Telefónica Celular del Paraguay S.A.
(a Paraguayan Company)
Consolidated financial statements for the year ended
December 31, 2013

Ernst & Young - Paraguay
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Independent auditors' report to the shareholders of Telefónica Celular del Paraguay S.A.

We have audited the accompanying consolidated financial statements of Telefónica Celular del Paraguay S.A., which comprise the consolidated statement of financial position as at 31 December 2013 and 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) issue by International Accounting Standard Board (IASB), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

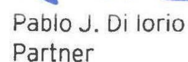
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Telefónica Celular del Paraguay S.A. as at 31 December 2013 and 2012, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) issue by International Accounting Standard Board (IASB).

Ernst & Young - Paraguay



Pablo J. Di Iorio
Partner

Asunción, Paraguay
April 21, 2014

Telefónica Celular del Paraguay S.A.

Consolidated statement of comprehensive income
for the year ended December 31, 2013

	Notes	2013	2012
		PYG 'M	PYG 'M
Revenue		3,245,082	2,825,305
Cost of sales		(1,010,390)	(779,888)
Gross profit		**2,234,693**	**2,045,417**
Sales and marketing		(553,187)	(452,485)
General and administrative expenses		(432,478)	(300,666)
Operating profit	**4**	**1,249,027**	**1,292,266**
Interest expense		(115,161)	(30,218)
Interest and other financial income		7,263	6,420
Exchange (losses)/gains, net		(148,424)	52,138
Profit before tax from continuing operations		**992,705**	**1,320,606**
Income tax expenses	**6**	(154,518)	(179,655)
Net profit and total comprehensive income for the year		**838,187**	**1,140,951**
Attributable to:			
Equity holders of the company		**838,187**	**1,140,951**

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

Telefónica Celular del Paraguay S.A.

Consolidated statements of financial position
as of December 31, 2013

	Notes	2013	2012
		PYG 'M	PYG 'M
ASSETS			
Non-Current Assets			
Intangible assets, net	**7**	759,072	571,181
Property, plant and equipment, net	**8**	1,399,359	1,337,241
Deferred taxation	**6**	30,853	40,467
Other non-current assets		25,298	25,453
Total Non-Current Assets		**2,214,583**	**1,974,342**
Current Assets			
Inventories	**9**	96,322	48,148
Trade receivables, net	**10**	310,492	283,074
Amounts due from related parties	**18**	154,078	105,022
Prepayments and accrued income		258,557	194,062
Supplier advances for capital expenditure		8,687	7,901
Other current assets		44,053	20,675
Pledged deposit	**11**	17,493	31,680
Cash and cash equivalents	**12**	635,467	1,071,834
Total Current Assets		**1,525,189**	**1,762,396**
TOTAL ASSETS		**3,379,771**	**3,736,738**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	**13**	93,000	93,000
Legal reserves	**14**	50,110	50,110
Retained profits		191,550	92,676
Profit for the year attributable to equity holders		838,187	1,140,951
TOTAL EQUITY		**1,172,847**	**1,376,737**
LIABILITIES			
Non-current Liabilities			
Debt and financing	**15**	1,556,182	1,515,864
Provisions and other non-current liabilities	**16**	195,050	45,742
Total non-current liabilities		**1,751,232**	**1,561,606**
Current Liabilities			
Debt and financing	**15**	89,261	84,324
Payables and accruals for capital expenditure		239,025	192,102
Other trade payables		112,485	219,672
Amounts due to related parties	**18**	61,869	39,627
Accrued and other expenses		136,570	109,572
Current income tax liabilities		-	5,088
Provisions and other current liabilities	**16**	176,483	148,010
Total current liabilities		**815,693**	**798,395**
TOTAL LIABILITIES		**2,566,925**	**2,360,001**
TOTAL EQUITY AND LIABILITIES		**3,379,771**	**3,736,738**

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

Telefónica Celular del Paraguay S.A.

Consolidated statements of cash flows
for the years ended December 31, 2013

	Notes	2013	2012
		PYG 'M	PYG 'M
Profit before tax		**992,705**	**1,320,606**
Adjustments from continuing operations:			
Interest expense		115,161	30,218
Interest and other financial income		(7,263)	(6,420)
Other non operating expenses, net		148,424	52,138
Adjustments for non-cash items:			
Depreciation and amortization	**4,7,8**	399,307	256,891
Loss on disposal of assets		4,379	1,833
		1,652,713	**1,655,266**
Decrease in trade receivables, prepayments and other current assets		(108,376)	(319,121)
Decrease in inventories		(48,174)	(3,135)
Increase in trade and other payables		106,830	142,688
Changes in working capital		**(49,720)**	**(179,568)**
Interest expense paid		(95,503)	(14,139)
Interest received	**1114**	10,979	1,364
Taxes paid		(183,912)	(188,182)
Net cash provided by operating activities		**1,334,557**	**1,274,741**
Cash flows used in investing activities:			
Acquisition of subsidiaries	**22**	-	(766,350)
Purchase of intangible assets and license renewals	**7**	(234,543)	(28,118)
Purchase of property, plant and equipment	**8**	(376,298)	(297,209)
Proceeds from sale of property, plant and equipment		-	163
Debt and other financing granted to related parties		-	(55,787)
Repayment of debt and financing from related parties		-	-
Other		(18,113)	88,652
Net cash used in investing activities		**(628,954)**	**(1,058,649)**
Cash flows used in financing activities:			
Proceeds from issuance of debt and financing		-	1,909,513
Repayment of debt and financing		(88,909)	(695,980)
Payment of dividends		(1,042,077)	(995,941)
Return of capital to shareholder		-	(157,000)
Net cash used by financing activities		**(1,130,986)**	**60,592**
Exchange gains (losses) on cash and cash equivalents		(10,984)	(18,965)
Net increase in cash and cash equivalents		**(436,367)**	**257,719**
Cash and cash equivalents at the beginning of the year		1,071,834	814,115
Cash and cash equivalents at the end of the year	**12**	**635,467**	**1,071,834**

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

Telefónica Celular del Paraguay S.A.

