

TELECOM ARGENTINA SA
Form 6-K
June 03, 2014
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 June, 2014

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

(Address of principal executive offices)

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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 Form 40-F

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Yes No

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

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

Table of Contents

Telecom Argentina S.A.

TABLE OF CONTENTS

Item

1. Telecom Argentina S.A. Unaudited Condensed Consolidated Financial Statements as of March 31, 2014

Table of Contents

TELECOM ARGENTINA S.A.
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2014

Table of Contents

TELECOM ARGENTINA S.A.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2014 AND 2013

INDEX

<u>Operating and financial review and prospects as of March 31, 2014</u>	I
<u>Unaudited condensed consolidated financial statements</u>	
<u>Unaudited consolidated statements of financial position</u>	1
<u>Unaudited consolidated income statements</u>	2
<u>Unaudited consolidated statements of comprehensive income</u>	3
<u>Unaudited consolidated statements of changes in equity</u>	4
<u>Unaudited consolidated statements of cash flows</u>	5
<u>Notes to the unaudited condensed consolidated financial statements</u>	6
<u>Limited review Report on condensed interim consolidated financial statements</u>	34
<u>Corporate information</u>	36

Table of Contents**TELECOM ARGENTINA S.A.****OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2014**

(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 March 31, 2014 under IFRS. Additional information is given in Note 1 to the consolidated financial statements.

2. Telecom Group's activities for the three-month periods ended March 31, 2014 (1Q14) and 2013 (1Q13)

Total revenues and other income for 1Q14 amounted to \$7,476 (+23.1% vs. 1Q13), operating costs including depreciations, amortizations and gain on disposal of PP&E amounted to \$6,099 (+23.0% vs. 1Q13), operating income before depreciation and amortization amounted to \$2,112 representing 28.3% of consolidated revenues (+17.4% vs. 1Q13), operating income amounted to \$1,377 (+23.5% vs. 1Q13) and net income amounted to \$906 (+11.4% vs. 1Q13). Net income attributable to Telecom Argentina amounted to \$889 in 1Q14 (+10.8% vs. 1Q13).

	1Q14	1Q13	Variation	
			\$	%
Revenues	7,466	6,064	1,402	23.1
Other income	10	9	1	11.1
Operating costs without depreciation and amortization	(5,364)	(4,274)	(1,090)	25.5
Operating income before depreciation and amortization	2,112	1,799	313	17.4
Depreciation and amortization	(739)	(691)	(48)	6.9
Gain on disposal of PP&E	4	7	(3)	(42.9)
Operating income	1,377	1,115	262	23.5
Financial results, net	(32)	135	(167)	n/a
Income before income tax expense	1,345	1,250	95	7.6
Income tax expense	(439)	(437)	(2)	0.5
Net income	906	813	93	11.4
Attributable to:				
Telecom Argentina (Controlling Company)	889	802	87	10.8
Non-controlling interest	17	11	6	54.5
	906	813	93	11.4
	0.92	0.81		

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

Total revenues and other income

During 1Q14 consolidated total revenues increased 23.1% (+\$1,402 vs. 1Q13) amounting to \$7,466 mainly fueled by the Broadband, data transmission and mobile businesses, while consolidated other income increased 11.1% (+\$1 vs. 1Q13), mainly due to penalties imposed to suppliers in the Fixed Services segment.

	1Q14	1Q13	Variation	
			\$	%
<u>Services</u>				
Voice Retail	682	629	53	8.4
Voice Wholesale	225	185	40	21.6
Internet	726	575	151	26.3
Data	319	213	106	49.8
Subtotal fixed services	1,952	1,602	350	21.8
Voice Retail	1,345	1,211	134	11.1
Voice Wholesale	488	448	40	8.9
Internet	644	412	232	56.3
Data	1,787	1,597	190	11.9
Subtotal Personal mobile services	4,264	3,668	596	16.2
Voice Retail	127	87	40	46.0
Voice Wholesale	26	22	4	18.2
Internet	105	62	43	69.4
Data	85	78	7	9.0
Subtotal Núcleo mobile services	343	249	94	37.8
Total services revenues	6,559	5,519	1,040	18.8
<u>Equipment</u>				
Fixed services	13	14	(1)	(7.1)
Personal mobile services	879	518	361	69.7
Núcleo mobile services	15	13	2	15.4
Total equipment revenues	907	545	362	66.4
Total revenues	7,466	6,064	1,402	23.1

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2014

Table of Contents

TELECOM ARGENTINA S.A.

