13)	-
	230	119

(i) Included in impairment of PP&E and related assets.

Movements in the allowance for regulatory matters are as follows:

	<u>June 30,</u> <u>2013</u> <u>(6 months)</u>	<u>December 31,</u> <u>2012</u> <u>(12 months)</u>
At the beginning of the year	(85)	(90)
Uses	-	5
At the end of the period/year	(85)	(85)

Movements in the allowance for other receivables are as follows:

	<u>June 30,</u> <u>2013</u> <u>(6 months)</u>	<u>December 31,</u> <u>2012</u> <u>(12 months)</u>
At the beginning of the year	(17)	(17)
Additions	-	(1)
Uses	-	1
At the end of the period/year	(17)	(17)

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	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
i) Investments		
Argentine companies notes	53	69
2003 Telecommunications Fund	1	1
	54	70
	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
j) PP&E		
Land, buildings and installations	905	900
Computer equipment and software	1,149	1,196
Switching and transmission equipment (i)	2,260	2,286
Mobile network access and external wiring	2,713	2,531
Construction in progress	1,642	1,534
Other tangible assets	310	322
Materials	356	280
	Subtotal	9,049
	9,335	9,049
Valuation allowance for materials	(15)	(14)
Impairment of PP&E (ii)	(159)	-
	9,161	9,035

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

(ii) Included in impairment of PP&E and related assets.

Movements in PP&E (without allowance for materials or impairment of PP&E) are as follows:

	<u>June 30,</u> <u>2013</u> <u>(6 months)</u>	<u>December 31,</u> <u>2012</u> <u>(12 months)</u>
At the beginning of the year	9,049	8,262
CAPEX	1,137	2,415
Materials	152	159
Total PP&E additions	1,289	2,574
Currency translation adjustments	28	131
Decreases	-	(1)
Consumption of materials	(76)	(125)
Depreciation of the period/year	(955)	(1,792)
At the end of the period/year	9,335	9,049

Movements in the valuation allowance for materials are as follows:

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	<u>June 30,</u> <u>2013</u> <u>(6 months)</u>	<u>December 31,</u> <u>2012</u> <u>(12 months)</u>
At the beginning of the year	(14)	(15)
Additions - Fees for services, maintenance, and materials	(1)	(5)
Uses	-	6
At the end of the period/year	(15)	(14)

k) <u>Intangible assets</u>	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Licenses	589	588
SAC	569	586
Rights of use	219	227
Service connection or habilitation costs	95	94
Other intangible assets	16	19
	1,488	1,514

Movements in Intangible assets are as follows:

	<u>June 30,</u> <u>2013</u> <u>(6 months)</u>	<u>December 31,</u> <u>2012</u> <u>(12 months)</u>
At the beginning of the year	1,514	1,488
CAPEX	417	842
Currency translation adjustments	1	4
Amortization of the period/year	(444)	(820)
At the end of the period/year	1,488	1,514

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

	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
CURRENT LIABILITIES		
l) Trade payables		
PP&E suppliers	1,160	1,427
Other assets and services suppliers	1,829	1,588
Inventory suppliers	1,194	584
	Subtotal suppliers	3,599
Agent commissions	165	49
SU reimbursement	11	11
	4,359	3,659
m) Deferred revenues		
Deferred revenues on prepaid calling cards	297	270
Deferred revenues on connection fees	33	30
Deferred revenues on sale of capacity and related services	34	34
Deferred revenues on customer loyalty programs	34	26
Deferred revenues from CONATEL	3	2
Deferred revenues from third parties	1	-
	402	362
n) Financial debt		
Bank loans - Núcleo	49	40
Accrued interest - Núcleo	2	3
	51	43
o) Salaries and social security payables		
Vacation and bonuses	344	391
Social security payables	163	144
Termination benefits	66	60
Restructuring debt	1	14
Compensation Fund contributions	-	26
	574	635
p) Income tax payables		
Income tax payables	985	1,520
Payments in advance of income taxes	(409)	(1,065)
Law No. 26,476 Tax Regularization Regime	3	3
	579	458
q) Other taxes payables		
VAT, net	230	180
Tax on SU	90	88
Turnover tax	73	54
Tax withholdings	68	91
Internal taxes	61	55
Regulatory fees	49	48
Municipal taxes	21	17
Retention Decree No.583/10 ENARD	10	9
Other	6	10
	608	552
r) Dividends payables		
Related parties (Note 5.c)	15	-
	15	-
s) Other liabilities		
Legal fees	12	12
Guarantees received	11	7
Compensation for directors and members of the Supervisory Committee	16	8
Other	17	13
	56	40
NON-CURRENT LIABILITIES		
t) Trade payables		
PP&E suppliers	24	20

