# Telefonica Celular del Paraguay

## Unaudited Interim Condensed Consolidated Financial Statements

**As at and for the nine month period ended Setiembre 30, 2015**

**28 October 2015**

# Unaudited interim condensed consolidated income statement for the nine-month period ended September 30, 2015

| PYG millions | Notes | Nine months ended September 30, 2015 | Nine months ended September 30, 2014[1] |
|---|---|---|---|
| Revenue | | 2,360,895 | 2,389,127 |
| Cost of sales | | (552,228) | (596,456) |
| **Gross profit** | | **1,808,667** | **1,792,671** |
| Sales and marketing | | (488,424) | (429,413) |
| General and administrative expenses | | (246,043) | (202,336) |
| **EBITDA**[2] | | **1,074,200** | **1,160,922** |
| Depreciation | | (232,506) | (228,820) |
| Amortisation | | (89,809) | (79,955) |
| Other operating income (expenses), net | | (74,053) | (245,498) |
| **Operating profit** | | **677,832** | **606,649** |
| Interest expense | | (100,343) | (87,931) |
| Interest and other financial income | | 6,161 | 6,099 |
| Exchange loss, net | | (350,483) | 16,024 |
| **Profit before tax** | | **233,167** | **540,841** |
| Income tax expense | | (46,297) | (104,471) |
| **Net profit and comprehensive income for the period** | | **186,870** | **436,370** |

| | | | |
|---|---|---|---|
| **Attributable to:** | | | |
| Equity holders of the company | | 186,870 | 436,370 |

[1] *Presentation of the income statement from cost of sales up to operating profit has been amended compared to the income statement reported in 2014 for the period ended 30 September 2014. This was done in the purpose of showing EBITDA (as defined in note 2 below) on the face of the income statement, similarly to other external releases made by the Group. A reconciliation with the former presentation of the income statement for the nine months ended 30 September 2014 is provided in note 2.*

[2] *Earnings before interest, taxes, depreciation, amortisation, revaluation of previously held interest, other non-operating (expenses) income, income (loss) from joint ventures and associates and profit (loss) for the period from discontinued operations, net of tax. EBITDA is used internally by management to assess operating performance and allocate financial resources.*

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.201

# Unaudited interim condensed consolidated statement of financial position as at September 30, 2015

| PYG millions | Notes | Nine months ended September 30, 2015 | Year ended December 31, 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Intangible assets, net | 5 | 656,039 | 684,541 |
| Property, plant and equipment, net | 4 | 1,628,690 | 1,522,801 |
| Deferred taxation | | 43,463 | 43,463 |
| Other non-current assets | | 24,692 | 22,828 |
| **Total Non-Current Assets** | | **2,352,884** | **2,273,633** |
| **Current Assets** | | | |
| Inventories | | 124,216 | 87,635 |
| Trade receivables, net | | 315,758 | 261,572 |
| Amounts due from related parties | 8 | 291,057 | 171,422 |
| Prepayments and accrued income | | 333,655 | 288,920 |
| Supplier advances for capital expenditure | | 36,814 | 5,941 |
| Other current assets | | 97,227 | 71,850 |
| Cash and cash equivalents | | 481,659 | 354,100 |
| **Total Current Assets** | | **1,680,386** | **1,241,440** |
| **TOTAL ASSETS** | | **4,033,270** | **3,515,073** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Share capital and premium | | 93,000 | 93,000 |
| Legal reserve | | 50,110 | 50,110 |
| Retained profits | | 676,384 | 359,099 |
| Profit for the period / year attributable to equity holders | | 186,869 | 556,983 |
| | | | |
| **Parents ownership interests** | | **1,006,363** | **1,059,192** |
| **TOTAL EQUITY** | | **1,006,363** | **1,059,192** |
| **LIABILITIES** | | | |
| **Non-current Liabilities** | | | |
| Debt and financing | 6 | 2,024,400 | 1,481,167 |
| Provisions and other non-current liabilities | | 183,122 | 192,470 |
| **Total non-current liabilities** | | **2,207,522** | **1,673,637** |
| **Current Liabilities** | | | |
| Debt and financing | 6 | 109,417 | 89,951 |
| Payables and accruals for capital expenditure | | 203,338 | 175,989 |
| Other trade payables | | 89,239 | 80,952 |
| Amounts due to related parties | 8 | 36,366 | 98,270 |
| Accrued interest and other expenses | | 204,470 | 174,297 |
| Current income tax liabilities | | 1,340 | 28,890 |
| Provisions and other current liabilities | | 175,215 | 133,895 |
| **Total current liabilities** | | **819,385** | **782,244** |
| **TOTAL LIABILITIES** | | **3,026,907** | **2,455,881** |
| **TOTAL EQUITY AND LIABILITIES** | | **4,033,270** | **3,515,073** |

