

TELECOM ARGENTINA SA
Form 6-K
January 06, 2016
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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 January 2016

Commission File Number: 001-13464

Telecom Argentina S.A.

(Translation of registrant's name into English)

Alicia Moreau de Justo, No. 50, 1107

Buenos Aires, Argentina

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(Address of principal executive offices)

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

Form 20-F X Form 40-F

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

Yes No X

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

Yes No X

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

Yes No X

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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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 September 30, 2015 under IFRS. Additional information is given in Note 1 to the consolidated financial statements.

2. Telecom Group's activities for the nine-month periods ended September 30, 2015 (9M15) and 2014 (9M14)

Total revenues and other income for 9M15 amounted to \$28,605 (+18.1% vs. 9M14), operating costs including depreciations, amortizations and gain on disposal of PP&E and impairment of PP&E amounted to \$24,146 (+18.5% vs. 9M14), operating income before depreciation and amortization amounted to \$7,664 (+23.9% vs. 9M14) representing 26.8% of consolidated revenues, operating income amounted to \$4,459 (+16.0% vs. 9M14) and net income amounted to \$2,778 (+3.5% vs. 9M14). Net income attributable to Telecom Argentina amounted to \$2,757 in 9M15 (+4.3% vs. 9M14).

| | 9M15 | 9M14 | Variation | |
|--|--------------|--------------|------------------|-------------|
| | | | \$ | % |
| Revenues | 28,590 | 24,183 | 4,407 | 18.2 |
| Other income | 15 | 40 | (25) | (62.5) |
| Operating costs without depreciation and amortization | (20,941) | (18,037) | (2,904) | 16.1 |
| Operating income before depreciation and amortization | 7,664 | 6,186 | 1,478 | 23.9 |
| Depreciation and amortization | (3,154) | (2,354) | (800) | 34.0 |
| Gain on disposal of PP&E and impairment of PP&E | (51) | 11 | (62) | n/a |
| Operating income | 4,459 | 3,843 | 616 | 16.0 |
| Financial results, net | (192) | 230 | (422) | n/a |
| Income before income tax expense | 4,267 | 4,073 | 194 | 4.8 |
| Income tax expense | (1,489) | (1,389) | (100) | 7.2 |
| Net income | 2,778 | 2,684 | 94 | 3.5 |

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| | | | | |
|--|--------------|--------------|-----------|------------|
| Telecom Argentina (Controlling Company) | 2,757 | 2,644 | 113 | 4.3 |
| Non-controlling interest | 21 | 40 | (19) | (47.5) |
| | 2,778 | 2,684 | 94 | 3.5 |
| Basic and diluted earnings per share attributable to Telecom Argentina (in pesos) | 2.84 | 2.73 | | |

- Total revenues and other income**

During 9M15 consolidated total revenues increased 18.2% (+\$4,407 vs. 9M14) amounting to \$28,590 mainly fueled by the mobile services provided by Personal, Broadband and data transmission businesses.

| | 9M15 | 9M14 | \$ | Variation | % |
|----------------------------------|--|---------------|--------------|------------------|-------------|
| <u>Services</u> | | | | | |
| Retail Voice | | | | | |
| Monthly Charges | 992 | 895 | 97 | | 10.8 |
| Measured Services | 1,315 | 1,131 | 184 | | 16.3 |
| Others | 72 | 83 | (11) | | (13.3) |
| Wholesale Voice | | | | | |
| Fixed and mobile interconnection | 484 | 453 | 31 | | 6.8 |
| Others | 250 | 228 | 22 | | 9.6 |
| Data | 1,290 | 1,063 | 227 | | 21.4 |
| Internet | 3,273 | 2,345 | 928 | | 39.6 |
| | Subtotal Fixed Services | 6,198 | 1,478 | | 23.8 |
| Retail Voice | | | | | |
| Monthly Charges | 2,951 | 2,172 | 779 | | 35.9 |
| Measured Services | 1,443 | 1,220 | 223 | | 18.3 |
| Roaming | 209 | 215 | (6) | | (2.8) |
| Others | 506 | 223 | 283 | | 126.9 |
| Wholesale Voice | | | | | |
| Interconnection | 1,144 | 1,196 | (52) | | (4.3) |
| Roaming | 225 | 229 | (4) | | (1.7) |
| Mobile leases | 26 | 31 | (5) | | (16.1) |
| Data | 5,376 | 5,692 | (316) | | (5.6) |
| Internet | 4,283 | 2,294 | 1,989 | | 86.7 |
| | Subtotal Mobile Services - Personal | 13,272 | 2,891 | | 21.8 |

