AMERICA MOVIL SAB DE CV/
Form 20-F
April 24, 2017
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As filed with the Securities and Exchange Commission on April 24, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

Annual Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

for the fiscal year ended December 31, 2016

Commission file number: 1-16269

AMÉRICA MÓVIL, S.A.B. DE C.V.

(exact name of registrant as specified in its charter)

America Mobile

(translation of registrant s name into English)

United Mexican States

(jurisdiction of incorporation)

Lago Zurich 245, Plaza Carso / Edificio Telcel, Colonia Ampliación Granada, Delegación Miguel Hidalgo, 11529, Mexico City,

México

(address of principal executive offices)

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Facsimile: (5255) 2581-4422, Lago Zurich 245, Plaza Carso / Edificio Telcel, Piso 16, Colonia Ampliación Granada, Delegación

Miguel Hidalgo,

11529, Mexico City, México

(name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of each class:	Name of each exchange on which registered:
A Shares, without par value	New York Stock Exchange
L Shares, without par value	New York Stock Exchange
5.625% Notes Due 2017	New York Stock Exchange
5.000% Senior Notes Due 2019	New York Stock Exchange
5.000% Senior Notes Due 2020	New York Stock Exchange
3.125% Senior Notes Due 2022	New York Stock Exchange
6.375% Notes Due 2035	New York Stock Exchange
6.125% Notes Due 2037	New York Stock Exchange
6.125% Senior Notes Due 2040	New York Stock Exchange
4.375% Senior Notes Due 2042	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the registrant s classes of capital or common stock as of December 31, 2016:

20,635 million	AA Shares
592 million	A Shares
44,571 million	L Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

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

U.S. GAAP	International Financial Reporting Standards as issued by the International Accounting Standards Board	Other

If other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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

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Selected Financial Data

SELECTED FINANCIAL DATA

We prepared our consolidated financial statements included in this annual report in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). The selected financial information should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements.

We present our financial statements in Mexican pesos. This annual report contains translations of various peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations that the peso amounts actually represent the U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated U.S. dollar amounts from pesos at the exchange rate of Ps.20.7314 to U.S.$1.00, which was the rate reported by Banco de México for December 30, 2016, as published in the Official Gazette of the Federation (*Diario Oficial de la Federación*, or Official Gazette).

We have not included earnings or dividends on a per American Depositary Share (ADS) basis. Each L Share ADS represents 20 L Shares and each A Share ADS represents 20 A Shares.

	For the year ended December 31,[1]					
	2012	**2013**	**2014**	**2015**	**2016**	**2016**
	(in millions of Mexican pesos, except share and per share amounts)					***(millions of U.S. dollars, except share and per share amounts)***
Income Statement Data:						
Operating revenues	Ps. 775,070	Ps. 786,101	Ps. 848,580	Ps. 893,738	Ps. 975,412	U.S. 47,050
Operating costs and expenses	613,920	631,843	692,026	752,325	865,802	41,762
Depreciation and amortization	103,585	101,535	114,994	125,715	148,526	7,164
Operating income	161,150	154,258	156,554	141,413	109,610	5,288
Net profit for the year	**Ps. 91,649**	**Ps. 74,974**	**Ps. 47,498**	**Ps. 36,961**	**Ps. 12,079**	**U.S. 582**
Net profit attributable for the year to:						
Equity holders of the parent	Ps. 90,988	Ps. 74,625	Ps. 46,146	Ps. 35,055	Ps. 8,650	U.S. 417
Non-controlling interests	661	349	1,352	1,906	3,429	165

Net profit for the year	**Ps.**	**91,649**	**Ps.**	**74,974**	**Ps.**	**47,498**	**Ps.**	**36,961**	**Ps.**	**12,079**	**U.S.**	**582**
Earnings per share:												
Basic	Ps.	1.19	Ps.	1.02	Ps.	0.67	Ps.	0.52	Ps.	0.13	U.S.	0.01
Diluted	Ps.	1.19	Ps.	1.02	Ps.	0.67	Ps.	0.52	Ps.	0.13	U.S.	0.01
Dividends declared per share[2]	Ps.	0.20	Ps.	0.22	Ps.	0.24	Ps.	0.26	Ps.	0.28	U.S.	0.01
Weighted average number of shares outstanding (millions):												
Basic		76,111		72,866		69,254		66,869		65,693		65,693
Diluted		76,111		72,866		69,254		66,869		65,693		65,693

(1) As of December 31, 2016, we owned 51.0% of the total outstanding shares of Telekom Austria AG (Telekom Austria or TKA). We began consolidating Telekom Austria from July 1, 2014. Prior to July 1, 2014, we accounted for Telekom Austria using the equity method, which affects the comparability of our results for 2012 through 2016. See Note 12 to our consolidated financial statements.

(2) Figures for each year provided represent the annual dividend declared at the general shareholders meeting that year. For information on dividends paid per share translated into U.S. dollars, see Share Ownership and Trading Dividends under Part IV of this annual report.

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Selected Financial Data

	As of December 31,										
		2012		2013		2014		2015		2016	2016
	(in millions of Mexican pesos, except share and per share amounts)										(millions of U.S. dollars, except share and per share amounts)
Balance Sheet Data:											
Property, plant and equipment, net	Ps.	500,434	Ps.	501,107	Ps.	588,106	Ps.	573,529	Ps.	701,190	U.S. 33,823
Total assets		987,685		1,025,592		1,278,357		1,296,487		1,515,042	73,081
Short-term debt and current portion of long-term debt		13,622		25,841		57,806		119,590		82,607	3,985
Long-term debt		404,048		464,478		545,949		563,627		625,194	30,157
Capital stock		96,415		96,392		96,383		96,338		96,338	4,647
Total equity		254,848		210,301		234,639		160,854		271,024	13,075
Number of outstanding shares (millions):											
AA Shares		23,424		23,424		23,384		23,384		20,635	
A Shares		712		681		649		625		592	
L Shares		51,703		46,370		44,120		41,990		44,571	
Ratio of Earnings to Fixed Charges[1]		**5.4**		**3.9**		**3.5**		**2.5**		**1.6**	

(1) Earnings, for this purpose, consist of profit before income tax, plus interest expense, interest implicit in operating leases and current period amortization of interest capitalized in prior periods, minus equity interest in net income of associates, during the year.

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PART I:

INFORMATION ON THE COMPANY

ABOUT AMÉRICA MÓVIL

HISTORY AND CORPORATE INFORMATION

América Móvil, S.A.B. de C.V. (América Móvil, we or the Company) is a *sociedad anónima bursátil de capital variable* organized under the laws of Mexico. We were established in September 2000 when Teléfonos de México, S.A.B. de C.V. (Telmex), a fixed-line Mexican telecommunications operator privatized in 1990, spun off to us its wireless operations in Mexico and other countries. We have made significant acquisitions throughout Latin America, the United States, the Caribbean and Europe, and we have also expanded our businesses organically. In 2010, we acquired control of Telmex and Telmex Internacional, S.A.B. de C.V. (currently, Telmex Internacional, S.A. de C.V., or Telmex Internacional) in a series of public tender offers.

