

UCEMA Student Research

TELECOMMUNICATIONS

This report is published for educational purposes only by Students competing in the CFA Institute Research Challenge.

Telecom Argentina

TELECOMMUNICATION SERVICES

7 Nov 2011

Ticker: TECO2

Price: ARS 20.05

Recommendation: HOLD

Price Target: ARS 24.4

Earnings/Share (in ARS)

	Mar.	Jun.	Sept.	Dec.	Year	P/E Ratio
2008A	0.28	0.34	0.22	0.13	0.98	5.98
2009A	0.36	0.36	0.31	0.41	1.44	9.53
2010A	0.42	0.46	0.45	0.52	1.85	10.81
2011A/E	0.64	0.60	0.64	0.74	2.62	7.66

Highlights

Integrated Telecommunication company: providing fixed lines services, internet services and mobile phone services

Conservative capital structure with low debt to equity ratio (0.9%): advantage in future debt issues and potential future tax shield

Strong financial position and cash flow generation: better position for large capital expenditures and future increase in costs.

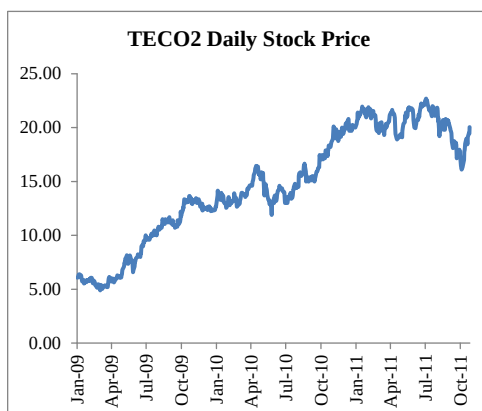
High expected dividend yield (over 8%) with relatively low payout ratio (60%): attractive return with less exposure to price volatility

Regulatory risks: future regulations over mobile phone tariffs or spectrum licenses might negatively affect the company performance and competitive positioning

Recommendation

Multiple Valuation and technical analysis suggest that no matter how strong fundamentals can be, the current market conditions may keep TECO2's stock from reaching values according to them. However, the 17%+ discount (22% upside) in the market price relative to the target stock price achieved through DCF is an indicator that TECO2's price should not go far below current levels, also providing an attractive expected dividend yield.

We recommend **HOLD** on TECO2.



Market Profile (ARS)

52WeekPriceRange	22.70 – 15.60
Average Daily Volume	140K shares
Beta	0.85
Dividend Yield (actual)	4.6%
Shares Outstanding	984.38MM
Market Capitalization	19,736.82MM
Institutional Holdings*	12.3%
Float	16.73%
Insider Holdings	3.55%
Book Value per Share	6.70
Debt to Total Capital	1.85%
Return on Equity	36.40%

* Source: Financial Statements as of December 30, 2010

Business Description

Telecom Argentina is one of Argentina's leading telecommunications companies. The company started operations on November, 1990, when Argentine government's transferred telecommunications system in the northern region of Argentina, previously operated by State owned Empresa Nacional de Telecomunicaciones ("ENTel"). Privatization Regulations granted to Telecom Argentina and Telefónica Argentina non-expiring licenses to provide basic telecommunication services in the Northern Region and Southern Region, respectively.

Telecom Argentina is an integrated company and has three different business lines: fixed lines services, internet services and mobile phone services, which are provided by two separate legal entities: Telecom Argentina SA and Telecom Personal SA.

Telecom Argentina SA provides:

- I) Fixed line telecommunication and other services such as international calls, stand-by calls, voice mail and data transmission.
- II) Internet services (provided under the brand name Arnet).

It has a non-expiring license in fixed line services and operates in a regulated market under the National Decree N° 764 (year 2000).

Telecom Personal provides mobile phone services, such as local and international calls, SMS (short messages), voice mail and Internet access. Telecom Personal operates in a non-regulated market. Additionally, Telecom Personal provides mobile services in Paraguay through its controlled subsidiary, Nucleo.

Telecom Argentina consolidates its business lines (described above) into three segments:

Fixed Telephone Services and Internet Segments (Telecom Argentina): As of June 30, 2011 Telecom has 4.7 million fixed lines installed with an ARPU of ARS 43 (USD 10.1) per month. It has 1.5 million internet clients, an ARPU of ARS 76 (USD 17.8) and a churn rate 1.4% per month. Voice services account for 17% of revenues and internet services represent 11% of revenues.

Mobile Phone Services (Telecom Personal): As of June 30, 2011 Telecom Personal reached 17.4 million subscribers in Argentina. The overall subscriber base mix consists of 30% postpaid and 70% prepaid customers. Telecom Personal SA has an ARPU of ARS 44 (USD 10.3) and a churn rate 2.7% per month. Mobile phone services constitute the most important segment in the company, accounting for 66% of Telecom Argentina's total revenues.

Mobile Phone Services (Nucleo Paraguay): Nucleo operates in Paraguay. By the end of June 2011, Nucleo's subscriber base reached almost 2 million clients. Prepaid and postpaid customers represented 84% and 16%, respectively. Although Nucleo has a high growth potential, it will always remain a minor line of business for the company.

As of June 30, 2011, Telecom Argentina had 984 million outstanding shares. Its shares are divided among Nortel Inversora SA (holding company formed by a consortium of investors including Telecom Italia, among others) (54.7%), Argentine government through Administración Nacional de la Seguridad Social - ANSES (the public pension fund) (25.0%), free floating shares (16.7%), which are traded in the New York and Buenos Aires stock exchanges, and class C shares (3.6%) (issued to employees with no voting rights).

Telecom Italia, one of the largest telecommunication firms in the world, operates the company through its controlling participation in Nortel Inversora SA (Exhibit 2).

The company is running according to Argentinean law. There are some important differences in corporate governance with respects to NYSE practices. Therefore, mitigation action plans are being put in place to comply with international best practices.

Industry Overview and Competitive Positioning

Over the past few years, the telecommunications industry has changed significantly. Companies are controlled by private investors, instead of government monopolies, and traditional telecom technologies (fixed lines) are being replaced by wireless technologies (mobile services). The resulting stronger competition has reduced margins and impacted the industry's profitability.

In general, telecommunications companies are defensive, providing constant dividend payments and stable earnings regardless of market conditions. However, the unique characteristics of the Argentine economy may sometimes keep companies from performing in line with their peers in developed countries.

Telecommunications industry requires strong capital expenditures to cope with growing user demand for digital technologies.

Argentine Market

The Argentine telecommunication industry is strongly regulated.

In 1990, Argentine government granted Telecom Argentina a license to provide domestic and international communication services in the Northern Region on an exclusive basis. In October 1999, the Argentine government implemented a deregulation plan introducing competition into the Basic telephone services market. In November 2000, Argentine telecommunications market was opened to full competition.

The Privatization Regulations established that Telecom Argentina was required to comply with rate regulations and meet certain minimum annual standards regarding the expansion of its telephone system and improvements in the quality of its service in order to maintain and extend the exclusivity of its non-expiring license.

After the market was opened to competition, the outstanding obligations that continue in place are the rate regulations and those related to the quality of service; the obligations related to the expansion of the network are no longer required.

The activities of Telecom Argentina and Telecom Personal are supervised and controlled by the Comisión Nacional de Comunicaciones (CNC), a government agency under the supervision of the Secretaría de Comunicaciones (SECOM).

Authorizations or permissions related to the Radioelectric Spectrum are granted by the SECOM that has also the right to substitute, modify or cancel them without any indemnification. The authorizations or permissions for the use of frequencies may not be transferred, leased or assigned, without prior authorization by the SECOM.

In October 2001, Argentine government prohibited rate adjustments for basic telecommunications services. The freeze of regulated rates combined with the increase in inflation rates has affected operating margins in the fixed telephone business. As opposite, mobile phone and internet services rates are not regulated. However, there are two projects under discussion to declare mobile phone as a public service, allowing SECOM to regulate this segment rates.

In August 2010, the SECOM approved the Number Portability Regime covering mobile services. Number portability will allow users to transfer a mobile telephone number assigned by a local provider and to reassign it to another one. The implementation was set to start in December 2011.

Telecommunications companies must also comply with other regulations (Exhibit 3).

What's Next?

Industry specialists have introduced the term DigiWorld (acronym for Digital World) to describe all of those industries based on digital technologies including telecommunication services and equipment, computer hardware and software, consumer electronics and television services.

In the near future, the combination of mobile internet, cloud computing and internet of things will be the main growth driver in the DigiWorld Market. Internet of things refers to a network infrastructure that links physical and virtual objects through the exploitation of data capture and communication capabilities.

Nowadays the telecommunication industry represents more than 45% of the total revenues in the DigiWorld market.

Telecommunication companies must be prepared to satisfy future demands for quality, speed and data traffic.

Market Outlook

Fixed Telephony Industry

Worldwide Market Trends: Traditional voice business has been negatively affected around the world by the proliferation of wireless services (mobile phone). Fixed line services offered nowadays focus on flat-rate plans, free roaming, and long distance calls.

