MILLICOM
THE DIGITAL LIFESTYLE

Unaudited Interim Condensed Consolidated Financial Statements

As at and for the six-month period ended 30 June 2016

12 August 2016

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Unaudited interim consolidated statement of comprehensive income for the period ended 30 June 2016

PYG millions	Note	Six months ended 30 June 2016	Six months ended 30 June 2015 (*)
Revenue		1,582,725	1,559,983
Cost of sales		(375,481)	(370,104)
Gross profit		**1,207,244**	**1,189,879**
Operating expenses	7	(490,184)	(560,560)
Depreciation		(169,153)	(154,846)
Amortisation		(61,407)	(59,867)
Other operating income (expenses), net	8	(991)	12,346
Operating profit		**485,509**	**426,952**
Interest expense		(91,689)	(60,197)
Interest and other financial income		4,853	3,990
Exchange gain (loss), net		99,432	(201,470)
Profit before tax		**498,105**	**169,275**
Income tax expense		(66,581)	(27,702)
Net profit and comprehensive income for the period.		**431,524**	**141,573**

Attributable to:		
Equity holders of the company	431,524	141,573

(*) Presentation of the income statement from cost of sales to operating profit has been amended compared to the income statement reported in 2015 for the six-month period ended 30 June 2015.

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

Unaudited interim consolidated statement of financial position as at 30 June 2016

PYG millions	Notes	Six months ended 30 June 2016	Year ended 31 December 2015
ASSETS			
Non-Current Assets			
Intangible assets, net	5	922,787	790,491
Property, plant and equipment, net	4	1,856,787	1,745,816
Deferred taxation		20,757	20,757
Other non-current assets		24,058	24,982
Total Non-Current Assets		**2,824,389**	**2,582,046**
Current Assets			
Inventories		77,048	62,669
Trade receivables, net		430,657	366,885
Amounts due from related parties		406,534	499,895
Prepayments and accrued income		275,040	289,397
Supplier advances for capital expenditure		31,293	38,395
Other current assets		67,114	84,940
Cash and cash equivalents		124,702	203,984
Total Current Assets		**1,412,388**	**1,546,165**
TOTAL ASSETS		**4,236,777**	**4,128,211**
EQUITY AND LIABILITIES			
EQUITY			
Share capital and premium		274,008	274,008
Legal reserve		50,110	50,110
Retained profits		164,113	42,076
Profit for the period / year attributable to equity holders		431,524	308,252
TOTAL EQUITY		**919,755**	**674,446**
LIABILITIES			
Non-current Liabilities			
Debt and financing	6	2,210,370	2,303,132
Provisions and other non-current liabilities		149,362	216,797
Total non-current liabilities		**2,359,732**	**2,519,929**
Current Liabilities			
Debt and financing	6	55,890	87,040
Payables and accruals for capital expenditure		314,432	301,112
Other trade payables		145,609	102,220
Amounts due to related parties	10	54,599	64,045
Accrued interest and other expenses		180,547	197,065
Current income tax liabilities		25,551	8,568
Provisions and other current liabilities		180,662	173,786
Total current liabilities		**957,290**	**933,836**
TOTAL LIABILITIES		**3,317,022**	**3,453,765**
TOTAL EQUITY AND LIABILITIES		**4,236,777**	**4,128,211**

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

Unaudited interim consolidated statement of cash flows for the six-month period ended 30 June 2016

PYG millions	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
Cash flows from operating activities			
Profit before taxes		**498,105**	**169,275**
Adjustments:			
Interest expense		91,689	60,197
Interest and other financial income		(4,853)	(3,990)
Other non-operating expenses, net		(99,432)	201,087
Adjustments for non-cash items:			
Depreciation and amortization		230,560	214,713
Loss (gain) on disposal assets		991	(11,962)
		717,060	**629,320**
(Increase) decrease in trade receivables, prepayments and other current assets		(126,197)	13,439
(Increase) decrease in inventories		(14,379)	(58,252)
Increase (decrease) in trade and other payables		113,688	(163,513)
Changes in working capital		**(26,888)**	**(208,326)**
Interest paid		(101,393)	(60,512)
Interest received		3,942	9,457
Taxes paid		(5,535)	(50,507)
Net cash provided by operating activities		**587,186**	**319,432**
Cash flows for investing activities:			
Purchase of property, plant and equipment	4	(199,721)	(184,907)
Purchase of intangible assets and license renewals	5	(295,393)	(48,132)
Debt and other financing (granted to) / repaid by related parties, net		(61,898)	(160,653)
Other		294	16,585
Net cash used by investing activities		**(556,718)**	**(377,107)**
Cash flows for financing activities:			
Repayment of debt and financing		(46,202)	-
Proceeds from issuance of debt and financing		-	127,014
Payment of dividends	9	(60,340)	(239,697)
Net cash used by financing activities		**(106,542)**	**(112,683)**
Exchange losses on cash and cash equivalents		(3,208)	17,304
Net decrease in cash and cash equivalents		**(79,282)**	**(153,054)**
Cash and cash equivalents at the beginning of the year		203,984	354,100
Cash and cash equivalents at the end of the period		**124,702**	**201,046**

