

TELECOM ARGENTINA SA
Form 6-K
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[Table of Contents](#)

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 December 2016

Commission File Number: 001-13464

Telecom Argentina S.A.

(Translation of registrant's name into English)

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Table of Contents

Telecom Argentina S.A.

TABLE OF CONTENTS

Item

<u>1.</u>	<u>Unaudited Condensed Consolidated Financial Statements as of September 30, 2016</u>
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Table of Contents

TELECOM ARGENTINA S.A.

TELECOM ARGENTINA S.A.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

Table of Contents

TELECOM ARGENTINA S.A.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2016 AND 2015

INDEX

Operating and financial review and prospects as of September 30, 2016

Unaudited condensed consolidated financial statements

Unaudited consolidated statements of financial position

Unaudited consolidated income statements

Unaudited consolidated statements of comprehensive income

Unaudited consolidated statements of changes in equity

Unaudited consolidated statements of cash flows

Notes to the unaudited condensed consolidated financial statements

Limited review report on condensed interim consolidated financial statements

Corporate information

Table of Contents**TELECOM ARGENTINA S.A.****OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF SEPTEMBER 30, 2016**

(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, 2016 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, 2016 (9M16) and 2015 (9M15)

Total revenues and other income for 9M16 amounted to \$38,852 (+35.8% vs. 9M15), operating costs including depreciations, amortizations and gain on disposal of PP&E and impairment of PP&E amounted to \$33,329 (+38.0% vs. 9M15), operating income before depreciation and amortization amounted to \$10,208 (+33.2% vs. 9M15) representing 26.3% of consolidated revenues, operating income amounted to \$5,523 (+23.9% vs. 9M15) and net income amounted to \$2,495 (-10.2% vs. 9M15). Net income attributable to Telecom Argentina amounted to \$2,471 in 9M16 (-10.4% vs. 9M15).

	9M16	9M15	Variation	
			\$	%
Revenues	38,818	28,590	10,228	35.8
Other income	34	15	19	126.7
Operating costs without depreciation and amortization	(28,644)	(20,941)	(7,703)	36.8
Operating income before depreciation and amortization	10,208	7,664	2,544	33.2
Depreciation and amortization	(4,485)	(3,154)	(1,331)	42.2
Gain on disposal of PP&E and impairment of PP&E	(200)	(51)	(149)	292.2
Operating income	5,523	4,459	1,064	23.9
Financial results, net	(1,682)	(192)	(1,490)	776.0
Income before income tax expense	3,841	4,267	(426)	(10.0)
Income tax expense	(1,346)	(1,489)	143	(9.6)
Net income	2,495	2,778	(283)	(10.2)

Attributable to:

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Telecom Argentina (Controlling Company)	2,471	2,757	(286)	(10.4)
Non-controlling interest	24	21	3	14.3
	2,495	2,778	(283)	(10.2)
Basic and diluted earnings per share attributable to Telecom Argentina (in pesos)	2.55	2.84		

• **Total revenues and other income**

During 9M16 consolidated total revenues increased 35.8% (+\$10,228 vs. 9M15) amounting to \$38,818 mainly fueled by the mobile services provided by Personal, Broadband and data transmission businesses.

	9M16	9M15	\$	Variation %
<u>Services</u>				
Retail Voice				
Monthly Charges	1,736	992	744	75.0
Measured Services	1,524	1,315	209	15.9
Others	73	72	1	1.4
Wholesale Voice				
Fixed and mobile interconnection	620	484	136	28.1
Others	375	250	125	50.0
Data	2,133	1,290	843	65.3
Internet	4,351	3,273	1,078	32.9
Subtotal Fixed Services	10,812	7,676	3,136	40.9
Retail Voice				
Monthly Charges	3,695	2,951	744	25.2
Measured Services	1,545	1,443	102	7.1
Roaming	204	209	(5)	(2.4)
Others	811	506	305	60.3
Wholesale Voice				
Interconnection	1,168	1,144	24	2.1
Roaming	212	225	(13)	(5.8)
Mobile leases	62	26	36	138.5
Data	5,103	5,376	(273)	(5.1)
Internet	7,497	4,283	3,214	75.0
Subtotal Mobile Services - Personal	20,297	16,163	4,134	25.6