The fixed lines segment is almost saturated in developed economies; which implies strong competition between established players for the same clients (price wars, advertisement campaigns). Only Africa shows a positive forecasted growth in fixed lines for 2013. (Exhibit 4).

Argentina Market Trends: Even though the penetration rate in Argentina is still low compared to developed countries (23% vs. 60%), since 2007 this business line shows very small growth. This segment has been affected by price's regulations introduced by the national government in 2002. The leading telecommunications companies (Telecom and Telefónica) have been urging to the regulator entity to set a new tariff plan to match increasing operational costs.

While in the '90's this line of business was the main source of income for Telecom Argentina, it now accounts for only 17% of revenues, with an average annual growth rate of only 5% for the last 7 years.

Internet Industry

Worldwide Market Trends: ADSL is still the most widely used Internet access technology, accounting for more than 50% of all broadband connections. Its development has been based mainly on Telco's phone networks. However, high speed connections through fiber optics are growing in number worldwide, as well as access through cable TV operators, which should allow advanced services, such as HDTV.

Between 2008 and 2010, growth rates have ranged from 36% (Africa) to 8% (North America). In Latam, internet subscribers have increased 26% in 2009 and 2010. Experts forecast growth rates of around 7% in developed countries, 15% in Asia and 20% in Latam over the next 3 years, turning these markets into attractive growth opportunities for telecommunications companies. (Exhibit 5).

Progress made by internet services will probably turn it into a basic service in the future.

Argentina Market Trend: Internet penetration rate reached 19% of Argentine population as of March, 2010 according to Instituto de Estadísticas y Censos (INDEC).

Competition between top internet operators is high, since users demand is mainly concentrated on the largest cities. The ADSL business has grown quickly over the last years, and currently, telecommunications suppliers such as Telecom Argentina and Telefónica de Argentina lead the market. This service helps telecommunication companies to take advantage of synergies, since ADSL uses existing wired networks.

Internet services are provided by Telecom through its brand Arnet (Telecom Argentina SA) and account for 11% of total revenues.

Internet services are offered by cable operators too, such as Cablevisión and Telecentro, however Argentinean regulations do not authorize triple play services to privatized telecommunication companies yet. Triple play refers to the provisioning of high-speed internet access, television, and telephone, over a single broadband connection.

Telecom's market share in this segment is 30%, while Telefónica's share is slightly higher -31%- (Exhibit 6). Internet services are provided by Telefónica through its brand Speedy.

Mobile Phone Services Industry

Worldwide Market Trends: Wireless services have shown an impressive growth during the last 15 years around the world. According to United Nations, in 2010 there were 5.4 billion cellular subscriptions and telecommunication companies had reached coverage of almost 90% of the world's population and 80% of rural areas.

In developed countries, mobile penetration is very high and mobile voice services have come to a peak. While North America and Europe have shown an average growth rate of 4% from 2008 to 2010, markets such as Asia and Africa reached average growth rates of 20%. Latam average was 14%. (Exhibit 7).

When revenues started to slow down, mobile Internet came along as a new source of growth for telecommunication companies. Next generation of wireless service will be supported by 4G technologies. In some regions, such as North America, Asia and Europe, these services have already been implemented successfully, allowing users to obtain higher data transfer volumes.

Latam Trends: Latin America has implemented 3G technology, achieving an important penetration level in voice services. Currently, services related to smart phone use have been the main driver of VAS (Value Added

Services) growth for telecommunications companies. However, important capital expenditures will be necessary to reach a higher coverage level.

Argentina Market Trends: Mobile phone penetration rate in 2010 was 140% of population, being one of the highest in Latam. Currently, there are three local mobile phone companies engaging in aggressive competition (Claro, Telecom Personal and Movistar). Intense competition has driven down prices, increased costs due to customer churn and increased wireless usage, as companies struggle to differentiate their service plans. Although Nextel is not a direct competitor, they have a similar product that may compete in some segments. (Exhibit 8)

Competition is expected to intensify after implementation of mobile number portability in December 2011.

Investment Summary

According to the Financial Statements presented as of June 30, 2011, the company shows a solid financial situation and has a strong market position. In October 2009, the company paid down most of its debt, showing in June 2011 a debt to equity ratio of 0.9% at market values (composed mainly by bank debt). Besides, in August 2010 the company announced the end of judicial actions between shareholders, which had started in 2007, when Telefónica de España bought Olimpia's entire stock through the Italian company Telco, which held approximately 23.6% of Telecom Italia voting shares. Comisión Nacional de Defensa de la Competencia (CNDC) - Argentine Antitrust Commission - objected this transaction as it gives Telefónica de Argentina (controlled by Telefónica de España) a dominant position in the Argentine fixed line telephone market (Exhibit 9).

Internet and mobile phone services segments still show growth potential; internet penetration in Argentina may continue to grow in the next years at attractive rates and the brand Arnet is well positioned to continue to capture market opportunities. In the mobile phone market, VAS are expected to continue to be one of the key sources of sales growth. The company's strategy is to obtain high-value customers and encourage consumption by launching new products and services. It aims to achieve brand loyalty and positions Telecom Personal as the preferred brand in the Argentine mobile industry. Moreover, the company's integrated platforms should enable it to optimize costs and network investments.

Maintaining growth in VAS will, however, require strong capital expenditures, as these services requires faster data transfer. The company's low debt ratios and adequate cash flow projections are a key source of strength in this regard.

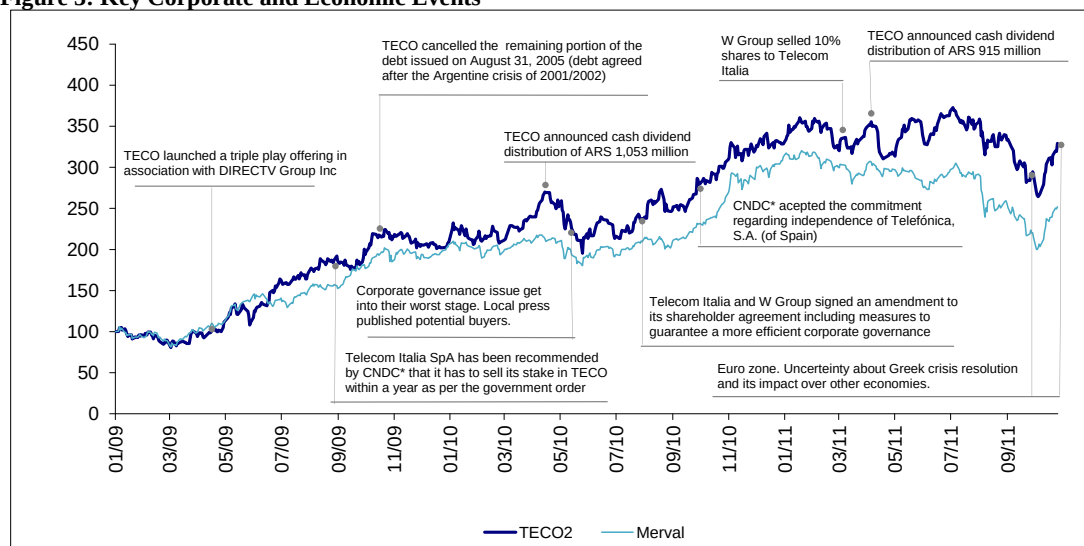
Buying Telecom shares gives investors exposure in a strategic industry sector. However, since the sector is strongly regulated, government intervention is a source of risk.

Target price was estimated in ARS 24.4 (USD 5.5), reflecting an expected upside of 22%. Additionally, Telecom Argentina shows an attractive expected dividend yield estimated in 8% (considering a payout ratio of 60%).

However, the market stock price is subject to change due to various factors, outside of the company's control, such as changes in market expectations, changes in economic and political situation of Argentina, the way ANSES will exercise its political rights in Telecom Argentina and the evolution of international stock market and financial markets. Rates adjustment and spectrum auction are other factors that may affect the company's value. Main price drivers outside of the company's control are shown in Exhibit 10.

These risks might keep the share's price far to reach the estimated target in the near future.

Figure 3: Key Corporate and Economic Events



Source: Own production based on Capital IQ, Financial Statements and news.

Valuation

DCF Valuation

Target price was achieved using DCF methodology. Financial Statements presented by the company as of June, 2011 were used to estimate the Balance Sheet and Income Statements for the end of 2011, considering historical trends and taking into account seasonality effects. EBIT was estimated by segment to acknowledge differences in revenue growth expectations, costs margins, and selling and administrative expenses margins. Weighted Average Cost of Capital (WACC) was estimated in 14.7%, and we consider this rate to reflect the company's riskiness. CAPM approach was used for the WACC, taking into account Argentina's country risk. Debt rate was estimated in 11.7% considering recent debt issues in the Argentinean bond market. Equity value, assuming a 5% long term annual growth rate of cash flow, was valued in USD 5,463 million. There is no excess cash to add to valuation. Value per share is projected in USD 5.5, equivalent to ARS 24.4 (Exhibits 11 and 12).

DCF valuation reflects business expectations and the situation of the company, although actual price might differ.