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| | 9M15 | 9M14 | \$ | Variation | % |
|--|---------------|---------------|--------------|------------------|-------------|
| Retail Voice | | | | | |
| Monthly Charges | 174 | 161 | 13 | | 8.1 |
| Measured Services | 201 | 237 | (36) | | (15.2) |
| Roaming | 8 | 7 | 1 | | 14.3 |
| Others | 58 | 26 | 32 | | 123.1 |
| Wholesale Voice | | | | | |
| Interconnection | 57 | 91 | (34) | | (37.4) |
| Roaming | 18 | 3 | 15 | | 500.0 |
| Others | 5 | 4 | 1 | | 25.0 |
| Data | 220 | 248 | (28) | | (11.3) |
| Internet | 388 | 321 | 67 | | 20.9 |
| Subtotal Mobile Services Núcleo | 1,129 | 1,098 | 31 | | 2.8 |
| Revenue from services | 24,968 | 20,568 | 4,400 | | 21.4 |
| <u>Equipment</u> | | | | | |
| Fixed Services | 48 | 44 | 4 | | 9.1 |
| Mobile Services- Personal | 3,468 | 3,515 | (47) | | (1.3) |
| Mobile Services Núcleo | 106 | 56 | 50 | | 89.3 |
| Revenue from equipment sales | 3,622 | 3,615 | 7 | | 0.2 |
| Total Revenues | 28,590 | 24,183 | 4,407 | | 18.2 |

Services revenues amounted to \$24,968 (+21.4% vs. 9M14) and represented 87.3% of consolidated revenues (vs. 85.1% in 9M14). Equipment revenues slightly increased amounting to \$3,622 and represented 12.7% of consolidated revenues (vs. 14.9% in 9M14).

Fixed Services

During 9M15, services revenues generated by this segment amounted to \$7,676 (+\$1,478 or 23.8% vs. 9M14), where Internet revenues have grown the most (+\$928 or +39.6% vs. 9M14), followed by voice retail services (+\$270 or +12.8% vs. 9M14) and data transmission services (+\$227 or +21.4% vs. 9M14).

Ø Voice

Voice retail revenues reached \$2,379 in 9M15 (+12.8% vs. 9M14). These revenues are still affected by tariffs of regulated services. Revenues from regulated services reached approximately 26% of the segment services revenues in 9M15 (vs. 29% in 9M14).

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Monthly Charges and Supplementary Services increased \$97 or +10.8% vs. 9M14, reaching \$992, 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. It also includes higher monthly charges to commercial, professional and government customers amounting to \$49.

Revenues generated by measured services (Local Measured Service, Domestic Long Distance and International Long Distance services) amounted to \$1,315 (+\$184 or 16.3% vs. 9M14). The increase was mainly due to the increase in plans prices (both in local and long national distance), while customers remain stable. According to this, local measured service revenues increased 24.5% vs. 9M14 and DLD revenues increased 11.4% vs. 9M14. The Average Monthly Revenue per User (ARBU) amounted to \$64.8 pesos per month in 9M15 vs. \$56.5 pesos per month amounted in 9M14, representing an increase of 14.8%. The remaining retail voice revenues amounted to \$72 in 9M15 (-13.3% vs. 9M14). The decrease was mainly due to a decrease in customers and consumption of public telecommunication services and a decrease in customers rehabilitation charges.

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 \$105) amounted to \$734 in 9M15 (+7.8% vs. 9M14). Interconnection fixed and mobile revenues amounted to \$484 and the other wholesale revenues amounted to \$250 in 9M15 (+9.6% vs. 9M14), mainly due to higher prices related to cell sites rentals due to the variation of the \$/US\$ exchange rate.

Ø **Data**

Data revenues (including the revenues generated by the subsidiary Telecom USA amounting to \$4) amounted to \$1,290 (+\$227 or +21.4% vs. 9M14). These revenues were generated focusing on the Company's position as an integrated TIC provider (Datacenter, VPN, among others) for wholesale and government segments. The increase was primarily due to higher prices of these services related to the variation of the \$/US\$ exchange rate and to the increase in the number of customers of *Innovation* services (particularly *Integra*, which increased \$15 or +7.1% vs. 9M14).

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Ø **Internet**

Internet revenues amounted to \$3,273 (+\$928 or +39.6% vs. 9M14) mainly due to the expansion of the Broadband customers (+3.1% vs. 9M14) and an increase in average prices resulting in an improvement in the Average Monthly Revenue per User (ARPU), that amounted to \$199 pesos per month in 9M15 vs. \$148.1 pesos per month in 9M14 (+34.6% vs. 9M14). As of September 30, 2015, Telecom Argentina reached approximately 1,804,000 ADSL customers. These connections represent approximately 44.5% of Telecom Argentina s fixed lines in service (vs. 42.6% in 9M14). The churn rate per month amounted to 1.4% in 9M15 (vs. 1.3% in 9M14).