Consolidated statement of changes in equity
for the year ended December 31, 2013

	Number of shares	Share Capital	Retained profits	Legal reserves	Total equity
		PYG 'M	PYG 'M	PYG 'M	PYG 'M
Balance as of December 31, 2011……………	**5,000**	**250,000**	**1,134,733**	**3,994**	**1,388,727**
Total comprehensive income for the year……..	-	-	1,140,951	-	1,140,951
Dividends……………………………………...	-	-	(995,941)	-	(995,941)
Return of capital to shareholder…………….....	(3,140)	(157,000)	-	-	(157,000)
Transfer to legal reserve……………………….	**-**	**-**	(46,116)	46,116	**-**
Balance as of December 31, 2012……………	**1,860**	**93,000**	**1,233,627**	**50,110**	**1,376,737**
Total comprehensive income for the year……..	-	-	838,187	-	838,187
Dividends………………………………………	-	-	(1,042,077)	-	(1,042,077)
Balance as of December 31, 2013……………	**1,860**	**93,000**	**1,029,737**	**50,110**	**1,172,847**

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

1. CORPORATE INFORMATION

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, solutions and financial services 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 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.

As at December 31, 2013 the share capital was PYG 93,000 million and is represented by 1,860 ordinary shares with a par value of PYG 50 million each (December 31, 2012: PYG 93,000 million).

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 April 21, 2014.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group are presented in Paraguayan Guaraní and all values are rounded to the nearest million (PYG 'M) except when otherwise indicated. The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and liabilities that have been measured at fair value.

The consolidated financial statements for the year ended December 31, 2013 have been prepared in accordance with International Financial Reporting Standards as issues by International Accounting Standards Board ("IASB").

International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"). Except for IAS 39—Financial Instruments that has been partially adopted by the European Union and for new standards and interpretations not yet endorsed but effective in future periods. Since the provisions that have not been adopted by the European Union are not applicable to the Group, the consolidated financial statements comply with both International Financial Reporting Standards as issued by the IASB.

The preparation of financial statements in conformity with IFRS requires management to exercise its judgment in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

2.2 Consolidation

The consolidated financial statements comprise the financial statements of the Telefónica Celular del Paraguay and its subsidiaries as at 31 December 2013 and 2012. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Telefónica Celular del Paraguay re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of Telefónica Celular del Paraguay and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss

Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

2.3 Foreign currency translation

Functional and presentation currencies

Items included in the financial statements of each of the Group's entities are measured in Paraguayan Guaraní the currency of Paraguay the primary economic environment in which the entity operates ("the functional currency"). The Group's consolidated financial statements are presented in Guaraní (the "presentation currency").

Transactions and balances

Transactions denominated in a currency other than the functional currency are translated into the functional currency using exchange rates prevailing on transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions, and on translation of monetary assets and liabilities denominated in currencies other than the functional currency at year-end exchange rates, are recognized in the consolidated income statement.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in the consolidated income statement as part of fair value gain or loss.
The following table presents the Paraguayan Guaraní translation rates to the U.S. dollar as of December 31, 2013 and 2012 and average rates for the year ended December 31, 2013.

Country	Currency	2013 Average rate	2013 Year-end rate	2012 Year-end rate
United States	Dollars	4,498.50	4,585.00	4,224.00

The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and end of the year.

2.4 Segment Reporting

The strategic steering committee is the group's chief operating decision-maker. Management has determined the operating segment based on the information reviewed by the strategic steering committee for the purpose of allocating resources and assessing performance.

The strategic steering committee considers the business from product perspective as one segment; in this point of view management considers the performance of telecommunication and value added services as one.
Therefore the revenues and assets included in the consolidated statements of comprehensive income and consolidated statements of financial position are representative of this segment.

2.5 Property, plant and equipment

Items of property, plant and equipment are stated at historical cost, less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to acquisition of items. The carrying amount of replaced parts is derecognized. Repairs and maintenance are charged to the income statement in the financial period in which they are incurred.

Depreciation is calculated using the straight-line method over the shorter of the estimated useful life of the asset and the remaining life of the license associated with the assets, unless the renewal of the license is contractually possible.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

Estimated useful lives are:

Land	Indefinite
Buildings	40 years or lease period, if lower
Networks (including civil works)	5 to 15 years
Other	2 to 7 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The assets' residual value and useful life is reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress consists of the cost of assets, labor and other direct costs associated with property, plant and equipment being constructed by the Group. Once the assets become operational, the related costs are transferred from construction in progress to the appropriate asset category and start to be depreciated.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the income statement in the financial period in which they are incurred.

A liability for the present value of the cost to remove an asset on both owned and leased sites is recognized when a present obligation for the removal is established. The corresponding cost of the obligation is included in the cost of the asset and depreciated over the useful life of the asset.

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset when it is probable that such costs will result in future economic benefits for the Group and the costs can be measured reliably.

2.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is charged to the income statement in the year in which expenditure is incurred.