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

Unaudited interim consolidated statement of changes in equity for the Six months ended 30 June 2016

PYG million	Number of shares	Share Capital	Retained profits	Legal reserves	Total equity
BalanceasofDecember31,2014(audited)	**1,860**	**93,000**	**916,082**	**50,110**	**1,059,192**
Total comprehensive income for the period	-	-	141,573	-	141,573
Dividends	-	-	(239,782)	-	(239,782)
Balance as of 30 June, 2015 (unaudited)	**1,860**	**93,000**	**817,873**	**50,110**	**960,983**
Total comprehensive income for the period	-	-	166,679	-	166,679
Dividends	-	-	(307,224)	-	(307,224)
Increase of Share Capital	-	327,000	(327,000)	-	-
Return of capital to shareholders	(3,476)	(145,992)	-	-	(145,992)
Balance as of 31 December 2015 (audited)	**6,524**	**274,008**	**350,328**	**50,110**	**674,446**
Total comprehensive income for the period	-	-	431,524	-	431,524
Dividends	-	-	(186,215)	-	(186,215)
Balance as of 30 June 2016 (unaudited)	**6,524**	**274,008**	**595,637**	**50,110**	**919,755**

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

Notes to the unaudited interim consolidated financial statements

1. ORGANIZATION

Telefónica Celular del Paraguay S.A. (the “Company”), a Paraguayan Company, and its subsidiaries (the “Group” or “Telecel”) is a Paraguayan group providing communications, information, entertainment and solutions in Paraguay. The Company maintains multiple license contracts with Comision Nacional de Telecomunicaciones (Conatel), the regulator of the telecommunications system in Paraguay, to operate cellular and cable business in Paraguay. The Company was incorporated in 1992.

Telecel is a wholly owned subsidiary of Millicom International III N.V. The ultimate parent company is Millicom International Cellular S.A. a Luxembourg Société Anonyme whose shares are traded on the Stockholm stock exchange under the symbol MIC and over the counter in the US under the symbol MIICF.

The general administration of the Company is located at Zavala Cue esq. Artilleria, Fernando De La Mora, Paraguay.

The Board of Directors (“Board”) approved these consolidated financial statements for issuance on 12 August, 2016.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES

These interim condensed consolidated financial statements of the Company are unaudited. They are presented in Paraguayan Guaranies and have been prepared in accordance with International Accounting Standard (“IAS”) 34 ‘Interim Financial Reporting’ issued by the International Accounting Standard Board (IASB). In the opinion of management, these unaudited condensed interim consolidated financial statements reflect all adjustments that are necessary for a proper presentation of the results for interim periods. The Company’s operations are not affected by significant seasonal or cyclical patterns

These unaudited condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2015. These financial statements are prepared in accordance with consolidation and accounting policies consistent with the 2015 consolidated financial statements. The following changes to standards effective for annual periods starting after 1 January 2016 did not have a significant impact on the Group:

- Amendment to IAS 1, ‘Presentation of financial statements’ on the disclosure initiative. These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports;
- Annual improvements 2014. These set of amendments impacts 4 standards: IFRS 5, ‘Non-current assets held for sale and discontinued operations’ regarding methods of disposal, IFRS 7, ‘Financial instruments: Disclosures’, IAS 19, ‘Employee benefits’ regarding discount rates, IAS 34, ‘Interim financial reporting’ regarding disclosure of information;
- Amendments to IAS 38 and IAS 16: clarification of acceptable methods of depreciation and amortization issued by the IASB in July 2014 and applicable as of 1 January, 2016;
- Amendments to IFRS 11: accounting for acquisitions of interests in joint operations issued by the IASB in May 2014 and applicable as of 1 January, 2016.
- Amendments to IFRS 10, ‘Consolidated financial statements’ and IAS 28, ‘Investments in associates and joint ventures’.

The Group prepares its Consolidated Statement of Comprehensive Income, which includes the Statement of Profit and Loss and Other Comprehensive Income for the period. In 2015, the Group voluntarily changed the presentation of the income statement from function to nature of costs compared to the income statement for the six-month period ended 30 June 2015. This was done in order to align the presentation of the Income Statement with Millicom International Cellular S.A, the Group’s parent company. A reconciliation to the former presentation of the income statement for six-month period ended 30 June 2015 is shown next:

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (CONT.)

