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

TELEFONICA CELULAR DEL PARAGUAY S.A.

Overview

We are the leading provider of mobile communications services in Paraguay, providing communications, data, entertainment and solutions services under the Tigo brand across the most extensive 2G and 3G networks in the country. With four million mobile subscribers, we estimate our market share of mobile users in Paraguay at approximately 58% as of December 31, 2013. We established ourselves in 1992 as the first mobile operator in Paraguay and have maintained a market-leading position since that year, following the entry of additional mobile operators in 1998. We are evolving beyond traditional mobile communications and data services to offer a combination of corporate solutions, cable TV and broadband services to retail and business customers in Paraguay.

We are jointly owned by Millicom International III N.V., which holds a 99.98% ownership interest in Telecel, and Shai Holding S.A., which holds the remaining 0.02%. Millicom offers digital lifestyle products and services primarily through wireless and cable TV/broadband networks in Central America, South America and Africa, mainly under the Tigo brand. We benefit from Millicom's vast emerging markets operating experience, product development and technical expertise and sharing of best practices gained from its operations in 15 emerging market nations. We also benefit from the economies of scale that result from being part of Millicom's global purchasing and supply chain.

Currently, we offer our products through four business units:

- Tigo Mobile (voice, SMS, data and other value-added services);
- Tigo Business (corporate and productivity solutions);
- Tigo Home (cable TV and fixed-line broadband); and
- Tigo Money (MFS).

Tigo Mobile: As of December 31, 2013, we had approximately 3.6 million mobile customers, which we estimate represented approximately 53% of the total mobile customer base in Paraguay, and our network comprised 1,335 cell sites and covered 94% of the country's total population. Our networks provide the most extensive coverage and highest reliability in our market, which has reached a mobile penetration rate of approximately 93%. We have developed an extensive distribution network for the sale of our products and services across the country.

In order to maintain our leading market share and enhance our profitability in a market with high penetration, we tailor our mobile service offerings to meet the communications needs of our targeted customer segments and offer a comprehensive range of prepaid and postpaid service plans. We target customer segments by classifying them by, among other factors, projected ARPU, preferred activities, education level, budget, region, age, type of device and gender. As of December 31, 2013, 81% of our customers received our services on a prepaid basis and 19% of our customers received our services on a postpaid basis. Our prepaid customers generated 54% of our mobile revenue for the twelve months ended December 31, 2013. Our postpaid customers, who have a higher ARPU and tend to use more value-added services that we have introduced to the Paraguayan market, such as MMS, music and video streaming, generated 46% of our mobile revenue for the same period. While ARPU among our prepaid customers is lower, these customers receive no handset subsidies from us and can be serviced at a lower cost than our postpaid customers.

As smartphone penetration and data usage increase in Paraguay we will continue to design and offer bundle packages that promote continued usage of our voice and SMS services while allowing us to capture and monetize

growth in mobile broadband. We tailor our offers to meet the divergent data usage patterns and differing demands of the prepaid and postpaid customer segments. For example, in order to provide lower cost options we offer prepaid plans with lower voice minute rates at certain times of the day and plans with volume discounts for certain bundles of voice minutes and SMS. In the postpaid segment we offer flexibility to our customers by allowing them to build their own data plans based on their needs. Additionally, we offer our postpaid customers discounts for smartphones at attractive pricing packages.

Tigo Business: Through this business unit we offer an array of corporate and productivity solutions and services to the Paraguay operations of multinational corporations, large businesses, SME and home offices in Paraguay. These services include mobile products and services, fixed-line broadband, IP video conferencing and cloud services. This business unit's differentiating proposition is to be a strategic partner to our corporate clients by optimizing their businesses, providing value to their IT investments and developing innovative tailor-made services with word class after-sales customer service and technical support. As of December 31, 2013, Tigo Business had 273,406 customers, which we estimate represents approximately 70% of the total corporate market in Paraguay.