Services revenues amounted to \$6,559 (+18.8% vs. 1Q13) and represented 87.9% of consolidated revenues (vs. 91.0% in 1Q13). Equipment revenues increased 66.4%, amounting to \$907 and represented 12.1% of consolidated revenues (vs. 9.0% in 1Q13).

Fixed services

During 1Q14, services revenues generated by this segment amounted to \$1,952, +\$350 or 21.8% vs. 1Q13, where Internet revenues have grown the most (+\$151 or 26.3% vs. 1Q13), followed by data transmission services (+\$106 or 49.8% vs. 1Q13) and voice retail services (+\$53 or 8.4% vs. 1Q13).

Voice

Voice retail revenues amounted to \$682 in 1Q14 (+8.4% vs. 1Q13). The results of this line of business are still affected by frozen tariffs of regulated services. Revenues from regulated services reached approximately 30% of the segment revenues in 1Q14 (vs. 34% in 1Q13).

Monthly Charges and Supplementary Services increased \$26 or 9.7% vs. 1Q13, to \$295, as a consequence of an increase in supplementary services (not regulated), mainly due to an increase of their prices and, to a lesser extent, to the increase in the subscriber base.

Revenues generated by measured services (Local Measured Service, Domestic Long Distance and International Long Distance services) amounted to \$359 (+\$30 or 9.1% vs. 1Q13) mainly due to the increase of domestic plans and long national distance plans. In relative terms, revenues from local measured service increased 7.7% vs. 1Q13 and DLD revenues increased 10.6% vs. 1Q13.

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 \$22-) amounted to \$224 in 1Q14 (+21.1% vs. 1Q13). Interconnection fixed and mobile revenues amounted to \$149 (+17.3% vs. 1Q13 as a result of the general increase in prices and, to a lower extent, by a slight increase in traffic with mobile operators). The other wholesale revenues amounted to \$75 in 1Q14 (+29.3% vs. 1Q13), mainly due to higher prices related to cell sites rentals due to the variation of the \$/US\$ exchange rate.

Internet

Internet revenues amounted to \$726 (+\$151 or 26.3% vs. 1Q13) mainly due to the expansion of the Broadband service (+5% of customers vs. 1Q13) and an increase in average prices resulting in an improvement in the Average Monthly Revenue per User (ARPU), that amounted to \$138.0 pesos per month in 1Q14 vs. \$114.9 pesos per month in 1Q13. As of March 31, 2014, Telecom Argentina reached approximately 1,714,000 ADSL customers. These connections represent approximately 42% of Telecom Argentina s fixed lines in service (vs. 40% in 1Q13).

Internet revenues represent 9.7% of consolidated revenues (similar to 1Q13) and 37.2% of fixed services segment revenues (vs. 35.8% in 1Q13).

Data

Data transmission revenues amounted to \$319 (+\$106 vs. 1Q13), where the focus was to strengthen Company's position as an integrated TICs provider (Datacenter, VPN, among others) for wholesale and government segments. The increase is primarily due to higher prices related to the variation of the \$/US\$ exchange rate, the growth of *Integra* services mainly in the Large Customer segment and an increase in VPN IP services (private data networks services that replaces the point to point services) in the Retail segment. Additionally the increase was also due to an increase in the IP traffic in the Wholesale segment and to an increase in the monthly charges and transmission Datacenter services (especially in *Hosting* and *Housing* monthly charges, and Value added services transmission).

Personal Mobile Services

During 1Q14, total services revenues amounted to \$4,264 +\$596 or 16.2% vs. 1Q13, being the principal business segment in revenues terms (57.1% and 60.5% of consolidated revenues in 1Q14 and 1Q13, respectively). Personal reached 19.9 million subscribers in Argentina (+4% vs. 1Q13) maintaining the leadership in revenues in the mobile industry. Approximately 68% of the subscriber base is prepaid subscribers and 32% is postpaid subscribers (including Cuentas Claras plans and Mobile Internet dongles).

Voice

Voice retail revenues amounted to \$1,345 in 1Q14 (+11.1% vs. 1Q13). The increase was mainly due to the increase in the lines billed, mainly fueled by the increase in monthly charges prices and the increase in the subscriber base (specially prepaid and Cuentas Claras subscribers), partially offset by a slight decrease in postpaid customers. The Minutes of Use (MOU) reached 82.6 per month in 1Q14 compared to 93.7 per month achieved in 1Q13, representing a decrease of 11.8%.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2014

Table of Contents

TELECOM ARGENTINA S.A.