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

# Unaudited interim condensed consolidated statement of cash flows for the nine-month period ended September 30, 2015

| PYG millions | Notes | Nine months ended September 30, 2015 | Nine months ended September 30, 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxes | | **233,167** | **540,841** |
| **Adjustments:** | | | |
| Interest expense | | 100,343 | 87,931 |
| Interest and other financial income | | (6,161) | (6,099) |
| Other non-operating expenses, net | | 350,483 | (16,024) |
| **Adjustments for non-cash items:** | | | |
| Depreciation and amortization | | 322,315 | 308,775 |
| Gain on disposal of assets | | (11,152) | - |
| Impairment of assets | | 6,479 | - |
| **Cash flow from operating activities total** | | **995,474** | **915,424** |
| (Increase) decrease in trade receivables, prepayments and other current assets | | (10,527) | (148,307) |
| (Increase) decrease in inventories | | (36,581) | 17,863 |
| Increase (decrease) in trade and other payables | | (398,919) | 83,738 |
| **Changes in working capital** | | **(446,027)** | **(46,706)** |
| Interest paid | | (64,872) | (59,814) |
| Interest received | | 10,614 | 9,637 |
| Taxes paid | | (70,612) | (75,649) |
| **Net cash provided by operating activities** | | **424,577** | **742,892** |
| **Cash flows for investing activities:** | | | |
| Purchase of property, plant and equipment | 4 | (311,637) | (204,660) |
| Purchase of intangible assets and license renewals | 5 | (119,041) | (105,581) |
| Debt and other financing granted to / repaid by related parties, net | | (272,648) | 5,640 |
| Other | | 26,037 | 665 |
| **Net cash used by investing activities** | | **(677,289)** | **(303,936)** |
| **Cash flows for financing activities:** | | | |
| Issuance (repayment) of debt and other financing | | 586,683 | (98,546) |
| Payment of dividends | | (239,697) | (648,548) |
| **Net cash used by financing activities** | | **346,986** | **(747,094)** |
| Exchange losses on cash and cash equivalents | | 33,285 | (16,996) |
| **Net decrease in cash and cash equivalents** | | **127,559** | **(325,134)** |
| Cash and cash equivalents at the beginning of the year | | 354,100 | 635,467 |
| **Cash and cash equivalents at the end of the period** | | **481,659** | **310,333** |

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

## Unaudited interim condensed consolidated statement of changes in equity for the nine-month period ended September 30, 2015

| PYG millions | Number of shares | Share Capital | Retained profits | Legal reserves | Total equity |
|---|---|---|---|---|---|
| **Balance as of December 1, 2012 (audited)** . | **1,860** | **93,000** | **1,233,627** | **50,110** | **1,376,737** |
| Total comprehensive income for the period.... | - | - | 838,187 | - | 838,187 |
| Dividends...................................................... | - | - | (1,042,077) | - | (1,042,077) |
| **Balance as of December 31, 2013 (audited)** | **1,860** | **93,000** | **1,029,737** | **50,110** | **1,172,847** |
| Total comprehensive income for the period ... | - | - | 556,983 | - | 556,983 |
| Dividends...................................................... | - | - | (670,638) | - | (670,638) |
| **Balance as of December 31, 2014 (audited)** | **1,860** | **93,000** | **916,082** | **50,110** | **1,059,192** |
| Total comprehensive income for the period ... | - | - | 186,871 | - | 186,871 |
| Dividends...................................................... | - | - | (239,700) | - | (239,700) |
| **Balance as of September 30, 2015 (unaudited)** .................................................. | **1,860** | **93,000** | **863,253** | **50,110** | **1,006,363** |

