TELEFÓNICA CELULAR DEL PARAGUAY S.A.
Annual Consolidated Financial Statements
As at and for the year ended December 31, 2014

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Audited Financial Statements of Telefónica Celular del Paraguay S.A for the Year Ended December 31, 2014

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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 2014 and 2013, 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 2014 and 2013, 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
February 25, 2015

Consolidated statement of comprehensive income for the year ended December 31, 2014

PYG millions	Notes	Year ended December 31, 2014	Year ended December 31, 2013
Revenue		3,228,925	3,245,082
Cost of sales		(1,083,508)	(1,010,390)
Gross profit		**2,145,417**	**2,234,692**
Sales and marketing		(584,899)	(553,187)
General and administrative expenses		(742,310)	(432,478)
Operating profit	4	**818,208**	**1,249,027**
Interest expense		(117,593)	(115,161)
Interest and other financial income		7,937	7,263
Exchange loss, net		(35,484)	(148,424)
Profit before tax		**673,068**	**992,705**
Income tax expense	6	(116,085)	(154,518)
Net profit and comprehensive income for the year		**556,983**	**838,187**
Attributable to:			
Equity holders of the company		556,983	838,187

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

Consolidated statement of financial position as at December 31, 2014

PYG millions	Notes	Year ended December 31, 2014	Year ended December 31, 2013
ASSETS			
Non-Current Assets			
Intangible assets, net	7	684,541	759,072
Property, plant and equipment, net	8	1,522,801	1,399,359
Deferred taxation	6	43,463	30,853
Other non-current assets		22,828	25,298
Total Non-Current Assets		**2,273,633**	**2,214,582**
Current Assets			
Inventories	9	87,635	96,322
Trade receivables, net	10	261,572	310,492
Amounts due from related parties	19	171,422	154,078
Prepayments and accrued income	11	288,920	258,557
Supplier advances for capital expenditure		5,941	8,687
Other current assets		71,850	44,094
Pledged deposits	12	-	17,493
Cash and cash equivalents	13	354,100	635,467
Total Current Assets		**1,241,440**	**1,525,190**
TOTAL ASSETS		**3,515,073**	**3,739,772**
EQUITY AND LIABILITIES			
EQUITY			
Share capital and premium	14	93,000	93,000
Legal reserve	15	50,110	50,110
Retained profits		359,099	191,550
Profit for the year attributable to equity holders		556,983	838,187
TOTAL EQUITY		**1,059,192**	**1,172,847**
LIABILITIES			
Non-current Liabilities			
Debt and financing	16	1,481,167	1,556,182
Provisions and other non-current liabilities	17	192,470	195,050
Total non-current liabilities		**1,673,637**	**1,751,232**
Current Liabilities			
Debt and financing	16	89,951	89,261
Payables and accruals for capital expenditure		175,989	239,025
Other trade payables		80,952	112,485
Amounts due to related parties	19	98,270	61,869
Accrued interest and other expenses		174,297	136,570
Current income tax liabilities		28,890	-
Provisions and other current liabilities	17	133,895	176,483
Total current liabilities		**782,244**	**815,693**
TOTAL LIABILITIES		**2,455,881**	**2,566,925**
TOTAL EQUITY AND LIABILITIES		**3,515,073**	**3,739,772**

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

Consolidated statement of cash flows for the year ended December 31, 2014

PYG millions	Notes	Year ended December 31, 2014	Year ended December 31, 2013
Cash flows from operating activities			
Profit before taxes		**673,068**	**992,705**
Adjustments:			
Interest expense		117,593	115,161
Interest and other financial income		(7,937)	(7,263)
Other non-operating expenses, net		35,484	148,424
Adjustments for non-cash items:			
Depreciation and amortization	4, 7, 8	410,703	399,307
Loss on disposal assets		2,363	4,379
		1,231,274	**1,652,713**
(Increase) decrease in trade receivables, prepayments and other current assets		(20,380)	(108,376)
(Increase) decrease in inventories		8,687	(48,174)
Increase (decrease) in trade and other payables		(59,569)	106,830
Changes in working capital		**(71,262)**	**(49,720)**
Interest paid		(111,987)	(95,503)
Interest received		11,856	10,979
Taxes paid		(102,389)	(183,912)
Net cash provided by operating activities		**957,492**	**1,334,557**
Cash flows for investing activities:			
Purchase of property, plant and equipment	8	(449,158)	(376,298)
Purchase of intangible assets and license renewals	7	(62,861)	(234,543)
Other		35,344	(18,113)
Net cash used by investing activities		**(476,675)**	**(628,954)**
Cash flows for financing activities:			
Repayment of debt and financing	16	(90,306)	(88,909)
Payment of dividends		(670,638)	(1,042,077)
Net cash used by financing activities		**(760,944)**	**(1,130,986)**
Exchange losses on cash and cash equivalents		(1,240)	(10,984)
Net decrease in cash and cash equivalents		**(281,367)**	**(436,367)**
Cash and cash equivalents at the beginning of the year		**635,467**	**1,071,834**
Cash and cash equivalents at the end of the year	13	**354,100**	**635,467**

