MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our Interim Condensed Consolidated Financial Statements and the notes thereto.

Unless otherwise indicated, all financial data and discussions relating thereto in this discussion and analysis are based upon interim financial statements prepared in accordance with IAS 34.

Overview

Introduction

We are a leading provider in Paraguay of communications, information, entertainment and solutions services through mobile telephony, cable television and broadband internet. We are the leading mobile and cable television service operator in Paraguay based on both number of customers and revenues. We are a wholly owned indirect subsidiary of Millicom International Cellular S.A., a global telecommunications group with operations in 15 countries in Central America, South America and Africa. We offer a comprehensive range of mobile communications, information, entertainment and solutions services and cable television and internet services branded under the "tigo" name. We deliver our services across the most extensive 2G, 3G and cable networks in Paraguay. We strive to develop targeted, affordable rate plans and products and leverage our robust network assets, extensive distribution channels and superior customer service to attract and retain our customers. To maintain our market share and enhance our profitability, we intend to continue to introduce value-added services that meet the evolving needs of our customers. We believe our focus on availability, accessibility, affordability, brand affinity, customer service and innovation has resulted in Tigo becoming one of the most widely recognized and well-respected brands in Paraguay.

On October 2, 2012 Telecel completed its acquisition of the debt and cash free operating businesses of Cable Visión Comunicaciones S.A., Televisión Dirigida S.A., Consorcio Multipunto Multicanal S.A. and 100% of the share of Teledeportes Paraguay S.A. (together "Cablevisión") for combined cash consideration of $ 172 million. The results for the six months ended June 30, 2013 include the results from the operating businesses of Cablevisión whereas the results for the six months ended June 30, 2012 do not.

We derive our revenues mainly from the provision of communications, information, entertainment, and solutions services primarily through monthly subscription fees, airtime usage fees, roaming fees, interconnection fees, connection fees, fees from the provision of broadband internet, VOIP, data transmission and cable television and other services and equipment sales. We generally seek to increase our revenues through the growth of our customer base and through the introduction of new products and value-added services. Our future revenue growth is dependent on our ability to grow our customer base, introduce new products and value-added services, and increase the number of distribution points that offer our products and services. Due to our high market share, our revenues also are impacted by interconnection rates between communications operators, including interconnection fees charged for a call originating from a competitor's network and terminating on our network.

The number of customers we have is dependent upon the number of new customers we obtain and the number of customers that terminate our service, or churn. Our total customer base grew from approximately 3.7 million customers as of June 30, 2012 to approximately 3.9 million customers as of June 30, 2013, an annual growth rate of approximately 6%. Our average churn rate per month for the first half of 2013 was approximately 3,5%. Our policy is to terminate customers after 60 days of inactivity. We believe the measurement of churn may be overstated by our existing customers who migrate from being prepaid customers to postpaid customers and in some cases disconnect their old telephone numbers and are therefore included in the churn calculation.

To reduce our churn rate we undertake focused customer loyalty activities, such as balance promotions and retention subsidy promotions. Our primary retention activity, however, is the day-to-day maintenance of brand value and high quality customer service that we offer to our customers.

Results of Operations

Ended June 30, 2013 and 2012

The following table sets forth certain income statement items and operating information at or for the periods and dates indicated:

	Ended June 30,		Impact on comparative results for period	
	2013	2012	Amount of variation	Percent change
	(in millions of guaraní, except percentages, employees and ARPU)			
Revenues	1,586,342	1,338,843	247,449	18%
Cost of sales	(515,644)	(373,162)	(142,482)	(38)%
Gross profit	**1,070,698**	**965,681**	**105,017**	**11%**
Sales and marketing	(316,224)	(241,710)	(74,514)	(31)%
General and administrative expenses	(123,686)	(87,660)	(36,026)	(41)%
Operating profit	**630,788**	**636,311**	**(5,523)**	**(1)%**
Interest expense	(48,739)	(7,380)	(41,359)	(560)%
Interest and other financial income	3,404	1,491	1,913	128%
Exchange loss, net	(124,992)	(7,136)	(117,856)	(1,652)%
Profit before tax	**460,461**	**623,286**	**(162,825)**	(26)%
Income tax	(101,593)	(110,883)	9,290	8%
Net profit	**358,868**	**512,403**	**(153,535)**	**(30)%**
Operating Data:				
Number of customers	**3,930,445**	**3,696,641**	**233,804**	**6%**
Postpaid	941,556	716,242	225,314	31%
Prepaid	2,988,889	2,980,399	8,490	-%

Revenues

Revenues for the six months ended June 30, 2013 amounted to Gs.1,586,342 million, up 18% year-on-year from Gs.1,338,843 for the six months ended June 30, 2012, resulting primarily from growth in our customer base of 6% as well as the maintenance of ARPU and successful up-sales and cross-sales of VAS products and services to existing customers. We also saw a large increase in revenues from the sale of telephone handsets and related equipment, data-driven products and services to our customers such as insurance and other value added products. The acquisition of Cablevisión added Gs.117,140 million to revenues for the six months ended June 30, 2013 (2012: nil).