Our principal executive offices are located at Lago Zurich 245, Plaza Carso / Edificio Telcel, Colonia Ampliación Granada, Delegación Miguel Hidalgo, 11529, Mexico City, México. Our telephone number at this location is (5255) 2581-4449.

BUSINESS OVERVIEW

We provide telecommunications services in 25 countries. We are the leading telecommunications services provider in Latin America ranking first in wireless, fixed-line, broadband and Pay TV services based on the number of revenue generating units (RGUs). Our largest operations are in Mexico and Brazil, which together account for over half of our total RGUs and where we have the largest market share based on RGUs. We also have major wireless, fixed or Pay TV operations in 16 other countries in the Americas and seven countries in Central and Eastern Europe as of December 31, 2016. For a list of our principal subsidiaries, see Note 2 a) to our consolidated financial statements and Additional Information Exhibit 8.1 under Part VII of this annual report.

We intend to build on our position as leaders in integrated telecommunications services in Latin America and the Caribbean, and to grow in other parts of the world, by continuing to expand our subscriber base through the development of our existing businesses and strategic acquisitions when opportunities arise. We have developed world-class integrated telecommunications platforms to offer our customers new services and enhanced communications solutions with higher data speed transmissions at lower prices. We continue investing in our networks to increase coverage and implement new technologies to optimize our network capabilities. See Operating and Financial Review and Prospects Overview under Part II of this annual report for a discussion on the seasonality of our business.

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Information On The Company

The following map illustrates the geographic diversity of our operations and certain key performance indicators (KPIs) as of December 31, 2016.

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KEY PERFORMANCE INDICATORS

We have identified certain KPIs that help measure the performance of our operations. The table of our KPIs below includes the number of our wireless subscribers and our fixed RGUs, which together make up the total RGUs, in the countries where we operate. Wireless subscribers consist of the number of prepaid and postpaid subscribers to our wireless services. Fixed RGUs consist of fixed voice, fixed data and Pay TV units (which include customers of our Pay TV services and, separately, of certain other digital services). The figures below reflect total wireless subscribers and fixed RGUs of all our consolidated subsidiaries, without adjustments to reflect our equity interest, in the following geographic segments:

- Mexico Wireless;
- Mexico Fixed;
- Brazil;
- Colombia;
- Southern Cone (Argentina, Chile, Paraguay and Uruguay);
- Andean Region (Ecuador and Peru);
- Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama);
- the Caribbean (the Dominican Republic and Puerto Rico);
- the United States; and
- Europe (Austria, Belarus, Bulgaria, Croatia, Macedonia, Serbia and Slovenia).

	As of December 31,		
	2014	2015	2016

	(*in thousands*)		
Wireless Subscribers:			
Mexico Wireless	71,463	73,697	72,953
Brazil	71,107	65,978	60,171
Colombia	29,775	28,973	28,954
Southern Cone	27,754	29,186	30,377
Andean Region	24,270	20,743	20,801
Central America	13,973	15,317	15,085
Caribbean	5,092	5,261	5,453
United States	26,006	25,668	26,070
Europe	20,008	20,711	20,708
Total Wireless Subscribers	289,448	285,534	280,572
Fixed RGUs:			
Mexico Fixed	22,250	21,735	22,178
Brazil	36,096	36,627	36,716
Colombia	5,307	5,801	6,304
Southern Cone	1,826	1,819	1,942
Andean Region	1,576	1,727	1,820
Central America	4,606	4,950	5,392
Caribbean	2,347	2,511	2,663
Europe	4,402	5,642	5,900
Total Fixed RGUs	78,410	80,812	82,915
Total RGUs	367,858	366,346	363,487

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PRINCIPAL BRANDS

We operate in all of our geographic segments under the Claro brand name, except in Mexico, the United States and Europe, where we do business under the brand names listed below.

Country	Principal Brands	Services and Products
Mexico	Telcel	Wireless voice Wireless data
	Telmex Infinitum	Fixed voice Fixed data
United States	TracFone Straight Talk	Wireless voice Wireless data
Europe	A1, Mobitel, Vipnet, Velcom, Si.mobil, One.Vip	Wireless voice Wireless data Fixed voice Fixed data Pay TV
	Vip mobile	Wireless voice Wireless data

SERVICES AND PRODUCTS

We offer a wide range of services and products that vary by market, including wireless voice, wireless data and value-added services, fixed voice, fixed data, broadband and IT services, Pay TV and over-the-top (OTT) services.

Wireless Operations

In 2016, our wireless voice and data operations generated revenues of Ps.499.2 billion, representing 51.1% of our consolidated revenues. As of December 31, 2016, our wireless operations represented approximately 77.2% of our total RGUs, compared to 77.9% as of December 31, 2015.

Voice and Data

Our wireless subsidiaries provide voice communication services across the countries in which they operate. We offer international roaming services to our wireless subscribers through a network of cellular service providers with which our wireless subsidiaries have entered into international roaming agreements around the world, and who provide GSM, 3G and 4G-LTE roaming services.

Our wireless voice services are offered under a variety of plans to meet the needs of different market segments. In addition, we often bundle wireless data communications services together with wireless voice services. Our wireless subsidiaries had approximately 280.6 million wireless voice and data subscribers as of December 31, 2016.

The voice and data plans are either postpaid, where the customer is billed monthly for the previous month, or prepaid, where the customer pays in advance for a specified volume of use over a specified period. As of December 31, 2016, the composition of our wireless voice and data subscribers is approximately 74.0% prepaid and 26.0% postpaid.

Prepaid customers typically generate lower levels of usage and are often unable or unwilling or financially ineligible to purchase postpaid plans. Our prepaid plans have been instrumental to increase wireless penetration in Latin America and Eastern Europe to reach levels similar to those of developed markets. Additionally, prepaid plans entail little to no risk of non-payment, as well as lower customer acquisition costs and billing expenses, compared to the average postpaid plan.

In general, our average rates per minute of wireless voice are very competitive for both prepaid and postpaid plans. The rates in 2016 declined an average of 23.3%, at constant exchange rates relative to 2015. In addition, the plans we offer our retail customers include selective discounts and promotions that reduce the reference rates our customers pay.

Value-Added Services

As part of our wireless data business, our subsidiaries offer value-added services that include Internet access, messaging and other wireless entertainment and corporate services through GSM/EDGE, 3G and 4G LTE networks. Internet services include roaming capability and wireless Internet connectivity for feature phones, smartphones, tablets and laptops, including data transmission, e-mail services, instant messaging, content streaming and interactive applications. For example, in Mexico, our website (www.claroideas.com), under Radiomóvil Dipsa, S.A. de C.V.

(Telcel), offers a wide range of services and content such as video, music, games and other applications, which our subscribers can access from mobile devices.

In addition, we offer other wireless services, including wireless security services, mobile payment solutions, machine-to-machine services, mobile banking, virtual private network (VPN) services, video calls and Personal Communications Service (PCS).