Tigo Home: Tigo Home currently offers consumers fixed-line broadband and cable TV services in Asuncion City and its high-density surrounding areas. Through a dedicated in-house team in charge of inorganic growth in this segment, we have focused on consolidating our network and expanding our customer base in the metropolitan area. We expect this process of inorganic growth to continue as Tigo Home grows scale. Tigo Home had 174,206 cable TV subscribers as of December 31, 2013, which we estimate represents approximately 50% of the market in Paraguay. The home internet and cable TV market in Paraguay is fragmented. In the near future, we expect to offer "triple-play" bundled video, data and mobile voice services. Currently, we offer our Tigo Home services only on a postpaid basis, but we expect to offer prepaid cable TV, prepaid fixed-line broadband and, in rural areas of the country and areas without HFC network coverage, direct broadcast satellite (direct-to-home, or DTH) television services in the near future. We believe that the addition of these products tailored to additional segments of the consumer market will allow us to expand our Tigo Home customer base significantly.

Tigo Money: Through our MFS business unit, we offer products and services to our mobile customers, including over the counter remittances, peer-to-peer transfers, bill collections e.g. Tigo Mobile & Tigo TV and several other third parties including utility companies and massive products companies as Motorcycle's Co, and also Credit Cards and Microcredits in alliance with the main Bank's in Paraguay at the same time we provide an add channel to sale airtime Top ups generating significant savings on the distribution side.

We believe that MFS products offer a significant opportunity in Paraguay to generate incremental revenues largely by using our existing products and by introducing new products and services that will simplify and give access to a large number of Tigo and non-Tigo users to the mobile financial services, thereby Tigo Money will become into a further embedded experience into our customer´s lives.

Our mobile subscribers who use our MFS services tend to generate higher ARPU and significant less churn. We have a MFS penetration of 32% over the mobile base as of December 31, 2013, and our MFS products had been used on more than 1.2 Million active users.

As part of our growth strategy for this unit, we are focusing on increasing transactional volumes through the wallet adoption for the money transfer as the preferred method and at the same time as a trigger to other existing menu services, and in the other hand developing new business to consumer products, provide access to banking services through our mobile money ecosystem generating financial inclusion, and more.

Factors Affecting our Results of Operations

Our operating results are primarily affected by the following factors:

The State of the Paraguayan Economy

We derive a majority of our revenues from Paraguay, an emerging market. Inflation rates, rates of GDP growth and remittance levels affect our business, financial condition and results of operations.

Taxes

Our effective tax rate for the years ended December 31, 2013, 2012 and 2011 remained stable at between 13% and 15%.

Regulatory Fees

CONATEL currently imposes spectrum tariffs of 1% of total gross income, excluding telephone handset and equipment sales, an annual spectrum fee of approximately US$10 million, depending on the actual use of our authorized spectrum, and a license fee equal to 3% of our total investment in our mobile network. For the year ended December 31, 2012, the total fees we paid to CONATEL were Gs.71,920 million, and there can be no assurance that CONATEL will not raise this fee, or impose other similar fees, in the future.

Interconnection Rates

Executive Decree No. 16761 of March 26, 2002, or the Interconnection Regulation, establishes rules governing the interconnection between networks and service providers. Pursuant to the Interconnection Regulation, CONATEL updates interconnection rate caps annually. Following CONATEL Resolution 1023/12, the most recent resolution of CONATEL setting interconnection rates, the costs of fixed line to mobile line calls fell by 40%. In addition, as of October 2012, the cost of interconnection was set by CONATEL at a rate of Gs.180 per minute or Gs.3 per second. CONATEL regulations currently require that interconnection rates be set at the same level for calls to and from mobile lines and fixed lines.

Revenue

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, 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.

In common with our industry, our revenue derived from higher-margin voice and SMS services has been declining, with a corresponding reduction in ARPU, as a result of the increasing popularity of data-capable devices and the development of mobile applications, such as Viber, Skype and WhatsApp, that generally reduce demand for voice and SMS services. We expect this trend will continue in the future. In response, we have begun to diversify our sources of revenue through the development of a growing number of value-added services in our mobile operations and by our expansion into corporate solutions, fixed-line broadband, cable TV and MFS products to retail and business customers in Paraguay.