Segment assumptions

Fixed Telephone Services: Subscribers were assumed to increase at the rate of population growth, as fixed line services is a mature market. Prices were assumed to pick up in the following years, considering a moderate adjustment in regulated tariffs, but below the inflation rate (Exhibit 13).

Internet: Clients were assumed to grow at declining rates, as market penetration is reaching high levels. Prices in 2012 are expected to slow down, picking up in 2013, and afterwards increasing at the same rate as inflation (Exhibit 13).

Mobile Phone Services: Clients were assumed to grow at declining rates, as market penetration has already reached to high levels. Average growth rates are below those of internet services. Prices in 2012 are assumed to slow down, picking up in 2013, and afterwards following the inflation rate (Exhibit 13).

For all segments, cost, and selling and administrative (S&A) margins were maintained at 2011 levels, taking into account that, in the last 5 years they have shown a relative stable level.

Additional considerations

Depreciation was estimated at 22.7% of plant and equipment, taking into account historical trends.

Capex was assumed to grow, presenting a ratio in 2012 of 15.5% of sales, as a new spectrum is expected to be offered by the Government (current levels are 12.7% of sales). Capex is then assumed to stabilize at an average of 13.5% of sales.

DCF Summary

Discounted Cash flow	1,731
NPV of Terminal Value	3,775
Firm value	5,506
Debt	43
Equity value	5,463
Shares (millions)	984
DCF per share in USD	5.5
Exchange rate	4.40
DCF per share in ARS	24.4

Tax shield was estimated taking into account the company's indebtedness capacity. It recently announced a program for the issuance of non-convertible notes for USD 500 million. However, the effect of tax shield was estimated in a present value of USD 163 million, not affecting the stock price significantly (Exhibit 14).

Macroeconomic assumptions

We considered macroeconomic estimations from private local economists and international organisms for Argentina.

Inflation. Inflation rate in 2011 was estimated around 23%, according to the expectations published by several research institutes and universities. For 2012 and 2013 projections are around 19%. Afterward, expected inflation was assumed to slow down due to a rebalancing of macroeconomic conditions and a slight expansion of Argentinean economy.

Exchange rate. As demand for dollars exceeds the offer capacity and during the last years it was observed a systematic capital outflow, we assumed a devaluation of the peso against the dollar from 4.40 ARS/USD in 2011 to 8.68 ARS/USD in 2016.

Real GDP. Expected real growth rate in GDP is estimated to slow down in 2012 for Argentina. Forecast for high income countries might still be affected by crisis related problems, such as high unemployment and concerns over fiscal sustainability, which could impact the local economy. Thus, for 2012 estimations reflects declining rates on activity and high inflation. For 2013 onwards, real GDP is expected to growth at a sustainable rate of 4%.

Macroeconomic assumptions are shown in Exhibit 15.

Relative valuation

Values achieved by DCF methodology were compared to those obtained through multiples valuation. This approach relies on market value and reflects the actual situations of stocks markets.

In first place, comparable firms were selected considering similarities in business and revenue sources.

Chosen companies are:

Entel. It is the largest telecommunications company in Chile. It provides mobile telecommunication services, which accounts for over 75% of the company total revenues. It also runs fixed network operations, such as data transmission, IT, local and long distance calls, and internet all over Chile.

Tele Norte Leste. It provides, under its brand Oi, local access, international long-distance calls, and data transmission services to customers in eastern and northern Brazil, from Rio de Janeiro to the Amazon. Mobile services are provided under the brand Oi Movel. Mobile services is the fastest growing segment, though it accounts for a small percentages of total revenues.

2011E

<i>P/E multiple valuation</i>	
Value of equity	4,484
Value per share	4.6
Value per share in ARS	20.0
<i>EV/EBITDA multiple valuation</i>	
Value of firm	4,679
Debt	43
Value of equity	4,636
Value per share	4.7
Value per share in ARS	20.7

Tim Participações It is the Brazilian subsidiary of Telecom Italia Mobile. It offers mobile and fixed telephony services, data transmission and high-speed internet access. The mobile segment is the company main value driver, accounting for over 80 % of total revenues as of 4Q10.

Exhibit 16 shows P/E and EV/EBITDA ratios for Telecom Argentina and comparable firms. Ratios were also adjusted to consider difference in risk across countries.

As for the valuation, using the average adjusted P/E and EV/EBITDA ratios of comparable firms, Telecom Argentina's multiples valuation is estimated in USD 4.6 (ARS 20.0) considering the P/E ratio; and USD 4.7 (ARS 20.7) with the EV/EBITDA ratio. These values are below those of DCF valuation and in line with current traded stock prices; which may reflect some risk premium being applied to the Argentina's stock market because of the existing concerns about the local economy overall future performance.

Dividend Discount Model

According to Telecom Argentina Investor Relations office, the company doesn't have a dividend policy. Therefore this Model was not applied to estimate the company value.

Sensitivity Analysis

We have made an elasticity analysis to identify the variables that have a significant effect on the value of Telecom Argentina. This analysis consisted in the estimation of the average impact on the target price per share against a change of 1% in each variable analyzed. Variables analyzed are shown in Exhibit 17.

We conclude that most significant variables are:

- Gross Margin on mobile services and fixed telephony.
- WACC.
- S&A expenses.
- Capital Expenditures.

Gross margin: Gross margin on mobile services is the most sensitive variable. An increase of 1% in mobile services gross margin can improve the value per share in 2.43%. Gross margin on fixed telephony is also important: a change of 1% can affect the price per share in 1.15%. Company's operations are strongly influenced in the middle term by the freeze of regulated rates on fixed telephony and by macroeconomic factors, such as inflation, which reduce gross margins.

WACC: To estimate the DCF value of the firm, we used a WACC rate of 14.7%. A small change in this rate has a strong effect in the valuation: a 1% change in this rate has an impact of 1.61% in the price per share.

S&A expenses (as a percentage of sales): An increase in S&A expenses can negatively impact the value because of the decline of net income and cash flows. An increase of 1% of fixed telephony S&A expenses can reduce the value per share in 0.87%. Sensitivity for the mobile phone segment is similar, 0.83% in the value per share.

Capital Expenditures (as a percentage of sales): As a result of the growing demand for VAS, the company expects to increase its capital expenditures in order to maintain its competitive position. Telecom Argentina expects to finance these expenditures with operating cash flows and supplier financing. Telecom Argentina's ability to generate sufficient funds for capital expenditures depends mainly on its ability to increase its rates, since the cost of imported materials may increase in peso terms, and on costs reductions. Sensitivity analysis shows that an increase of 1% in fixed telephony capital expenditures may reduce the value per share in 0.55%.

Risk to Price Target

In order to estimate this risk we ran some basic technical analysis on the stock and saw a sharp decline during September that might have signaled the end of a midterm uptrend, with a retracement to Fibonacci level of 76.4%. In the other hand, should September have been only a countertrend move within a long term uptrend, it still needs to test the 76.4% level and break its resistance before going for the 100% retracement near ARS 23 (USD 5.40), which will enable the trend to reach -but would still be below- the fundamental target price of ARS 24.4 (USD 5.5). The 50-period moving average also remains below the 200-period one and the RSI oscillator is showing some weakness after the October rally, so close attention must be paid to how strongly resistances are broken in the next few weeks. In conclusion, we believe the odds are the target price achieved through fundamentals might not be reached in the near future. Exhibit 18 shows technical analysis on TECO2's stock.

Financial Analysis

The Consolidated Financial Statements of Telecom Argentina for the full Fiscal Year 2011 has been prepared based on the company's accounts and results for the interim period ended on June 30, 2011. Estimations for the 2H2011 and following years were based on historical Financial Statements, taking into account seasonality effects and the assumptions for each segment described above.

During the next years, Telecom Argentina will continue with its strategy of growing its subscriber base, the average consumption per customer and, as a consequence, net sales will increase in all the business segments. As a result, investments in its network, so as to provide the current and future customers with better and new services, will be required.

Telecom Argentina is in a good financial position because there are no financial commitments which cannot be settled by the internal cash flow generation.

Exhibit 19 shows company's ratios from 2007 to 2016.

Earnings

We expect a USD 0.59 EPS (ARS 2.62) for FY2011 and USD 0.71 (ARS 3.54) for FY2012 (Exhibit 12), due to the increase in operating revenues, especially from mobile and internet services.

Consolidated EBITDA margin is expected to stay in line with the increase in revenues, representing 31.4% of sales in 2011. EBITDA margins for the fixed telephony and mobile services segments are forecasted to stand at 21.4% and 35.8% of segment sales, respectively for 2011. We expect a minor increase in consolidated EBITDA margin for the following years, reaching 32.2% in 2016.

The EBIT margin is expected to increase slightly vs. 2010, representing 22.4% of consolidated sales by the end of 2011. The EBIT margin differs significantly across segments, representing 6.5% of sales in the fixed telephony segment and 30.1% in the mobile services segment. We also expect an increase in consolidated EBIT margin for the following years, up to 25.7% in 2016.