Fixed Operations

In 2016, our fixed voice, data, broadband and IT solutions had revenues of Ps.221.6 billion, representing 22.7% of our consolidated revenues. As of December 31, 2016, our fixed operations represented approximately 22.8% of our total RGUs, compared to 22.1% as of December 31, 2015.

Voice

Our fixed voice services include local, domestic and international long-distance and public telephone services, under a variety of plans to meet the needs of different market segments, specifically tailored to our residential and corporate clients.

Data

We offer data services, including data centers, data administration and hosting services to our residential and corporate clients under a variety of plans.

Broadband

We provide residential broadband access through hybrid fiber-coaxial (HFC) or fiber-optic cable. These services are typically bundled with voice services and are competitively priced as a function of the desired or available speed. As a complement to these services, we offer a number of products such as home networking and smart home services.

IT Solutions

Our subsidiaries provide a number of different IT solutions for small businesses and large corporations. We also provide specific solutions to the industrial, financial, government and tourism sectors, among others.

Pay TV

We offer Pay TV through cable and satellite TV subscriptions to both retail and corporate customers under a variety of plans. As of December 31, 2016, we had approximately 22.1 million Pay TV RGUs, an increase of approximately 0.4 million Pay TV RGUs from the prior year.

Our largest Pay TV market is in Brazil, where we are the leading provider of Pay TV services. We offer satellite Pay TV services through direct-to-home (DTH) technology through our Embratel Tvsat Telecomunicações S.A. (Claro TV) brand and cable TV through our Net Serviços brand. We offer these services through individual subscription plans as well as in bundled packages of services, along with broadband, fixed voice and wireless services. In addition to our Brazilian operations, our Colombian operations are now offering quadruple-play services, combining Pay TV services, broadband, fixed-line and wireless services.

Equipment, Accessories and Computer Sales

Equipment, accessories and computer sales revenues primarily include revenues from the sale of handsets, accessories and other equipment.

Other Services

Other services include revenues from other businesses, such as telephone directories, call center services, wireless security services, advertising, media and software development services.

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OTT Services

We sell video, audio and other media content that is delivered through the internet directly from the content provider to the viewer or end user. Our most important service is ClaroVideo, an on-demand internet streaming video provider with more than 34,000 content titles sold across all the Latin American and Caribbean markets in which we operate. We sometimes offer bundled packages of ClaroVideo with other services. Additionally, we offer customers unlimited access to ClaroVideo for a fixed monthly subscription fee.

Services and Products by Country

The following table is a summary of the services rendered and products produced as of December 31, 2016 in the countries in which we operate.

	Wireless Voice, Data and Value Added Services(1)	Fixed Voice, Broadband, Data and IT Services(2)	Pay TV	OTT Servic
ntina				
ia				
us				
l				
aria				
mbia				
Rica				
ia				
nican blic				
dor				
dor				
emala				
uras				
donia				
co				(4)
agua				
ma				
guay				

o

a
enia
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s

(1) Includes voice communication and international roaming services, interconnection and termination services, SMS, MMS, e-mail, mobile browsing, entertainment and gaming applications.
(2) Includes local calls, national and international long distance.
(3) Includes ClaroVideo and ClaroMúsica.
(4) Services provided by non-concessionaire subsidiaries.

OUR NETWORKS

Our networks are one of our main competitive advantages. Today, we own and operate one of the largest integrated platforms based on our covered population across 17 countries in Latin America and are in the process of expanding our network in Europe.

Infrastructure

For the year ended December 31, 2016, our capital expenditures totaled Ps.155.0 billion, which allowed us to increase the coverage of our networks, to expand their capacity and to upgrade our systems to operate with the latest technologies. With fully convergent platforms, we are able to widely deliver high-quality voice, video and data products. See Note 10 to our consolidated financial statements for description of our property, plant and equipment.

As of December 31, 2016, the main components of our infrastructure were comprised of:

Base stations: 196,159 (of which approximately 62% are equipped with 3G and 4G capabilities).

Fiber-optic network: More than 727 thousand km. Our network passed approximately 68 million homes as of December 31, 2016.

Submarine cable system: Capacity of more than 168 thousand km in submarine cable, including the AMX-1 submarine cable that extends 17,500 km and connects the United States to Central and South America throughout 12 landing points and provides international connectivity to all of our subsidiaries in these geographic areas.

Satellites: Nine. Star One S.A. (Star One) has the most extensive satellite system in Latin America with a fleet that covers the United States, Mexico, Central America and South America. We use these satellites to supply capacity for DTH services for Claro TV throughout Brazil and in other DTH operations, as well as cellular backhaul, video broadcast and corporate data networks. In 2016, we launched the Star One D1 Satellite, a new fourth generation satellite that will provide new band capacities covering Brazil and the rest of Latin America.

Data centers: 21. We use our data centers to manage a number of cloud solutions such as Infrastructure as a Service (IAAS), Software as a Service (SAAS), security solutions and unified communications.

In the United States, we do not own any wireless telecommunications facilities or hold any wireless spectrum licenses. Instead, we purchase airtime through agreements with wireless service providers and resell airtime to customers. Through these agreements, we have a nationwide virtual network, covering almost all areas in which wireless services are available.

Technology

Our primary wireless networks use GSM/EDGE, 3G and 4G LTE technologies, which we offer in most of the countries where we operate. We aim to increase the speed of transmission of our data services and have been expanding our 3G and 4G LTE coverage.

We transmit wireless calls and data through radio frequencies that we use under spectrum licenses. Spectrum is a limited resource and, as a result, we may face spectrum and capacity constraints on our wireless network. We continue to invest significant capital in expanding our network capacity and reach and to address spectrum and capacity constraints on a market-by-market basis. In 2016, we spent Ps.9.4 billion on the acquisition of spectrum licenses, mainly in Mexico, Peru and Paraguay.

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The table below presents a summary of our covered population in the countries where we operate as of December 31, 2016:

	Generation Technology		
	GSM	UMTS	LTE
	(% of covered population)		
Argentina	98	90	45
Austria	100	92	88
Belarus	99	100	
Brazil	92	81	45
Bulgaria	100	100	78
Chile	97	87	61
Colombia	91	74	42
Costa Rica	69	75	19
Croatia	99	99	82
Dominican Republic	96	99	79
Ecuador	96	71	17
El Salvador	91	69	
Guatemala	89	61	1
Honduras	78	60	18
Macedonia	99	98	95
Mexico	93	89	58
Nicaragua	82	75	4
Panama	79	79	38
Paraguay	75	66	
Peru	76	56	39
Puerto Rico	78	81	75
Serbia	99	95	79
Slovenia	99	99	99
Uruguay	91	86	50

OUR COMPETITORS

We operate in an intensely competitive industry. The effects of competition on our subsidiaries depend, in part, on the business strategies of their competitors, regulatory developments and the general economic and business climate in the countries in which they operate, including demand growth, interest rates, inflation and exchange rates. The effects could include loss of market share and pressure to reduce rates. See Regulation under Part VI and Risk Factors under Part III of this annual report.