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF SEPTEMBER 30, 2016

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

		9M16	9M15	\$	Variation	%
Retail Voice						
Monthly Charges		229	174	55		31.6
Measured Services		256	201	55		27.4
Roaming		13	8	5		62.5
Others		130	58	72		124.1
Wholesale Voice						
Interconnection		86	57	29		50.9
Roaming		16	18	(2)		(11.1)
Others		9	5	4		80.0
Data		321	220	101		45.9
Internet		705	388	317		81.7
Subtotal Mobile Services	Núcleo	1,765	1,129	636		56.3
	Revenue from services	32,874	24,968	7,906		31.7
<u>Equipment</u>						
Fixed Services		78	48	30		62.5
Mobile Services- Personal		5,649	3,468	2,181		62.9
Mobile Services	Núcleo	217	106	111		104.7
	Revenue from equipment sales	5,944	3,622	2,322		64.1
Total Revenues		38,818	28,590	10,228		35.8

Services revenues amounted to \$32,874 (+31.7% vs. 9M15) and represented 84.7% of consolidated revenues (vs. 87.3% in 9M15). Equipment revenues increased 64.1%, amounting to \$5,944 and represented 15.3% of consolidated revenues (vs. 12.7% in 9M15).

Fixed Services

During 9M16, services revenues generated by this segment amounted to \$10,812 (+\$3,136 or +40.9% vs. 9M15), where Internet revenues have grown the most (+\$1,078 or +32.9% vs. 9M15), followed by voice retail services (+\$954 or +40.1% vs. 9M15) and data transmission services (+\$843 or +65.3% vs. 9M15).

Ø Voice

Voice retail revenues reached \$3,333 in 9M16 (+40.1% vs. 9M15). Revenues from regulated services reached approximately 27% of the segment services revenues in 9M16 (vs. 26% in 9M15).

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Monthly Charges and Supplementary Services increased \$744 or +75.0% vs. 9M15, reaching \$1,736, as a consequence of an increase in supplementary services (not regulated), mainly due to a higher monthly charges to commercial customers since May 2016 and to the increase in the prices of non regulated supplementary services.

Revenues generated by measured services (Local Measured Service, Domestic Long Distance and International Long Distance services) amounted to \$1,524 (+\$209 or +15.9% vs. 9M15). The increase was mainly due to the increase in plans prices (both in local and long national distance). According to this, local measured service revenues increased 20.7% vs. 9M15 and DLD revenues increased 11.8% vs. 9M15. The Average Monthly Revenue per User (ARBU) amounted to \$93.1 pesos per month in 9M16 vs. \$64.8 pesos per month amounted in 9M15, representing an increase of 43.7%. The remaining retail voice revenues amounted to \$73 in 9M16 (slightly higher vs.9M15).

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 \$194) amounted to \$995 in 9M16 (+35.6% vs. 9M15). Interconnection fixed and mobile revenues amounted to \$620 (+28.1% vs. 9M15) and the other wholesale revenues amounted to \$375 in 9M16 (+50.0% vs. 9M15), 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 \$6) amounted to \$2,133 (+\$843 vs. 9M15). These revenues were generated focusing on Telecom Argentina's position as an integrated ICTs 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 these services (the increase amounted to \$587 vs. 9M15).

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF SEPTEMBER 30, 2016

Table of Contents

TELECOM ARGENTINA S.A.

Ø **Internet**

Internet revenues amounted to \$4,351 (+\$1,078 or +32.9% vs. 9M15) mainly due to an increase in average prices resulting in an improvement in the Average Monthly Revenue per User (ARPU), that amounted to \$260.4 pesos per month in 9M16 vs. \$199.3 pesos per month in 9M15 (+30.7% vs. 9M15). As of September 30, 2016, Telecom Argentina reached approximately 1,800,000 ADSL customers (of which 1,289,000 correspond to +3Mb access vs. 958,000 in 9M15). These connections represent approximately 45.6% of Telecom Argentina s fixed lines in service (vs. 44.5% in 9M15). The churn rate per month amounted to 1.5% in 9M16 (vs. 1.4% in 9M15).

Internet services revenues represent 13.2% of consolidated services revenues (vs. 13.1% in 9M15) and 40.2% of Fixed Services segment revenues (vs. 42.6% in 9M15).

Personal Mobile Services

During 9M16, total services revenues amounted to \$20,297 (+\$4,134 or +25.6% vs. 9M15), being the principal business segment in revenues terms (61.7% and 64.7% of services consolidated revenues in 9M16 and 9M15, respectively). Personal reached 19.9 million subscribers in Argentina (+2.4% vs. 9M15). Approximately 67% of the subscriber base is prepaid subscribers and 33% is postpaid subscribers (including Cuentas claras plans and Mobile Internet dongles). The churn rate per month amounted to 2.7% in 9M16 (vs. 3.1% in 9M15).