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	24	20
u) Deferred revenues		
Deferred revenues on sale of capacity and related services	209	217
Deferred revenues on connection fees	65	64
Deferred revenues on customer loyalty programs	53	39
Deferred revenues from CONATEL	11	9
Deferred revenues from third parties	5	-
	343	329
v) Financial debt		
Bank loans - Núcleo	122	101
	122	101

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

	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
w) Salaries and social security payables		
Termination benefits	109	128
	109	128
x) Deferred income tax liabilities (Telecom Personal)		
<i>Deferred income tax assets</i>		
Allowance for doubtful accounts	(73)	(54)
Provisions	(138)	(120)
Inventory	(35)	(19)
Other	-	(3)
<i>Total deferred income tax assets</i>	(246)	(196)
<i>Deferred income tax liabilities</i>		
PP&E and intangible assets	296	348
Cash dividends from foreign companies	46	45
Other	3	-
<i>Total deferred income tax liabilities</i>	345	393
Subtotal net deferred tax liabilities	99	197
Valuation allowance	25	23
Net deferred income tax liabilities	124	220
y) Income tax payables		
Law No. 26,476 Tax Regularization Regime	11	12
	11	12
z) Other liabilities		
Pension benefits (Note 1.a)	46	38
Suppliers guarantees on third parties claims	7	12
Other	1	1
	54	51

aa) Aging of assets and liabilities as of June 30, 2013

Date due	Cash and cash equivalents	Investments	Trade receivables	Deferred income tax assets	Other receivables
Total due	-	-	762	-	-
Not due					
Third quarter 2013	4,233	915	1,668	-	320
Fourth quarter 2013	-	11	17	-	86
First quarter 2014	-	55	12	-	57
Second quarter 2014	-	-	7	-	71
July 2014 thru June 2015	-	53	16	-	124
July 2015 thru June 2016	-	-	3	-	65
July 2016 and thereafter	-	-	-	-	41
Not date due established	-	1	-	137	-
Total not due	4,233	1,035	1,723	137	764
Total	4,233	1,035	2,485	137	764
Balances bearing interest	4,101	1,034	790	-	-
Balances not bearing interest	132	1	1,695	137	764
Total	4,233	1,035	2,485	137	764
Average annual interest rate (%)	(a)	(b)	(c)	-	-

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(a) \$289 bear 17.77%, \$701 bear 0.25% and \$2,522 bear 17.48%, \$305 bear 0.28%, \$12 bear 27.57%, \$190 bear 60.82% and \$82 bear 8.17%.

(b) \$34 bear 20.50%, \$871 bear 18.47%, \$9 bear 23.30%, \$21 bear 21.04%, \$53 bear 5.09%, \$11 bear 8.84% and \$35 bear 22.67%.

(c) From due trade receivables, \$82 bear 50% over the Banco de la Nación Argentina 30-day interest rate paid by banks, \$204 bear 50% over the Banco de la Nación Argentina notes payable discount rate, \$1 bear 28%, \$440 bear 28.28%, and \$13 bear 36%. From not due trade receivables, \$14 bear 28% and \$36 bear 8.3%.

Date due	Trade payables	Deferred revenues	Financial debt	Salaries and social security payables	Income tax payables	Other taxes payables	Dividends payables	Deferred income tax liabilities	Other liabilities
Total due	(a)	-	-	-	-	-	-	-	-
	123								
Not due									
Third quarter 2013	4,227	325	10	284	2	602	-	-	24
Fourth quarter 2013	9	27	18	80	1	-	15	-	2
First quarter 2014	-	23	12	139	1	-	-	-	1
Second quarter 2014	-	27	11	71	575	6	-	-	29
July 2014 thru June 2015	24	107	46	40	3	-	-	-	9
July 2015 thru June 2016	-	46	33	27	2	-	-	-	2
July 2016 and thereafter	-	190	43	42	6	-	-	-	43
Not date due established	-	-	-	-	-	-	-	124	-
Total not due	4,260	745	173	683	590	608	15	124	110
Total	4,383	745	173	683	590	608	15	124	110
Balances bearing interest	49	-	173	-	21	-	-	-	4
Balances not bearing interest	4,334	745	-	683	569	608	15	124	106
Total	4,383	745	173	683	590	608	15	124	110
Average annual interest rate (%)	(b)	-	10.01%	-	9%	-	-	-	6%

(a) As of the date of these consolidated financial statements, \$47 was cancelled.