Intangible assets with finite useful lives are amortized over their estimated useful economic lives using the straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible assets.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill represents the excess of cost of an acquisition, over the Group's share in the fair value of identifiable assets less liabilities and contingent liabilities of the acquired subsidiary, joint venture or associate at the date of the acquisition. If the fair value of identifiable assets, liabilities or contingent liabilities or the cost of the acquisition can only be determined provisionally, then goodwill is initially accounted for using provisional values. Within 12 months of the acquisition date, any adjustments to the provisional values are recognized once the fair value of the identifiable assets, liabilities and contingent liabilities, and the cost of the acquisition have been finally determined. Adjustments to provisional fair values are made as if the adjusted fair values had been recognized from the acquisition date. Goodwill on acquisition of subsidiaries and joint ventures is included in "Intangible assets, net". Goodwill on acquisition of associates is included in "investments in associates". Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition date, allocated to each of the.

Group's cash generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than an operating segment.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (or group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed and the portion of the cash-generating unit retained.

Licenses

At initial recognition licenses are shown at either historical cost or, if acquired in a business combination, at fair value at the date of acquisition. Licenses have a finite useful life and are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost of the licenses over their estimated useful lives.

The terms of licenses, which have been awarded for various periods, are subject to periodic review for, amongst other things, rate setting, frequency allocation and technical standards. Licenses are initially measured at cost and are amortized from the date the network is available for use on a straight-line basis over the license period. Licenses held, subject to certain conditions, are usually renewable and generally non-exclusive. When estimating useful lives of licenses, renewal periods are not usually included.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

Trademarks and customer bases

Trademarks and customer bases are recognized as intangible assets only when acquired or gained in a business combination. Their cost represents fair value at the date of acquisition. Trademarks and customer bases have finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the trademarks and customer bases over their estimated useful lives. The estimated useful lives for trademarks and customer bases are based on specific characteristics of the market in which they exist. Trademarks and customer bases are included in "Intangible assets, net".

Estimated useful lives are:

Trademarks	1 to 15 years
Customer bases	4 to 9 years

Programming and content rights

Programming and content rights which are purchased or acquired in business combinations which have validity for more than one year are recorded at cost as intangible assets. Cost includes consideration paid or payable and other costs directly related to the acquisition of the rights, and are recognized at the earlier of payment or commencement of the broadcasting period to which the rights relate.

Programming and content rights have a finite useful life and are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost of the rights over their estimated useful lives.

2.7 Impairment of non-financial assets

At each reporting date the Group assesses 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, the Group makes an estimate of the asset's recoverable amount. The Group determines 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. In addition to evaluation of possible impairment to the assets carrying value, the foregoing analysis also evaluates the appropriateness of the expected useful lives of the assets. Impairment losses are recognized in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

At each reporting date an assessment is made as to 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.

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2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

2.8 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified within non-current assets. Loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

2.9 Inventories

Inventories (which mainly consist of mobile telephone handsets and related accessories) are stated at the lower of cost and net realizable value. 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.

2.10 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 the Group will not be able to collect amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are indicators of impairment. 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".

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.12 Impairment of financial assets

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are recognized in the consolidated income statement.

2.13 Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

2.14 Borrowings

Borrowings are initially recognized at fair value, net of directly attributable transaction costs. After initial recognition borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the effective interest rate. Any difference between the initial amount and the maturity amount is recognized in the consolidated income statement over the period of the borrowing.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

2.15 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Where a finance lease results from a sale and leaseback transaction, any excess of sales proceeds over the carrying amount of the assets is deferred and amortized over the lease term.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets, or the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. Operating lease payments are recognized as expenses in the consolidated income statement on a straight-line basis over the lease term.

2.16 Provisions

Provisions are recognized when the Group has 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 the Group expects 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.

2.17 Trade payables

Trade payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method where the effect of the passage of time is material.

2.18 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 the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

These recurring revenues consist of monthly subscription fees, airtime usage fees, interconnection fees, roaming fees and fees from other telecommunications services such as data services, short message services and other value added services. Recurring revenues are recognized on an accrual basis, i.e. as the related services are rendered. Unbilled revenues for airtime usage and subscription fees resulting from services provided from the billing cycle date to the end of each month are 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 revenues 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 credit is used. Unutilized airtime is carried in the statement of financial position as deferred revenue within "other current liabilities".

Revenues from value added content services such as video messaging, ringtones, games etc., are 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 the Group is considered to be acting in substance as an agent. Where the Group is responsible for the content and determines the price paid by the customer then the revenue is recognized gross.

Revenues 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 deliverables ("Bundled Offers" such as equipment and 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.

2.19 Cost of sales

The primary cost of sales incurred by the Group in relation to the provision of telecommunication services relate to interconnection costs, roaming costs, rental of leased lines, costs of handsets and other accessories sold, and royalties. Cost of sales is recorded on an accrual basis.

Cost of sales also includes depreciation and any impairment of network equipment and trade receivables.

2.20 Customer acquisition costs

Specific customer acquisition costs, including dealer commissions and handset subsidies, are charged to sales and marketing when the customer is activated.

2.21 Taxation

Current tax

Current tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those enacted or substantively enacted by the statement of financial position date.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

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 unused tax 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.

2.22 Changes in accounting policies

New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2013 but have not had a material impact on the Group:

- Amendment to IAS 1, ‘Financial statement presentation’ regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in ‘other comprehensive income’ (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

- IFRS 10, ‘Consolidated Financial Statements’ build on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess, and does not expect it to have a significant impact.