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

Consolidated statements of changes in equity for the year ended December 31, 2014 and December 31, 2013

PYG millions	Number of shares	Share Capital	Retained profits	Legal reserves	Total equity
Balance as of December 1, 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**
Total comprehensive income for the year	-	-	556,983	-	556,983
Dividends	-	-	(670,638)	-	(670,638)
Balance as of December 31, 2014	**1,860**	**93,000**	**916,082**	**50,110**	**1,059,192**

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 and solutions in Paraguay. The Company maintains multiple license contracts with Comision Nacional de Telecomunicaciones (Conatel), the regulator of the telecommunications system in Paraguay, to operate cellular and cable telephony business in Paraguay. The Company was formed in 1992.

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

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

The Board of Directors (“Board”) approved these consolidated financial statements for issuance on February 25, 2015.

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 ‘million) 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, 2014 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standard Board (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.

2.2 Consolidation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of the Group are comprised of the financial statements of the Company and its subsidiaries Lothar Systems S.A. (99% owned) and Teledeportes Paraguay S.A. (99.8% owned) as at December 31 each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

The acquisition method of accounting is used to account for acquisitions where there is a change in control. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see accounting policy for Goodwill). All acquisition related costs are expensed

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. Gains or losses on disposals to non-controlling interests are recorded in equity. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is also recorded in equity. Non-controlling interest is measured at the proportionate interest in the net assets of the subsidiary.

2.3 Foreign currency

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.

The following table presents the Paraguayan Guaraní translation rates to the U.S. dollar as of December 31, 2014 and 2013 and average rates for the year ended December 31, 2014.

Country	Currency	2014 Average rate	2014 Year-end rate	2013 Year-end rate
United States	Dollars	4,484.30	4,629.00	4,585.00

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

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.

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.

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, or purchased assets which have yet to be deployed. When the assets become operational, the related costs are transferred from construction in progress to the appropriate asset category and depreciation commences.

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. Ongoing routine repairs and maintenance are charged to the income statement in the financial period in which they are incurred. Costs of major inspections and overhauls are added to the carrying value of property, plant and equipment and the carrying amount of previous major inspections and overhauls is derecognized.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

Equipment installed on customer premises which is not sold to customers is capitalized and amortized over the customer contract period.

A liability for the present value of the cost to remove an asset on both owned and leased sites (for example cell towers) and for assets installed on customer premises, is recognized when a present obligation for the removal exists. The corresponding cost of the obligation is included in the cost of the asset and depreciated over the useful life of the asset, or lease period if shorter.

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 contribute to 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.

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

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

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.

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

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

Programming and content rights

Programming and content master rights which are purchased or acquired in business combinations which meet certain criteria are recorded at cost as intangible assets. The rights must be exclusive, related to specific assets which are sufficiently developed, and probable to bring future economic benefits and have validity for more than one year. 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 capitalized as intangible assets 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.

Non-exclusive and programming and content rights for periods less than one year are expensed over the period of the rights.

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.

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” and recognized as revenue either when the services have been rendered or when it is determined that accumulated balances of subscribers will not be consumed. The amount recognized as revenue in the statement of comprehensive income as a result of the estimation of the balance that subscribers will not consume is PYG. 56,231 million as of December 31, 2014, the effect of this estimation in future years should not be material.

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 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.

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. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

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.

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 and amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2014 but have not had a material impact on the Group:

- Amendment to IAS 32, ‘Financial Instruments: Presentation’, which updates the application guidance in IAS 32, ‘Financial instruments: Presentation’, to clarify certain requirements for offsetting financial assets and financial liabilities on the statement of financial position. The Group adopted the amendment on its effective date for the accounting period beginning on January 1, 2014. There was no significant impact on the Group as a result of adoption.
- Amendment to IAS 36, ‘Impairment of Assets’, which amends certain disclosure requirements regarding disclosure of recoverable amounts and measurement of fair value less costs to sell when an impairment loss has been recognized or reversed. There was no significant impact on the Group as a result of adoption.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

- Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement', which covers novation of hedging instruments to central counterparties. There was no impact on the Group as a result of adoption.
- IFRIC 21, 'Levies', which provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', and those where the timing and amount of the levy is certain. There was no significant impact on the Group as a result of adoption.
- Amendment to IFRS 13, Fair Value Measurement', which sets out in a single IFRS a framework for measuring fair value and requires additional disclosures about fair value measurements. Application of IFRS 13 has not materially impacted the fair value measurements of the Group.