The table below presents our major competitors in each of our geographic segments as of December 31, 2016.

Mexico	
Wireless Voice, Wireless Data and Value-Added Services	AT&T, Teléfonica (Movistar), Axtel, Quickly Phone, Telecomunicaciones 360 (Elektra), Virgin Mobile, Teligentia (Cierto), Lycamobile, Coppel Móvil, Maz Tiempo, Ekofon
Fixed Voice, Fixed Broadband, Fixed Data, IT Services and OTT Services	AT&T, Alestra, Grupo Televisa (IZZI), Axtel, Megacable, Cablecom México, Maxcom, Megacable Comunicaciones de México, Telecable, Totalplay, GTM, Marcatel
Brazil	
Wireless Voice, Wireless Data and Value-Added Services	Teléfonica Brasil (Vivo), TIM Celular, Oi, Algar Telecom, Sercomtel, Nextel
Fixed Voice, Fixed Broadband, Fixed Data and IT Services	Oi, Algar Telecom, Telefónica Brasil (Vivo)
Pay TV and OTT Services	Sky Brasil, Telefónica Brasil (Vivo), Oi
Colombia	
Wireless Voice, Wireless Data and Value-Added Services	Telefónica Colombia (Movistar), Colombia Móvil (Tigo), Virgin Mobile Colombia
Fixed Voice	Telefónica Colombia (Movistar), Colombia Móvil (Tigo), Empresa de Telecomunicaciones de Bogotá (ETB), UNE Telecomunicaciones, Empresas Municipales de Cali (Emcali)
Fixed Broadband, Fixed Data and IT Services, Pay TV, OTT Services	Telefónica Colombia, Empresa Telecomunicaciones de Bogotá (ETB), UNE Telecomunicaciones, DirecTV Colombia, Empresas Municipales de Cali (Emcali)
Southern Cone	
Wireless Voice, Wireless Data and Value-Added Services	Telefónica (Movistar), Telecom Argentina, Nextel Argentina, Entel, WOM, Millicom (Tigo), ANTEL, Virgin Mobile Chile, Personal, VTR GlobalCom, Tigo Paraguay
Fixed Voice, Fixed Broadband, Fixed Data and IT Services	Telefónica, Telecom Argentina, Telecentro Argentina, Entel, VTR GlobalCom, TelsurDirecTV Latin America, COPACO, Tigo Paraguay, ANTEL

Pay TV and OTT Services	DirecTV Chile, Telefónica (Movistar Chile), VTR GlobalCom, Tigo Paraguay
Andean Region	
Wireless Voice, Wireless Data and Value-Added Services	Telefónica (Movistar), Entel Perú, CNT (Ecuador)
Fixed Voice, Fixed Broadband, Fixed Data and IT Services	CNT, Grupo TV Cable (Setel), Telefónica (Movistar)
Pay TV and OTT Services	CNT, Grupo TVCable, Telefónica (Movistar TV), DirecTV

Central America	
Wireless Voice, Wireless Data and Value-Added Services	Millicom (Tigo), Telefónica (Movistar), Digicel, Honducel, ICE (Kolbi), Cable & Wireless (Panamá)
Fixed Voice, Fixed Broadband, Fixed Data and IT Services	Millicom (Tigo), Hondutel, ICE (Kolbi), Telefónica (Movistar), Cabletica (Costa Rica), Cable & Wireless (Panamá), Cable Color (Honduras)
Pay TV and OTT Services	Millicom (Tigo), Sky, Telefónica, ICE (Kolbi), Cable & Wireless (Panamá), Cable Color (Honduras), Cabletica (Costa Rica)
U.S.	
Wireless Voice, Wireless Data and Value-Added Services	Verizon, AT&T, T-Mobile, Sprint, U.S. Cellular
Caribbean	
Wireless Voice, Wireless Data and Value-Added Services	Altice (Orange), Tricom, AT&T, Sprint, T-Mobile, PR Wireless (Open Mobile), Viva Dominicana
Fixed Voice, Fixed Broadband, Fixed Data and IT Services	Altice (Orange), Tricom, AT&T, Liberty Cablevision, WorldNet
Pay TV and OTT Services	Tricom, Aster, Wind, Sky, Liberty Cablevision, DirecTV Puerto Rico, Dish Network
Europe	
Wireless Voice	T-Mobile, Hutchison Drei, Mobile TeleSystems, CJSC (life:), Bulgarian Telecommunications Company (VivaCom), Telenor, Hrvatski Telekom, Tele2, Telekom Srbija, Telekom Slovenije, Telemach
Wireless Data and Value-Added Services	T-Mobile, Hutchison Drei, Mobile TeleSystems (MTS), Bulgarian Telecommunications Company (VivaCom), Telenor, Hrvatski Telekom, Tele2, Telekom Srbija, Telekom Slovenije, Telemach
Fixed Voice, Fixed Broadband, Fixed Data and IT Services	Tele2, UPC Austria, Mobile TeleSystems, CJSC (life:), Bulgarian Telecommunications Company (VivaCom), Bulsatcom, Hrvatski Telekom, T-Mobile, Telekabel, Telekom Srbija, Telenor, Telekom Sloveniej, Telemach

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MARKETING, SALES AND DISTRIBUTION, CUSTOMER SERVICES

Marketing

We advertise our services and products through different channels with consistent and distinct branding and targeted marketing. We advertise via print, radio, television, digital media, sports event sponsorships and other outdoor advertising campaigns. In 2016, our efforts were mainly focused on promoting our 4G LTE services, leveraging on the speeds and quality of our networks and our fixed bundled offers, which compete on broadband speeds and premium content.

We build upon the strength of our well-recognized brand names to increase consumer awareness and customer loyalty. Building brand recognition is crucial for our business, and we have managed to position our brands as those of a premium carrier in most countries where we operate. For example, in 2016, Claro was the highest-ranked telecom brand in Latin America, according to Brand Finance, and BrandZ ranked Telcel as the second-most valuable national brand in Mexico. In the same year, BrandZ also named Telcel and Telmex as the highest and third-highest recognized telecom brands, respectively, in Mexico and listed Claro, Telcel and Telmex as three of the top four highest-ranked telecom brands in Latin America. In addition, a 2016 study by Austrian Brand Monitor found that A1, the brand name behind Telekom Austria, ranked number one in the Austrian telecommunications market for brand awareness as well as for brand perception as a premium brand.

Sales and Distribution

Our extensive sales and distribution channels help us attract new customers and develop new business opportunities. We primarily sell our services and products through a network of retailers and service centers for retail customers and a dedicated sales force for corporate customers with more than 320,000 points of sale and almost 2,700 customer service centers. Our subsidiaries also sell their services and products online.

Customer Services

We give priority to providing our customers with quality customer care and support, with approximately 57,000 employees dedicated to customer service. We focus our efforts on constantly improving our customers experience by leveraging our commercial offerings and our sales and distribution networks. Customers may make inquiries by calling a toll-free telephone number, accessing our subsidiaries web sites and social media accounts or visiting one of the customer sales and service centers located throughout the countries we serve.