- IFRS 11, ‘Joint Arrangements’, sets out the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. The standard removes the option for an interest in a jointly controlled entity using proportionate consolidation, and requires equity accounting to be applied to investments in a joint venture.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

- IFRS 12, 'Disclosure of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Following the Company´s subsidiaries:

Name	Principal Activities	Country of incorporation	2013	2012
Teledeportes S.A.	Development TV Content and Soccer	Paraguay	99.8%	99.8%
Lothar Systems S.A.	Development Software	Paraguay	99%	99%

- IAS 27, Consolidated and Separate Financial Statements, reissued as IAS 27 Separate Financial Statements, as a result of issuance of IFRS 10, Consolidated Financial Statements.

- IAS 28, Investments in Associates and, reissued as IAS 28 Investments in Associates, as a result of issuance of IFRS 11, Joint Arrangements.

- IAS 19, 'Employee benefits' was revised in June 2011. The changes on the group's accounting policies has been as follows: to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS's.

New standards and interpretations not yet adopted by the Group

The following standards, amendments and interpretations issued are not effective for the financial year beginning January 1, 2013 and have not been early adopted.

- IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value, and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. A final standard on hedging (excluding macro-hedging) has been issued in November 2013 which aligns hedge accounting more closely with risk management. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the compulsory adoption date.

  There are no other IFRS's or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Judgments

Management judgment is applied in application of IFRS accounting policies and accounting treatment in preparation of these consolidated financial statements. In particular a significant level of judgment is applied regarding the following items:

- Contingent liabilities – the determination of whether or not a provision should be recorded for any potential liabilities.
- Leases – determination of whether the substance of leases meets the IFRS criteria for recognition as finance or operating leases or services contracts, or elements of each.

Control – determination of whether Telefonica Celular del Paraguay through voting rights attached to shares held, or by way of shareholders agreements or other factors, has the ability to direct the relevant activities of the subsidiaries it consolidates.

Deferred tax assets – likely timing and level of future taxable profits together with future tax planning strategies.

Acquisitions – allocation of excess of purchase price between newly identified assets and goodwill, measurement of property, plant and equipment and intangible assets and assessment of useful lives.

Estimates

Judgment is also required in estimation of certain values in the preparation of these consolidated financial statements.

Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Due to inherent uncertainties in this evaluation process, actual results may differ from original estimates.

Estimates are subject to change as new information becomes available and may significantly affect future operating results. Significant estimates have been applied in respect of the following items:

Accounting for property, plant and equipment, and intangible assets in determining fair values at acquisition dates, particularly in the case:

- Assets acquired in business combinations.
- Estimating useful lives of property, plant and equipment.
- Estimation of provisions, particularly related to legal and tax risks.
- Impairment testing.

Fair value of financial assets and liabilities. For our critical accounting estimates reference is made to the relevant individual notes to these consolidated financial statements, more specifically note 6—Taxes; note 7—Intangible assets, note 8—Property, plant and equipment, note 10—Trade receivables, note 16 – Other non-current and current provisions and liabilities; note 17—Commitments and contingencies; and note 19—Financial Risk management.

4. ANALYSIS OF OPERATING PROFIT

The Group's operating income and expenses analyzed by nature of expense is as follows:

	2013	2012
	PYG 'M	PYG 'M
Revenues	3,245,082	2,825,305
Cost of services rended and goods sold(i)	(726,275)	(559,821)
Depreciation and amortization (notes 7 and 8)	(399,307)	(256,891)
Dealer commissions	(222,191)	(191,153)
Employee related costs (note 5)	(132,769)	(99,398)
Sites and network maintenance	(70,565)	(63,506)
Advertising and promotion	(74,633)	(62,791)
Phone subsidies	(102,720)	(93,316)
External services	(70,940)	(55,922)
Operating lease expense	(5,898)	(3,505)
Billing and payments	(41,400)	(32,801)
Other shared costs	(96,932)	(70,325)
Gain (loss) on disposal and impairment of assets, net	(4,379)	(1,832)
Technical services fee	(48,046)	(41,778)
Operating profit	**1,249,027**	**1,292,266**

(i)The depreciation charge is recorded under the caption "Cost of sales".

5. EMPLOYEE RELATED COSTS

Employee related costs are comprised of the following:

	2013	2012
	PYG 'M	PYG 'M
Wages and salaries	(86,244)	(59,158)
Social security	(13,017)	(10,334)
Other employee related costs(i)	(33,508)	(29,906)
Total	**(132,769)**	**(99,398)**

(i)Includes other benefits. There are no defined benefit pension plans.

The average number of permanent employees during the years ended December 31, 2013 and 2012 was as follows:

	2013	2012
Total average number of permanent employees	**761**	**743**

6. TAXES

The Company's effective tax rate is (2013: 15.5%, 2012: 13.6%).

The reconciliation between the weighted average statutory tax rate and the effective average tax rate is as follows:

	2013	2012
	%	%
Weighted average statutory tax rate	10	10
Provision for:		
Income tax paid on dividends distributions (i)	4.3	4.3
Other adjustments	1.2	(0.7)
Effective tax rate	**15.5**	**13.6**

(i)Income taxes at other than statutory rates relates to additional taxes paid as a result of distributing dividends to foreign shareholders.