(b) From due trade payables, \$46 bear 9% and \$3 bear 6%.

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	06.30.13		12.31.12			
	Type and amount of foreign currency (i)	Amount in local currency (ii)	Type and amount of foreign currency (i)	Amount in local currency (ii)		
<u>Net positions</u>	U\$S (iii)	(197)	(1,063)	U\$S (iii)	(138)	(686)
<u>Net assets (liabilities)</u>	G	(166,335)	(196)	G	(118,791)	(136)
	EURO	(19)	(127)	EURO	(10)	(63)
	SDR	3	25	SDR	3	22
			(1,361)			(863)

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

(ii) As foreign currency figures and their amount in Argentine pesos are in millions, the calculation of the amount of the foreign currency by its exchange rate could not be exact.

(iii) In order to partially reduce this net liability position in foreign currency, the Telecom Group entered into a NDF contract to purchase a total amount of U\$S10 and holds investments adjustable to the variation of the U\$S/\$ exchange rate (dollar linked) by \$65 and \$59 as of June 30, 2013 and December 31, 2012, respectively (See Note 10 - Recent developments corresponding to the six-month period ended June 30, 2013 for the Telecom Group).

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

Below are shown the investments in Government bonds and Argentine companies notes valued at amortized cost and their respective fair value as of June 30, 2013:

As of June 30, 2013	Book value	Fair value (*)
Government bonds	82	120
Provincial governments bonds in Argentine pesos	35	35
Provincial governments bonds (dollar linked)	11	11
Argentine companies notes in Argentine pesos	20	20
Argentine companies notes (dollar linked)	54	59
Total	202	245

(*) Selling expenses not deducted according to IFRS.

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CONSOLIDATED INCOME STATEMENTS	Three-month periods ended		Six-month periods ended	
	2013	June 30,	2012	June 30,
			Profit (loss)	
ad) Total revenues and other income				
<u>Services</u>				
Voice Retail	668	611	1,297	1,218
Voice Wholesale	191	182	376	357
Internet	616	467	1,191	925
Data	228	175	441	338
Subtotal Fixed Services	1,703	1,435	3,305	2,838
Voice Retail	1,131	1,060	2,345	2,137
Voice Wholesale	518	438	966	863
Internet	481	293	872	569
Data	1,785	1,330	3,400	2,653
Subtotal Personal Mobile Services	3,915	3,121	7,583	6,222
Voice Retail	90	73	177	159
Voice Wholesale	43	20	65	38
Internet	62	41	124	67
Data	79	63	157	126
Subtotal Núcleo Mobile Services	274	197	523	390
Total service revenues (a)	5,892	4,753	11,411	9,450
<u>Equipment</u>				
Fixed Services	16	21	30	39
Personal Mobile Services	717	473	1,235	878
Núcleo Mobile Services	24	7	37	13
Total equipment revenues (b)	757	501	1,302	930
<u>Other income</u>				
Fixed Services	4	4	12	7
Personal Mobile Services	-	1	1	2
Total other income (c)	4	5	13	9
Total revenues and other income (a)+(b)+(c)	6,653	5,259	12,726	10,389

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Operating expenses disclosed by nature of expense amounted to \$10,666 and \$8,507 for the six-month periods ended June 30, 2013 and 2012, respectively.

The main components of the operating expenses are the following:

	<u>Three-month periods ended</u>		<u>Six-month periods ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>Profit (loss)</u>			
<u>Employee benefit expenses and severance payments</u>				
Wages and salaries	(735)	(599)	(1,377)	(1,090)
Social security expenses	(220)	(183)	(415)	(320)
Severance indemnities and termination benefits	(32)	(25)	(43)	(54)
Other employee benefits	(18)	(8)	(38)	(28)
	(1,005)	(815)	(1,873)	(1,492)
<u>Interconnection costs and other telecommunication charges</u>				
Fixed telephony interconnection costs	(59)	(57)	(114)	(110)
Cost of international outbound calls	(32)	(34)	(69)	(71)
Lease of circuits	(56)	(35)	(98)	(74)
Mobile services - charges for roaming	(177)	(74)	(312)	(160)
Mobile services - charges for TLRD	(198)	(197)	(413)	(390)
	(522)	(397)	(1,006)	(805)
<u>Fees for services, maintenance, materials and supplies</u>				
Maintenance of hardware and software	(81)	(74)	(161)	(143)
Technical maintenance	(117)	(96)	(229)	(183)
Service connection fees for fixed lines and Internet lines	(50)	(35)	(87)	(65)
Service connection fees capitalized as SAC	1	3	3	5
Service connection fees capitalized as Intangible assets	8	6	14	11
Other maintenance costs	(59)	(40)	(112)	(88)
Obsolescence of inventories	(39)	(6)	(57)	(6)
Call center fees	(184)	(184)	(341)	(335)
Other fees for services	(123)	(102)	(227)	(198)
Compensation for Directors and Supervisory Committee members	(14)	(5)	(17)	(8)
	(658)	(533)	(1,214)	(1,010)
<u>Taxes and fees with the Regulatory Authority</u>				
Turnover tax	(356)	(237)	(680)	(475)
Taxes with the Regulatory Authority	(155)	(120)	(300)	(238)
Tax on deposits to and withdrawals from bank accounts	(49)	(64)	(110)	(113)
Municipal taxes	(43)	(28)	(83)	(58)
Other taxes	(43)	(29)	(75)	(56)
	(646)	(478)	(1,248)	(940)
<u>Commissions</u>				
Agent commissions	(363)	(320)	(721)	(631)

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Agent commissions capitalized as SAC	115	77	218	153
Distribution of prepaid cards commissions	(150)	(118)	(289)	(241)
Collection commissions	(101)	(75)	(193)	(149)
Other commissions	(23)	(15)	(39)	(32)
	(522)	(451)	(1,024)	(900)
<u>Cost of equipments and handsets</u>				
Inventory balance at the beginning of the period/year	(564)	(564)	(641)	(555)
Plus:				
Purchases	(1,069)	(817)	(1,657)	(1,376)
Deferred costs from SAC	61	138	164	244
Transfer from materials	-	1	-	-
Net decreases (increases) from allowance for obsolescence	3	(3)	4	-
Mobile handsets lent to customers at no cost - Núcleo	2	1	4	2
Replacements to customers	2	5	3	9
Less:				
Inventory balance at period end	835	717	835	717
	(730)	(522)	(1,288)	(959)
<u>Advertising</u>				
Media advertising	(75)	(92)	(160)	(189)
Fairs and exhibitions	(20)	(26)	(56)	(62)
Other advertising costs	(37)	(32)	(70)	(63)
	(132)	(150)	(286)	(314)

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

	<u>Three-month periods ended</u>		<u>Six-month periods ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
			Profit (loss)	
<u>Cost of VAS</u>				
Cost of mobile VAS	(168)	(60)	(297)	(118)
Cost of fixed VAS	(2)	(2)	(4)	(4)
	(170)	(62)	(301)	(122)
<u>Recovery of restructuring costs</u>				
Dismissals indemnities (i)	8	-	8	-
	8	-	8	-
 (i) Corresponds to the recovery of the provision related to the Restructuring Plan finished in June 2013.				
<u>Other operating costs</u>				
Transportation, freight and travel expenses	(114)	(92)	(207)	(172)
Delivery costs capitalized as SAC	10	8	17	15
Rental expense	(90)	(50)	(155)	(102)
Energy, water and others	(76)	(76)	(161)	(150)
International and satellite connectivity	(36)	(34)	(67)	(64)
Other	(16)	(17)	(35)	(28)
	(322)	(261)	(608)	(501)
<u>D&A</u>				
Depreciation of PP&E	(488)	(441)	(955)	(867)
Amortization of SAC and service connection costs	(213)	(197)	(432)	(380)
Amortization of other intangible assets	(7)	(5)	(12)	(11)
	(708)	(643)	(1,399)	(1,258)
<u>Gain on disposal of PP&E and impairment of PP&E and related assets</u>				
Gain on disposal of PP&E	-	-	7	1
Impairment of PP&E and related assets	(172)	-	(172)	-
(ii)	(172)	-	(165)	1

(ii) Includes \$50 corresponding to the impairment of a commercial system of Personal, \$109 corresponding to the impairment of construction in progress and materials of Telecom Argentina and \$13 corresponding to prepaid expenses related to the write-down assets of Telecom Argentina.