ACQUISITIONS, OTHER INVESTMENTS AND DIVESTITURES

Geographic diversification has been a key to our financial success, as it has provided for greater stability in our cash flow and profitability and has contributed to our strong credit ratings. In recent years, we have been evaluating the expansion of our operations to regions outside of Latin America. We believe that Europe and other areas beyond Latin America present opportunities for investment in the telecommunications sector that could benefit us and our shareholders over the long term. We continue to seek investment opportunities in telecommunications and related companies worldwide, including markets where we are already present, and we often have several possible acquisitions under consideration. We can give no assurance as to the extent, timing or cost of such investments. We may pursue opportunities in Latin America or in other areas in the world. Some of the assets that we acquire may require significant funding for capital expenditures. We continue to make incremental acquisitions in areas that we consider accretive to our existing operations. For additional information on our acquisitions and investments, see Note 12 to our consolidated financial statements.

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PART II:

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

OVERVIEW

INTRODUCTION

Segments

We have operations in 25 countries, which are aggregated for financial reporting purposes into ten reportable segments. Our operations in Mexico are presented in two segments Mexico Wireless and Mexico Fixed, which consist principally of Telcel and Telmex, respectively. Our headquarters operations are allocated to the Mexico Wireless segment. Financial information about our segments is presented in Note 22 to our audited consolidated financial statements.

The factors that drive our financial performance differ in the various countries where we operate, including subscriber acquisition costs, the competitive landscape, the regulatory environment, economic factors and interconnection rates, among others. Accordingly, our results of operations in each period reflect a combination of these effects on our different segments.

Constant Currency Presentation

Our financial statements are presented in Mexican pesos, but our operations outside Mexico account for a significant portion of our revenues. Currency variations between the Mexican peso and the currencies of our non-Mexican subsidiaries, especially the Euro, U.S. dollar, Brazilian real, Colombian peso and Argentine peso, affect our results of operations as reported in Mexican pesos. In the following discussion regarding our operating results, we include a discussion of the change in the different components of our revenues between periods at constant exchange rates, i.e., using the same exchange rate to translate the local-currency results of our non-Mexican operations for both periods. We believe that this additional information helps investors better understand the performance of our non-Mexican operations and their contribution to our consolidated results.

Effects of Exchange Rates

Our results of operations are affected by changes in currency exchange rates. As discussed above, currency variations between the Mexican peso and the currencies of our non-Mexican subsidiaries, especially the Euro, U.S. dollar, Brazilian real, Colombian peso and Argentine peso, affect our results of operations as reported in Mexican pesos. In 2016, the Mexican peso was generally weaker against our other operating currencies than in 2015, which tended to increase the reported amounts in Mexican pesos attributable to our non-Mexican operations.

In addition, we recognize foreign exchange gains and losses attributable to changes in the value of our operating currencies, particularly the Mexican peso and Brazilian real, against the currencies in which our indebtedness and accounts payable are denominated, especially the U.S. dollar. Appreciation of our operating currencies generally results in foreign exchange gains, while depreciation of these currencies generally results in foreign exchange losses. Changes in exchange rates also affect the fair value of derivative financial instruments that we use to manage our currency-risk exposure, which are generally not accounted for as hedging instruments. In 2016, the Mexican peso weakened against the currencies in which a portion of our indebtedness is denominated, and we recorded net foreign exchange losses of Ps.40.4 billion. We also recorded net fair value losses on derivatives of Ps.9.6 billion, reflecting the effect of a weakened British pound and other currencies on certain derivative positions we use to offset exchange risk on our indebtedness. In 2015, the Mexican peso weakened against the currencies of our indebtedness, and we recorded net foreign exchange losses of Ps.79.0 billion, partially offset by net fair value gains on derivatives of Ps.15.1 billion. See Note 7 to our audited consolidated financial statements.

Effects of Regulation

We operate in a regulated industry. Our results of operations and financial condition have been, and will continue to be, affected by regulatory actions and changes. In recent periods, for example, regulators have imposed or sought to impose decreases in, or the elimination of, interconnection rates. We have offset lower interconnection revenues by attracting new customers with lower prices and new data services to increase traffic, but this may change. Significant regulatory developments are presented in more detail in Regulation under Part VI and Risk Factors under Part III of this annual report.

Effect of Consolidating Telekom Austria

As of December 31, 2016, we owned 51.0% of the total outstanding shares of Telekom Austria. We began consolidating Telekom Austria from July 1, 2014. Prior to July 1, 2014, we accounted for Telekom Austria using the equity method. The consolidation of Telekom Austria affected the comparability of our results for 2015 and 2014.

COMPOSITION OF OPERATING REVENUES

In 2016, our total operating revenues consisted of: wireless voice revenues (24.8% of total operating revenues), fixed voice revenues (9.8%), wireless data revenues (26.3%), fixed data revenues (12.9%), Pay TV revenues (8.0%), equipment, accessories and computer sales revenues (14.7%) and other services (3.5%).

Revenues from wireless and fixed voice services primarily include charges from monthly subscriptions and usage charges billed to other service providers for calls completed on our network. The primary drivers of revenues from monthly subscription charges are the number of total RGUs and the prices of our service packages. The primary driver of revenues from usage charges (airtime, international and long-distance calls and interconnection costs) is traffic as calculated by the number of total RGUs and their average usage.

Revenues from wireless and fixed data services primarily include charges for data, cloud, internet and OTT services and the usage from our data centers. In addition, revenues from value-added services and IT solutions to corporate clients contribute to our results for wireless and fixed data services, respectively. Revenues from IT solutions to our corporate clients mainly consist of revenues from installing and leasing dedicated links and revenues from VPN services.

Pay TV revenues consist primarily of charges from subscription services, additional programming, including on-demand programming and advertising.

Equipment, accessories and computer sales revenues primarily include revenues from the sale of handsets, accessories and other equipment such as office equipment, household appliances and electronics. Most of our sales in handsets are driven by the number of new customers. The pricing of handsets is not geared primarily towards making a profit from handset sales, because it also takes into account the service revenues that are expected to result when the handset is used.

Other services primarily include revenues from other businesses, such as advertising and news companies, entertainment content distribution, telephone directories, call center services, wireless security services, network infrastructure services and a software development company.

Seasonality of our Business

Our business is subject to a certain degree of seasonality, characterized by a higher number of new customers during the fourth quarter of each year. We believe this seasonality is mainly driven by the Christmas shopping season. Revenue also tends to decrease during the months of August and September, when family expenses shift towards school supplies and child care in many of the countries in which we operate, mainly Mexico.

General Trends Affecting Operating Results

Our results of operations in 2016 reflected several continuing long-term trends, including:

- intense competition, with growing costs for marketing and subscriber acquisition and retention, as well as generally declining customer prices;
- changes in the telecommunications regulatory environment;
- growing demand for data services over fixed and wireless networks, as well as for smartphones and devices with data service capabilities;
- declining demand for voice services;
- growing operating costs reflecting, among other things, higher costs for Pay TV and data services content and licenses, customer care services, as well as managing larger and more complex networks; and
- overall macroeconomic conditions and foreign exchange volatility in the countries in which we operate.