Voice wholesale revenues amounted to \$488 in 1Q14 (+8.9% vs. 1Q13). The increase was mainly due to higher TLRD traffic, to an increase in domestic roaming sales and to the increase of mobile leases, mainly due to new agreements and to the renegotiation of the existing ones.

Internet

Mobile Internet revenues amounted to \$644 (+\$232 or 56.3% vs. 1Q13). This increase is mainly explained by the increase in consumption of Personal s subscribers, which was mainly fueled by the increase in the offer of services, plans and packs (including VAS) launched by Personal. This growth was fueled by new subscribers and the migration of existing ones to higher-value plans, partially offset by the revenues decrease generated by the decrease of Mobile Internet dongles subscribers.

Data

Mobile data services revenues amounted to \$1,787 (+\$190 or 11.9% vs. 1Q13). This increase was mainly due to the constant SMS sales increase as a result of several campaigns launched by Personal and specially the growth of the offers of SMS consumption, which represented an inter-annual increase of \$165 vs. 1Q13. This increase was reflected both in prepaid and postpaid customers and is mainly due to average prices increases and, to a lesser extent, to the increase of the subscribers base.

As a consequence of the voice traffic increase and the VAS use (Internet and data), ARPU increased to \$68.3 pesos per month in 1Q14 (vs. \$62.1 pesos per month in 1Q13), which represents an increase of 10.0%.

VAS revenues (data and Internet) amounted to \$2,431 (+21.0% vs. 1Q13) and represented 57.0% of Personal Mobile Services s services revenues (vs. 54.8% in 1Q13).

Núcleo Mobile Services

This segment generated services revenues equivalent to \$343 during 1Q14 (+\$94 or 37.8% vs. 1Q13) mainly due to the increase in the subscriber base (+3.3%), the appreciation of the Guaraní respect to the Argentine peso (+36% inter-annual) generating a positive effect in Núcleo s revenues conversion and the increase of Mobile Internet revenues (+69.4% vs. 1Q13) related to the increase of subscribers traffic with mobile equipment prepared for that purpose. As of March 31, 2014, Núcleo s subscriber base reached 2.4 million customers. Prepaid and postpaid subscribers (including Plan Control s subscribers and mobile Internet subscribers) represented 80% and 20% in 1Q14, respectively. The MOU reached 54.0 per month in 1Q14 compared to 61.5 per month achieved in 1Q13, representing a decrease of 12.2%.

VAS revenues (data and Internet) amounted to \$190 (+35.7% vs. 1Q13) and represented 55.4% of Núcleo Mobile Services segment services revenues (vs. 56.2% in 1Q13).

Equipment

Revenues from equipment amounted to \$907, +\$362 or 66.4% vs. 1Q13. This increase is mainly related to the Personal Mobile services segment with an increase of \$361 vs. 1Q13. The increase was mainly due to an increase in handset s average sale prices (+82.9% vs. 1Q13), partially offset by lower handsets sold (-6.2% vs. 1Q13). This situation was mainly generated by a subsidy reduction policy, the increase in average prices related to higher-value handsets demand, the business strategy to attract high-value subscribers, a decrease in discounts as a result of the finalization of commercial promotions and lower retail revenues. In the Núcleo Mobile Services segment the increase was mainly due to the effect of the appreciation of the Guaraní respect to the Argentine peso, partially offset by a decrease in the units of handsets sold. The equipment sale result amounted to a gain of \$132 in 1Q14 vs. a loss of \$13 in 1Q13, net of SAC capitalization.

Operating costs

Consolidated operating costs including depreciations, amortizations and gain on disposal of PP&E totaled \$6,099 in 1Q14, which represents an increase of \$1,141 or +23.0% vs. 1Q13. 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, the increase in provisions related to regulatory matters, the increase of VAS costs and the effect of the appreciation of the Guaraní (+36% inter-annual) respect to the Argentine peso, affecting the operations in Paraguay.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2014