Innovation continues to be a major focus for us as we seek to grow revenues by developing and selling additional products and services through which we can gain a greater share of customers' disposable income, increase loyalty and reduce churn. In the six months ended June30, 2013, value-added services represented 59% of recurring revenues and grew by approximately 38% year-on-year, from Gs.610,301 million (out of a total of Gs.1,247,997 million in recurring revenues) for the six months ended June 30, 2013 to Gs.839,343, million (out of a total of Gs.1,422,355) million in recurring revenues) for the six months ended June 30, 2012.

We generate revenue from the provision of communications, information, entertainment and solutions services. Communications services consist of voice and SMS communications services, information services consist of internet access, entertainment services consist primarily of content downloads, ring-back tones, SMS competitions, and television and music products and solutions services consist primarily of "Zero Balance" based products, which permit customers to continue using our services despite running out of account balance, voicemail and handset insurance. While our Communications revenue decreased 5% year-on-year for the six months ended June 30, 2013 as compared to the same period in 2012, mainly as a result of the drop in interconnection rates. We have seen strong revenue growth in the other categories. Information category revenue grew 49% year-on year for the six months ended June 30, 2013 compared to the same period of 2012 primarily as a result of increasing use of smartphones to access data and connect to the internet, Entertainment category revenue grew 141% year-on-year for the six months ended June 30, 2013 compared to the same period of 2012 primarily as a result of the introduction of the TV revenue from our Cablevisión businesses. The Solutions category revenue grew 26% year-on-year for the six months ended June 30, 2013 compared to the same period of 2012 primarily as a result of the launch of additional "Lend me Product", a Peer-to-Peer balance products whereby we allow our customers to borrow credits from Tigo to use an additional service when they no longer have balance on their account, higher revenues from handset insurance and new products.

Customer base

As of June 30, 2013, our total mobile customer base was 3,930,445, an increase of 6% from 3,696,641 as of June30, 2012, with prepaid customers accounting for 76% or 2,988,889 of our total mobile customers at such time. Capital expenditures over the last 12 months have resulted in improvements in the quality of our networks and increased capacity and coverage which we believe has attracted additional customers during the period. Strengthening our distribution network has also helped drive customer growth by making our products more accessible. We further improved the volume and variety of products and services we provide to our customers, as well as the accessibility and availability of our products and services by using innovative distribution channels and techniques.

Cost of sales

Cost of sales increased by 38% for the six months ended June 30, 2013 to Gs.515,644 million from Gs.373,162 million for the same period of 2012. The primary cost of sales incurred by us in relation to the provision of telecommunications services during these periods related to interconnection costs, roaming costs, leased lines to connect the switches and main base stations, cost of handsets, purchase of content and the depreciation of network equipment. The interconnection and roaming costs are a direct function of calls made by our customers, an increase in which results in increased revenues, and therefore these costs increased in connection with the growth in revenues described above. Frequency fees and network depreciation both increased as we continued to expand our networks. Handset manufacturer costs that are passed on to us also increased as more of our revenue was generated by the sale and use of smartphones. Gross profit margin decreased to 67% for the six months ended June 30, 2013 from 72% for the same period of the year 2012, resulting primarily from higher telephone and equipment sales, which are typically at a very low margin, representing a larger portion of revenue as well as an increase in content revenue and its related costs and the depreciation of the fixed assets and amortization of intangible assets coming from the purchase of Cablevisión businesses.

Sales and marketing

Sales and marketing expenses increased by 31% for the six months ended June30, 2013 to Gs.316,224 million from Gs.241,710 million for same period of 2012. Sales and marketing costs were comprised mainly of commissions to dealers for obtaining customers on our behalf as well as selling prepaid reloads, handset subsidies, general advertising and promotion costs, point of sales materials for the retail outlets, sponsorship and staff costs. The increase in sales and marketing costs for the six months ended June30, 2013 as compared to the same period of 2012 were mainly a result of higher handset subsidies and sales commissions as well as our Cablevision acquisition. As a percentage of revenues, sales and marketing expenses increased to 20% for the six months ended June 30, 2013 from 18% for the same period of 2012.