Customer Base and Churn

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 was approximately 3.9 million as of December 31, 2013. Our average churn rate per month for fiscal year 2013 was approximately 2.7%. Our policy is to consider customers as churned 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.

Cost of Sales

The primary components of our cost of sales are interconnection costs, telephone handset and equipment costs, roaming costs, costs of leasing lines to connect the switches and main base stations, frequency fees, taxes, value-added services ("VAS") costs, programming and content costs and depreciation and amortization of network equipment. Our other costs of sales consist of frequency and transmission costs, leased infrastructure costs and other direct costs.

As we add new customers, we continue to seek new ways to control our cost of sales in order to continue to improve our operating margins and to seek new ways to reduce our overall general and administrative cost base. We try to reduce our support costs by identifying synergies with our parent and affiliate companies, such as sharing information, human resources and best practices. See "Certain Relationships and Related Party Transactions." We have sought to implement various cost-saving and cost-reduction initiatives, including offering attractive handset prices in order to reduce customer attrition and the costs related to customer churn due to telephone upgrades.

Gross Margins

We expect that future gross margin percentages will be primarily affected by pricing, interconnection taxes, the level of telephone and equipment sales and the mix of revenues generated from voice and SMS services, VAS and data traffic exclusively within our networks and those between our networks and other networks. Calls made exclusively within our networks have a higher gross margin because we do not incur interconnection charges to access other networks.

Sales and Marketing

Sales and marketing costs are primarily comprised of commissions to dealers for the sale of prepaid reloads and for obtaining customers on our behalf, as well as general advertising and promotion costs, point of sale materials for our retail outlets and staff costs. We book the full price of our handsets as revenue and then incur sales and marketing costs in form of handset subsidies, which we recognize as sales and marketing costs. Our subsidy efforts currently focus on smartphones for postpaid customers.

Critical Accounting Policies

Our Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the EU on a historical cost basis and expressed in US dollars. In preparing our Consolidated Financial Statements, management needs to make assumptions, estimates and judgments, which are often subjective and may be affected by changing circumstances or changes in its analysis. Material changes in these assumptions, estimates and judgments have the potential to materially alter our results of operations. We have identified below those accounting policies that we believe could potentially produce materially different results if we were to change our underlying assumptions, estimates and judgments. . Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Because of inherent uncertainties in this evaluation process, actual results may be different from originally estimated amounts. In addition, significant estimates are involved in the determination of impairments, provisions related to taxes and litigation risks. These estimates are subject to change as new information becomes available and may significantly affect future operating results. Significant management judgment is required to determine any provision for contingent liabilities. Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within our control. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated.

Impairment of non-financial assets

At each reporting date, we assess whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. We determine the recoverable amount based on the higher of its fair value less cost to sell, and its value in use, for individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Where no comparable market information is available, the fair value less cost to sell is determined based on the estimated future cash flows discounted to their present value using a discount rate that reflects current market conditions for the time value of money and risks specific to the asset. The foregoing analysis also evaluates the appropriateness of the expected useful lives of the assets. Impairment losses of continuing operations are recognized in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

At each reporting date, we assess whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. Other than for goodwill, a previously recognized impairment loss is reversed if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognized. If so, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Inventories

Inventories, which mainly consist of mobile telephone handsets and related accessories, are stated at the lower of cost and net realizable value and tested for impairment (including obsolescence) annually. Cost is determined using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment is recorded when there is objective evidence that we will not be able to collect amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The provision is recognized in the consolidated income statement within "Cost of sales."

Provisions

Provisions are recognized when we have a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where we expect some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, risks specific to the liability. Where discounting is used, increases in the provision due to the passage of time are recognized as interest expenses.

Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services, net of value added tax, rebates and discounts and after eliminating intra-group sales.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured.