III

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

	1Q14	1Q13	Variation	
			\$	%
Employee benefit expenses and severance payments	(1,183)	(868)	(315)	36.3
Interconnection costs and other telecommunication charges	(515)	(484)	(31)	6.4
Fees for services, maintenance, materials and supplies	(755)	(556)	(199)	35.8
Taxes and fees with the Regulatory Authority	(755)	(602)	(153)	25.4
Commissions	(674)	(605)	(69)	11.4
Agent commissions capitalized as SAC	133	103	30	29.1
Cost of equipment and handsets	(806)	(661)	(145)	21.9
Cost of equipment and handsets capitalized as SAC	31	103	(72)	(69.9)
Advertising	(164)	(154)	(10)	6.5
Cost of VAS	(191)	(131)	(60)	45.8
Provisions	(37)	(40)	3	(7.5)
Bad debt expenses	(118)	(93)	(25)	26.9
Other operating expenses	(330)	(286)	(44)	15.4
Operating income before depreciation and amortization	(5,364)	(4,274)	(1,090)	25.5
Depreciation of PP&E	(538)	(467)	(71)	15.2
Amortization of SAC and service connection costs	(195)	(219)	24	(11.0)
Amortization of other intangible assets	(6)	(5)	(1)	20.0
Gain on disposal of PP&E	4	7	(3)	(42.9)
Total operating costs	(6,099)	(4,958)	(1,141)	23.0

The costs breakdown is as follows:

Employee benefit expenses and severance payments

Employee benefit expenses and severance payments amounted to \$1,183 (+\$315 or 36.3% vs. 1Q13). 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 and to increases in severance payments. With a total headcount of 16,523 by the end of 1Q14, slightly lower than 1Q13, lines in service per employee reached 373 in the Fixed Services segment (slightly higher than 1Q13), subscribers per employee reached 3,911 in the Personal Mobile Services segment (+7.4% vs. 1Q13) and subscribers per employee reached 5,761 (+7.6% vs. 1Q13) in the Núcleo Mobile Services segment.

Interconnection costs and other telecommunication charges

Interconnection costs and other telecommunication charges (including charges for TLRD, Roaming, Interconnection costs, cost of international outbound calls and lease of circuits) amounted to \$515 (+\$31 or 6.4% vs. 1Q13) mainly due to higher traffic volume in the domestic market.

Fees for services, maintenance, materials and supplies

Fees for services, maintenance, materials and supplies amounted to \$755, +\$199 or 35.8% vs. 1Q13. The increase was mainly due to higher maintenance costs of radio bases, systems 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 system licenses maintenance costs and higher costs of building maintenance. There were also increases in other maintenance costs and fees for services, mainly due to higher costs recognized to suppliers in all segments.

Taxes and fees with the Regulatory Authority

Taxes and fees with the Regulatory Authority (including turnover tax, fees with the Regulatory Authority, IDC, municipal and other taxes) amounted to \$755 (+25.4% vs. 1Q13), influenced mainly by the increase in revenues of fixed and mobile services, by the increase in equipment sales and by the increase of the IDC related to the dividends payment.

Commissions

Commissions (including Agent, distribution of prepaid cards and other commissions) amounted to \$674 (+\$69 or 11.4% vs. 1Q13), mainly due to the increase in commercial agents commissions (associated to higher revenues) as a result of higher customer acquisition and retention, higher cards sales and prepaid recharges and the increase in sales outsourcing commissions and in collections commissions.

On the other hand, agent commissions capitalized as SAC amounted to \$133, +\$30 or 29.1% vs. 1Q13, 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 \$806 (+\$145 or 21.9% vs. 1Q13) mainly due to an increase in the average unit cost of sales (+31.2% vs. 1Q13), partially offset by a decrease in the units of handsets sold (-6.2% vs. 1Q13) in the Personal Mobile Services segment.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2014

Table of Contents

TELECOM ARGENTINA S.A.

On the other hand, SAC deferred costs from handsets sold amounted to \$31, -\$72 or -69.9% vs. 1Q13. The lower capitalized amount was mainly due to the significant reduction of subsidies provided to customers in the Personal Mobile Services segment.

Advertising

Advertising amounted to \$164 (+\$10 or 6.5% vs. 1Q13), mainly due to higher commercial campaigns of Personal as compared to 1Q13.

Cost of VAS

Cost of VAS amounted to \$191 (+\$60 vs. 1Q13), mainly due to the increase of VAS sales in the Personal Mobile Services segment (mainly the SMS service) as a consequence of several campaigns launched by Personal and specially to higher offers oriented to the consumption of SMS with contents.

Provisions

Provisions amounted to \$37, -\$3 or -7.5% vs. 1Q13. The decrease was mainly due to lower labor claims (-\$13 vs. 1Q13) and lower civil and commercial claims (-\$4 vs. 1Q13), partially offset by higher regulatory and municipal claims (+\$14 vs. 1Q13).

Bad debt expenses

Bad debt expenses amounted to \$118 (+\$25 vs. 1Q13), representing approximately 1.6% and 1.5% of the consolidated revenues in 1Q14 and 1Q13, respectively. The increase is observed in the Personal Mobile Services segment as a consequence of higher aging of the accounts receivables.