The charge for income taxes is shown in the following table and recognizes that revenue and expense items may affect the financial statements and tax returns in different periods (temporary differences):

	2013	2012
	PYG 'M	PYG 'M
Current income tax charge	163,245	179,698
Net deferred income tax benefit	(8,727)	(43)
Income tax expense	**154,518**	**179,655**

The tax effects of significant items comprising the Group's net deferred income tax asset as of December 31, 2013 and 2012 are as follows:

	Balance sheets		Income statements	
	2013	2012	2013	2012
	PYG 'M	PYG 'M	PYG 'M	PYG 'M
Provision for doubtful debtors	10,603	6,408	428	1,588
Temporary differences between book and tax basis of intangible assets and property, plant and equipment	16,968	27,703	4,467	(2,088)
Other temporary differences	3,282	6,356	3,832	543
Deferred tax benefit (expense)	-	-	**8,727**	**43**
Deferred tax assets	**30,853**	**40,467**		

Deferred income tax assets and liabilities reflect temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

7. INTANGIBLE ASSETS

The movements in intangible assets in 2013 were as follows:

	Goodwill	Licenses	Content	Other(ii)	Total
	PYG 'M	PYG 'M	PYG 'M	PYG 'M	PYG 'M
Opening balance, net	293,993	20,142	-	257,046	571,181
Additions	-	18,754	155,052	110,316	284,122
Amortization charge(i)	-	(7,174)	(19,381)	(69,676)	(96,231)
Transfers	(9,589)	(81)	-	9,670	-
Closing balance, net	**284,404**	**31,641**	**135,671**	**307,356**	**759,072**
As at December 31, 2013					
Cost	284,404	107,302	155,052	430,408	977,166
Accumulated amortization	-	(75,661)	(19,381)	(123,052)	(218,094)
Net	**284,404**	**31,641**	**135,671**	**307,356**	**759,072**

(i) *The amortization charge is recorded under the caption "General and administrative expenses".*
(ii) *The caption "Other" includes mainly intangible from Cablevisión acquisition.*

The movements in intangible assets in 2012 were as follows:

	Goodwill	Licenses	Other(ii)	Total
	PYG 'M	PYG 'M	PYG 'M	PYG 'M
Opening balance, net	-	8,354	32,437	40,791
Additions	-	16,176	18,183	34,359
Change in the composition of the group	293,993	18,805	211,373	524,171
Amortization charge(i)	-	(4,803)	(23,337)	(28,140)
Transfers	-	(18,390)	18,390	-
Closing balance, net	**293,993**	**20,142**	**257,046**	**571,181**
As at December 31, 2012				
Cost	293,993	88,548	310,422	692,963
Accumulated amortization	-	(68,406)	(53,376)	(121,782)
Net	**293,993**	**20,142**	**257,046**	**571,181**

(i) *The amortization charge is recorded under the caption "General and administrative expenses".*
(ii) *The caption "Other" includes mainly intangible from Cablevisión acquisition.*

The following table provides details of cash used for additions to intangible assets:

	2013	2012
	PYG 'M	PYG 'M
Additions	284,653	34,359
Change in suppliers advances	(1,206)	(6,241)
Change in capex accruals and payables	(48,904)	-
Cash used for purchases of intangible assets	**234,543**	**28,118**

8. PROPERTY, PLANT AND EQUIPMENT

Movements in tangible assets in 2013 were as follows:

	Network equipment	Land and Buildings	Construction in Progress	Other(i)	Total
	PYG 'M	PYG 'M	PYG 'M	PYG 'M	PYG 'M
Opening balance, net	996,803	67,367	222,632	50,439	1,337,241
Additions	14,896	-	339,658	1,479	356,033
Impairments and net disposals	(40,222)	(222)	-	(1,640)	(42,084)
Depreciation charge(ii)	(242,541)	(569)	-	(13,250)	(256,360)
Asset retirement obligations	4,529	-	-		4,529
Transfers	260,591	(459)	(274,402)	14,270	-
Closing balance at December 31, 2013	**994,056**	**66,117**	**287,888**	**51,298**	**1,399,359**
Cost	2,626,750	74,870	287,888	142,983	3,132,491
Accumulated depreciation	(1,632,694)	(8,753)	-	(91,685)	(1,733,132)
Net	**994,056**	**66,117**	**287,888**	**51,298**	**1,399,359**

(i) *The caption "Other" mainly includes office equipment and motor vehicles.*
(ii) *The depreciation is recorded under the caption "Cost of sales", and the depreciation charge for Land and Buildings and Other is recorded under the caption "General and administrative expenses".*

Movements in tangible assets in 2012 were as follows:

	Network equipment	Land and Buildings	Construction in Progress	Other(i)	Total
	PYG 'M	PYG 'M	PYG 'M	PYG 'M	PYG 'M
Opening balance, net	848,269	53,589	138,270	24,525	1,064,653
Additions	20,817	6,390	251,495	-	278,702
Change in the composition of the group	98,599	7,918	91,099	22,785	220,401
Impairments and net disposals	(1,917)	-	-	(78)	(1,995)
Depreciation charge(ii)	(217,425)	(530)	-	(10,795)	(228,750)
Asset retirement obligations	4,230	-	-		4,230
Transfers	244,230	-	(258,232)	14,002	-
Closing balance at December 31, 2012	**996,803**	**67,367**	**222,632**	**50,439**	**1,337,241**
Cost	2,346,734	74,870	222,632	127,234	2,771,470
Accumulated depreciation	(1,349,931)	(7,503)	-	(76,795)	(1,434,229)
Net	**996,803**	**67,367**	**222,632**	**50,439**	**1,337,241**