As required by the LSC, the operating expenses disclosed by function are as follows:

Cost of sales and services	(3,397)	(2,574)	(6,386)	(4,995)
General and administrative expenses	(299)	(228)	(500)	(380)
Selling expenses	(1,783)	(1,589)	(3,518)	(3,074)
Other expenses - provisions	(57)	(19)	(97)	(59)
Gain on disposal of PP&E and impairment of PP&E and related assets	(172)	-	(165)	1
	(5,708)	(4,410)	(10,666)	(8,507)

af) Financial results**Finance income**

Interest on cash equivalents	150	54	255	136
Interest on investments (argentine companies notes and Government bonds)	3	-	8	-

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Gains on Mutual Funds	8	6	17	11
Interest on related parties (Note 5.d)	1	-	1	-
Interest on receivables	31	23	56	42
Foreign currency exchange gains	64	40	124	64
Gain on NDF	-	5	-	5
Other	3	6	4	6
Total finance income	260	134	465	264
Finance expenses				
Interest on loans	(4)	(4)	(8)	(7)
Interest on salaries and social security payable, other taxes payables and accounts payable	(4)	(1)	(8)	(3)
Interest on provisions	(32)	(19)	(43)	(46)
Loss on discounting of salaries and social security payable, other taxes payables and other liabilities	(2)	(9)	(5)	(15)
Foreign currency exchange losses (*)	(139)	(48)	(186)	(79)
Other	-	(2)	(1)	(2)
Total finance expenses	(181)	(83)	(251)	(152)
	79	51	214	112

(*) Include \$42 of foreign currency exchange losses generated by the purchase of Government bonds during June 2013.

Table of Contents**TELECOM ARGENTINA S.A.****ag) Income taxes**

Income tax expense for the six-month periods ended June 30, 2013 and 2012 consists of the following:

	<u>Profit (loss)</u>				<u>Total</u>
	<u>The Company</u>	<u>Telecom USA</u>	<u>Personal</u>	<u>Núcleo</u>	
Current tax expense	(222)	(2)	(733)	(10)	(967)
Estimated income tax payable on cash dividends from foreign companies	-	-	(10)	(3)	(13)
Fiscal year 2012 return adjustment	-	-	(3)	-	(3)
Deferred tax benefit	73	-	111	2	186
Valuation allowance	-	-	(2)	-	2
Income tax expense as of June 30, 2013	(149)	(2)	(637)	(11)	(799)
Current tax expense	(138)	-	(584)	(7)	(729)
Estimated income tax payable on cash dividends from foreign companies	-	-	(11)	(3)	(14)
Fiscal year 2011 return adjustment	(5)	-	-	-	(5)
Deferred tax benefit	18	-	31	-	49
Valuation allowance	-	-	(1)	-	(1)
Income tax expense as of June 30, 2012	(125)	-	(565)	(10)	(700)

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

	<u>In Argentina</u>	<u>Abroad</u>	<u>Total</u>
		<u>Profit (loss)</u>	
Pre-tax income on a separate return basis	3,403	79	3,482
Non taxable items Other income from investments	(1,209)	-	(1,209)
Non taxable items Other	2	(6)	(4)
Subtotal	2,196	73	2,269
Weighted statutory income tax rate	35%	(*)	
Income tax expense at weighted statutory tax rate	(768)	(13)	(781)
Income tax on cash dividends from foreign companies	(10)	-	(10)
Other changes in tax assets and liabilities	(3)	-	(3)
Fiscal year 2012 return adjustment	(3)	-	(3)
Changes in valuation allowance	(2)	-	(2)
Income tax expense as of June 30, 2013	(786)	(13)	(799)
Pre-tax income on a separate return basis	3,000	69	3,069
Non taxable items Other income from investments	(1,075)	-	(1,075)
Non taxable items Other	(7)	-	(7)
Subtotal	1,918	69	1,987
Weighted statutory income tax rate	35%	(*)	
Income tax expense at weighted statutory tax rate	(671)	(10)	(681)
Income tax on cash dividends from foreign companies	(11)	-	(11)

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Other changes in tax assets and liabilities	(2)	-	(2)
Fiscal year 2011 return adjustment	(5)	-	(5)
Changes in valuation allowance	(1)	-	(1)
Income tax expense as of June 30, 2012	(690)	(10)	(700)

(*) Effective income tax rate based on weighted statutory income tax rate in the different countries where the Telecom Group has operations. The statutory tax rate in Argentina was 35% for all the periods presented, in Paraguay was 10% plus an additional rate of 5% in case of payment of dividends for all the periods presented, in Uruguay the statutory tax rate was 25% for all the periods presented and in the USA the effective tax rate was 39.5%, for all the periods presented, respectively.