PYG millions	Six months ended 30 June 2015		
	Former presentation	Reclassification	New presentation
Revenue	1,559,983	-	1,559,983
Cost of sales	(517,859)	147,755	(370,104)
Gross profit	**1,042,124**	**147,755**	**1,189,879**
Operating expenses	(615,172)	54,612	(560,560)
Depreciation	-	(154,846)	(154,846)
Amortisation	-	(59,867)	(59,867)
Other operating income (expenses), net	-	12,346	12,346
Operating profit	**426,952**	**-**	**426,952**

3. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

During the six month period ended 30 June 2016, the Group did not make any significant acquisition or disposal.

On 27 February 2015 Telecel concluded the process of selling the fully-owned company Unicanal S.A. (99% of shares) to Grupo JBB, a Paraguayan multimedia group, by finishing the negotiations and transferring all the resources and facilities of this business unit to the buyer. The transaction amount was PYG 17,411 million.

4. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Company added property, plant and equipment for PYG 155,038 million. (30 June 2015: PYG 180,988 million)

Cash used for property, plant and equipment additions PYG million	Six months ended 30 June	
	2016	2015
Additions	155,038	180,988
Change in advances to suppliers	4,907	4,774
Change in accruals and payables for intangibles	39,776	(855)
Cash used from continuing operations for additions	**199,721**	**184,907**

5. INTANGIBLE ASSETS

During the six months ended 30 June 2016, the Company added intangible assets of PYG 317,444 million. (30 June 2015: PYG 60,227 million)

Cash used for intangible asset additions PYG million	Six months ended 30 June	
	2016	2015
Additions (*)	317,444	60,227
Change in advances to suppliers	(1,840)	969
Change in accruals and payables for intangibles	(20,211)	(13,064)
Cash used from continuing operations for additions	**295,393**	**48,132**

(*) On February 2016 Telecel was granted the license to operate in the 4G/LTE Technology, the cost of this license was PYG 260,376 million, including spectrum, social obligations and frequency charges.

6. DEBT AND FINANCING

The total amount of debt and financing is repayable as follows:

PYG millions	Six months ended 30 June 2016	Year ended 31 December 2015
Due within:		
One year	55.890	87,040
One-two years	27,944	58,069
Two-three years	79,040	79,040
Three-four years	130,580	130,580
Four-five years	130,031	129,966
After five years	1,842,775	1,905,477
Total debt	**2,266,260**	**2,390,172**

Bank financing

In July 2008, Telecel entered into an 8 year $100 million loan with the European Investment Bank ("EIB"). The loan bears interest at rates between $ LIBOR 90 plus 0.234% and $ LIBOR 90 plus 0.667%. The EIB loan is guaranteed for commercial risks by Royal Bank of Scotland ("RBS"). The commission guarantee fee is 1.25% per annum. The outstanding amount as at 30 June 2016 was PYG 55,890 million (December 2015: PYG 145,109 million).

In the last quarter of 2015, Telecel obtained two new long-term loans from local banks Banco ITAU and Banco Continental. Both loans are denominated in Paraguayan guaranies and bear a fixed annual interest rate of 9%. As of 30 June 2016 the combined balance of such loans is PYG million 532,140.

Senior Notes

On 7 December, 2012 Telecel issued $ 300 million aggregate principal amount of 6.75% Senior Unsecured Notes (the "6.75 Senior Notes") due on 13 December, 2022. The 6.75% Senior Notes were issued at 100% of the aggregated principal amount. Distribution and other transaction fees of $7 million reduced the total proceeds from issuance to $293 million. The 6.75% Senior Notes have a 6.75% per annum coupon with interest payable semi-annually in arrears on 13 June and 13 December. The effective interest rate is 7.12%.

The 6.75% Senior Notes are general unsecured obligations of the Telecel and rank equal in right of payment with all future unsecured and unsubordinated obligations of Telecel. The 6.75% Senior Notes are unguaranteed.

Telecel has options to partially or fully redeem the 6.75% Senior Notes as follows:

(i) Full or partial redemption at any time prior to 13 December, 2017, for the highest of, 100% of the principal to be redeemed or, the present value of the remaining scheduled payments of principal to be redeemed and interest

(ii) Full or partial redemption at any time on or after 13 December, 2017 for the following percentage of principal to be redeemed, plus accrued and unpaid interest and all other amounts dues, if any:
13 December, 2017 103.375%
13 December, 2018 102.25%
13 December, 2019 101.125%
13 December, 2020 100.00%
13 December, 2021 100.00%

These options represent embedded derivatives which, in accordance with IAS 39 have been valued and determined to be closely related to the underlying bond.

(iii) Redemption of up to 35% of the original principal of the 6.75% Senior Notes if, prior to 13 December, 2015, Telefónica Celular del Paraguay S.A. receives proceeds from issuance of shares, at a redemption price of 106.75% of the principal amount to be redeemed plus accrued and unpaid interest and all other amounts due, if any, on the redeemed notes. If Telefónica Celular del Paraguay S.A. experiences a Change of Control Triggering Event, defined as a rating decline resulting from a change in control, each holder will have the right to require repurchase of its notes at 101% of their principal amount plus accrued and unpaid interest and all other amounts due, if any.