Internet revenues represent 13.1% of consolidated services revenues (vs. 11.4% in 9M14) and 42.6% of Fixed Services segment services revenues (vs. 37.8% in 9M14).

Personal Mobile Services

During 9M15, total services revenues amounted to \$16,163 (+\$2,891 or 21.8% vs. 9M14), being the principal business segment in revenues terms (64.7% and 64.5% of services consolidated revenues in 9M15 and 9M14, respectively). Personal reached 19.4 million subscribers in Argentina (-1.6% vs. 9M14). Approximately 68% of the subscriber base is prepaid subscribers and 32% is postpaid subscribers (including Cuentas claras plans and Mobile Internet dongles). The churn rate per month amounted to 3.1% in 9M15 (vs. 3.0% in 9M14).

Ø **Voice**

Voice retail revenues amounted to \$5,109 in 9M15 (+33.4% vs. 9M14). The increase was mainly due to the increase in monthly charges prices for the postpaid and Cuentas claras subscribers and prepaid services, offset by the net variation of the subscribers base, showing an increase in Cuentas claras subscribers base (+4.5% vs. 9M14) and a decrease in postpaid subscribers base (-6.4% vs. 9M14) and prepaid subscribers base (-2.1% vs. 9M14).

Voice wholesale revenues amounted to \$1,395 in 9M15 (-4.2% vs. 9M14), mainly due to the decrease in interconnection traffic volume (especially TLRD and CPP).

Ø **Data**

Mobile data services revenues amounted to \$5,376 (-\$316 or -5.6% vs. 9M14). The decrease was due to lower revenues from the principal item of VAS revenues, SMS consumption, which decreased \$491 as compared to 9M14 (-14.3%), showing a decrease in TOU (-44.6% vs. 9M14) and an increase in such services prices for Cuentas claras and postpaid subscribers. Notwithstanding, this effect was partially offset with a constant increase of the SMS with content sales, as a result of several campaigns launched by Personal, which represented an inter-annual increase of \$189 or +9%.

Ø **Internet**

Mobile Internet revenues amounted to \$4,283 (+\$1,989 or +86.7% vs. 9M14). This increase is mainly explained by the increase in browsing services consumption of Personal's subscribers, which was mainly fueled by the increase in the offer of services, plans and packs (including VAS) launched by Personal. This growth was fueled by new subscribers, the migration of the existing ones to higher-value plans and the increase of subscribers that acquired 3G handsets, which facilitate Internet browsing in all subscribers' segments. Internet flat rate services revenues have decreased mainly due to the decrease of Mobile Internet dongles subscribers (-37.7% vs. 9M14).

As a consequence of the increase in monthly charges tariffs and Internet consumption, ARPU increased to \$88.8 pesos per month in 9M15 (vs. \$71.7 pesos per month in 9M14), which represents an increase of 23.8%.

VAS revenues (data and Internet) amounted to \$9,659 (+20.9% vs. 9M14) and represented 59.8% of Personal Mobile Services' services revenues (vs. 60.2% in 9M14).

Núcleo Mobile Services

This segment generated services revenues equivalent to \$1,129 during 9M15 (+\$31 or 2.8% vs. 9M14) mainly due to the Internet revenues increase (+20.9% vs. 9M14), mainly related to the increase of browsing generated by subscribers with mobile equipment prepared for that purpose. As of September 30, 2015, Núcleo's subscriber base reached 2.5 million customers. Prepaid and postpaid subscribers (including Plan Control subscribers and mobile Internet subscribers) represented 80% and 20% in 9M15, respectively.

VAS revenues (data and Internet) amounted to \$608 (+6.9% vs. 9M14) and represented 53.9% of Núcleo Mobile Services segment services revenues (vs. 51.8% in 9M14).

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The Telecom Group's services revenues increased 21.4%. Internet services revenues from all segments have maximized Telecom Group's services revenues showing a 60.2% increase vs. 9M14, increasing the relative weight over total services revenues according to the following table:

| | <u>Nine-month periods ended</u> <u>September 30,</u> | | | | <u>9M15 vs.</u> <u>9M14</u> <u>%</u> <u>variation</u> |
|-------------------------------|---|------------|---------------|------------|--|
| | <u>2015</u> | <u>%</u> | <u>2014</u> | <u>%</u> | |
| Voice Retail | 7,929 | 32 | 6,370 | 31 | 24.5 |
| Voice Wholesale | 2,209 | 9 | 2,235 | 11 | (1.2) |
| Total Voice | 10,138 | 41 | 8,605 | 42 | 17.8 |
| Data | 6,886 | 27 | 7,003 | 34 | (1.7) |
| Internet | 7,944 | 32 | 4,960 | 24 | 60.2 |
| Total service revenues | 24,968 | 100 | 20,568 | 100 | 21.4 |

Equipment

Revenues from equipment amounted to \$3,622, +\$7 or +0.2% vs. 9M14. The Personal Mobile Services segment shows a decrease of \$47 vs. 9M14 due to lower handsets sold (-35% vs. 9M14) but with an increase in handset's average sale prices (+52% vs. 9M14), resulting in a higher operating margin of handsets (+\$350 or +67.8% vs. 9M14). Núcleo Mobile Services segment reached an increase of \$50 (+89.3% vs. 9M14) due to higher sales of handsets (+72% vs. 9M14) but with a decrease in handset's average sale prices (-16% vs. 9M14).