Recurring revenue from telecom services, which we believe reflects the regular and ongoing revenue of our customers and is therefore an appropriate metric to analyze the results of our operations, consists of monthly subscription fees, airtime usage fees, interconnection fees, roaming fees, revenue from online product and service sales, MFS commissions and fees from other telecommunications services such as data services, short message services and other value-added services and exclude revenue from the sale of telephone handsets and equipment and roaming fees from visitors to our network who are not our customers. Recurring revenue is recognized on an accrual basis (i.e., as the related services are rendered). Unbilled revenue for airtime usage and subscription fees resulting from services provided from the billing cycle date to the end of each month is estimated and recorded.

Subscription products and services are deferred and amortized over the estimated life of the customer relationship. Related costs are also deferred, to the extent of the revenue deferred, and amortized over the estimated life of the customer relationship. The estimated life of the customer relationship is calculated based on historical disconnection percentage for the same type of customer.

Where customers purchase a specified amount of airtime in advance, revenue is recognized as airtime is used. Unutilized airtime is carried in the statement of financial position as deferred revenue within "other current liabilities."

Revenue from value-added content services such as video messaging, ringtones, games, etc., is recognized net of payments to the providers of these services if the providers are responsible for content and determining the price paid by the customer. For such services we are considered to be acting in substance as an agent. Where we are responsible for the content and determines the price paid by the customer then the revenue is recognized gross amount.

Revenue from the sale of handsets and accessories are recognized when the significant risks and rewards of ownership of handsets and accessories have been passed to the buyer.

Revenue arrangements with multiple service deliverables ("Bundled Offers") such as various services sold together, are divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. The arrangement consideration is then allocated among the separate units of accounting based on their relative fair values or on the residual method. Revenue is then recognized separately for each unit of accounting.

Deferred tax

Deferred income tax is provided using the liability method and calculated from temporary differences at the statement of financial position date between the tax base of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences and carry-forward of unused tax credits and losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry-forward of unused tax credits and unused tax losses can be utilized, except where the deferred tax assets relate to deductible temporary differences from initial recognition of an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither accounting, nor taxable, profit or loss.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilize the deferred income tax asset. Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent it is probable that future taxable profit will enable the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate expected to apply in the year when the assets are realized or liabilities settled, based on tax rates and tax laws that have been enacted or substantively

enacted at the statement of financial position date. Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated income statement. Deferred tax assets and deferred tax liabilities are offset where legally enforceable set off rights exist and the deferred taxes relate to the same taxable entity and the same taxation authority.

Results of Operations

Years Ended December 31, 2013 and 2012

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

	Year Ended December 31,		Impact on comparative results for period	
	2013	**2012**	**Amount of variation**	**Percent change**
	(in PYG million,except percentages,subscribers, employees and ARPU)			
Revenue	3,245,082	2,825,305	419,777	15%
Cost of sales	(1,010,390)	(779,888)	(230,502)	30%
Gross profit	**2,234,693**	**2,045,417**	**189,276**	9%
Sales and marketing	(553,187)	(452,485)	(100,702)	22%
General and administrative expenses	(432,478)	(300,666)	(131,812)	44%
Operating profit	**1,249,027**	**1,292,266**	**(43,239)**	-3%
Interest expense	(115,161)	(30,218)	(84,943)	281%
Interest income	7,263	6,420	843	13%
Other non-operating expenses, net				
Foreign exchange gains (loss), net	(148,424)	52,138	(200,562)	-385%
Profit before tax	**992,705**	**1,320,606**	**(327,901)**	-25%
Charge for taxes	(154,518)	(179,655)	25,137	-14%
Net profit	**838,187**	**1,140,951**	**(302,764)**	-27%
Operating Data:				
Number of mobile subscribers	3,936,901	3,948,733	(11,832)	-0.3%
Postpaid	936,844	832,992	103,852	12%
Prepaid	3,000,057	3,115,741	(115,684)	-4%
Monthly churn %				
Postpaid handset	2.5%	1.3%	1.2%	90%
Postpaid datacard	5.6%	4.0%	1.6%	40%
Total postpaid	2.9%	1.8%	1.1%	59%
Prepaid handset	3.3%	2.7%	0.6%	22%
Prepaid datacard	6.2%	3.6%	2.6%	71%
Total prepaid	3.4%	2.8%	0.6%	22%
Total monthly churn (1)	3.2%	2.6%	0.7%	26%
Monthly ARPU (US$) (2)				
Postpaid	23.9	21.5	2.3	11%
Prepaid	8.1	8.6	(0.6)	-7%
Total monthly ARPU (3)	11.8	11.4	0.5	4%
Number of employees	761	743	18	2%

(1) Our total monthly churn is individually calculated by reference to our aggregate prepaid and postpaid customers.