It should be taken into consideration that there are no significant financial results in 2011 such as interest income/expense or foreign exchange exposure due to the payment of most of its financial debts on October, 2009.

Cash Flow

Net financial assets have grown as compared to previous years, due to a strong cash flow generation that offsets the cash dividend payment of USD 208 million (ARS 915 million, equivalent to ARS 0.93 per share) on April 2011. Cash flow from operations is expected to reach USD 485 million for 2011. We estimate that a portion of cash flows from operations will be reinvested.

Balance Sheet & Financing

As a result of operating activities, company's cash and short term investments position has increased significantly. The company is expected to have liquidity and solvency ratios of 1.05% and 1.59%, respectively, for FY2011, which confirm its strong financial position.

During FY2010 and the six-month period ended on June 30, 2011, Telecom Argentina continued to invest in fixed and intangible assets. Property and equipment represents more than 63% of total assets while in relative terms, Capex reached 12.7% of the estimated sales of FY2011. Main Capex projects are related to the expansion of broadband services to improve the transmission speed available to clients, to support the growth of mobile broadband, and to the expansion of transmission and transport networks in order to meet the growing demand of its fixed and mobile clients. Accordingly, Capex was assumed to grow, presenting a ratio in 2012 of 15.5% and then assumed to stabilize at an average of 13.5% of sales

The Annual General Ordinary Shareholders' Meeting of Telecom Argentina held on April 7, 2011 approved a cash dividend distribution in the amount of USD 208 million, which was paid on April 19, 2011.

Other headings relevant to Company

Pension Funds Nationalization

Pension funds were nationalized in September 2008 and the ANSES acquired the shares the AFJPs had, representing around 25% of the company's market capitalization. ANSES has appointed a director in company's board of director in 2010.

On April 2011, Presidential Decree 441/11 was released. It allows ANSES to exercise the total voting power corresponding to its shares, including decisions related to the election of directors and supervisory committee members.

Corporate governance issue

In 2007, a judicial conflict took place between Telecom Italia and Grupo W affecting the company's corporate governance. Stock prices were affected by this lawsuit.

Shareholders set up a settlement in 2010 to resolve the internal conflict and it was approved by CNDC. The settlement considered, among other points, an increase in the participation of Telecom Italia in economic rights but not in corporate governance rights.

Between 2010 and March 2011, there has been an increase in Telecom Italia shares in Sofora, showing a difference between the economic rights (68%) and "the decision making power" in the board of directors (51%).

Further increased in Telecom Italia's shareholdings might trigger a revision of the shareholders agreement and CNDC approval, which could affect stock market prices.

Issue of new debt

On October 13, 2011, the Company through its subsidiary Telecom Personal was authorized by Comisión Nacional de Valores (CNV) to create a Global Program for the issuance of non-convertible notes for a total amount of USD 500 million or its equivalent in another currency.

Radio electric Spectrum re-assignment

Telecom Argentina will participate in the spectrum auction at the end of 2011 and hopes to acquire an additional 22.5 MHz to complete its “Spectrum cap by region” along throughout Argentina.

In May 2011, the SECOM launched an auction to reassign frequency bands returned by Telefónica Móviles Argentina S.A. because they exceeded their spectrum cap of 50 MHz by region. Mobile telephony is divided in Argentina in 3 regions, Northern, Southern and AMBA. Other Telecom’s competitors such as Claro (América Movil) and Nextel will participate in the auction.

The company cannot ensure that the tender will be awarded. If awarded to other existing or new competitors it could adversely affect its competitive position or ability to offer mobile services to its customers on a competitive basis, and may require higher capital expenditures regarding to the construction of additional cell sites.

Investment Risks

The risks described below are associated specifically to investment risk related to the world, the country, the industry or the issuer. Nevertheless others operating risks associated to the business could exist.

Related to the World

- Dilation or worsening of the European crisis may negatively affect the local stock market
- Recession in developed economies may slow GDP growth of Argentina.

Related to Argentina

- Interventionism Policies. Argentine government regulations may affect the economy as well as the operations of telecommunication industry.
- Economic growth may not be sustainable. Companies with earnings linked to consumer purchasing power could be adversely affected.
- Peso Depreciation. A significant depreciation of local currency against US dollar could affect Argentina's economy adversely. While company earnings are in ARS capital expenditures, liabilities in foreign currencies could become more expensive in real terms. Dividend payments in term of US dollar could be diluted.
- Increase in inflation. Raise in price levels may affect real GDP growth causing direct effects on companies' financial margins.
- Controls over exchange and import of goods. Restrictions on currency exchange, international money transfers or import controls could be established in order to maintain a positive Balance of Trade.
- Country Risk. A negative watch over Argentina sovereign debt may affect macroeconomic environment turning companies' credit access more expensive.
- Greater intervention in private sector companies may be exercise. Currently, through ANSES, government could have presence at some companies' board meetings.

Related to the Industry

- Mobile Phone Services. Public Service Status to mobile phone services will allow SECOM to regulate this segment tariff, which may affect to company ability to transfer the increasing costs due to high inflation rates; therefore reducing margins and cash flow generation.
- Tariff. A bigger government intervention over fixed price may affect company revenues and capacity to transfer cost increases due to the inflation.
- Union activities or Labor law changes may affect the industry profitability.
- Radio Spectrum Authorizations. Delays in the attribution of frequencies may affect Argentina's mobile phone industry reducing or delaying incorporation of new technologies.

Related to Telecom Argentina

- Competition. High penetration rates & Numeric Portability may reduce company market share in the wireless market. The company has to expand its network coverage, releasing innovative products and making important advertisement expenditures in order to remain competitive by providing high quality services and attractive plans.
- Anti-Trust Law. An increase of Telecom Italia participation in Sofora (Nortel's controlling shareholder) may trigger a new claim by CNDC.
- Legal Issues. Non Compliance with license terms, local laws or consumer protection associations regarding to telecommunications regulations may result in economic penalties or even the revocation of license.
- Corporate Governance. ANSES appointed director could prioritize political interest over company economic ones.

Exhibit 1: Glossary

Telecom Argentina: the term refers to Telecom Argentina SA and its consolidated subsidiaries.

Group W: Wertheim Group.

Telecom Italia: the term refers to Telecom Italia S.p.A and its consolidated subsidiaries.

Sofora: the term refers to Sofora Telecomunicaciones SA. It is Nortel's main shareholder.

ANSES: Administración Nacional de la Seguridad Social.

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

CNC: Comisión Nacional de Telecomunicaciones. It is the Argentine National Communications Commission.

SECOM: Secretaría de Comunicaciones.

CNDC: Comisión Nacional de Defensa de la Competencia. Argentine Antitrust Commission.

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

ARPU: Average revenue per unit. It is a measure used primarily by consumer communications and networking companies, defined as the total revenue divided by the number of subscribers.

SMS: Short text messages that can be received and sent through GSM-network connected cellular phones. The maximum text length is 160 alpha-numerical characters.

ADSL: Asymmetric Digital Subscriber Line. A modem technology which converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications. ADSL can receive Mbps and transmit over 832 Kbps in both directions. Such rates expand existing access capacity by a factor of 50 or more without new cabling.

HDTV: High Definition Television.

VAS: Value Added Services. Services that provide a higher level of functionality than the basic transmission services offered by a telecommunications network for the transfer of information among its handsets, which include wired or mobile switched-circuit analog voice communications; direct "unrestricted" digital point-to-point service at 9,600 bit/s; packet switching (virtual call); direct Broadband analog transmission of TV signals, and supplementary services, such as closed user groups; call waiting; collect calls; call forwarding, and identification of number called. Value Added Services performed by the network, the handsets or the specialized centers include message handling services (MHS) (which can be used, among other things, for commercial documents in predetermined formats); electronic directories listing users, network addressees and terminals; e-mail; fax; teletex; videotex and videotelephone.

3G (or 3rd generation mobile telecommunications): is a generation of standards for mobile phones and mobile telecommunication services fulfilling the International Mobile Telecommunications-2000 (IMT-2000) specifications by the International Telecommunication Union. Application services include wide-area wireless voice telephone, mobile Internet access, video calls and mobile TV, all in a mobile environment.