(i) *The caption "Other" mainly includes office equipment and motor vehicles.*
(ii) *The depreciation is recorded under the caption "Cost of sales", and the depreciation charge for Land and Buildings and Other is recorded under the caption "General and administrative expenses".*

The following table provides details of cash used for the purchase of property, plant and equipment:

	2013	2012
	PYG 'M	PYG 'M
Additions	356,033	278,702
Change in suppliers advances	(7,480)	(1,064)
Change in capex accruals and payables	27,745	19,571
Cash used for purchase of property, plant and equipment	**376,298**	**297,209**

9. INVENTORIES

Inventories at December 31, 2013 and 2012 are as follows:

	2013	2012
	PYG ‘M	PYG ‘M
Handsets	100,226	50,351
Obsolescence	(3,904)	(2,203)
Total	**96,322**	**48,148**

10. TRADE RECEIVABLES, NET

	2013	2012
	PYG ‘M	PYG ‘M
Gross trade receivables	413,487	341,951
Less: provisions for impairment of receivables	(102,995)	(58,877)
Trade receivables, net	**310,492**	**283,074**

As at December 31, 2013 and 2012, the ageing analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due (net of impairments)			Total
		<30 days	30–90 days	>90 days	
	PYG ‘M	PYG ‘M	PYG ‘M	PYG ‘M	PYG ‘M
2013					
Telecom operators	54,833	14,813	8,808	-	78,454
Own customers	101,692	17,499	10,743	-	129,934
Others	63,997	21,283	16,824	-	102,104
Total	**220,522**	**53,595**	**36,375**	**-**	**310,492**

	Neither past due nor impaired	Past due (net of impairments)			Total
		<30 days	30–90 days	>90 days	
	PYG ‘M	PYG ‘M	PYG ‘M	PYG ‘M	PYG ‘M
2012					
Telecom operators	47,206	17,238	23,366	-	87,810
Own customers	93,048	6,786	5,356	-	105,190
Others	21,277	45,119	23,678	-	90,074
Total	**161,531**	**69,143**	**54,133**	**-**	**283,074**

The maximum exposure to credit risk as at December 31, 2013 and 2012 is the carrying value of each class of receivable mentioned above. The group does not hold any collateral as security.

11. PLEDGED DEPOSITS

As December 31, 2013 the pledged deposit amounted to PYG 17,493 (2012: PYG 31,680). This pledged deposit was related to our acquisition of Cablevisión Paraguay, corresponds to an escrow account and is contingent on several indemnification obligations of the selling shareholders and the selling companies.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised as follows:

	2013	2012
	PYG 'M	PYG 'M
Cash and cash equivalents in U.S. dollars	566,180	999,784
Cash and cash equivalents	69,287	72,050
Total cash and cash equivalents	**635,467**	**1,071,834**

Cash balances are diversified among leading international banks and in domestic banks.

13. SHARE CAPITAL

Share capital and share premium

The authorized share capital of the Company is PYG 250,000 million. As at December 31, 2013, the total subscribed and fully paid-in share capital was PYG 93,000 million (2012: PYG 93,000 million) consisting of 1,860 registered common shares at a par value of PYG 50 million each.

14. LEGAL RESERVE

Paraguayan legislation requires share companies (corporations) to allocate at least 5% of their annual net earnings to a legal reserve up to a level of 20% of subscribed capital (whether fully paid or not).

15. BORROWINGS

Borrowings due after more than one year:

	2013	2012
	PYG 'M	PYG 'M
Debt and financing:		
Bank financing	297,707	358,497
Bond financing	1,347,736	1,239,732
Vendor financing	-	1,959
Total non-current debt and financing	**1,645,443**	**1,600,188**
Less: portion payable within one year	(89,261)	(84,324)
Total debt and financing due after more than one year	**1,556,182**	**1,515,864**

Borrowings due within one year:

	2013	2012
	PYG 'M	PYG 'M
Portion of non-current debt payable within one year	89,261	84,324
Total debt and financing due within one year	**89,261**	**84,324**

15. BORROWINGS (Continued)

The following table provides details of net debt change for the years 2013 and 2012:

	2013	2012
	PYG 'M	PYG 'M
Net debt at the beginning of the year	**1,407,664**	**374,279**
Cash items		
Proceeds from issuance of debt and other financing	-	1,909,513
Repayment of debt and other financing	(86,750)	(695,980)
Net increase (decrease) in cash and cash equivalents	(436,367)	257,719
Non-cash items		
Vendor financing and finance leases	(2,159)	(6,647)
Interest accretion	-	-
Exchange movement on debt and other financing	128,748	(57,316)
Net debt at the end of the year	**1,011,136**	**1,407,664**

Net debt includes interest bearing loans and borrowings less cash and cash equivalents.

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 December 31, 2013 was PYG 297,706 million (2012: PYG 358,594 million).

Senior Notes

On December 7, 2012 Telecel issued $ 300 million aggregate principal amount of a 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 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 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%

15. BORROWINGS (Continued)

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.

As at December 31, 2013, the outstanding amount of the Senior Unsecured Notes was PYG 1,239,635 million.