(2) ARPU is calculated based on a historical exchange rate of 4,585 to US$1.00.

(3) Our total ARPU is individually calculated by reference to our aggregate prepaid and postpaid customers.

The following table is a reconciliation of our total comprehensive income to EBITDA:

	Year ended on Dec 31,	
	2013	**2012**
Total comprehensive income	**838,187**	**1,140,951**
Net finance costs	**107,898**	**23,798**
Income tax	**154,518**	**179,655**
Depreciation and amortization	**403,686**	**258,724**
Net other non-operating expense (income)	**148,424**	**52,138**
EBITDA	**1,652,713**	**1,655,266**

	Year ended on Dec 31,	
	2013	2012
EBITDA (1)	1,652,713	1,655,266
EBITDA margin (2)	51%	58%
Net debt to EBITDA (3)	0.61	0.32
Total debt to EBITDA (4)	1,00	0,97

(1) We calculate EBITDA by adding net finance costs; income tax; depreciation and amortization; and net other non-operating expense (income) to our total comprehensive income. EBITDA is not a recognized term or recognized measure of performance under IFRS and should not be considered as an alternative to net profits as a measure of operating performance or to net cash provided by operating activities as a measure of liquidity. EBITDA as used herein is the same as ‘‘EBITDA’’ as defined in the Indenture for purpose of the Notes. EBITDA as presented may not be comparable to similarly titled measures of other companies.
(2) We define EBITDA Margin as our EBITDA divided by revenues. EBITDA Margin is not a recognized term or measure of performance under IFRS.
(3) We calculate Net debt to EBITDA by dividing our total borrowings, less cash and cash equivalents, by our EBITDA.
(4) We calculate Total debt to EBITDA by dividing our total borrowings by our EBITDA.

Revenue

Total revenue increased by 15% for the year ended December 31, 2013 to Gs. 3,245,082 million from Gs. 2,825,305 million for the year ended December 31, 2012. Growth in revenue was impacted primarily by growth in telephone and equipment sales and the type and number of value-added services purchased by customers, which trended toward an increasing level of higher-revenue generating value-added services. Our recurring revenue from value-added services increased from 49% of total recurring revenue for the year ended December 31, 2012 to 51% for the year ended December 31, 2013.

As of December 31, 2013, our mobile customer base was 3.94 million, a decrease of 0.3% from 3.95 million as of December 31, 2012. As of December 31, 2013, prepaid customers accounted for 76%, or 3 million, of our total mobile customers compared to 79%, or 3.1 million, as of December 31, 2012.

Growth in our mobile customer base slowed during the year ended December 31, 2013 given the high level of penetration in the Paraguayan market. However, capital expenditures resulted in further improvements in the quality of our networks and increased capacity and coverage (2G and 3G) which attracted additional customers during the year ended December 31, 2013. We further expanded our distribution network, which helped drive customer growth and consumption by increasing the number of points of sale where we sell our products, making the products more accessible. Additionally, the cable TV business contributed revenue of Gs. 276,700 million.

Cost of sales

Cost of sales increased by 30% for the year ended December 31, 2013 to Gs. 1,010,390 million from Gs. 779,888 million for the year ended December 31, 2012. Our cost of sales primarily related to the increased cost of transmission and bandwidth as we continued to focus on data penetration and the expansion of our networks, an increase in cable TV programing costs in line with incremental revenue from Tigo Home, an increase in bad debt as a result of the migration of customers from prepaid to postpaid, obsolescence due to change in handset portfolio mix (an increase in high-end smartphones and datacards) and depreciation due to 3G network expansion. Interconnection and roaming costs decreased despite the growth in revenue described above.