Ø **Voice**

Voice retail revenues amounted to \$6,255 in 9M16 (+22.4% vs. 9M15). The increase was mainly due to the increase in monthly charges prices in the postpaid and Cuentas claras subscriber base and prepaid services, and due to the net variation of the subscriber base showing an increase in Cuentas claras (+5% vs. 9M15), in postpaid (+3% vs. 9M15), and prepaid subscribers (+2% vs. 9M15).

Voice wholesale revenues amounted to \$1,442 in 9M16 (+3.4% vs. 9M15), mainly due to the increase in interconnection traffic average prices (especially TLRD and CPP).

Ø **Data**

Mobile data services revenues amounted to \$5,103 (-\$273 or -5.1% vs. 9M15). The decrease was due to lower revenues from the principal item of VAS revenues, SMS consumption, which decreased \$704 as compared to 9M15 (-23.8%). 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 \$369 or +16.2%.

Ø **Internet**

Mobile Internet revenues amounted to \$7,497 (+\$3,214 or +75.0% vs. 9M15). 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 and 4G handsets, which facilitate Internet browsing in all subscribers' segments.

As a consequence of the increase in VAS consumption (Internet and Data), ARPU increased to \$108.2 pesos per month in 9M16 (vs. \$88.8 pesos per month in 9M15), which represents an increase of 21.8%.

VAS revenues (data and Internet) amounted to \$12,600 (+30.4% vs. 9M15) and represented 62.1% of Personal Mobile Services services revenues (vs. 59.8% in 9M15).

Núcleo Mobile Services

This segment generated services revenues equivalent to \$1,765 during 9M16 (+\$636 or +56.3% vs. 9M15) mainly due to the Internet revenues increase (+81.7% vs. 9M15), mainly related to the increase of browsing generated by subscribers with mobile equipment prepared for that purpose. As of September 30, 2016, Núcleo's subscriber base reached 2.5 million customers. Prepaid and postpaid subscribers (including Plan Control subscribers and mobile Internet subscribers) represented 81% and 19% in 9M16 and the effect of the appreciation of the Guaraní respect to the Argentine peso reached a 46% (inter-annual).

VAS revenues (data and Internet) amounted to \$1,026 (+68.8% vs. 9M15) and represented 58.1% of Núcleo Mobile Services segment services revenues (vs. 53.9% in 9M15).

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF SEPTEMBER 30, 2016

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

The Telecom Group's services revenues increased 31.7% fueled by a 35.6% increase of data and Internet revenues in all segments vs. 9M15, increasing its relative weight over total services revenues according to the following table:

	<u>Nine-month periods ended</u> <u>September 30,</u>				<u>9M16 vs.</u> <u>9M15</u> <u>%</u> <u>variation</u>	
	<u>2016</u>	%	<u>2015</u>	%		
Voice Retail	10,216	31	7,929	32	28.8	
Voice Wholesale	2,548	8	2,209	9	15.3	
Total Voice	12,764	39	10,138	41	25.9	
Data	7,557	23	6,886	27	9.7	
Internet	12,553	38	7,944	32	58.0	
Total service revenues	32,874	100	24,968	100	31.7	

Equipment

Revenues from equipment amounted to \$5,944, +\$2,322 or +64.1% vs. 9M15. This increase is mainly related to the Personal Mobile Services segment with an increase of \$2,181 vs. 9M15 due to higher handsets unit sold (+14% vs. 9M15) with an increase in handset's average sale prices (+43% vs. 9M15), resulting in a higher operating margin of handsets (+\$531 or + 61.3% vs. 9M15).

- **Operating costs**

Consolidated operating costs including depreciations, amortizations and gain on disposal of PP&E and impairment of PP&E totaled \$33,329 in 9M16, which represents an increase of \$9,183 or +38.0% vs. 9M15. 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 cost of equipment and handsets and the increase in bad debt expenses, among other concepts.

	<u>Variation</u>				<u>Variation in \$ by segment</u>		
	<u>9M16</u>	<u>9M15</u>	<u>\$</u>	<u>%</u>	<u>Fixed Serv.</u>	<u>Personal M. Serv.</u>	<u>Núcleo M. Serv.</u>
Employee benefit expenses and severance payments	(7,213)	(5,292)	(1,921)	36.3	(1,482)	(383)	(56)
Interconnection costs and other telecommunication charges	(1,954)	(1,559)	(395)	25.3	(209)	(132)	(54)

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Fees for services, maintenance, materials and supplies	(3,580)	(2,860)	(720)	25.2	(363)	(308)	(49)
Taxes and fees with the Regulatory Authority	(3,799)	(2,841)	(958)	33.7	(223)	(714)	(21)
Commissions	(3,841)	(2,976)	(865)	29.1	(47)	(737)	(81)
Agent commissions capitalized as SAC	1,046						