General and administrative expenses

General and administrative expenses increased by 41% for the six months ended June 30, 2013 to Gs.123,686 million from Gs.87,660 million for the same period of 2012. The increase was mainly attributable to higher billing costs, as postpaid customers increased by 31% year-on-year and as a percentage of our total customers. We also incurred higher external services coming from the migrations of customer due to the implementation of number portability in Paraguay in November 2012. In addition as a result of our new Cablevision business general and administrative expenses also increased as compared to 2012. As a percentage of revenues, general and administrative expenses remained stable growing 1% reaching 8% for the six months ended March 31, 2013 and 7% for the same period of the year 2012.

Operating profit

Operating profit decreased by 1% for the six months ended June 30, 2013 to Gs.630,788 million from Gs.636,311 million for the six months ended June 30, 2012. This decrease was mainly as a result of the higher subsidies and sales commissions related to data mobile plans and TV plan sales. Our operating margin decreased from 47% for the first six months of the year 2012 to 40% for the same period of the year 2013. This decrease was mainly a result of telephone and equipment sales representing a larger portion of revenue, handset subsidies related to these higher sales and the lower operating margin of the newly acquired Cablevisión businesses.

Net finance costs

Net finance costs, which include interest expense and other financing costs, net of interest income, increased by 560% for the six month ended June 30 2013 to Gs.48,739 million from Gs.7,380 million for the same period of 2012. This increase was mainly due to our unsecured note entered into in December 2012 in order to finance the acquisition of the Cablevisión businesses.

Exchange loss, net

For the six months ended June 30, 2013 we had a net exchange loss of Gs.124,992 million compared to an exchange loss of Gs.7,139 million for the six months ended June 30, 2012. Exchange gains and losses resulted primarily as a result of movements in the PYG/USD exchange rate resulting in a revaluation of the U.S. Dollar, over the borrowings and cash and cash equivalents. The majority of our borrowings and cash and cash equivalents are denominated in U.S. dollars. The PYG/USD exchange rate moved from 4,424 as of December 31, 2013 to 4,488 as of June 30, 2012.

Charge for taxes

Our charge for taxes decrease for the six months ended June 30, 2013 and 2012 showing a variation of 8%. Our effective tax rate was 22% for the six months ended June 30, 2013 compared to 18% for the same period of 2012.

Net profit

Net profit for the six months ended June 30, 2013 decreased by 30% to Gs.358,869 million compared to a net profit of Gs.512,413 million for the same period of 2012, mainly by the interest paid over the bonds issued and the exchange rate variation.

Liquidity and Capital Resources

Capital Expenditures

Our capital expenditures on property, plant and equipment, licenses and other intangible assets for the six months ended June 30, 2013, and 2012 amounted to Gs.117,833 million and Gs.159,964 million, respectively.

Dividends

After analyzing our results of operations, our board of directors makes a recommendation to our shareholders on the amount of dividends, if any, that should be paid. The shareholders then resolve in a shareholders' meeting the amount of dividends, if any, that should be paid to shareholders. Our dividend policy historically has been to pay dividends to our shareholders up to the level of free cash generated after debt repayments which is not required to fund our operations and not in excess of yearly net income.

For the six months ended June 2013 and 2012 we paid dividends to our shareholders of Gs 1,001,279 and Gs.979,820 million respectively.

Cash Flows

The table below sets forth our cash flows for the periods indicated:

	For the first three months ended June30,	
	2013	2012
Net cash provided by operating activities	355,600	522,602
Net cash used by investing activities................................	(105,906)	(162,578)
Net cash used by financing activities	(1,045,938)	(1,013,212)
Net (decrease) increase in cash and cash equivalents..	**(820,931)**	**(661,524)**
Cash and cash equivalents at the end of the period	250,903	152,591

Six months ended June 30, 2013 and 2012

For the six months ended June 30, 2013 cash provided by operating activities was Gs.355,600 million compared to Gs.522,602 million for the six months ended June 30, 2012 The decrease was mainly due to higher interest payments and adverse exchange rate variations. In addition the migration of customer from prepaid to postpaid had a negative impact on our working capital.

Cash used in investing activities was Gs.105,906 million for the six months ended June 30, 2013 compared to Gs.162,578 million for the six months ended June 30, 2012.

Cash used from financing activities was Gs.1,045,938 million for the first six months ended June 30, 2013 compared to cash used of Gs.1,013,212 million for the same period of the year 2012.

The net decrease in cash and cash equivalents for the first six months ended June 30, 2013 was Gs.820,931 million compared to Gs.661,524 million showed for the same period of 2012. We had closing cash and cash equivalents of Gs.250,903 million as of June 30, 2013 compared to Gs.152,591 million as of June 30, 2012.