Gross profit margin decreased to 69% for the year ended December 31, 2013 from 72% for the year ended December 31, 2012, resulting primarily from higher telephone and equipment sales, which are typically sold for low or no 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 2012 purchase of Cablevision (our cable TV business).

Sales and marketing

Sales and marketing expenses increased by 22% for the year ended December 31, 2013 to Gs. 553,187 million from Gs. 452,485 million for the year ended December 31, 2012. Sales and marketing costs were comprised mainly of commissions to dealers for the sale of prepaid reloads, smartphone subsidies aimed at obtaining and maintaining customers, as well as general advertising and promotion costs, point of sale materials for our retail outlets and staff costs. The increase in sales and marketing costs was mainly attributable to increased handset subsidies to increase smartphone penetration and our postpaid customer base. As a percentage of revenue, sales and marketing expenses increased to 17% for the year ended December 31, 2013 from 16% for the year ended December 31, 2012.

General and administrative expenses

General and administrative expenses increased by 44% for the year ended December 31, 2013 to Gs. 432,478 million from Gs. 300,666 million for the year ended December 31, 2012. The increase in general and administrative expenses was mainly attributable to higher billing costs, as postpaid customers increased by 12% year-on-year. As a percentage of revenue, general and administrative expenses increased from 11% for the year ended December 31, 2012 to 13% for the year ended December 31, 2013.

Operating profit

Operating profit decreased by 3% for the year ended December 31, 2013 to Gs. 1,249,027 million from Gs. 1,292,266 million for the year ended December 31, 2012. The operating margin decreased from 46% for the year ended December 31, 2012 to 38% for the year ended December 31, 2013. This decrease was mainly as a result of the higher subsidies and sales commisions related to data mobile plans and TV plan sales and telephone and equipment sales representing a larger portion of revenue, handset subsidies related to these higher sales and the lower operating margin of the Cablevision businesses.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 353% for the year ended December 31, 2013 to Gs. 107,898 million from Gs. 23,798 million for the year ended December 31, 2012. This increase was mainly due to the bonds issued in order to finance the acquisition of Cablevision businesses.

Foreign exchange gain (loss)

There were net foreign exchange losses for the year ended December 31, 2013 of Gs. 148,424 million compared to net exchange gains of Gs. 52,138 million for the year ended December 31, 2012. Exchange gains and losses primarily result from movements in the PYG/USD exchange rate resulting in a revaluation of our U.S. dollar borrowings, accounts receivable and payable and cash and cash equivalents. The average PYG/USD exchange rate for the years ended December 31, 2013 and December 31, 2012 was 4,585 and 4224, respectively.

Charge for taxes

The charge for taxes decreased by 14% year-on-year to Gs. 154,518 million for the year ended December 31, 2013, from Gs. 179,655 million for the year ended December 31, 2012, due primarily to a lower profit before tax in 2013. The effective tax rate remained relatively stable at 15.5% for the year ended December 31, 2013 compared to 13.6% for the year ended December 31, 2012.

Net profit

As a result of the foregoing, net profit for the year ended December 31, 2013 was Gs. 838,187 million, a 27% decrease over our net profit of Gs. 1,140,951 million for the year ended December 31, 2012, due mainly to the increase in interest charges and exchange losses incurred in 2013.

Trend Information

Our strategy is to maintain our voice and SMS revenue and market share while growing our revenue in value-added products and services such as mobile internet access, content downloads, and music and video streaming. During 2013, value-added services increased as a percentage of recurring revenue to 51% from 49% for the period ended on December 31, 2012. Data usage is increasing among consumers as a result of an increasingly digital lifestyle. At the same time, smartphone market penetration is increasing as a result of lower prices and more phone options available to consumers. We expect innovation to be an important driver of growth in the years ahead. Although these new services tend to have lower profit margins than our core communications business, we aim to limit any drop in margins by controlling costs and through economies of scale. New competitors entering our markets and/or price competition could erode the profitability of our mobile operations, however.