These trends are broadly characteristic of our businesses in all regions in recent years, and they have affected comparable telecommunications providers as well.

Other recent trends affecting our performance included:

- the effects of Mexico s regulatory measures; and the impact of the depreciation of the Mexican peso against the U.S. dollar, the Euro, the Brazilian real and the Colombian peso.

RESULTS OF OPERATIONS

CONSOLIDATED RESULTS OF OPERATIONS FOR 2016 AND 2015

Operating Revenues

Total operating revenues for 2016 increased by 9.1%, or Ps.81.7 billion, over 2015. At constant exchange rates, total operating revenues for 2016 increased by 2.1% over 2015. This increase principally reflects increases in revenues from our wireless data, fixed data and Pay TV operations, which were partially offset by a decrease in revenues from our wireless voice and fixed voice operations.

Wireless Voice Wireless voice revenues for 2016 decreased by 5.4%, or Ps.13.8 billion, over 2015. At constant exchange rates, wireless voice revenues for 2016 decreased by 12.7% over 2015. This decrease principally reflects reductions in the price per minute for calls, traffic in international and domestic long-distance calls and the reduction of interconnection rates in other jurisdictions where we operate, particularly in Brazil, Colombia, Argentina and Europe.

Fixed Voice Fixed voice revenues for 2016 decreased by 0.2%, or Ps.0.2 billion, over 2015. At constant exchange rates, fixed voice revenues for 2016 decreased by 7.0% over 2015. This decrease principally reflects reduced traffic in long-distance calls, which was driven by the growing use of wireless technology and increased regulation affecting our fixed voice markets in Mexico, Colombia and Brazil.

Wireless Data Wireless data revenues for 2016 increased by 13.3%, or Ps.30.2 billion, over 2015. At constant exchange rates, wireless data revenues for 2016 increased by 7.3% over 2015. This increase principally reflects increased use of wireless data services, such as media and content downloading, web browsing, content streaming and machine-to-machine services, which was driven in part by the increased use of social networking websites and content downloading on tablets and notebooks.

Fixed Data Fixed data revenues for 2016 increased by 15.6%, or Ps.17.0 billion, over 2015. At constant exchange rates, fixed data revenues for 2016 increased by 7.4% over 2015. This increase principally reflects the growth in residential broadband services and corporate data services, such as cloud, dedicated links and data center services.

Pay TV Pay TV revenues for 2016 increased by 18.5%, or Ps.12.2 billion, over 2015. At constant exchange rates, Pay TV revenues for 2016 increased by 5.6% over 2015. This increase principally reflects growth in the subscriber base and higher revenues driven by the cross-marketing of bundled packages and new TV channel packages, particularly in Brazil, Colombia, Peru, Central America and the Caribbean.

Equipment, Accessories and Computer Sales Equipment, accessories and computer sales revenues for 2016 increased by 23.8%, or Ps.27.6 billion, over 2015. At constant exchange rates, revenues from equipment, accessories and computer sales for 2016 increased by 20.4% over 2015. This increase principally reflects increases in sales of higher-end smartphones, feature phones and other data-enabled devices, handsets, tablets and electronic household appliances, which were driven by new commercial plans and promotions among postpaid and prepaid subscribers such as handset financing plans.

Other Services Revenues from other services for 2016 increased by 35.8%, or Ps.8.6 billion, over 2015. At constant exchange rates, revenues from other services for 2016 increased by 23.8% over 2015. This increase principally reflects increases in revenues from advertising and media services, online content, wireless security services, telephone directories and call center services.

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Operating Costs and Expenses

Cost of Sales and Services Cost of sales and services for 2016 increased by 15.4%, or Ps.64.8 billion, over 2015, representing 49.7% of operating revenues for 2016, as compared to 47.0% of operating revenues for 2015. At constant exchange rates, cost of sales and services for 2016 increased by 7.0% over 2015.

Cost of sales was Ps.172.5 billion for 2016, an increase of 18.6% from Ps.145.5 billion in 2015. This increase principally reflects the impact from a depreciation of the Mexican peso and other Latin American currencies against the U.S. dollar, and higher sales of smartphones to subscribers in all countries in which we operate, which was partially offset by a decrease in the costs associated with handset subsidies on financing plans we offer to acquire and retain subscribers.

Cost of services was Ps.312.6 billion for 2016, an increase of 13.8% from Ps.274.8 billion in 2015. This increase principally reflects an increase in network services payments to third-party U.S. operators and costs related to our Pay TV operations, network maintenance and labor, as well as an increase in rental and leasing costs associated with third-party mobile-site infrastructure.

Commercial, Administrative and General Expenses Commercial, administrative and general expenses for 2016 increased by 13.3%, or Ps.26.7 billion, over 2015. As a percentage of operating revenues, commercial, administrative and general expenses were 23.4% for 2016, as compared to 22.5% for 2015. At constant exchange rates, commercial, administrative and general expenses for 2016 increased by 5.9% over 2015. This increase principally reflects higher advertising costs, as we seek to expand our subscriber base, and higher customer service costs, including increases in the number of customer service centers, back office call centers and employees, as we seek to provide better customer care and quality of service.

Telcel and Telmex, like other Mexican companies, are required by law to pay their employees, in addition to their agreed compensation and benefits, profit sharing in an aggregate amount equal to 10.0% of each entity s taxable income. Our subsidiaries in Ecuador and Peru are also required to pay employee profit sharing at rates of 15.0% and 10.0% of taxable income, respectively. We account for these profit sharing contributions under commercial, administrative and general expenses.

Other Expenses Other expenses for 2016 decreased by 17.5%, or Ps.0.9 billion, over 2015 reflecting unusually high regulatory charges in Brazil in 2015.

Depreciation and Amortization Depreciation and amortization for 2016 increased by 18.1%, or Ps.22.8 billion, over 2015. As a percentage of operating revenues, depreciation and amortization was 15.2% for 2016, as compared to 14.1% for 2015. At constant exchange rates, depreciation and amortization for 2016 increased by 8.5% over 2015. This increase stems, for the most part, from higher capital investments in Argentina, Colombia, Austria and Mexico.

Operating Income

Operating income for 2016 decreased by 22.5%, or Ps.31.8 billion, over 2015. Operating margin (operating income as a percentage of operating revenues) was 11.2% for 2016, as compared to 15.8% for 2015.

Non-Operating Items

Net Interest Expense Net interest expense (interest expense less interest income) for 2016 increased by 12.6%, or Ps.3.3 billion, over 2015. This increase principally reflects higher interest expenses due to the appreciation of some of the currencies in which our indebtedness is denominated, particularly the U.S. dollar.