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

# Notes to the unaudited interim condensed 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 Comisión Nacional de Telecomunicaciones (Conatel), the regulator of the telecommunications system in Paraguay, to operate cellular and cable telephony business in Paraguay. The Company was formed 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 Cué esq. Artilleria, Fernando De La Mora, Paraguay.

The Board of Directors (“Board”) approved these unaudited interim condensed consolidated financial statements for issuance on October 23rd.

## 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’ as adopted by the European Union. 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 2014. These financial statements are prepared in accordance with consolidation and accounting policies consistent with the 2014 consolidated financial statements, as disclosed in note 2 of those financial statements. Except for the change in the presentation of the income statement described below, the following changes to standards effective for annual periods starting after 1 January 2015 did not have a significant impact on Millicom:

- IFRIC 21, ‘Levies’ , which provides guidance on when to recognise a levy imposed by a government;
- Defined Benefit Plans (amendments to IAS 19);
- Annual Improvements projects impacting IFRS 2, Share based payment; IFRS 3; Business Combinations, IFRS 8, Operating Segments; IFRS 13, Fair Value Measurement; IAS 16, Property, plant and equipment; IAS 24, Related party disclosures; and IAS 38, Intangible Assets.

In addition, the Company voluntarily changed the presentation of the income statement from cost of sales up to operating profit compared to the income statement for the period ended 30 September 2014. This was done in the purpose of showing EBITDA on the face of the income statement, similarly to other external releases made by the Group and because EBITDA is used internally by management to assess operating performance and allocate financial resources. A reconciliation to the former presentation of the income statement for the nine and three months periods ended 30 September 2014 is shown in the following table:

| Nine months ended 30 September 2014 | | | |
|---|---|---|---|
| PYG millions | Former presentation | Reclassification | New presentation |
| Revenue | 2,389,127 | - | 2,389,127 |
| Cost of sales | (814,626) | 218,170 | (596,456) |
| **Gross profit** | **1,574,501** | **-** | **1,792,671** |
| Sales and marketing | (429,413) | - | (429,413) |
| General and administrative expenses | (538,439) | 336,103 | (202,336) |
| **EBITDA** | **-** | **-** | **1,160,922** |
| Depreciation | - | (228,820) | (228,820) |
| Amortisation | - | (79,955) | (79,955) |
| Other operating income (expenses), net | - | (245,498) | (245,498) |
| **Operating profit** | **606,649** | **-** | **606,649** |

## 3. DISPOSAL OF SUBSIDIARIES, JOINT VENTURES AND NON-CONTROLLING INTERESTS

### Agreement to sell Unicanal S.A.

On February 27, 2015 the Company 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 USD 3.65 million of which USD 2.5 million was collected in cash at the time of the transference in February, 2015. The balance will be collected in November 2015.

## 4. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended September 30, 2015, the Company added property, plant and equipment for PYG 311,637 million, and received PYG 25,337 million in cash from disposal of property, plant and equipment.

## 5. INTANGIBLE ASSETS

During the nine months ended September, 30 2015, the Company added intangible assets of PYG 119,041 million, and received PYG 700 million in cash from disposal of intangible assets.

## 6. DEBT AND FINANCING

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

| PYG millions | Nine months ended September 30, 2015 | Year ended December 31, 2014 |
|---|---|---|
| Due within: | | |
| One year ............ | 109,417 | 89,951 |
| One-two years ............ | 52,922 | 66,690 |
| Two-three years ............ | 51,994 | 43,416 |
| Three-four years ............ | 23,549 | - |
| Four-five years ............ | 23,265 | - |
| After five years ............ | 1,872,670 | 1,371,061 |
| **Total debt** ............ | **2,133,817** | **1,571,118** |

### 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 September 30, 2015 was PYG 197.168 billion (December 2014:  PYG 208.114 million).