NOTE 3 SUPPLEMENTARY CASH FLOW INFORMATION

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

	<u>Six-month periods ended</u>	
	<u>2013</u>	<u>June 30,</u> <u>2012</u>
Net (increase) decrease in assets		
Trade receivables	(444)	(205)
Other receivables	8	(52)
Other receivables related parties (Note 5.c)	(216)	-
Inventories	(199)	(163)
	(851)	(420)
Net (decrease) increase in liabilities		
Trade payables	807	138
Deferred revenues	54	72
Salaries and social security payables	(126)	(115)
Other taxes payables	49	(25)
Other liabilities	18	(13)
Provisions	(28)	(81)
	774	(24)

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Income tax paid consists of the following:

	Six-month periods ended	
	June 30.	
	<u>2013</u>	<u>2013</u>
Tax returns and payments in advance	(774)	(945)
Other payments	(68)	(32)
	(842)	(977)

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

VAT credit balances offset with income taxes payments	8	23
Compensation Fund contribution reclassified between:		
Provisions and Other receivables and Salaries and social security payables	-	40
Provisions and Other liabilities	-	21
SAC acquisitions offset with trade receivables	88	69

- **Most significant investing activities:**

PP&E acquisitions include:

PP&E additions (Note 2.j)	(1,289)	(984)
Plus:		
Payments of trade payables originated in prior years acquisitions	(743)	(1,177)
Less:		
Acquisition of PP&E through incurrence of trade payables	603	796
Mobile handsets lent to customers at no cost	4	2
	(1,425)	(1,363)

Intangible assets acquisitions include:

Intangible assets additions (Note 2.k)	(417)	(429)
Plus:		
Payments of trade payables originated in prior years acquisitions	(80)	(93)
SAC acquisitions offset with trade receivables	(88)	(69)
Less:		
Acquisition of intangible assets through incurrence of trade payables	201	171

(384)

(420)

The following table presents the cash flows from purchases, sales and maturities of securities which were not considered cash equivalents in the statement of cash flows:

Investments over 90 days maturity	(396)	-
Loan to Nortel	(7)	-
	(403)	-

- **Financing activities components:**

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

Debt proceeds - Núcleo	43	-
Total financial debt proceeds	43	-
Payment of bank loans Núcleo	(18)	(8)
Total payment of financial debt	(18)	(8)
Payment of interest on bank loans Núcleo	(8)	(7)
Total payment of interest	(8)	(7)
Acquisition of treasury shares- Telecom Argentina	(83)	-

Cash dividends from Núcleo

The Ordinary Shareholders Meeting of Núcleo held on March 22, 2013 approved the following cash dividend payment:

<u>Date of payment</u>	<u>Dividends attributable to Personal</u>	<u>Dividends attributable to non-controlling interest</u>	<u>Total</u>
May 2013	34	16	50
October 2013	34	17	51
Total (*)	68	33	101

(*) Correspond to 80 million of Guaraníes approved by the Ordinary Shareholders Meeting of Núcleo, translated to Argentine pesos at the exchange rate of the date of its approval.

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The Ordinary Shareholders Meeting of Núcleo held on March 16, 2012 approved the following cash dividend payment:

<u>Date of payment</u>	<u>Dividends attributable to Personal</u>	<u>Dividends attributable to non-controlling interest</u>	<u>Total</u>
April 2012	27	13	40
September 2012	20	10	30
Total	47	23	70

Cash dividends

The Annual General Ordinary Shareholders Meeting of Telecom Argentina held on April 27, 2012 approved a cash dividend distribution in the amount of \$807 (equivalent to \$0.82 peso per share of Telecom Argentina), which was paid starting on May 10, 2012.

NOTE 4 SEGMENT INFORMATION

The Group conducts its business through six legal entities. Each one has been identified as an operating segment.

The Company has combined the operating segments into three reportable segments: Fixed Services , Personal Mobile Services and Núcleo Mobile Services based on the nature of products provided by the entities and taking into account the regulatory and economic framework in which each entity operates.