Foreign Currency Exchange Loss, Net We recorded a net foreign currency exchange loss of Ps.40.4 billion for 2016, compared to our net foreign currency exchange loss of Ps.79.0 billion for 2015. This loss in both periods principally reflects the appreciation of some of the currencies in which our indebtedness is denominated, particularly the U.S. dollar.

Valuation of Derivatives, Interest Cost from Labor Obligations and Other Financial Items, Net The changes in valuation of derivatives, interest cost from labor obligations and other financial items, net, represented a loss of Ps.16.2 billion for 2016, compared to a gain of Ps.21.5 billion for 2015. The net loss in 2016 principally relates to market value losses on derivatives positions we use to offset exchange risk on indebtedness, particularly in connection with the British pound, and increased interest cost recognized on labor obligations, which were partially offset by increased dividends from KPN.

Equity Interest in Net Income of Associated Companies Our share of the net income of associated companies accounted for under the equity method was Ps.0.2 billion in 2016, as compared to a loss of Ps.1.4 billion for 2015. This increase principally reflects the derecognition of the equity method investment in KPN, which we reclassified as an available-for-sale security in June 2015.

Income Tax Our income tax expense for 2016 decreased by 40.6%, or Ps.7.8 billion, over 2015. This decrease was principally due to net foreign currency exchange losses as a result of the depreciation of the Mexican peso against the currencies in which a portion of our debt is denominated.

Our effective corporate income tax rate as a percentage of profit before income tax was 48.6% for 2016, compared to 34.2% for 2015. This rate differed from the Mexican statutory rate of 30% and changed year over year principally as a result of an increase in tax inflationary effects and derivatives.

Net Profit

We recorded a net profit of Ps.12.1 billion for 2016, a decrease of 67.3%, or Ps.24.9 billion, over 2015.

CONSOLIDATED RESULTS OF OPERATIONS FOR 2015 AND 2014

Operating Revenues

Total operating revenues for 2015 increased by 5.3%, or Ps.45.2 billion, over 2014. At constant exchange rates, total operating revenues for 2015 increased by 5.9% over 2014, or 1.8% excluding the effects of consolidating Telekom Austria. This increase principally reflects increases in revenues from our wireless data and fixed data operations, partially offset by a decrease in revenues from our wireless voice, fixed voice and Pay TV operations.

Wireless Voice Wireless voice revenues for 2015 decreased by 0.8%, or Ps.2.1 billion, over 2014. At constant exchange rates, wireless voice revenues for 2015 decreased by 3.3% over 2014, or 10.3% excluding the effects of consolidating Telekom Austria. This decrease principally reflects reductions in the price per minute for calls, decreases in international and long-distance traffic, as well as the effects from the elimination of interconnection rates and national roaming charges in Mexico and the reduction of interconnection rates in other jurisdictions where we operate, including, principally, Colombia, Ecuador and Brazil.

Fixed Voice Fixed voice revenues for 2015 decreased by 14.4%, or Ps.16.0 billion, over 2014. At constant exchange rates, fixed voice revenues for 2015 decreased by 11.8% from 2014, or 12.3% excluding the effects of consolidating Telekom Austria. This decrease principally reflects reduced traffic, principally in long-distance calls, in part explained by the growing use of wireless technology, and the effects of regulatory changes in some of the countries where we operate, such as in Mexico and Colombia.

Wireless Data Wireless data revenues for 2015 increased by 17.7%, or Ps.34.1 billion, over 2014. At constant exchange rates, wireless data revenues for 2015 increased by 14.9% over 2014, or 12.1% excluding the effects of consolidating Telekom Austria. This increase principally reflects increased use of services, such as media and content downloading, web browsing, content streaming and machine-to-machine services, driven in part by the increased use of social networking websites and content downloading on tablets and notebooks.

Fixed Data Fixed data revenues for 2015 increased by 9.3%, or Ps.9.3 billion, over 2014. At constant exchange rates, fixed data revenues for 2015 increased by 14.7% over 2014, or 8.3% excluding the effects of consolidating Telekom Austria. This increase principally reflects growth in residential broadband services, driven by higher quality services with greater coverage and the growth of corporate data services, such as cloud, dedicated links, leasing and data center services.

Pay TV Pay TV revenues for 2015 decreased by 4.1%, or Ps.2.8 billion, over 2014. At constant exchange rates, Pay TV revenues for 2015 increased by 9.0% over 2014, or 7.8% excluding the effects of consolidating Telekom Austria. This increase primarily reflects growth in fixed RGUs and increased revenues, driven by new plans and channel packages that integrate multiple services, particularly in Brazil, Colombia, Peru and Ecuador.

Equipment, Accessories and Computer Sales Revenues from equipment, accessories and computer sales for 2015 increased by 21.0%, or Ps.20.1 billion, over 2014. At constant exchange rates, revenues from equipment, accessories and computer sales for 2015 increased by 20.3% over 2014, or 17.7% excluding the effects of consolidating Telekom Austria. This increase principally reflects an increase in sales of higher-end smartphones, feature phones and other data-enabled devices, as well as an increase in handset, tablet and electronics sales, driven by new commercial plans and promotions among postpaid and prepaid subscribers.

Other Services Revenues from other services for 2015 increased by 11.9%, or Ps.2.6 billion, over 2014. At constant exchange rates, revenues from other services for 2015 increased by 12.2% over 2014, or 10.1% excluding the effects of consolidating Telekom Austria. This increase principally reflects an increase in revenues from advertising, online content, wireless security services, telephone directories and call center services.

Operating Costs and Expenses

Cost of Sales and Services Cost of sales and services for 2015 increased by 8.7%, or Ps.33.6 billion, over 2014, representing 47.0% of operating revenues for 2015 compared to 45.6% of operating revenues for 2014. At constant exchange rates, cost of sales and services for 2015 increased by 7.6% over 2014, or 3.5% excluding the effects of consolidating Telekom Austria.

Cost of sales was Ps.145.5 billion for 2015, an increase of 12.2% from Ps.129.6 billion in 2014. Excluding the effects of consolidating Telekom Austria, cost of sales was Ps.137.3 billion for 2015 and Ps.125.1 billion for 2014. This increase primarily reflects the increase in sales of smartphones to subscribers in all countries in which we operate, and an increase in the subsidies we provide in order to acquire and retain subscribers and to incentivize prepaid subscribers to switch to postpaid plans.

Cost of services was Ps.274.8 billion for 2015, an increase of 6.9% from Ps.257.1 billion in 2014. Excluding the effects of consolidating Telekom Austria, cost of services was Ps.251.7 billion for 2015 and Ps.246.9 billion for 2014. This increase primarily reflects an increase in costs related to our Pay TV business, increased royalty payments and an increase in leasing, network maintenance and labor costs.

Commercial, Administrative and General Expenses Commercial, administrative and general expenses for 2015 increased by 8.5%, or Ps.15.8 billion, over 2014. As a percentage of operating revenues, commercial, administrative and general expenses for 2015 and 2014 were 22.5% and 21.9%, respectively. At constant exchange rates, commercial, administrative and general expenses for 2015 increased by 10.5% over 2014, or 8.7% excluding the effects of consolidating Telekom Austria. This increase primarily reflects increased expenses related to higher customer service costs, including increases in the number of customer service centers and employees, as we seek to provide better customer care and quality of service.