6. DEBT AND FINANCING (CONT.)

The outstanding amount as at 30 June 2016 was PYG 1,650,275 million (December 2015: PYG 1,712,977 million)

Fair value of financial liabilities

The carrying amounts of borrowings do not significantly differ from their fair value at the balance sheet dates.

7. OPERATING EXPENSES

PYG millions	Six months ended 30 June	
	2016	2016
Employee costs	81,680	75,849
Dealer commissions	79,724	110,906
Call center costs	72,603	58,382
Network maintenance costs	56,655	48,945
Phone subsidies	52,331	58,897
Advertising and promotion	45,971	47,188
External services	42,285	46,043
Billing and payment costs	26,304	24,614
Office Rental and Lease Payments	7,683	4,878
Basic services and other costs	24,948	84,858
Total	**490,184**	**560,560**

8. OTHER OPERATING INCOME (EXPENSES), NET

PYG millions	Six months ended 30 June	
	2016	2015
Impairment of assets	(960)	-
Result on disposal of tangibles assets	(31)	12,346
Total	**(991)**	**12,346**

9. COMMITMENTS AND CONTINGENCIES

Operational environment

Telecel is operating in an emerging market, where the regulatory, political, technological and economic environments are evolving. As a result, there are uncertainties that may affect future operations, the ability to conduct business, foreign exchange transactions and debt repayments and which may impact upon agreements with other parties. In the normal course of business, Telecel faces uncertainties regarding taxation, interconnect, license renewal and tariff arrangements, which can have a significant impact on the long-term economic viability of its operations.

Litigation

The Company and its subsidiaries are contingently liable with respect to lawsuits and other matters that arise in the normal course of business. As of 30 June 2016, the total amount of provisions related to claims against the Group's operations was PYG 8,134 million (December 2015: PYG 7,735 million). Management is of the opinion that while it is impossible to ascertain the ultimate legal and financial liability with respect to these claims, the ultimate outcome of these contingencies is not anticipated to have a material effect on the Group's financial position and operations.

9. COMMITMENTS AND CONTINGENCIES (CONT.)

Lease commitments

The Group has the following annual operating lease commitments as of 30 June 2016 and 31 December 2015.

PYG millions	Six months ended 30 June 2016	Year ended 31 December 2015
Operating lease commitments		
Within: one year	11,577	23,154
Between: one to five years	3,303	6,606
After: five years	1,825	3,650
Total	**16,706**	**33,410**

Operating leases comprise mainly of lease agreements relating to land and buildings. The operating lease terms and conditions reflect normal market conditions.

Capital commitments

As of 30 June 2016 the Company has fixed commitments to purchase network equipment, land and buildings and other fixed assets for a value of PYG 824,714 million (31 December 2015: PYG 1,042,910 million).

Dividends

The ability of the Company to make dividend payments is subject to, among other things, the terms of indebtedness and legal restrictions. On April 2016 Telecel's Shareholders Assembly decided the distribution of dividends of PYG 186,215 million from retained profits of the previous year (30 June 2015: PYG 239,782 million).

Dividends paid PYG million	Six months ended 30 June	
	2016	2015
Distribution of dividends	186,215	239,697
Offset dividend advances	(186,215)	-
Dividend advances	60,340	-
Payment of dividends	**60,340**	**239,697**

10. RELATED PARTY TRANSACTIONS

The Company conducts transactions with its principal shareholder, Millicom International Cellular S.A. ("Millicom") and its subsidiaries. Transactions with related parties are conducted on normal commercial terms and conditions.

The following transactions were conducted with related parties:

PYG millions	Six months ended 30 June 2016	Six months ended 30 June 2015
Millicom – Other Paraguayan operations	51,612	29,325
Millicom - Non-Paraguayan companies	(3,952)	78,726
Total purchases from related parties	**47,660**	**108,051**

10. RELATED PARTY TRANSACTIONS (CONT.)

The Company had the following balances with related parties:

PYG millions	Six months ended 30 June 2016	Year ended 31 December 2015
Receivables		
Millicom – Other Paraguayan operations	334,117	301,272
Millicom – Non-Paraguayan companies	72,416	198,623
Total	**406,534**	**499,895**
Payables		
Millicom – Other Paraguayan operations	42,845	42,140
Millicom – Non-Paraguayan companies	11,754	21,905
Total	**54,599**	**64,045**

9. SUBSEQUENT EVENTS

Between the date of closing 30 June 2016, and the date of presentation of these financial statements there were no significant events or situations that affect the company's economic and financial structure or its results as at 30 June 2016.

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