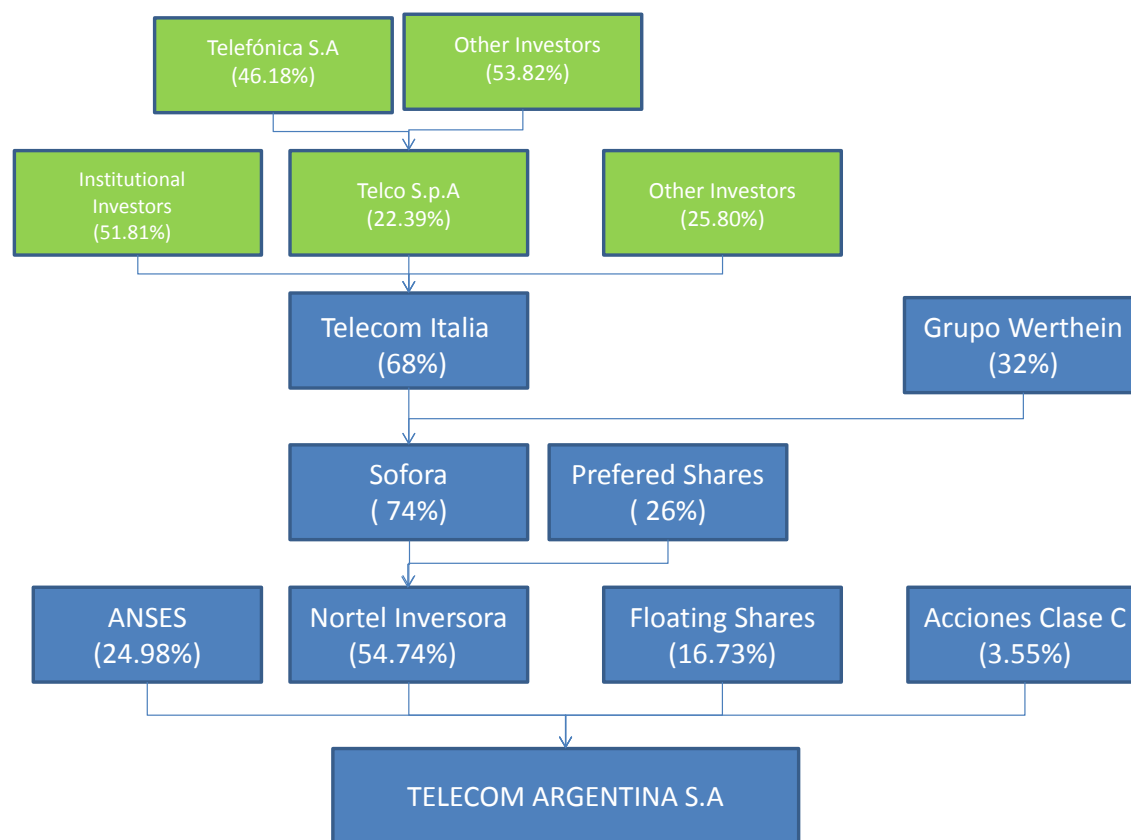
4G: is the fourth generation of cellular wireless standards. It is a successor to the 3G and 2G families of standards. A 4G system is expected to provide a comprehensive and secure all-IP based mobile broadband solution to laptop computer wireless modems, smartphones, and other mobile devices.

Internet of things: refers to a global network infrastructure, linking physical and virtual objects through the exploitation of data capture and communication capabilities. This infrastructure includes existing and evolving Internet and network developments. It will offer specific object-identification, sensor and connection capability as the basis for the development of independent cooperative services and applications. These will be characterized by a high degree of autonomous data capture, event transfer, network connectivity and interoperability. The term Internet of Things was first used by Kevin Ashton in 1999.

Triple play: in telecommunications, triple play service is a marketing term for the provisioning of two bandwidth-intensive services, high-speed Internet access and television, and a less bandwidth-demanding (but more latency-sensitive) service, telephone, over a single broadband connection. Triple play focuses on a combined business model rather than solving technical issues or a common standard. However, single standards like G.hn do exist to deliver all these services on a common platform.

RSI: Relative Strength Index. It is a technical indicator used in the technical analysis of financial markets. It is intended to chart the current and historical strength or weakness of a stock or market based on the closing prices of a recent trading period. The indicator should not be confused with relative strength.

Fibonacci retracement: is a method of technical analysis for determining support and resistance levels. They are named after their use of the Fibonacci sequence. Fibonacci retracement is based on the idea that markets will retrace a predictable portion of a move, after which they will continue to move in the original direction.

Exhibit 2: Organizational Structure

Source: Own production based on Telecom Argentina, Telecom Italia and ANSES public Information as of October 26, 2011.

Exhibit 3: Regulatory Framework

In Argentina, telecommunications industry is regulated by executive branch of government through SECOM, Secretaria de Defensa de la Competencia (SEDECOM) and Secretaria de Defensa del Consumidor (SEDECON).

The SECOM has the power to develop, suggest and implement policies, to review the applicable legal regulatory framework, to act as the enforcing authority with respect to the laws governing the relevant activities, to approve major technical plans and to resolve administrative appeals filed against CNC resolutions.

Regulatory Framework

- Law No. 19,798 - Telecommunications
- Law No. 22,285 - Broadcasting
- Law 23,696 – State Reform and Administrative Emergency (Privatizations)
- Law No. 24,240 - Consumer Rights and Antitrust
- Other National Decrees

Regulatory Environment

General Regulation of Licenses. This regulation establishes a single nationwide license for the provision of all telecommunication services, including fixed-line, mobile, national and international. Telecommunication companies could choose freely their technology and network architecture according to their own services agreements. Having obtained a license does not mean that additional requirements, such as radio electric spectrum frequencies, will be granted by the Argentinean government.

Interconnection Regulation. This regulation establishes different rules and procedures to be accomplished by telecommunications operators in regard to be interconnected. The regulation also refers to economic, technical and legal frameworks between different operators and their customers. In addition, telecommunications operators have to provide information about interconnection protocols and billing procedures

assuring that clients can be connected to each other. Regarding Number Portability, in January 2009 the SECOM issued Resolution No. 8/09, creating a Working Commission to prepare a Number Portability draft. The project will be implemented through telecommunication operators in Dec 2011.

Regulation Governing the Administration, Management and Control of the Radioelectric Spectrum. This regulation establishes the principles and requirements; governing the administration, management and control of the radioelectric spectrum. Authorizations or permissions will be granted subject to SECOM's right to substitute, modify or cancel them without any indemnification.

New radio electric spectrum will be granted by SECOM through public auctions. Authorizations will have a minimum duration of 5 years. These authorizations or permissions for the use of frequencies may not be transferred, leased or assigned, in whole or in part, without prior authorization by the SECOM.

Universal Service ("SU") Regulation. It established that telecommunications services have to be guaranteed throughout national territory. It promotes universal access despite geographical, social or economic inequities.

It also promotes "Social Public Telephony" at reduced prices for low income areas, public education facilities, cultural and hospitals centers.

The Universal Service regulation requires to entities that receive revenues from telecommunications services to contribute 1% of these revenues (after of tax) to the Universal Service Fiduciary Fund ("the SU Fund").

Licenses

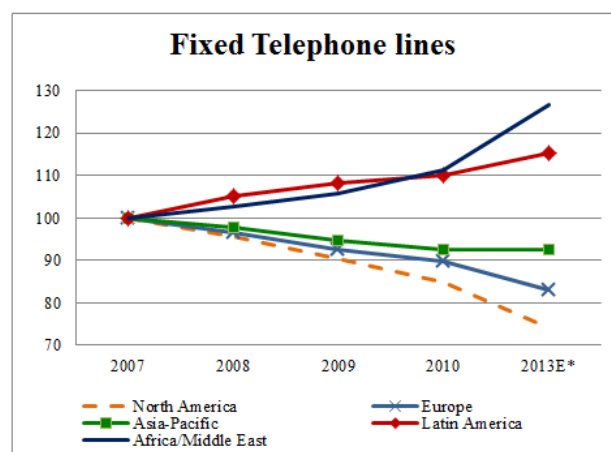
Telecom Argentina and their subsidiaries had been granted with non-expiring licenses to provide the following services in Argentina:

- Local fixed telephony
- Public telephony
- Mobile phone services
- Domestic and international long distance telephony
- VAS, data transmission, videoconferencing and broadcasting signal services
- Internet Access
- Núcleo has been granted a renewable five-year period license to provide mobile telecommunication services in Paraguay as well as PCS services and Internet access in certain areas of that country

Revocation of the License

Telecom Argentina's license is revocable in the case of repeated interruptions of the services, any voluntary insolvency proceedings, bankruptcy, non-compliance with certain obligations such as a modification of corporate purpose, sale or transfer of the license to third parties without prior approval of the Regulatory Bodies among others.