Segment financial information for the six-month periods ended June 30, 2013 and 2012 was as follows:

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TELECOM ARGENTINA S.A.

For the six-month period ended June 30, 2013

q ***Income statement***

	Fixed	Mobile Services			Elimi-	
	Services	Personal	Núcleo	Subtotal	nations	Total
Total revenues and other income (1)	3,955	8,874	565	9,439	(668)	12,726
Employee benefit expenses and severance payments	(1,336)	(496)	(41)	(537)	-	(1,873)
Interconnection costs and other telecommunication charges	(259)	(1,144)	(93)	(1,237)	490	(1,006)
Fees for services, maintenance, materials and supplies	(525)	(749)	(49)	(798)	109	(1,214)
Taxes and fees with the Regulatory Authority	(271)	(960)	(17)	(977)	-	(1,248)
Commissions	(85)	(912)	(53)	(965)	26	(1,024)
Cost of equipments and handsets	(34)	(1,212)	(42)	(1,254)	-	(1,288)
Advertising	(60)	(193)	(33)	(226)	-	(286)
Cost of VAS	(4)	(282)	(15)	(297)	-	(301)
Provisions	(50)	(47)	-	(47)	-	(97)
Bad debt expenses	(40)	(120)	(5)	(125)	-	(165)
Recovery of restructuring costs	8	-	-	-	-	8
Other operating expenses	(328)	(297)	(26)	(323)	43	(608)
Operating income before D&A	971	2,462	191	2,653	-	3,624
Depreciation of PP&E	(444)	(422)	(89)	(511)	-	(955)
Amortization of intangible assets	(51)	(376)	(17)	(393)	-	(444)
Gain on disposal of PP&E and impairment of PP&E and related assets	(116)	(50)	1	(49)	-	(165)
Operating income	360	1,614	86	1,700	-	2,060
Financial results, net	72	152	(10)	142	-	214
Net income before income tax expense	432	1,766	76	1,842	-	2,274
Income tax expense, net	(151)	(637)	(11)	(648)	-	(799)
Net income	281	1,129	65	1,194	-	1,475

Net income attributable to Telecom Argentina (Controlling Company)
 Net income attributable to non-controlling interest

1,454
 21
 1,475

(1)

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Service revenues		3,305	7,583	523	8,106	-	11,411
Equipment revenues		30	1,235	37	1,272	-	1,302
Other income		12	1	-	1	-	13
Subtotal third party revenues		3,347	8,819	560	9,379	-	12,726
Intersegment revenues		608	55	5	60	(668)	-
Total revenues and other income		3,955	8,874	565	9,439	(668)	12,726

q **Statement of financial position information**

PP&E	5,508	2,801	852	3,653	-	9,161
Intangible assets, net	372	1,084	33	1,117	(1)	1,488
Capital expenditures on PP&E (a)	620	420	97	517	-	1,137
Capital expenditures on intangible assets (b)	51	345	21	366	-	417
Total capital expenditures (a)+(b)	671	765	118	883	-	1,554
Total additions on PP&E and intangible assets	789	768	149	917	-	1,706
Net financial asset (debt)	1,074	4,164	(144)	4,020	-	5,094

q **Geographic information**

	Total revenues and other income			Total non-current assets
	Breakdown by location of operations		Breakdown by location of the Group's customers	Breakdown by location of operations
Argentina	12,136		12,041	10,177
Abroad	590		685	912
Total	12,726		12,726	11,089

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For the six-month period ended June 30, 2012

q ***Income statement***

	Fixed		Mobile Services			Elimi- nations	Total
	Services	Personal		Núcleo	Subtotal		
Total revenues and other income (1)	3,376	7,159		406	7,565	(552)	10,389
Employee benefit expenses and severance payments	(1,085)	(376)		(31)	(407)	-	(1,492)
Interconnection costs and other telecommunication charges	(256)	(893)		(64)	(957)	408	(805)
Fees for services, maintenance, materials and supplies	(456)	(596)		(36)	(632)	78	(1,010)
Taxes and fees with the Regulatory Authority	(217)	(710)		(13)	(723)	-	(940)
Commissions	(78)	(805)		(47)	(852)	30	(900)
Cost of equipments and handsets	(21)	(925)		(13)	(938)	-	(959)
Advertising	(77)	(213)		(24)	(237)	-	(314)
Cost of VAS	(4)	(107)		(11)	(118)	-	(122)
Provisions	(47)	(13)		1	(12)	-	