- Operating costs**

Consolidated operating costs including depreciations, amortizations and gain on disposal of PP&E and impairment of PP&E totaled \$24,146 in 9M15, which represents an increase of \$3,766 or +18.5% vs. 9M14. 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 Telecom Group in Argentina, the increase in fees for services related to higher supplier prices, the increase in taxes and fees with the Regulatory Authority, the increase of VAS costs, the increase in bad debt expenses, higher provisions costs, higher agent commissions and higher depreciation and amortization of PP&E and intangible assets, which were partially offset by lower costs of equipment and handsets of \$345.

Variation

Variation in \$ by segment

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| | 9M15 | 9M14 | \$ | % | Fixed Serv. | Personal M. Serv. | Núcleo M. Serv. |
|---|-----------------|-----------------|----------------|-------------|----------------|-------------------|-----------------|
| Employee benefit expenses and severance payments | (5,292) | (4,002) | (1,290) | 32.2 | (950) | (334) | (6) |
| Interconnection costs and other telecommunication charges | (1,559) | (1,536) | (23) | 1.5 | (19) | (41) | 37 |
| Fees for services, maintenance, materials and supplies | (2,860) | (2,482) | (378) | 15.2 | (219) | (152) | (7) |
| Taxes and fees with the Regulatory Authority | (2,841) | (2,399) | (442) | 18.4 | (74) | (363) | (5) |
| Commissions | (2,976) | (2,421) | (555) | 22.9 | (57) | (464) | (34) |
| Agent commissions capitalized as SAC | 781 | 634 | 147 | 23.2 | 17 | 128 | 2 |
| Cost of equipment and handsets | (2,857) | (3,202) | 345 | (10.8) | (14) | 425 | (66) |
| Cost of equipment and handsets capitalized as SAC | 66 | 83 | (17) | (20.5) | - | (28) | 11 |
| Advertising | (591) | (512) | (79) | 15.4 | 27 | (109) | 3 |
| Cost of VAS | (910) | (679) | (231) | 34.0 | (14) | (199) | (18) |
| Provisions | (174) | (102) | (72) | 70.6 | (27) | (45) | - |
| Bad debt expenses | (410) | (327) | (83) | 25.4 | 11 | (99) | 5 |
| Other operating expenses | (1,318) | (1,092) | (226) | 20.7 | (90) | (128) | (8) |
| Subtotal | (20,941) | (18,037) | (2,904) | 16.1 | (1,409) | (1,409) | (86) |
| Depreciation of PP&E | (2,165) | (1,740) | (425) | 24.4 | (166) | (253) | (6) |
| Amortization of SAC and service connection charges | (733) | (596) | (137) | 23.0 | (28) | (106) | (3) |
| Amortization of 3G/4G Licenses | (227) | - | (227) | n/a | - | (227) | - |
| Amortization of other intangible assets | (29) | (18) | (11) | 61.1 | - | - | (11) |
| Gain on disposal of PP&E and impairment of PP&E | (51) | 11 | (62) | n/a | 15 | (77) | - |
| Total operating costs | (24,146) | (20,380) | (3,766) | 18.5 | (1,588) | (2,072) | (106) |

The costs breakdown is as follows:

Employee benefit expenses and severance payments

Employee benefit expenses and severance payments amounted to \$5,292 (+\$1,290 or +32.2% vs. 9M14). 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 16,269 by the end of 9M15 (vs. 16,540 employees in 9M14), lines in service per employee reached 373 in the Fixed Services segment (+0.8% vs. 9M14), subscribers per employee reached 3,884 in the Personal Mobile Services segment (-1.3% vs. 9M14) and subscribers per employee reached 6,186 (+6.3% vs. 9M14) in the Núcleo Mobile Services segment.

Employee benefit expenses and severance payments represents in 9M15 18.5% of consolidated revenues (vs. 16.5% in 9M14).

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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 \$1,559 (+\$23 or +1.5% vs. 9M14). The increase was mainly due to higher TLRD costs offset by lower traffic volume in roaming vs. 9M14.