In September 2015, Telecel entered into an 8 year PYG 275,000 million loan with Banco Continental S.A.E.C.A. The loan bears interest at a fixed annual rate of 9%. The total amount of the loan remains outstanding as at September 30, 2015.

### Senior Notes

On December 7, 2012 Telecel issued $ 300 million aggregate principal amount of 6.75% Senior Unsecured Notes (the "6.75 Senior Notes") due on December 13, 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 June 13 and December 13. The effective interest rate is 7.12%.

The 6.75% Senior Notes are general unsecured obligations of 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 December 13, 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 December 13, 2017 for the following percentage of principal to be redeemed, plus accrued and unpaid interest and all other amounts dues, if any:
December 13, 2017 103.375%
December 13, 2018 102.25%
December 13, 2019 101.125%
December 13, 2020 100.00%
December 13, 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 December 13, 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.

The outstanding amount as at September 30, 2015 was PYG 1,661,650 million (December 2014: PYG 1,363,004 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. 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 September 30, 2015, the total amount of provisions related to claims against the group's operations was PYG 8,471 million (December, 2014: PYG 7,944 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.

### Lease commitments

*Operating Leases:*

The Group has the following annual operating lease commitments as of September 30, 2015 and December 31, 2014.

| PYG millions | Nine months ended September 30, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Operating lease commitments** | | |
| Within: one year | 4,180 | 16,720 |
| Between: one to five years | 4,770 | 4,770 |
| After: five years | 2,636 | 2,636 |
| **Total** | **11,586** | **24,126** |

Operating leases comprise mainly of lease agreements relating to land and buildings. The operating lease terms and conditions reflect normal market conditions. Total operating lease expense was PYG 8,174 million in the nine months ended September 2015 (September 2014: PYG 4,772 million).

### Capital commitments

As of September 30, 2015, the Company has fixed commitments to purchase network equipment, land and buildings and other fixed assets for a value of PYG 121,430 million (December 31, 2014: PYG 59,136 million).

### Dividends

The ability of the Company to make dividend payments is subject to, among other things, the terms of indebtedness and legal restrictions.

## 8. 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.

### Millicom

From 2013 to 2015 the Company purchased services from Millicom and its subsidiaries including technical service fees, call center services and marketing services. Some of these subsidiaries are Paraguayan operations. Telecel entered into a technical service agreement with Millicom, in which Millicom provides technical assistance and "know-how" to the Company. For the technical and other assistance received in 2014 and the first quarter of 2015, Telecel paid a sum equivalent to 10% of its total revenue. By an agreement signed on September 2015, Millicom will no longer provide technical services to the Company. During 2015 and 2014 the Company sold services to Millicom subsidiaries in Paraguay mainly mobile telephony services.

The following transactions were conducted with related parties:

| PYG millions | Nine months ended September 30, 2015 | Nine months ended September 30, 2014 |
|---|---|---|
| Millicom – Other Paraguayan operations | 51,636 | 36,117 |
| Millicom - Non-Paraguayan companies | 78,726 | 245,289 |
| **Total purchases from related parties** | **130,362** | **281,406** |

As at September 30, the Company had the following balances with related parties:

| PYG millions | Nine months ended September 30, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **Receivables** | | |
| Millicom – Other Paraguayan operations | 281,784 | 168,482 |
| Millicom – Non-Paraguayan companies | 9,273 | 2,940 |
| **Total** | **291,057** | **171,422** |
| | | |
| **Payables** | | |
| Millicom – Other Paraguayan operations | 28,407 | 20,400 |
| Millicom – Non-Paraguayan companies | 7,959 | 77,870 |
| **Total** | **36,366** | **98,270** |

## 9. SUBSEQUENT EVENTS

Between the date of closing September 30, 2015 and the date of presentation of these financial statements, there were no-significant financial events or other measures affecting the economic and financial structure or results of the Company as at September 30, 2015.

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