Other operating costs

Other operating costs amounted to \$330 (+\$44 vs. 1Q13). The increase was mainly due to higher prices on related services, especially in transportation, freight and travel expenses, among others, in the operations in Argentina; and the increase of rent prices, as a result of new agreements and the renegotiation of some of the existing ones.

Operating income before depreciation and amortization

Operating income before depreciation and amortization amounted to \$2.112 (+\$313 or 17.4% vs. 1Q13), representing 28.3% of consolidated revenues in 1Q14 vs. 29.7% in 1Q13. This growth was mainly fueled by the Personal Mobile Services segment (+\$241 or 19.7% vs. 1Q13).

Depreciation and amortization

Depreciation and amortization amounted to \$739 (+\$48 or +6.9% vs. 1Q13). The increase in PP&E depreciation amounted to \$71 partially offset by a decrease in amortization of SAC and service connection costs of \$24 due to

lower levels of capitalization of subsidies from the sale of mobile handsets and the extension of the contractual terms for mobile customers from 18 to 24 months. The increase in depreciation and amortization corresponds 87.5% to the Fixed Services segment and 12.5% to the mobile services segments.

Gain on disposal of PP&E

The gain amounted to \$4, (vs. \$7 in 1Q13) and corresponds mainly to the sale of vehicles in the Fixed Services segment.

Operating income

Operating income amounted to \$1,377 in 1Q14 (+\$262 or +23.5% vs. 1Q13). The margin over consolidated revenues represented 18.4% in 1Q14 and 1Q13. Personal Mobile Services segment shows the higher increase (+\$262 vs. 1Q13).

Financial results, net

Financial results, net resulted in a net loss of \$32, representing a decrease of \$167 vs. 1Q13. The decrease was mainly due to higher foreign currency exchange losses (+\$293 vs. 1Q13) and higher interests on provisions (+\$20 vs. 1Q13), partially offset by higher financial interest on time deposits and other investments (+\$90 vs. 1Q13), higher gains on mutual funds (+\$27 vs. 1Q13), higher gains on NDF (+\$23 vs. 1Q13), and higher interests on receivables (+\$11 vs. 1Q13).

Net income

Telecom Argentina reached a net income of \$906 in 1Q14, +\$93 or +11.4% when compared to 1Q13. Net income attributable to Telecom Argentina amounted to \$889 in 1Q14, +\$87 or +10.8% as compared to 1Q13.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2014

Table of Contents**TELECOM ARGENTINA S.A.****Net financial assets**

As of March 31, 2014, Net financial assets (Cash and Cash Equivalents plus financial investments minus Financial debt) amounted to \$5,080, showing an increase of \$1,060 as compared to March 31, 2013 (amounting to \$4,020). This increase was mainly due to an increase in the generation of cash from operating activities of the Telecom Group, partially offset by cash dividends paid to its shareholders for a total amount of \$1,000 (including tax withholding on cash dividends). The Fixed Services segment has a financial asset of \$1,571 and the Personal Mobile Services segment has a financial asset of \$3,745, while the Núcleo Mobile Services segment has a net financial debt of \$236.

Capital expenditures (CAPEX)

CAPEX composition for 1Q14 and 1Q13 is as follows:

	In millions of \$		% of participation		Variation	
	1Q14	1Q13	1Q14	1Q13	\$	%
Fixed Services	396	284	37%	38%	112	39
Personal Mobile Services	612	393	58%	53%	219	56
Núcleo Mobile Services	54	64	5%	9%	(10)	(16)
Total CAPEX	1,062	741	100%	100%	321	43

PP&E CAPEX amounted to \$880 and intangible assets CAPEX amounted to \$182 in 1Q14, while in 1Q13 amounted to \$519 and \$222, respectively.

In relative terms, CAPEX represented 14% of consolidated revenues in 1Q14 (12% in 1Q13), and were intended mainly for the External wiring and network access equipment, Transmission and Switching equipment, Computer equipment and SAC.

PP&E and intangible assets additions (CAPEX plus materials additions) for 1Q14 and 1Q13 are as follows:

	In millions of \$		% of participation		Variation	
	1Q14	1Q13	1Q14	1Q13	\$	%
Fixed Services	511	313	43%	39%	198	63
Personal Mobile Services	618	396	52%	50%	222	56
Núcleo Mobile Services	58	84	5%	11%	(26)	(31)
Total additions	1,187	793	100%	100%	394	50

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 services to support the growth of mobile Internet together with the launch of innovative VAS services and the expansion of transmission and transport networks to meet the growing demand of services of our fixed and mobile customers.