Fees for services, maintenance, materials and supplies

Fees for services, maintenance, materials and supplies amounted to \$ 2,860, +\$378 or +15.2% vs. 9M14. The increase was mainly due to higher maintenance costs of radio bases and buildings in the mobile services segments, as a result of the variation in the \$/US\$ exchange rate, an increase in technical assistance cost of radio bases, higher costs of building maintenance, higher costs of sites location and storage costs. 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, fees with the Regulatory Authority, IDC, municipal and other taxes) amounted to \$2,841 (+18.4% vs. 9M14), influenced mainly by the increase in revenues of fixed and mobile services and by the increase of the IDC related to higher collections and payments to suppliers in 9M15 vs. 9M14.

Commissions

Commissions (including Agent, distribution of prepaid cards and other commissions) amounted to \$2,976 (+\$555 or +22.9% vs. 9M14). The increase was mainly due to the increase in Agents' commissions (associated to higher revenues) as a result of higher customer's acquisition and retention costs recognized to them and the increase of outsourced sales commissions and collection commissions related to higher cash flows as compared to 9M14.

On the other hand, agent commissions capitalized as SAC amounted to \$781, +\$147 or +23.2% vs. 9M14, and it is directly related to the increase in the Cuentas claras 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 \$2,857 (-\$345 or -10.8% vs. 9M14) mainly due to a decrease in the units of handsets sold (-35% vs. 9M14), partially offset by an increase in the average unit cost of sales (+32% vs. 9M14) in the Personal Mobile Services segment.

On the other hand, SAC deferred costs from handsets sold amounted to \$66, -\$17 or -20.5% vs. 9M14. The lower capitalized amount was mainly due to the significant reduction of subsidies provided to customers in the Personal Mobile Services segment, especially in the postpaid segment.

Advertising

Advertising amounted to \$591 (+\$79 or +15.4% vs. 9M14), mainly due to higher commercial campaigns of Personal related to the launching of the 4G services throughout the country as compared to 9M14, especially those related to the new slogan *Hagamos que todo suceda* (*Let's make it all happen*).

Cost of VAS

Cost of VAS amounted to \$910 (+\$231 or +34.0% vs. 9M14). The increase was mainly due to the increase of VAS sales in the Personal Mobile Services segment, especially the SMS with content service, which grew as a consequence of several campaigns launched by Personal. Cost of VAS over its related revenues increased from 30% in 9M14 to 36% in 9M15.

Provisions

Provisions amounted to \$174, +\$72 or +70.6% vs. 9M14. The increase was mainly due to higher labor claims (+\$32 vs. 9M14), higher civil and commercial claims (+\$34 vs. 9M14) and higher regulatory and municipal contingencies (+\$6 vs. 9M14).

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Bad debt expenses

Bad debt expenses amounted to \$410 (+\$83 or +25.4% vs. 9M14), representing approximately 1.4% of the consolidated revenues in 9M15 and 9M14. The major increase is observed in the Personal Mobile Services segment as a consequence of higher aging of the accounts receivables and higher incidence of handset sales directly financed by Personal to its postpaid and Cuentas claras subscribers. The mentioned increase was partially offset by a \$19 decrease of these expenses in the Government and Corporate segment in Telecom Argentina in 9M15 as a consequence of the collections from some governmental entities.

Other operating costs

Other operating costs amounted to \$1,318 (+\$226 or +20.7% vs. 9M14). The increase was mainly due to higher prices on related services, especially in transportation, freight and travel expenses (+\$122 or +30.4% vs. 9M14), among others, in the operations in Argentina; the increase of rent prices (+\$89 or +29.8% vs. 9M14), as a result of new agreements and the renegotiation of some of the existing ones and the increase of the consumption of electricity (+\$38 or +18.0% vs. 9M14).

• **Operating income before depreciation and amortization**

Operating income before depreciation and amortization amounted to \$7,664 (+\$1,478 or 23.9% vs. 9M14), representing 26.8% of consolidated revenues in 9M15 (vs. 25.6% in 9M14). This growth was mainly fueled by the Fixed Services segment (+\$196 or +12.7% vs. 9M14) and Personal Mobile Services segment (+\$1,286 or +30.5% vs. 9M14).

Operating income before depreciation and amortization generated by equipment and handset sales (including SAC capitalization) amounted to \$831 in 9M15 vs. \$496 in 9M14 (+\$335 or 67.5% vs. 9M14), while operating income before depreciation and amortization generated by services sales amounted to \$6,833 in 9M15 vs. \$5,690 in 9M14 (+\$1,143 or +20.1% vs. 9M14).

Depreciation and amortization

Depreciation and amortization amounted to \$3,154 (+\$800 or +34.0% vs. 9M14). The increase in depreciation and amortization includes \$425 from PP&E depreciation, \$238 from amortization of intangible assets without SAC (mainly 3G/4G Licenses which started their amortization in December 2014 and June 2015 and generated \$227 in 9M15) and \$137 from amortization of SAC and service connection costs. The increase in depreciation and amortization corresponds 24% to the Fixed Services segment and 76% to the mobile services segments.