Exhibit 4: Fixed line Worldwide trend

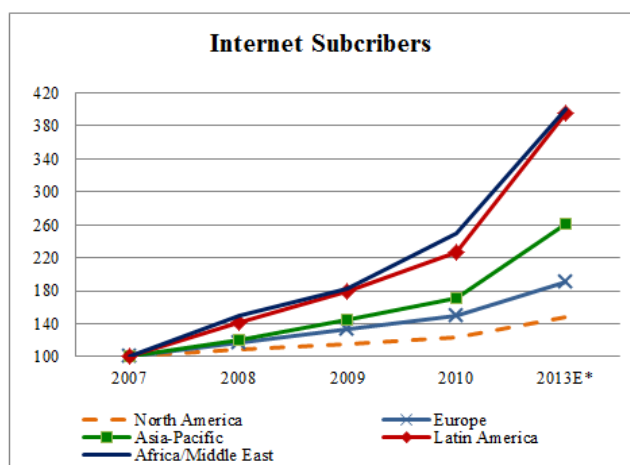


Source: Own production based on IDATE

Fixed telephone lines worldwide (Millions)	2007	2008	2009	2010	2013E*
North America	178	170	161	151	132
Europe	310	299	287	278	257
Asia-Pacific	588	574	557	545	544
Latin America	99	104	107	109	114
Africa/Middle East	71	73	75	79	90
Total	1,246	1,220	1,187	1,162	1,137
		-2%	-3%	-2%	-1%

* Annual growth rate

Exhibit 5: Internet Worldwide trend

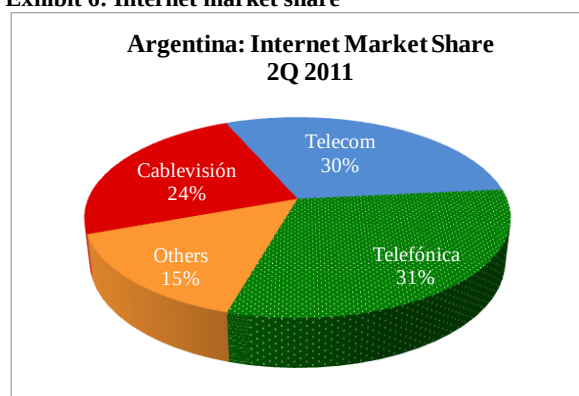


Source: Own production based on IDATE

Internet Subscribers Worldwide (Millions)	2007	2008	2009	2010	2013E*
North America	78	85	90	97	115
		9%	6%	8%	6%
Europe	113	133	151	169	216
		18%	14%	12%	9%
Asia-Pacific	131	157	190	225	342
		20%	21%	18%	15%
Latin America	19	27	34	43	75
		42%	26%	26%	20%
Africa/Middle East	6	9	11	15	24
		50%	22%	36%	17%
Total	347	412	477	550	772
		19%	16%	15%	12%

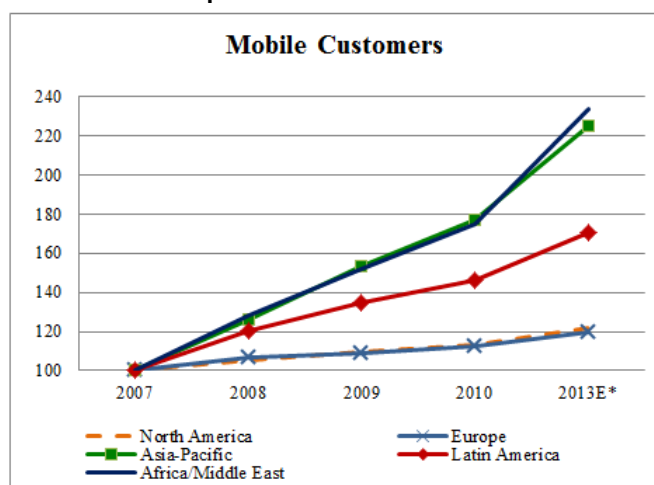
* Annual growth rate

Exhibit 6: Internet market share



Source: Own production based on SECOM

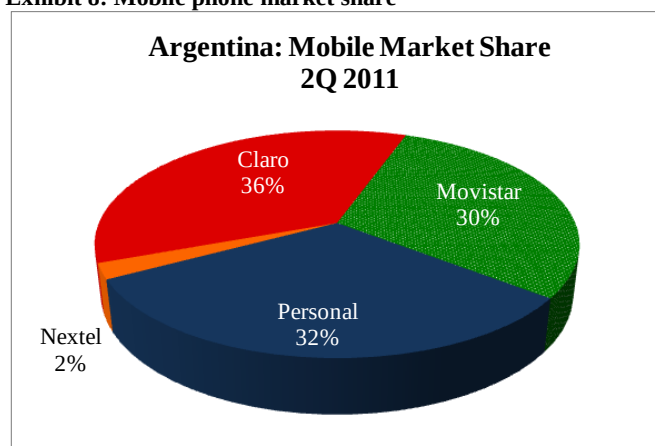
Exhibit 7: Mobile phone Worldwide trend



Source: Own production based on IDATE

Mobile Customers Worldwide (Millions)	2007	2008	2009	2010	2013E*
North America	277	291	303	314	337
		5%	4%	4%	2%
Europe	893	952	974	1,005	1,066
		7%	2%	3%	2%
Asia-Pacific	1,379	1,739	2,117	2,443	3,105
		26%	22%	15%	8%
Latin America	377	455	508	550	642
		21%	12%	8%	5%
Africa/Middle East	378	484	573	661	882
		28%	18%	15%	10%
Total	3,304	3,922	4,475	4,973	6,032
		19%	14%	11%	7%

* Annual growth rate

Exhibit 8: Mobile phone market share

Source: Own production based on SECOM

Exhibit 9: Shareholders conflict

In October 2007, a consortium that included Telefónica de España (owner Telefónica de Argentina, main competitor of Telecom Argentina) bought Olimpia's entire stock through the Italian company Telco, which held approximately 23.6% of Telecom Italia voting shares. As of October 26, 2011, Telco holds 22.40% of Telecom Italia's voting shares.

The transaction has generated some issues according to Argentine Antitrust Act and regulatory framework. In addition, Grupo W (Argentinian Partner) took a court action against Telecom Italia affecting Telecom Argentina governance and its stock price.

In the highest point of the dispute between shareholders, Telecom Italia has been recommended by Argentina's antitrust agency to sell its stake in Telecom Argentina.

In 2009, a commitment agreement was signed by Telecom Italia and Grupo W resolving all disputes between shareholders. Afterwards was authorized by CNDC (Antitrust office).

The agreement signed before CNDC considered the following points:

- Regulatory Compliance Committee was created to ensure the separation and independence of activities in telecommunications market from Telefónica de Argentina, assuring free competition in the Argentine market.
- Telefónica S.A and their subsidiaries resigned to have access directly or indirectly, to director board meeting, to appoint senior or middle management and any other strategic information. Grupo W transferred 8% of Sofora to Telecom Italia. This increased Telecom Italia's participation to 58% and Grupo W kept the remaining 42%.
- Grupo W has the right to nominate the Chairman of Audit committees.

In March 2011, there had been a 10% additional increase Telecom Italia's participation in Sofora, without changes in corporate governance structure.

Currently Telecom Italia's share in Telecom Argentina (equity) and their decision making power in the executive board meeting, does not match.

In our opinion, any further transaction including Grupo W and Telecom Italia might trigger a revision of the entire agreement by CNDC, affecting stock prices.

Exhibit 10: Drivers outside of the company's control

The following chart is a summary of TECO2 main price drivers outside of the company's control. We estimate that any change on these variables (improvement/decline) will affect The Company shares price. In addition, investors should be aware and analyze it according to their Investment horizon.

Company / Ticker	Investment Summary	Event	Upside/Downside
Telecom Argentina TECO2	HOLD	Allowance of tariff increase in fixed line telephony. (Currently frozen from 2002).	↑
		Attribution of more radio electric spectrum to mobile phones.	↑
		Ease in European crisis that affects stock markets	↑
		Worsening of Argentina Macroeconomic environment.	↓
		Inability to transfer inflation increases to mobile tariff.	↓
		Government intervention in company's decisions through ANSES designated Director.	↓
		Increase in mobile market competition.	↓
		Public Service Status to mobile phone services.	↓

Exhibit 11: DCF Firm Valuation**Firm valuation**

millions USD

	2011E	2012E	2013E	2014E	2015E	2016E
EBIT	957	1,089	1,300	1,508	1,699	1,895
EBIT (1-t)	618	708	845	980	1,104	1,232
(+) Depreciation	385	382	399	414	439	473
(-) Capex	-542	-721	-738	-817	-895	-978
(-) Change in Working Capital	24	-20	-30	-31	-33	-35
FCF	485	349	476	546	615	692

DCF Assumptions		DCF Summary	
Risk free rate	1.1%	Discounted Cash flow	1,731
Equity Risk Premium	7.6%	NPV of Terminal Value	3,775
Beta	0.85	Firm value	5,506
Country risk	8.5%	Debt	43
Cost of Debt	11.7%	Equity value	5,463
After tax Cost of Debt	7.6%	Shares (millions)	984
D/(D+E)	2.4%	DCF per share in USD	5.5
WACC	14.7%	Exchange rate	4.40
Long Term growth rate	5.0%	DCF per share in ARS	24.4