Fair value of financial liabilities

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

16. OTHER NON-CURRENT AND CURRENT PROVISIONS AND LIABILITIES

Provisions and other non-current liabilities are comprised as follows:

	2013	**2012**
	PYG 'M	**PYG 'M**
Long-term portion of asset retirement obligations	50,778	43,356
Long-term payables for Football Rights	141,882	-
Other	2,390	2,386
Total	**195,050**	**45,742**

Provisions and other current liabilities are comprised as follows:

	2013	**2012**
	PYG 'M	**PYG 'M**
Deferred revenue	61,136	47,100
Customer deposits	37,016	39,394
Current legal provisions	5,347	4,090
Other tax payables	25,652	13,000
Prepayment card	17,979	17,347
Advanced payments	10,920	6,399
Current provisions	14	1,833
Other	18,429	18,847
Total	**176,483**	**148,010**

17. 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 subsidiary are contingently liable with respect to lawsuits and other matters that arise in the normal course of business. As of December 31, 2013, the total amount of claims against Telecel's operations was PYG 5,347 million (December 31, 2012: PYG 4,090 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 December 31, 2013 and 2012.

	2013	**2012**
	PYG 'M	**PYG 'M**
Operating lease commitments		
Within: one year	14,539	13,082
Between: one to five years	4,148	29,226
After: five years	2,291	689
Total	**20,978**	**42,997**

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 5,771 million in 2013 (2012: PYG 3,505 million).

Capital commitments

As of December 31, 2013 the Company has fixed commitments to purchase network equipment, land and buildings and other fixed assets for a value of PYG 481,425 million (2012: PYG 426,624 million).

Dividends

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

18. 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

During 2013 and 2012 the Company purchased services from Millicom and its subsidiaries including technical services fees, call centre 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, Telecel pays a sum equivalent to 1.5% of its total revenues. In addition during 2013 and 2012 the Company sold services to Millicom subsidiaries in Paraguay mainly mobile telephony services.

The following transactions were conducted with related parties:

	2013	2012
	PYG 'M	PYG 'M
Millicom – Other Paraguayan operations	91,603	33,608
Millicom - Non-Paraguayan companies	3,901	53,736
Total purchases from related parties	**95,504**	**87,344**

Board of Directors

Compensation for the Board of Directors for the year ended December 31, 2013 and 2012 was as follows:

	2013	2012
	PYG 'M	PYG 'M
Fees	(715)	(699)
Other benefits	(188)	(177)
Total compensation	**(903)**	**(876)**

As at December 31, the Company had the following balances with related parties:

	2013	2012
	PYG 'M	PYG 'M
Receivables		
Millicom – Other Paraguayan operations	150,738	102,819
Millicom – Non-Paraguayan companies	3,340	2,203
Total	**154,078**	**105,022**
Payables		
Millicom – Other Paraguayan operations	28,237	9,945
Millicom – Non-Paraguayan companies	33,632	29,682
Total	**61,869**	**39,627**

19. FINANCIAL RISK MANAGEMENT

Terms, conditions and risk management policies

Exposure to interest rate, foreign currency, liquidity and credit risks arise in the normal course of Telecel's business. The Group analyses each of these risks individually as well as on an interconnected basis and defines and implements strategies to manage the economic impact on the Group's performance in line with its financial risk management policy. Telecel's risk management strategies may include the use of derivatives. Telecel's policy prohibits the use of such derivatives in the context of speculative trading.

Interest rate risk

Interest rate risk generally arises on borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's exposure to risk of changes in market interest rates relates to both of the above. To manage the risk, the Group's policy is to maintain a combination of fixed and floating rate debt with target for the debt to be equally distributed between fixed and variable rates unless this is not commercially advantageous. The Group actively monitors borrowings against target and when appropriate may use interest rate hedging to met this target. The target mix between fixed and floating rate debt is reviewed periodically. The purpose of Telecel's policy is to achieve an optimal balance between cost of funding and volatility of financial results, while taking into account market conditions as well as our overall business strategy.

The table below summarizes, as at December 31, 2013, our fixed rate debt and floating rate debt:

	Amounts due within						
	1 year	**1–2 years**	**2–3 years**	**3–4 years**	**4–5 years**	**>5 years**	**Total**
			(in PYG 'M, except percentages)				
Fixed rate	-	-	-	-	-	1,347,736	1,347,736
Weighted average nominal interest rate	-	-	-	-	-	6.75%	
Floating rate	91,572	91,572	68,711	45,852	-	-	297,707
Weighted average nominal interest rate	1.33%	1.33%	1.19%	0.92%	-	-	
Total	**91,572**	**91,572**	**68,711**	**45,850**	**-**	**1,347,736**	**1,645,443**
Weighted average nominal interest rate	1.33%	1.33%	1.19%	0.92%		6.75%	

The table below summarizes, as at December 31, 2012, our fixed rate debt and floating rate debt:

	Amounts due within						
	1 year	**1–2 years**	**2–3 years**	**3–4 years**	**4–5 years**	**>5 years**	**Total**
			(in PYG 'M, except percentages)				
Fixed rate	1,959	-	-	-	-	1,239,635	1,241,593
Weighted average nominal interest rate	10.18%	-	-	-	-	6.75%	
Floating rate	84,353	84.353	84.353	63.296	42.240	-	358.594
Weighted average nominal interest rate	2.09%	2.09%	2.09%	2.16%	2.31%	-	
Total	**86.311**	**84.353**	**84.353**	**63.296**	**42.240**	**1,239,635**	**1,645,443**
Weighted average nominal interest rate	2.04%	2.09%	2.09%	2.16%	2.31%	6.75%	

19. FINANCIAL RISK MANAGEMENT (continued)

Foreign currency risk

Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities in other currencies than the Paraguayan Guaraní, principally the U.S. dollar.

Telecel seeks to reduce its foreign currency exposure through a policy of matching, as far as possible, assets and liabilities denominated in foreign currencies. In some cases, Telecel may borrow in US dollars where it is either commercially more advantageous to incur debt obligations in US dollars or where there insufficient liquidity in Guaraní for the Group's requirements. In these circumstances, Telecel accepts the remaining currency risk associated with financing principally because of the relatively high cost of forward cover, when available.