Liquidity and Capital Resources

Historically we have relied, and in the future we intend to continue to rely, primarily on cash from operations and external financings to fund our operations, capital expenditures and working capital requirements.

We intend to continue to focus on investments in property, systems and equipment (fixed assets) and working capital management, including timely collection of accounts receivable and efficient management of accounts payable.

Capital Expenditures, acquisitions

Capital expenditures on property, plant and equipment, licenses and other intangible assets for the periods ended December 31, 2013, 2012 and 2011 amounted to Gs. 505,763 million, Gs. 421,451 million and Gs. 318,084 million, respectively.

As of December 31, 2013, we had commitments to purchase, within one year, network equipment, land and buildings and other fixed assets for an aggregate consideration equal to Gs. 481,425 million. We expect to meet these commitments from our current cash balances and cash generated from operations.

We expect to continue to invest in our existing mobile, internet and cable TV businesses, where we believe we can generate attractive returns. In addition, we may pursue new license or acquisition opportunities where we determine there is potential for synergies related to our existing core businesses. We may also attempt to expand our footprint through acquisitions or greenfield projects in areas similar to our existing core businesses.

If we do consummate any acquisition, it could be material to our business and require us to incur additional debt. There can be no assurance that additional financing will be available when required or, if available, that it will be on terms satisfactory to us.

Financing

As of December 31, 2013, our total outstanding indebtedness and other financing was Gs. 1,645,443 million. As of December 31, 2012, our total outstanding indebtedness and other financing was Gs. 1,600,188 million.

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%.

In July 2008, Telecel entered into an 8 year loan (the "EIB Loan") for an aggregate principal amount equal to US$100 million with the European Investment Bank ("EIB"), which bears interest at a rate equal to the 90-day London Interbank Offered Rate for U.S. dollars plus a margin ranging from 0.234% to 0.667%. The EIB Loan is guaranteed for commercial risks by Royal Bank of Scotland, which earns a guarantee fee equal to 1.25% per annum. The aggregate outstanding principal amount of the EIB Loan was Gs. 297,706 million as of December 31, 2013 and Gs. 358,594 million as of December 31, 2012.

Shareholder Distributions

Our shareholder distribution practice has been to distribute to our shareholders up to the level of free cash generated after debt repayments which is not required to fund our operations.

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. At the same time our board of directors decides whether the amount not paid as dividends should be retained as retained results of the Company or directed to a legal reserve account.

During 2013 and for the years ended December 31, 2012 and 2011, we paid Gs. 1,042,077 million, Gs. 995,941 million and Gs. 901,555 million of dividends to our shareholders, respectively.

Cash Flows

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

	Year Ended December 31,	
	2013	**2012**
	(in PYG Million)	
Net cash provided by operating activities	1,334,557	1,274,741
Net cash used in investing activities	-628,954	-1,058,649
Net cash used in financing activities	-1,130,986	60,592
Net (decrease) increase in cash and cash equivalents	**-436,367**	**257,719**
Cash and cash equivalents at the end of the period	635,467	1,071,834

Years Ended December 31, 2013 and 2012

For the year ended December 31, 2013 cash provided by operating activities was Gs. 1,334,557 million compared to Gs. 1,274,741 million for the year ended December 31, 2012. The increase was mainly due to a better management of Working Capital for the year ended December 31, 2013.

Cash used in investing activities was Gs. 628,954 million for the year ended December 31, 2013 compared to Gs. 1,058,649 million for the year ended December 31, 2012. The lower cash used in investing activities was mainly due to the acquisition of Cablevision companies in 2012.

Cash used in financing activities was Gs. 1,130,986 million for the year ended December 31, 2013 compared to Gs. 60,592 million for the year ended December 31, 2012. The significant variation in financing activities was due to proceeds from the bond issued in December 2012.

The net decrease in cash and cash equivalents for the year ended December 31, 2013 was Gs. 436,367 million compared to Gs. 257,719 million of increase for the year ended December 31, 2012. We had closing cash and cash equivalents of Gs. 635,467 million as of December 31, 2013 compared to Gs. 1,071,834 million as of December 31, 2012.