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

Gain on disposal of PP&E increased \$10 vs. 9M14 and an impairment of \$79 related to work in progress was recorded in 9M15 in Personal Mobile Services segment, which includes \$49 mainly related to the mobile pricing system needed for the new management system.

- **Operating income**

Operating income amounted to \$4,459 in 9M15 (+\$616 or 16.0% vs. 9M14). The margin over consolidated revenues represented 15.6% in 9M15 (vs. 15.9% in 9M14). This growth was mainly fueled by the Personal Mobile Services segment (+\$623 or +20.5% vs. 9M14) and the Fixed Services segment (+\$17 or +2.6% vs. 9M14).

- **Financial results, net**

Financial results, net resulted in a net loss of \$192, representing an increase of \$422 vs. 9M14. This net loss is related to the net financial position, which turned into a net financial debt during 2015 as a consequence of the higher Group's investments. The increase was mainly due to higher interests on loans (+\$255 vs. 9M14) and lower financial interest on time deposits and other investments as consequence of the decrease of financial assets (-\$179 vs. 9M14), partially offset by higher interests on receivables (+\$14 vs. 9M14), higher net gains on NDF (+\$9 vs. 9M14) and lower net foreign currency exchange losses (-\$11 vs. 9M14).

- **Net income**

Telecom Argentina reached a net income of \$2,778 in 9M15, +\$94 or +3.5% as compared to 9M14, representing 9.7% of the consolidated revenues in 9M15 (vs. 11.1% in 9M14). Net income attributable to Telecom Argentina amounted to \$2,757 in 9M15, +\$113 or +4.3% as compared to 9M14.

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

- Net financial assets**

As of September 30, 2015, net financial debt (Cash and Cash Equivalents plus financial investments minus Financial debt) amounted to \$1,586, showing a decrease of \$5,112 as compared to the net financial asset as of September 30, 2014 (amounting to \$3,526). This variation was mainly due to a decrease in the generation of cash from operating activities of the Telecom Group, mainly by higher CAPEX which include the acquisition of the 3G/4G Licenses amounting \$5,786 as of December 2014 and June 2015 - and cash dividends paid to its shareholders for a total amount of \$861 (including tax withholding on cash dividends). As of September 30, 2015, the Fixed Services segment has a financial asset of \$464 while Personal Mobile Services segment has a net financial debt of \$1,853 and Núcleo Mobile Services segment has a net financial debt of \$197.

- Capital expenditures (CAPEX)**

CAPEX composition for 9M15 and 9M14 is as follows:

| | In millions of \$ | | % of participation | | Variation | |
|------------------------------|-------------------|--------------|--------------------|-------------|--------------|------------|
| | 9M15 | 9M14 | 9M15 | 9M14 | \$ | % |
| Fixed Services | 1,793 | 1,542 | 26% | 40% | 251 | 16% |
| Personal Mobile Services (*) | 4,745 | 2,060 | 70% | 54% | 2,685 | 130% |
| Núcleo Mobile Services | 253 | 217 | 4% | 6% | 36 | 17% |
| Total CAPEX | 6,791 | 3,819 | 100% | 100% | 2,972 | 78% |

(*) Include 4G License for an amount of \$2,256 in 9M15.

PP&E CAPEX amounted to \$3,577 and intangible assets CAPEX amounted to \$3,214 in 9M15, while in 9M14 amounted to \$3,035 and \$784, respectively. The increase in intangible assets CAPEX was mainly due to the acquisition of the last Lot of 4G Licenses for an amount of \$2,256 during June 2015.

In relative terms, CAPEX represented 23.8% of consolidated revenues in 9M15 (15.8% in 9M14), and were intended mainly to the already mentioned 4G License (7.9% of consolidated revenues in 9M15), to the external wiring and network access equipment, to the initial deployment of the new 4G network, transmission and switching equipment, computer equipment and SAC.

PP&E and intangible assets additions (CAPEX plus materials additions) for 9M15 and 9M14 are as follows:

| | In millions of \$ | | % of participation | | Variation | |
|------------------------------|-------------------|--------------|--------------------|-------------|--------------|------------|
| | 9M15 | 9M14 | 9M15 | 9M14 | \$ | % |
| Fixed Services | 2,096 | 1,853 | 26% | 44% | 243 | 13% |
| Personal Mobile Services (*) | 5,503 | 2,168 | 70% | 51% | 3,335 | 154% |
| Núcleo Mobile Services | 302 | 237 | 4% | 6% | 65 | 27% |
| Total additions | 7,901 | 4,258 | 100% | 100% | 3,643 | 86% |

(*) Include 4G License for an amount of \$2,256 in 9M15.