Source: Own production

Exhibit 12: Financial Projections

Financial Projections						
(USD in millions)	2011E	2012E	2013E	2014E	2015E	2016E
Income Statement						
Sales	4,279	4,664	5,351	6,020	6,670	7,362
Fixed Telephony	1,274	1,332	1,453	1,562	1,673	1,787
Mobile Services - Personal	2,834	3,146	3,693	4,233	4,750	5,302
Mobile Services - Nucleo	171	186	205	225	247	273
COGS	(1,808)	(1,981)	(2,287)	(2,586)	(2,876)	(3,185)
Fixed Telephony	(381)	(398)	(435)	(467)	(500)	(534)
Mobile Services - Personal	(1,355)	(1,504)	(1,765)	(2,023)	(2,271)	(2,534)
Mobile Services - Nucleo	(73)	(79)	(87)	(96)	(105)	(116)
S&A excl. depr.	(1,129)	(1,212)	(1,366)	(1,512)	(1,657)	(1,809)
Fixed Telephony	(621)	(649)	(708)	(761)	(815)	(871)
Mobile Services - Personal	(464)	(515)	(605)	(693)	(778)	(869)
Mobile Services - Nucleo	(44)	(48)	(52)	(58)	(63)	(70)
Depreciation	(385)	(382)	(399)	(414)	(439)	(473)
EBIT	957	1,089	1,300	1,508	1,699	1,895
Financial Results, net	28	-	-	-	-	-
Non-Operating Income/(Expense)	(68)	-	-	-	-	-
Pre-tax Income	917	1,089	1,300	1,508	1,699	1,895
Tax Expense	(325)	(381)	(455)	(528)	(595)	(663)
Minority Interest	(6)	(7)	(9)	(10)	(11)	(12)
Net Income	586	701	836	970	1,093	1,219
Fix assets	1,901	2,021	2,097	2,226	2,389	2,590
Total Debt	43	-	500	435	377	329
Working capital	110	118	132	146	160	174
Change Working Capital	(24)	20	30	31	33	35
EBITDA	1,342	1,471	1,699	1,922	2,138	2,368
Balance Sheet						
(USD in millions)	2011E	2012E	2013E	2014E	2015E	2016E
Assets						
Cash & Cash Equivalents + STI	324	330	388	437	478	524
Receivables	465	507	581	654	724	800
Inventories	90	98	113	128	143	158
Prepaid Expenses & Others	49	43	38	33	28	25
P&E	1,901	2,021	2,097	2,226	2,389	2,590
Other Long term Assets	199	176	153	133	115	101
TOTAL ASSETS	3,027	3,175	3,370	3,611	3,877	4,197
Liabilities						
Accounts Payable	445	487	562	636	707	783
Accrued Expenses & Un. Revenues	295	261	227	198	171	150
Taxes Payable & Pension Payable	120	106	92	80	69	61
Debt (Current Portion + Long Term)	43	-	-	-	-	-
Minority Interest	81	72	63	55	47	41
Other Liabilities	236	209	181	158	137	120
TOTAL LIABILITIES	1,220	1,135	1,126	1,126	1,132	1,154
SHAREHOLDERS' EQUITY						
Common Stock	224	198	172	150	130	113
Retained Earnings	1,137	1,523	1,934	2,334	2,740	3,170
Dividends Payments	(208)	(260)	(366)	(436)	(505)	(573)
Comprehensive Inc. and Other	655	579	504	438	380	332
TOTAL SHAREHOLDERS' EQUITY	1,807	2,040	2,244	2,485	2,745	3,043

Source: Own production

Exhibit 13: Assumptions

Sales projections	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Telefonía Fija										
Voz y Datos										
Líneas de clientes (miles)	3,849	3,915	3,967	4,019	4,067	4,116	4,161	4,207	4,253	4,300
crecimiento		1.7%	1.3%	1.3%	1.2%	1.2%	1.1%	1.1%	1.1%	1.1%
Precio mensual	60.1	62.1	65.1	67.7	69.8	74.6	82.1	90.3	99.3	106.3
crecimiento		3.4%	4.8%	4.0%	3.0%	7.0%	10.0%	10.0%	10.0%	7.0%
Ventas (millones)	2,774	2,918	3,099	3,266	3,622	3,686	4,100	4,559	5,070	5,485
crecimiento		5.2%	6.2%	5.4%	4.2%	8.3%	11.2%	11.2%	11.2%	8.2%
Internet										
Líneas (miles)	859	998	1,184	1,377	1,604	1,845	2,122	2,397	2,685	3,007
crecimiento		16.2%	18.6%	16.3%	16.5%	15.0%	15.0%	13.0%	12.0%	12.0%
Precio mensual	51.2	61.4	74.5	83.2	102.3	117.6	145.4	172.6	203.0	235.9
crecimiento		19.8%	21.3%	11.7%	23.0%	15.0%	23.6%	18.7%	17.6%	16.2%
Ventas	528	735	1,058	1,374	1,984	2,604	3,702	4,966	6,539	8,514
crecimiento		39.2%	43.9%	29.9%	43.3%	32.3%	42.2%	34.2%	31.7%	30.2%
Telefonía Móvil										
Personal										
Clientes	10,666	12,564	14,475	16,333	18,456	20,486	22,740	25,241	27,766	30,542
crecimiento		17.8%	15.2%	12.8%	13.0%	11.0%	11.0%	11.0%	10.0%	10.0%
Precio mensual	41.7	43.5	43.9	48.5	56.2	63.5	77.3	91.8	107.9	125.4
crecimiento		4.4%	0.9%	10.4%	16.0%	13.0%	21.6%	18.7%	17.6%	16.2%
Ventas (millones)	5,339	6,565	7,628	9,501	12,472	15,621	21,088	27,792	35,941	45,958
		23.0%	16.2%	24.6%	31.1%	25.4%	35.0%	31.8%	29.3%	27.9%
Nucleo										
Clientes	1,619	1,811	1,794	1,868	2,242	2,399	2,638	2,902	3,192	3,512
crecimiento		11.9%	-0.9%	4.1%	20.0%	7.0%	10.0%	10.0%	10.0%	10.0%
Precio	267.4	215.4	245.8	288.0	337	388	446	512	589	678
Precio mensual	22.3	17.9	20.5	24.0	28.1	32.3	37.1	42.7	49.1	56.5
crecimiento		-19.5%	14.1%	17.2%	17.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Ventas (millones)	433	390	441	538	752	929	1,176	1,487	1,881	2,380
		-9.9%	13.1%	22.0%	40.4%	23.1%	26.5%	26.5%	26.5%	26.5%
Assumptions										
	2010	2011E	2012E	2013E	2014E	2015E	2016E			
Sales Growth Rate										
Fixed Telephony										
Voz	3.6%	8.2%	8.3%	11.2%	11.2%	11.2%	8.2%			
Internet	29.9%	44.4%	32.3%	42.2%	34.2%	31.7%	30.2%			
Datos	23.4%	33.8%	25.0%	35.0%	33.8%	33.8%	33.8%			
Mobile Services - Personal	24.6%	31.3%	25.4%	35.0%	31.8%	29.3%	27.9%			
Mobile Services - Nucleo	22.0%	39.7%	23.1%	26.5%	26.5%	26.5%	26.5%			
Gross Margin										
Fixed Telephony	57.9%									
Mobile Services - Personal	70.6%	70.1%	70.1%	70.1%	70.1%	70.1%	70.1%			
Mobile Services - Personal	51.6%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%			
Mobile Services - Nucleo	58.6%	57.6%	57.6%	57.6%	57.6%	57.6%	57.6%			
S&A excl depr./Sales										
Fixed Telephony	26.8%									
Mobile Services - Personal	47.4%	48.7%	48.7%	48.7%	48.7%	48.7%	48.7%			
Mobile Services - Personal	16.8%	16.4%	16.4%	16.4%	16.4%	16.4%	16.4%			
Mobile Services - Nucleo	27.3%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%			
Depreciation/Begin. PPE	19.9%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%			
Tax rate	35.4%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%			
CapEx as % of sales	13.8%	12.7%	15.5%	13.8%	13.6%	13.4%	13.3%			
Minority Interest	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%			
Receivables	11.2%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%			
Inventories	7.1%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%			
Accounts Payable	-22.7%	-24.6%	-24.6%	-24.6%	-24.6%	-24.6%	-24.6%			
Payout ratio	74.9%	50.2%	60.0%	60.0%	60.0%	60.0%	60.0%			

Source: Own production

Exhibit 14: PV Tax shield**PV of Tax shield**

millions USD

	2011E	2012E	2013E	2014E	2015E	2016E
Interest	-28	0	58	51	44	39
Interest Tax shield		0	20	18	15	13
Terminal value of tax shield						201
PV @ 14%			16	13	10	124
Total PV tax shield	163					

Source: Own production

Exhibit 15: Macro Assumptions**Macro Assumptions**

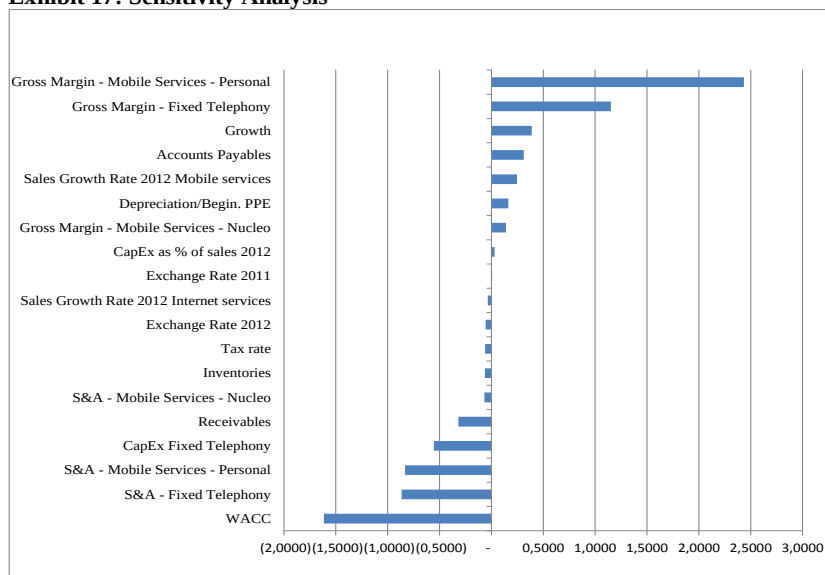
	2010	2011E	2012E	2013E	2014E	2015E	2016E
Exchange rate	3.98	4.40	4.97	5.72	6.58	7.58	8.68
Inflation (IPC)	23.9%	23.0%	19.0%	19.6%	18.7%	17.6%	16.2%