Telcel and Telmex, like other Mexican companies, are required by law to pay their employees, in addition to their agreed compensation and benefits, profit sharing in an aggregate amount equal to 10.0% of each entity s taxable income. Our subsidiaries in Ecuador and Peru are also required to pay employee profit sharing at rates of 15.0% and 10.0%, respectively, of taxable income. We account for these amounts under commercial, administrative and general expenses.

Other Expenses Other expenses for 2015 increased by 4.8%, or Ps.0.2 billion, over 2014 principally as a result of the consolidation of Telekom Austria.

Depreciation and Amortization Depreciation and amortization for 2015 increased by 9.3%, or Ps.10.7 billion, over 2014. As a percentage of operating revenues, depreciation and amortization for 2015 increased slightly to 14.1% compared to 13.6% for 2014. This increase primarily reflects the consolidation of Telekom Austria. At constant exchange rates, depreciation and amortization for 2015 increased by 13.4%, or 6.1% excluding the effects of consolidating Telekom Austria. This increase primarily reflects capital expenditures made in recent years in connection with two new satellites placed into orbit in Brazil.

Operating Income

Operating income for 2015 decreased by 9.7%, or Ps.15.1 billion, from 2014. Operating margin (operating income as a percentage of operating revenues) for 2015 was 15.8%, compared to 18.4% for 2014. Excluding the effects of consolidating Telekom Austria, operating income for 2015 decreased by 13.1% and operating margin decreased by 2.7%, due principally to higher subscriber acquisition costs, network maintenance and customer service, as well as the growth of lower-margin businesses, such as TracFone Wireless, Inc. (TracFone), and greater depreciation and amortization charges.

Non-Operating Items

Net Interest Expense Net interest expense (interest expense less interest income) for 2015 increased by Ps.1.9 billion, or 7.7%, over 2014, or 3.4% excluding the effects of consolidating Telekom Austria, attributable to the appreciation of some of the currencies in which our indebtedness is denominated, particularly the U.S. dollar, and an increase in our net debt.

Foreign Currency Exchange Loss, Net We recorded a net foreign currency exchange loss of Ps.79.0 billion for 2015, compared to a net foreign currency exchange loss of Ps.28.6 billion for 2014. Excluding the effects of consolidating Telekom Austria, net foreign currency exchange losses more than doubled when compared to 2014, principally attributable to the appreciation of some of the currencies in which our indebtedness is denominated, particularly the U.S. dollar.

Valuation of Derivatives, Interest Cost from Labor Obligations and Other Financial Items, Net The changes in valuation of derivatives, interest cost from labor obligations and other financial items, net, represented a gain of Ps.21.5 billion for 2015, compared to a loss of Ps.10.2 billion for 2014. The net gain in 2015 principally related to market value gain on derivatives positions we used to offset exchange rate risk on our dollar-denominated indebtedness and recognition of gain when the accounting for our investment in KPN changed from the equity method to securities available-for-sale.

Equity Interest in Net Losses of Associated Companies Our share of the net losses of associated companies accounted for under the equity method was Ps.1.4 billion in 2015 and Ps.6.1 billion in 2014. Our results from equity-method investees for 2015 principally reflect our interest in KPN through June 2015 and our equity interest in Telekom Austria for the first six months of 2014.

Income Tax Our income tax expenses for 2015 decreased by 51.7% over 2014. This was principally due to increases in our deductible net foreign currency exchange losses as a result of the depreciation of the Mexican peso against the currencies in which a portion of our debt is denominated.

Our effective corporate income tax rate as a percentage of profit before income tax was 34.2% for 2015, compared to 45.5% for 2014. This rate differed from the Mexican statutory rate of 30.0% and changed year over year principally as a result of a decrease in both pre-tax income and the equity interest in net loss of associated companies between periods, and the gain on derecognition of the equity method investment in KPN in 2015.

Net Profit

We recorded a net profit of Ps.37.0 billion for 2015, a decrease of 22.2%, or Ps.10.5 billion, over 2014. Excluding the effects of consolidating Telekom Austria, net profit in 2015 decreased by 34.5% compared to 2014. This decrease reflects our foreign exchange losses, greater depreciation and amortization charges.

SEGMENT RESULTS OF OPERATIONS

We discuss below the operating results of each reportable segment. Note 22 to our audited consolidated financial statements describes how we translate the financial statements of our non-Mexican subsidiaries. Exchange rate changes between the Mexican peso and the currencies in which our subsidiaries do business affect our reported results in Mexican pesos and the comparability of reported results between periods.

The following table sets forth the exchange rates used to translate the results of our significant non-Mexican operations, as expressed in Mexican pesos per foreign currency unit, and the change from the rate used in the prior period indicated. The U.S. dollar is our functional currency in several of the countries or territories in which we operate in addition to the United States, including Ecuador, Puerto Rico, Panama and El Salvador.

	Mexican pesos per foreign currency unit (average for the period)				
	2014	% Change	2015	% Change	2016
Brazilian real	5.6574	(15.0)	4.8068	12.1	5.3868
Colombian peso	0.0067	(13.4)	0.0058	5.3	0.0061
Argentine peso	1.6406	4.5	1.7152	(26.4)	1.2632
U.S. dollar	13.2969	19.2	15.8504	17.7	18.6529
Euro	17.6507	(1.5)	17.3886	18.7	20.6334

The tables below set forth operating revenues and operating income for each of our segments for the periods indicated.

	Year ended December 31, 2016			
	Operating revenues		Operating income	
	(in millions of Mexican pesos)	*(as a % of total operating revenues)*	*(in millions of Mexican pesos)*	*(as a % of total operating income)*
Mexico Wireless	Ps. 203,567	20.9%	Ps. 48,220	44.0%
Mexico Fixed	102,216	10.5	12,276	11.2
Brazil	197,357	20.2	6,325	5.8
Colombia	67,589	6.9	11,210	10.2
Southern Cone	72,330	7.4	8,317	7.6
Andean Region	56,131	5.8	6,087	5.6
Central America	42,421	4.3	3,831	3.5
United States	140,856	14.4	1,221	1.1
Caribbean	36,498	3.7	6,143	5.6
Europe	86,979	8.9	5,389	4.9
Eliminations	(30,532)	(3.0)	591	0.5
Total	**Ps. 975,412**	**100.0%**	**Ps. 109,610**	**100.0%**

	Year ended December 31, 2015			
	Operating revenues		Operating income	
	(in millions of Mexican pesos)	*(as a % of total operating revenues)*	*(in millions of Mexican pesos)*	*(as a % of total operating income)*
Mexico Wireless	Ps. 204,825	22.9%	Ps. 70,726	50.0%
Mexico Fixed	101,078	11.3	15,947	11.3
Brazil	178,174	19.9	10,879	7.7
Colombia	66,137	7.4	13,362	9.4