Main PP&E CAPEX projects are related to the expansion of fixed broadband services in order to improve transmission and speed offered to customers; deployment of 3G and 4G services to support the growth of mobile Internet, improvement of the quality service 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.

3. *Telecom Group s activities for the three-month periods ended September 30, 2015 (3Q15) and 2014 (3Q14)*

Telecom Group s net income amounted to \$800 in 3Q15, -\$48 or -5.7% vs. 3Q14. Net income attributable to Telecom Argentina amounted to \$801 in 3Q15 (-\$38 or -4.5% vs. 3Q14).

Total revenues and other income increased 17.3% vs. 3Q14 and operating income before depreciation and amortization amounted to \$2,529 (+\$462 or 22.4% vs. 3Q14), representing 25.1% of the consolidated revenues (vs. 24.0% in 3Q14). Operating income amounted to \$1,311 (+\$86 or 7.0% vs. 3Q14). Financial results, net amounted to -\$73 (-\$149 vs. 3Q14), while income tax expenses amounted to \$438 (-\$15 or -3.3% vs. 3Q14). Net income amounted to \$800 (-\$48 or -5.7% vs. 9M14).

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF SEPTEMBER 30, 2015

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

| | 3Q15 | 3Q14 | Variation | |
|--|--------------|--------------|-------------|--------------|
| | | | \$ | % |
| Revenues | 10,094 | 8,598 | 1,496 | 17.4 |
| Other income | 4 | 10 | (6) | (60.0) |
| Operating costs without depreciation and amortization | (7,569) | (6,541) | (1,028) | 15.7 |
| Operating income before depreciation and amortization | 2,529 | 2,067 | 462 | 22.4 |
| Depreciation and amortization | (1,164) | (843) | (321) | 38.1 |
| Gain on disposal of PP&E and impairment of PP&E | (54) | 1 | (55) | n/a |
| Operating income | 1,311 | 1,225 | 86 | 7.0 |
| Financial results, net | (73) | 76 | (149) | n/a |
| Income before income tax expense | 1,238 | 1,301 | (63) | (4.8) |
| Income tax expense | (438) | (453) | 15 | (3.3) |
| Net income | 800 | 848 | (48) | (5.7) |
| Attributable to: | | | | |
| Telecom Argentina (Controlling Company) | 801 | 839 | (38) | (4.5) |
| Non-controlling interest | (1) | 9 | (10) | n/a |
| | 800 | 848 | (48) | (5.7) |
| Basic and diluted earnings per share attributable to Telecom Argentina (in pesos) | | | | |
| | 0.83 | 0.87 | | |

During 3Q15 consolidated revenues increased 17.4% (+\$1,496 vs. 3Q14) amounting to \$10,094, mainly fueled by mobile services, Broadband and voice retail services in the Fixed Services segment.

| | 3Q15 | 3Q14 | Variation | |
|--|---------------|--------------|--------------|--------------|
| | | | \$ | % |
| <u>Services</u> | | | | |
| Retail Voice | 846 | 723 | 123 | 17.0 |
| Wholesale Voice | 255 | 228 | 27 | 11.8 |
| Data | 451 | 380 | 71 | 18.7 |
| Internet | 1,198 | 842 | 356 | 42.3 |
| Subtotal Fixed Services | 2,750 | 2,173 | 577 | 26.6 |
| Retail Voice | 1,850 | 1,235 | 615 | 49.8 |
| Wholesale Voice | 466 | 480 | (14) | (2.9) |
| Data | 1,763 | 2,015 | (252) | (12.5) |
| Internet | 1,594 | 869 | 725 | 83.4 |
| Subtotal Personal Mobile Services | 5,673 | 4,599 | 1,074 | 23.4 |
| Retail Voice | 148 | 154 | (6) | (3.9) |
| Wholesale Voice | 24 | 41 | (17) | (41.5) |
| Data | 72 | 84 | (12) | (14.3) |
| Internet | 127 | 114 | 13 | 11.4 |
| Subtotal Núcleo Mobile Services | 371 | 393 | (22) | (5.6) |
| Total services revenues | 8,794 | 7,165 | 1,629 | 22.7 |
| <u>Equipment</u> | | | | |
| Fixed Services | 25 | 13 | 12 | 92.3 |
| Personal Mobile Services | 1,235 | 1,400 | (165) | (11.8) |
| Núcleo Mobile Services | 40 | 20 | 20 | 100.0 |
| Total equipment revenues | 1,300 | 1,433 | (133) | (9.3) |
| Total revenues | 10,094 | 8,598 | 1,496 | 17.4 |

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Consolidated operating costs including depreciation, amortization and gain on disposal of PP&E and impairment of PP&E amounted to \$8,787 in 3Q15, which represented an increase of \$1,404 or 19.0% vs. 3Q14. The increase in costs is mainly a consequence of higher revenues, higher expenses related to competition in mobile and Internet businesses, higher direct and indirect labor costs on the cost structure in Argentina, the increase in fees for services related to higher supplier prices, the increase in taxes and fees with the Regulatory Authority, the increase of VAS costs, the increase in depreciation and amortization of PP&E and intangible assets and higher losses related to PP&E impairment, partially offset by lower equipment and handsets cost (-39% of equipment and handset sold).