Relevant matters

1. Resolutions of the Ordinary and Extraordinary Annual Shareholders Meeting and Board of Directors of Personal

Personal s shareholders, at their meeting held on April 23, 2014, approved, among other items, the Annual Report and financial statements as of December 31, 2013 and the allocation of \$2,664 to the reserve for future cash dividends (equivalent to total of Retained Earnings as of December 31, 2013). The shareholders also approved the delegation of authority in Personal s Board of Directors to determine the amount, time, terms and conditions to allocate the reserve for future cash dividends.

Personal s Board of Directors, at their meeting held on April 23, 2014, approved a cash dividend distribution in the amount of \$1,100 (equivalent to \$3.54 peso per share), which will be paid in two installments, the first one of \$600 on May 8, 2014, and the second one of \$500 on June 10, 2014.

2. Resolutions of the Ordinary and Extraordinary Annual Shareholders Meeting of the Company

The Company s shareholders, at their meeting held on April 29, 2014, resolved, among other items: (a) the approval of Telecom Argentina s Annual Report and financial statements as of December 31, 2013 and (b) to adjourn the session until May 21, 2014 to consider the allocation of Telecom Argentina s Retained Earnings as of December 31, 2013. Telecom Argentina s Board of Directors had proposed to allocate \$9 to the constitution of Legal Reserve, \$1,202 to cash dividends (in two equal installments, maturing in May 2014 and in September 2014) and \$1,991 to Voluntary Reserve for Capital Investments .

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2014

Table of Contents**TELECOM ARGENTINA S.A.****3. Summary of comparative consolidated statements of financial position**

	March 31,			
	2014	2013	2012	2011
Current assets	9,408	7,486	5,826	4,119
Non-current assets	14,555	11,126	9,989	8,760
Total assets	23,963	18,612	15,815	12,879
Current liabilities	8,814	5,830	5,259	4,487
Non-current liabilities	2,038	1,781	1,681	1,194
Total liabilities	10,852	7,611	6,940	5,681
Equity attributable to Telecom Argentina (Controlling Company)	12,806	10,801	8,736	7,070
Equity attributable non-controlling interest	305	200	139	128
Total Equity	13,111	11,001	8,875	7,198
Total liabilities and equity	23,963	18,612	15,815	12,879

4. Summary of comparative consolidated income statements

	1Q14	1Q13	1Q12	1Q11
Revenues and other income	7,476	6,073	5,130	4,149
Operating costs	(6,099)	(4,958)	(4,097)	(3,191)
Operating income	1,377	1,115	1,033	958
Financial results, net	(32)	135	61	19
Income before income tax expense	1,345	1,250	1,094	977
Income tax expense	(439)	(437)	(386)	(337)
Net income	906	813	708	640
Other comprehensive income, net of tax	206	63	25	47
Total comprehensive income	1,112	876	733	687

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Attributable to Telecom Argentina (Controlling Company)	1,023	842	715	666
Attributable to non-controlling interest	89	34	18	21

5. *Statistical data (in physical units)*

Fixed services

Voice and data services (in thousands, except for lines in service per inhabitants and employees)

	1Q14		1Q13		1Q12		1Q11		1Q10	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
Equipment lines	3,528	(8)	3,808	2	3,800	3	3,801	(35)	3,844	(8)
NGN lines	1,176	12	1,092	47	955	(41)	880	27	755	12
Installed lines (a)	4,704	4	4,900	49	4,755	(38)	4,681	(8)	4,599	4
Lines in service (b)	4,108	(16)	4,109	(19)	4,138	(3)	4,110	3	4,058	(2)
Customers lines (c)	4,028	(16)	4,027	(18)	4,054	(3)	4,024	5	3,966	(1)
Public phones installed	33	(1)	36	(1)	39	(1)	43	(2)	49	(1)
Lines in service per 100 inhabitants (d)	20.3	(0.1)	20.4	(0.2)	20.7	(0.1)	20.7	(0.1)	20.6	(0.1)
Lines in service per employee (e)	373	(2)	371	1	370	(3)	377	(2)	366	

- a) Reflects total number of lines available in Switches, considered independently of its technology (TDM or NGN).
- b) Includes customers lines, own lines, public telephones and DDE and ISDN channels.
- c) The number of customers is measured in relation to the physical occupation of network resources.
- d) Corresponding to the Northern Region of Argentina.
- e) Defined as lines in service / number of actual employees.