The following table summarizes debt denominated in US$ as at December 31, 2013 and 2012.

	2013		2012	
	USD	**PYG**	**USD**	**PYG**
Total	**359**	**1,645,443**	**378**	**1,596,672**

At December 31, 2013, if the Guaraní had weakened/strengthened by 10% against the US$ and all other variables held constant, then profit before tax would have increased/decreased by PYG 164.6 million (2012: PYG 159.6 million).

Credit and Counterparty risk

Financial instruments that potentially subject the Group to credit risk are primarily cash and cash equivalents, trade receivables, supplier advances due from related parties and other current assets. The main counterparties to agreements relating to the Group's cash and cash equivalents are significant financial institutions with investment grade ratings. Management does not believe there are significant risks of non-performance by these counterparties. Management has taken steps to diversify its banking partners. We are also managing the allocation of deposits across banks so that the Group's counterparty risk with a given bank stays within limits which have been set based on each banks credit rating. This way we are avoiding any significant exposure to a specific party.

A large portion of turnover comprises prepaid airtime. For customers for whom telecom services are not prepaid, the Group follows risk control procedures to assess the credit quality of the customer, taking into account its financial position, past experience and other factors.

Trade receivable are mainly derived from balances due from other telecom operators. Credit risk of other telecom operators is limited due to the regulatory nature of the telecom industry, in which licenses are normally only issued to credit worthy companies. The Group maintains a provision for impairment of trade receivables based upon expected collectability of all trade receivables.

As the Group has a large number of dispersed customers, there is no significant concentration of credit risk with respect to trade receivables.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company has incurred significant indebtedness but also has significant cash balances. Telecel evaluates its ability to meet its obligations on an ongoing basis using a recurring liquidity planning tool. This tool considers the operating net cash flows generated from its operations and the future cash needs for borrowing and interest payments and capital and operating expenditures required in maintaining and developing local business.

19. FINANCIAL RISK MANAGEMENT (continued)

The Group manages its liquidity risk through use of bank overdrafts, bank loans, vendor financing, Export Credit Agencies and Development Finance Institutions ("DFI") loans and bonds. Telecel believes that there is sufficient liquidity available in its markets to meet ongoing liquidity needs.

Capital management

The primary objective of the Company capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may make dividend payments to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using primarily a net debt to adjusted operating profit ratio, as well as a set of other indicators.

	2013 PYG 'M	2012 PYG 'M
Net Debt	1,009,976	528,354
Adjusted Operating profit	1,533,142	1,512,332
Net Debt to operating profit ratio	**0.65%**	**0.34%**

The Group reviews its gearing ratio (net debt by total capital plus net debt) periodically. Net debt includes interest bearing loans and borrowings, less cash and cash equivalents (included restricted cash), and time deposits related to bank borrowings. Capital represents equity attributable to the equity holders of the parent.

	2013 PYG 'M	2012 PYG 'M
Net Debt	1,009,976	528,354
Equity	1,172,847	1,376,737
Net debt and equity	**2,182,823**	**1,905,091**
Gearing	**46%**	**28%**

20. FINANCIAL INSTRUMENTS

The fair value of Telecel's financial instruments is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of all financial assets and all financial liabilities approximate their carrying value largely due to the short-term maturities of these instruments or as in the case of borrowings they are at variable interest rates.

21. DIRECTORS AND OFFICERS REMUNERATION

Compensation for the Board of Directors for the year ended December 31, 2013 and 2012 was as follows:

	2013 PYG 'M	2012 PYG 'M
Fees	(715)	(699)
Other benefits	(188)	(177)
Total compensation	**(903)**	**(876)**

21. DIRECTORS AND OFFICERS REMUNERATION (continued)

Remuneration to the key employees for the years ended December 31, 2013 and 2012 was as follows:

	2013 PYG 'M	2012 PYG 'M
Salaries and bonuses	(11,697)	(11,180)
Life insurance and medical benefits	(611)	(372)
Total compensation	**(12,308)**	**(11,552)**

22. ACQUISITION OF SUBSIDIARIES

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 (PYG 766,350 million).

The acquired interest provides Telecel with the ability to govern the operating and financial policies of Cablevisión which has been fully consolidated into the Telecel Group financial statements from October 1, 2012.

Telecel allocated the purchase price of PYG 766,350 million to the assets acquired, liabilities assumed and contingent liabilities and recognized the following amounts:

Cablevisión	Fair value PYG millions
Tangible and intangible assets, net	481,945
Fair value of the net assets acquired and contingent liabilities	**481,945**
Cash consideration	766,350
Goodwill	284,405

The goodwill, which is not expected to be tax deductible, is attributable to future customers, know-how, and potential synergies.

Cablevisión contributed revenues of PYG 276,702 million and net profit of PYG 167,283 million for the period from acquisition to December 31, 2013. If the acquisition had occurred on January 1, 2012, Group revenues from continuing operations for the year ended December 31, 2012 would have been PYG240,948 million higher, and the net profit from continuing operations for the same period would have been PYG 75,854 million higher. These amounts have been calculated using the Group accounting policies.

23. SUBSEQUENT EVENTS

On April 21, 2014 Telecel announced that the Board will propose to the Annual General Meeting of Shareholders an dividend distribution of PYG 500,000 million, to be paid out of Telecel´s profits for the year ended December 31, 2013.