Source: Private local economists and international organisms

Exhibit 16: Comparable Firms

Company		Market Cap US\$Bn	P/E	P/E adj	EV/ EBITDA	EV/ EBITDA adj	Div. Yield
Entel	Chile	4.39	11.63	4.35	5.06	2.31	5.70%
Telemar Norte Leste	Brasil	8.65	12.28	12.28	3.34	3.34	3.80%
Tim Participacoes	Brasil	18.33	7.61	7.61	4.81	4.81	2.25%
Telecom	Arg	1.74	9.29	9.29	3.66	3.66	5.70%
Average comps			10.51	8.08	4.41	3.49	3.9%

Source: Capital IQ

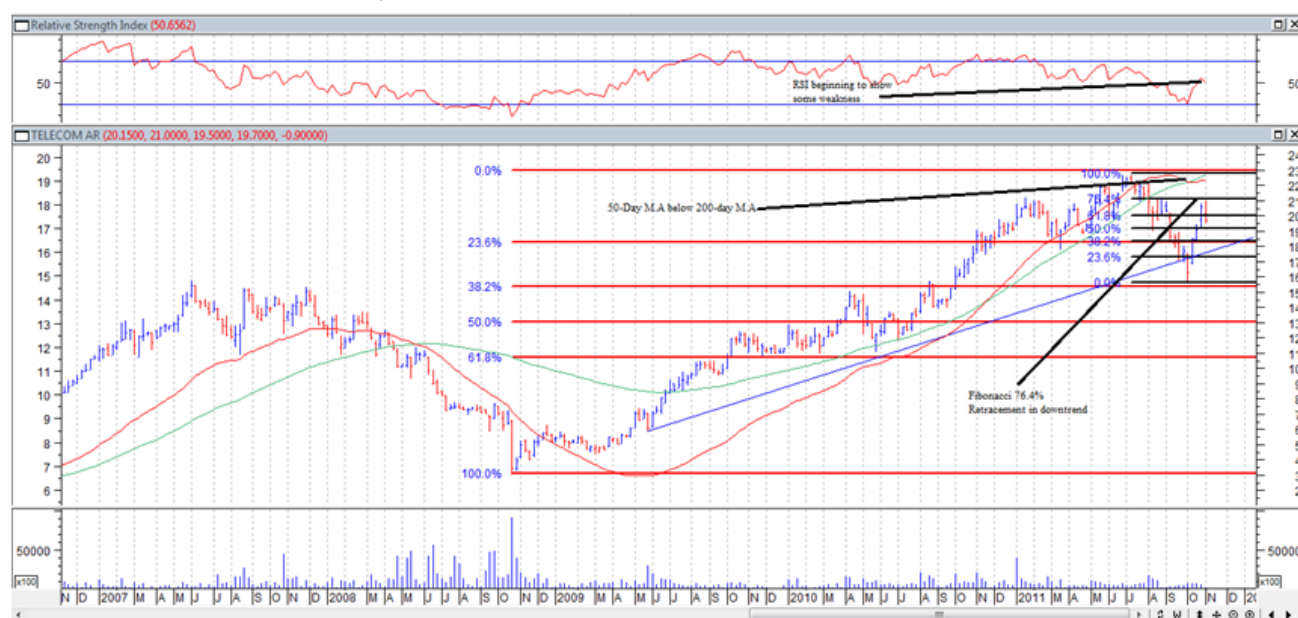
Exhibit 17: Sensitivity Analysis

Source: Own production

Sensitivity Analysis

Variable	Average Elasticity
Gross Margin - Mobile Services - Personal	2.4338
Gross Margin - Fixed Telephony	1.1510
Growth	0.3893
Accounts Payables	0.3123
Sales Growth Rate 2012 Mobile services	0.2466
Depreciation/Begin. PPE	0.1634
Gross Margin - Mobile Services - Nucleo	0.1408
CapEx as % of sales 2012	0.0299
Exchange Rate 2011	0.0079
Sales Growth Rate 2012 Internet services	(0.0341)
Exchange Rate 2012	(0.0556)
Tax rate	(0.0608)
Inventories	(0.0630)
S&A - Mobile Services - Nucleo	(0.0681)
Receivables	(0.3175)
CapEx Fixed Telephony	(0.5536)
S&A - Mobile Services - Personal	(0.8325)
S&A - Fixed Telephony	(0.8652)
WACC	(1.6142)

Exhibit 18: Stock Performance Analysis



Source: Own production

Exhibit 19: Ratios

Ratios

	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Liquidity and Debt Ratios:										
Liquidity - Current Ratio	0.65	0.64	0.71	0.81	1.05	1.09	1.23	1.33	1.42	1.49
Equity to Debt	0.50	0.72	1.06	1.11	1.59	1.80	1.99	2.21	2.42	2.64
Non current Assets to Total assets	0.74	0.73	1.36	1.32	1.32	0.69	0.67	0.65	0.65	0.64
Debt ratio	0.67	0.58	0.49	0.48	0.40	0.36	0.33	0.31	0.29	0.28
Activity Ratios:										
Average collection period	39	39	39	41	40	40	40	40	40	40
Average payment period	150	64	68	83	90	90	90	90	90	90
Average inventory period	14	20	17	26	18	8	8	8	8	8
Profitability Ratios:										
Gross margin	56.09%	55.83%	57.69%	57.86%	57.74%	57.52%	57.26%	57.04%	56.89%	56.74%
Fixed Telephony	71.44%	70.00%	70.17%	70.63%	70.10%	70.10%	70.10%	70.10%	70.10%	70.10%
Mobile Services - Personal	46.21%	47.75%	50.73%	51.58%	52.20%	52.20%	52.20%	52.20%	52.20%	52.20%
Mobile Services - Nucleo	60.97%	58.97%	60.32%	58.55%	57.56%	57.56%	57.56%	57.56%	57.56%	57.56%
Operating margin	18.03%	19.24%	22.59%	21.81%	22.35%	23.35%	24.29%	25.05%	25.47%	25.74%
EBITDA margin	33.63%	31.39%	31.90%	31.03%	31.36%	31.54%	31.74%	31.92%	32.05%	32.17%
Profit margin	8.62%	9.06%	11.49%	12.41%	13.68%	15.02%	15.63%	16.12%	16.39%	16.56%
Return on assets	11.60%	13.74%	16.88%	17.39%	20.54%	22.29%	25.07%	27.14%	28.48%	29.34%
Return on equity	25.81%	23.91%	25.85%	29.20%	32.40%	34.35%	37.26%	39.03%	39.83%	40.07%

Source: Own production

Disclosures:**Ownership and material conflicts of interest:**

The author(s), or a member of their house hold, of this report does not hold a financial interest in the securities of this company.

The author(s), or a member of their house hold, of this report does not know of the existence of any conflicts of interest that might bias the content or publication of this report.

Receipt of compensation:

Compensation of the author(s) of this report is not based on investment banking revenue.

Position as an officer or director:

The author(s), or a member of their house hold, does not serve as an officer, director or advisory board member of the subject company.

Market making:

The author(s) does not act as a market maker in the subject company's securities.

Ratings guide:

Banks rate companies as either a BUY, HOLD or SELL. A BUY rating is given when the security is expected to deliver absolute returns of 25% or greater over the next twelve month period, and recommends that investors take a position above the security's weight in the S&P500, or any other relevant index. A SELL rating is given when the security is expected to deliver negative returns over the next twelve months, while a HOLD rating implies flat returns over the next twelve months.

Investment Research Challenge and Global Investment Research Challenge Acknowledgement:

UCEMA Research Investment Research Challenge as part of the CFA Institute Global Investment Research Challenge is based on the Investment Research Challenge originally developed by the New York Society of Security Analysts.

Disclaimer:

The information set forth herein has been obtained or derived from sources generally available to the public and believed by the author(s) to be reliable, but the author(s) does not make any representation or warranty, express or implied, as to its accuracy or completeness. The information is not intended to be used as the basis of any investment decisions by any person or entity. This information does not constitute investment advice, nor is it an offer or a solicitation of an offer to buy or sell any security. This report should not be considered to be a recommendation by any individual affiliated with *UCEMA Research*, CFA Institute or the Global Investment Research Challenge with regard to this company's stock.