Internet (in thousands)

	1Q14		1Q13		1Q12		1Q11		1Q10	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
Total ADSL subscribers	1,714	7	1,626	(3)	1,566	16	1,407	27	1,232	18

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2014

Table of Contents**TELECOM ARGENTINA S.A.*****Mobile services******Personal (in thousands, except customers per employee in units)***

	1Q14		1Q13		1Q12		1Q11		1Q10	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
Post-paid subscribers	2,365	(52)	2,415	29	2,226	48	1,886	81	1,613	22
Cuentas Claras plans	3,856	(23)	3,583	106	3,176	37	2,814	18	2,707	(2)
Prepaid subscribers	13,461	(79)	12,763	43	12,672	258	11,841	415	10,454	403
Dongles (*)	231	(21)	353	(39)	473	11	341	35	174	50
Total subscribers	19,913	(175)	19,114	139	18,547	354	16,882	549	14,948	473
Lines per employee	3,911	14	3,642	30	3,734	(40)	3,831	93	3,829	19

Núcleo (in thousands, except customers per employee in units)

	1Q14		1Q13		1Q12		1Q11		1Q10	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
Post-paid subscribers	28	(1)	29	(1)	30	1	26	1	24	
Plan control subscribers	304	7	270	9	227	7	199	8	161	8
Prepaid subscribers	1,929	(7)	1,888	16	1,829	37	1,604		1,604	(1)
Dongles (*)	147	(6)	142	10	110	10	63	15	19	7
Subtotal mobile	2,408	(7)	2,329	34	2,196	55	1,892	24	1,808	14
Internet subscribers Wimax	5		6		7	(1)	9	(1)	11	(1)
Total subscribers	2,413	(7)	2,335	34	2,203	54	1,901	23	1,819	13
Lines per employee (**)	5,761	65	5,354	126	5,119	174	4,581	69	4,336	85

(*) Corresponds to mobile Internet subscribers with post-paid, Cuentas Claras, Plan control and prepaid contracts.

(**) Internet Wimax subscribers are not included.

6. Consolidated ratios

	1Q14	1Q13	1Q12	1Q11
Liquidity (1)	1.07	1.28	1.11	0.92
Solvency (2)	1.21	1.45	1.28	1.27
Locked-up capital (3)	0.61	0.60	0.63	0.68

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

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2014

VIII

Table of Contents

TELECOM ARGENTINA S.A.

7. Outlook

In this fiscal year the evolution prospects for fixed line services will continue in line with the trend of recent years, influenced by the maturity of the market and the replacement of the fixed-service for the mobile-service. *Arnet* Broadband business got well-positioned to continue to capture market opportunities.

During 2014 Personal will continue to work on the mass of the mobile Internet experience, assuming the responsibility over quality of services, the continuity of the technological upgrading of the national network and maintaining the expectations of a resolution on the spectrum needs for the mobile industry. To do this, it is expected the definition of new criteria to allow mobile operators who have not reached the maximum radio spectrum provided by the regulation the increase of their spectrum in order to make feasible the provision of mobile services with the quality provided by the investments made in infrastructure. The Regulatory Authority should also continue working with the operators in order to enable the municipalities to install the necessary sites to improve the network coverage of all operators.

Coverage expansion and speed access improvement to 3G and HSPA+ networks with the more complete portfolio of advanced mobile devices will continue to be the drivers to revenues through proposals of value. The opportunity to grow in capacity data will come from the network evolution to 4G, once the spectrum availability enables its development.

During 1Q14 some changes to the economic policy of the Government which, among other things, seek to improve public finances, competitiveness of the country, the BCRA reserves and lower inflation rates were introduced. These changes have depreciated the Argentine peso against the U.S. dollar and new inflation rates calculated by the INDEC using a new methodology have been determined, impacting directly over the pricing policies, the cost and investment structures of the companies, the levels of employment and consumption of the population and of our customers in particular. The Telecom Group's Management will continue to monitor these macroeconomic variables to achieve its strategic objectives of improving quality of service, strengthening its market position and increasing its operational efficiency to meet the growing demands of the dynamic telecommunication market without neglecting the return on investment for the shareholders. The investment plans of the Telecom Group are based on the Telecom Group's commitment to its country and its people.