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF SEPTEMBER 30, 2015

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

| | 3Q15 | 3Q14 | Variation | |
|---|----------------|----------------|------------------|-------------|
| | | | \$ | % |
| Employee benefit expenses and severance payments | (2,034) | (1,465) | (569) | 38.8 |
| Interconnection costs and other telecommunication charges | (558) | (516) | (42) | 8.1 |
| Fees for services, maintenance, materials and supplies | (991) | (883) | (108) | 12.2 |
| Taxes and fees with the Regulatory Authority | (988) | (835) | (153) | 18.3 |
| Commissions | (1,067) | (941) | (126) | 13.4 |
| Agent commissions capitalized as SAC | 268 | 272 | (4) | (1.5) |
| Cost of equipment and handsets | (1,080) | (1,252) | 172 | (13.7) |
| Cost of equipment and handsets capitalized as SAC | 24 | 26 | (2) | (7.7) |
| Advertising | (221) | (171) | (50) | 29.2 |
| Cost of VAS | (313) | (273) | (40) | 14.7 |
| Provisions | (7) | - | (7) | n/a |
| Bad debt expenses | (129) | (94) | (35) | 37.2 |
| Other operating expenses | (473) | (409) | (64) | 15.6 |
| Subtotal | (7,569) | (6,541) | (1,028) | 15.7 |
| Depreciation of PP&E | (774) | (634) | (140) | 22.1 |
| Amortization of SAC and service connection charges | (276) | (203) | (73) | 36.0 |
| Amortization of 3G/4G Licenses | (96) | - | (96) | n/a |
| Amortization of other intangible assets | (18) | (6) | (12) | 200.0 |
| Gain on disposal of PP&E and impairment of PP&E | (54) | 1 | (55) | n/a |
| Total operating costs | (8,787) | (7,383) | (1,404) | 19.0 |

CAPEX amounted to \$2,101 in 3Q15 and amounted to \$1,554 in 3Q14 (+\$547 or +35.2%).

| | |
|-----------|--|
| 4. | <i>Summary of comparative consolidated statements of financial position</i> |
|-----------|--|

| | 2015 | 2014 | September 30, | | 2012 | 2011 |
|--|---------------|---------------|----------------------|---------------|---------------|-------------|
| | | | 2013 | | | |
| Current assets | 9,666 | 8,249 | 10,105 | 5,885 | 4,495 | |
| Non-current assets | 24,360 | 16,423 | 11,845 | 10,266 | 9,086 | |
| Total assets | 34,026 | 24,672 | 21,950 | 16,151 | 13,581 | |
| Current liabilities | 14,503 | 8,829 | 7,639 | 5,118 | 4,654 | |
| Non-current liabilities | 2,887 | 2,129 | 2,052 | 1,727 | 1,391 | |
| Total liabilities | 17,390 | 10,958 | 9,691 | 6,845 | 6,045 | |
| Equity attributable to Telecom Argentina (Controlling Company) | 16,318 | 13,378 | 12,027 | 9,137 | 7,391 | |
| Equity attributable non-controlling interest | 318 | 336 | 232 | 169 | 145 | |
| Total Equity | 16,636 | 13,714 | 12,259 | 9,306 | 7,536 | |
| Total liabilities and equity | 34,026 | 24,672 | 21,950 | 16,151 | 13,581 | |

5. *Summary of comparative consolidated income statements*

| | 3Q15 | 3Q14 | 3Q13 | 3Q12 | 3Q11 | 9M15 | 9M14 | 9M13 | 9M12 | 9M11 |
|---|--------------|--------------|--------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Revenues and other income | 10,098 | 8,608 | 7,127 | 5,652 | 4,780 | 28,605 | 24,223 | 19,853 | 16,041 | 13,381 |
| Operating costs | (8,787) | (7,383) | (5,924) | (4,731) | (3,846) | (24,146) | (20,380) | (16,590) | (13,238) | (10,518) |
| Operating income | 1,311 | 1,225 | 1,203 | 921 | 934 | 4,459 | 3,843 | 3,263 | 2,803 | 2,863 |
| Financial results, net | (73) | 76 | 163 | 47 | 21 | (192) | 230 | 377 | 159 | 38 |
| Income before income tax expense | 1,238 | 1,301 | 1,366 | 968 | 955 | 4,267 | 4,073 | 3,640 | 2,962 | 2,901 |
| Income tax expense | (438) | (453) | (480) | | | | | | | |