Enrique Garrido
Chairman of the Board of Directors

OPERATING AND FINANCIAL REVIEW AND PROSPECTS AS OF MARCH 31, 2014

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

(In millions of Argentine pesos)

	Note	March 31, 2014	December 31, 2013
ASSETS			
Current Assets			
Cash and cash equivalents	2	4,469	5,224
Investments	2	207	123
Trade receivables	2	2,981	2,986
Other receivables	2	692	646
Inventories	2	1,059	772
Total current assets		9,408	9,751
Non-Current Assets			
Trade receivables	2	15	21
Deferred income tax assets	2	171	128
Other receivables	2	237	242
Investments	2	695	243
Property, plant and equipment (PP&E)	2	11,924	11,226
Intangible assets	2	1,513	1,519
Total non-current assets		14,555	13,379
TOTAL ASSETS		23,963	23,130
LIABILITIES			
Current Liabilities			
Trade payables	2	5,692	6,130
Deferred revenues	2	462	423
Financial debt	2	20	15
Salaries and social security payables	2	757	741
Income tax payables	2	1,044	801
Other taxes payables	2	580	667
Dividends payables	2	52	
Other liabilities	2	46	49
Provisions	6	161	224
Total current liabilities		8,814	9,050

Non-Current Liabilities

Trade payables	2		1
Deferred revenues	2	455	453
Financial debt	2	270	220
Salaries and social security payables	2	122	118
Deferred income tax liabilities	2	7	126
Income tax payables	2	10	10
Other liabilities	2	76	68
Provisions	6	1,098	1,033
Total non-current liabilities		2,038	2,029
TOTAL LIABILITIES		10,852	11,079
EQUITY (see Unaudited Condensed Consolidated Statement of Changes in Equity)			
Equity attributable to Telecom Argentina (Controlling Company)		12,806	11,783
Equity attributable to non-controlling interest		305	268
TOTAL EQUITY	7	13,111	12,051
TOTAL LIABILITIES AND EQUITY		23,963	23,130

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

Adrián Calaza
Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

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

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

		Three-month periods ended March 31,	
	Note	2014	2013
Revenues	2	7,466	6,064
Other income	2	10	9
Total revenues and other income		7,476	6,073
Employee benefit expenses and severance payments	2	(1,183)	(868)
Interconnection costs and other telecommunication charges	2	(515)	(484)
Fees for services, maintenance, materials and supplies	2	(755)	(556)
Taxes and fees with the Regulatory Authority	2	(755)	(602)
Commissions	2	(541)	(502)
Cost of equipments and handsets	2	(775)	(558)
Advertising	2	(164)	(154)
Cost of VAS	2	(191)	(131)
Provisions	6	(37)	(40)
Bad debt expenses	2	(118)	(93)
Other operating expenses	2	(330)	(286)
Depreciation and amortization	2	(739)	(691)
Gain on disposal of PP&E	2	4	7
Operating income		1,377	1,115
Finance income	2	799	205
Finance expenses	2	(831)	(70)
Income before income tax expense		1,345	1,250
Income tax expense	2	(439)	(437)
Net income for the period		906	813
Attributable to:			
Telecom Argentina (Controlling Company)		889	802
Non-controlling interest		17	11
		906	813
Earnings per share attributable to Telecom Argentina			
basic and diluted	1.d	0.92	0.81

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

Adrián Calaza
Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

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

(In millions of Argentine pesos)

	Three-month periods ended March 31,	
	2014	2013
Net income for the period	906	813
Other components of the Statements of Comprehensive Income		
<u>Will be reclassified subsequently to profit or loss</u>		
Currency translation adjustments (non-taxable)	206	63
Other components of the comprehensive income, net of tax	206	63
Total comprehensive income for the period	1,112	876
Attributable to:		
Telecom Argentina (Controlling Company)	1,023	842
Non-controlling interest	89	34
	1,112	876

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

Adrián Calaza
Chief Financial Officer

Enrique Garrido
Chairman of the Board of Directors

Table of Contents

TELECOM ARGENTINA S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In millions of Argentine pesos)

	Equity attributable to Telecom Argentina (Controlling Company)							Equity attributable to non-controlling Total				
	Owners contribution	Outstanding shares	Treasury shares	Capital nominal value (1)	Treasury shares acquisition cost (2)	Special reserve for IFRS transition (3)	Voluntary reserve for future investments (2)	Deferred results	Retained earnings	Equity attributable to non-controlling Total interest	Total Equity	
Balances as of January 1, 2013	984	2,688			572		2,553	107	3,055	9,959	199	10,158
Dividends from Núcleo(3)											(33)	(33)
<u>Comprehensive income:</u>												
Net income for the period									802	802	11	813
Other comprehensive income								40		40	23	63