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, 2014 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 of January 1, 2018.
- IFRS 15, 'Revenue from Contracts with Customers', which establishes a five step model related to revenue from customers. Under IFRS 15 revenue is recognized at amounts that reflect the consideration that an entity expects to be entitled in exchange for transferring products or services to a customer. The Group is yet to assess IFRS 15's full impact and intends to adopt IFRS 15 no later than the compulsory adoption date of January 1, 2017.

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 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 (see note 18).
- 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 (see note 18).

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

- Deferred tax assets - likely timing and level of future taxable profits together with future tax planning strategies (see note 6).
- 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 (see note 7 and 8).

Estimates

- 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:
- Estimation of provisions, in particular provisions for asset retirement obligations, legal and tax risks (see notes 16 and 17).
- Revenue recognition (see policy note 2.18).

4. ANALYSIS OF OPERATING PROFIT

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

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Revenue	3,228,925	3,245,082
Cost of rendering telecommunication services	(797,343)	(726,275)
Depreciation and amortization	(410,703)	(399,307)
Dealer and card commissions	(227,052)	(222,191)
Employee related costs	(146,193)	(132,769)
Sites and network maintenance	(77,226)	(70,565)
Advertising and promotion	(69,932)	(74,633)
Phone and datacard subsidies	(107,882)	(102,720)
External services	(83,070)	(70,940)
Operating lease expense	(6,448)	(5,898)
Billing and payments	(44,333)	(41,400)
Other shared costs	(116,670)	(96,932)
Gain (loss) on disposal and impairment of assets, net	(2,363)	(4,379)
Technical Service Fee	(321,502)	(48,046)
Operating profit	**818,208**	**1,249,027**

5. EMPLOYEE RELATED COSTS

Employee related costs are comprised of the following:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Wages and salaries	(93,193)	(86,244)
Social security	(14,497)	(13,017)
Other employee related costs(i)	(38,503)	(33,508)
Total	**(146,193)**	**(132,769)**

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

5. EMPLOYEE RELATED COSTS (Continued)

The average number of permanent employees during the years ended December 31, 2014 and 2013 was as follows:

	2014	2013
Total average number of permanent employees	**814**	**761**

6. TAXES

The Company's effective tax rate is (2014: 17.2%, 2013: 15.5%).

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

%	Year ended December 31, 2014	Year ended December 31, 2013
	%	**%**
Weighted average statutory tax rate	10	10
Provision for:		
Income tax paid on dividends distributions (i)	4.3	4.3
Other adjustments	2.9	1.2
Effective tax rate	**17.2**	**15.5**

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):

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Current income tax charge	128,694	163,235
Net deferred income tax benefit	(12,609)	(8,717)
Income tax expense	**116,085**	**154,518**

The tax effects of significant items comprising the Group's net deferred income tax asset as of December 31, 2014 and 2013 are as follows:

	Balance sheets		Income statements	
	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2014	Year ended December 31, 2013
Provision for doubtful debtors	15,027	10,603	4,424	428
Temporary differences between book and tax basis of intangible assets and property, plant and equipment	18,630	16,968	1,662	4,467
Other temporary differences	9,806	3,282	6,523	3,822
Deferred tax benefit (expense)	**-**	**-**	**12,609**	**8,717**
Deferred tax assets	**43,463**	**30,853**	**-**	**-**

6. TAXES (Continued)

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 of intangible assets in 2014 were as follows:

PYG millions	Goodwill	Licenses	Content	Customer lists	Other (ii)	Total
Opening balance, net .	284,404	31,641	135,671	100,406	206,950	**759,072**
Additions	-	2,352	-	-	32,813	35,165
Amortization charge(i)	-	(11,173)	(19,382)	(21,665)	(57,476)	(109,696)
Transfers	-	(372)	-	-	372	-
Closing balance, net	**284,404**	**22,448**	**116,289**	**78,741**	**182,659**	**684,541**
As at December 31, 2014						
Cost	284,404	109,199	155,052	126,829	337,232	1,012,716
Accumulated amortization	-	(86,751)	(38,763)	(48,088)	(154,573)	(328,175)
Net	**284,404**	**22,448**	**116,289**	**78,741**	**182,659**	**684,541**

(i) *The amortization charge is recorded under the caption "General and administrative expenses".*

(ii) *The caption "Other" includes mainly software licenses and development of intangibles.*

The movements of intangible assets in 2013 were as follows:

PYG millions	Goodwill	Licenses	Content	Customer lists	Other(ii)	Total
Opening balance, net	293,993	20,142	-	151,832	105,214	**571,181**
Additions	-	18,754	155,052	-	110,316	284,122
Amortization charge(i)	-	(7,174)	(19,381)	(22,084)	(47,592)	(96,231)
Transfers	(9,589)	(81)	-	(29,342)	39,012	-
Closing balance, net						
As at December 31, 2013	**284,404**	**31,641**	**135,671**	**100,406**	**206,950**	**759,072**
Cost	284,404	107,302	155,052	126,828	303,580	977,166
Accumulated amortization	-	(75,661)	(19,381)	(26,422)	(96,630)	(218,094)
Net	**284,404**	**31,641**	**135,671**	**100,406**	**206,950**	**759,072**

(i) *The amortization charge is recorded under the caption "General and administrative expenses".*

(ii) *The caption "Other" includes mainly software licenses and development of intangibles.*

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

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Additions	35,165	284 ,653
Change in suppliers advances	(261)	(1,206)
Change in capex accruals and payables	27,957	(48,904)
Cash used for purchases of intangible assets	**62,861**	**234,543**

8. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment in 2014 were as follows:

PYG millions	Network equipment	Land and Buildings	Construction in Progress	Other(i)	Total
Opening balance, net	**994,056**	**66,117**	**287,888**	**51,298**	**1,399,359**
Additions	330,193	4,346	35,700	49,555	419,794
Impairments and net disposals	(5,876)	(3,840)	5,938	744	(3,034)
Depreciation charge(ii)	(283,824)	(654)	-	(16,529)	(301,007)
Asset retirement obligations	7,689	-	-	-	7,689
Transfers	27,175	1,459	(17,524)	(11,110)	-
Closing balance at December 31, 2014	**1,069,413**	**67,428**	**312,002**	**73,958**	**1,522,801**
Cost	2,945,775	75,805	312,002	173,335	3,506,917
Accumulated depreciation	(1,876,362)	(8,377)	-	(99,377)	(1,984,116)
Net	**1,069,413**	**67,428**	**312,002**	**73,958**	**1,522,801**

(i) *The caption "Other" mainly includes office equipment and motor vehicles.*

(ii) *Depreciation of network equipment 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 of property, plant and equipment in 2013 were as follows:

PYG millions	Network equipment	Land and Buildings	Construction in Progress	Other(i)	Total
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) *Depreciation of network equipment 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 expense*

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

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Additions	419,794	356,033
Change in suppliers advances	(2,440)	(7,480)
Change in capex accruals and payables	31,804	27,745
Cash used for purchase of property, plant and equipment	**449,158**	**376,298**

9. INVENTORIES

Inventories at December 31, 2014 and 2013 are as follows:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Handsets	89,981	100,226
Obsolescence	(2.346)	(3,904)
Total	**87,635**	**96,322**

10. TRADE RECEIVABLES, NET

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Gross trade receivables	409,493	413,487
Less: provisions for impairment of receivables	(147,921)	(102,995)
Trade receivables, net	**261,572**	**310,492**

As at December 31, 2014 and 2013, the ageing analysis of trade receivables is as follows:

2014	Neither past due nor impaired	Past due (net of impairments)			Total
		<30 days	30–90 days	>90 days	
Telecom operators	32,778	11,303	6,331	-	50,412
Own customers	85,108	22,223	8,679	-	116,010
Others	33,211	46,785	15,154	-	95,150
Total	**151,097**	**80,311**	**30,164**	**-**	**261,572**

2013	Neither past due nor impaired	Past due (net of impairments)			Total
		<30 days	30–90 days	>90 days	
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**

The maximum exposure to credit risk as at December 31, 2014 and 2013 is the carrying value of each class of receivable mentioned above. The group does not hold any collateral as security.

11. PREPAYMENTS AND OTHER ACCRUED INCOME

Prepayments and other accrued income at December 31, 2014 and 2013 are as follows:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Accrued income	268,835	243,878
Other prepayments	20,085	14,679
Total prepayments and other accrued income	**288,920**	**258,557**

12. PLEDGED DEPOSITS

As December 31, 2013 the pledged deposit amounted to PYG 17,493 million. This pledged deposit was related to our acquisition of Cablevisión Paraguay, corresponds to an escrow account and was contingent on several indemnification obligations of the selling shareholders and the selling companies. The final payment related to the acquisition of Cablevisión Paraguay was performed during 2014, resulting in the extinction of the obligation to maintain the pledge deposit as of December 31, 2014.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised as follows:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Cash and cash equivalents in U.S. dollars	286,674	566,180
Cash and cash equivalents	67,426	69,287
Total cash and cash equivalents	**354,100**	**635,467**

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

14. SHARE CAPITAL

Share capital and share premium

The authorized share capital of the Company is PYG 250,000 million. As at December 31, 2014, the total subscribed and fully paid-in share capital was PYG 93,000 million (2013: PYG 93,000 million) consisting of 1,860 registered common shares at a par value of PYG 50 million each.

15. 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).

16. DEBT AND FINANCING

Borrowings due after more than one year:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Bank financing	208,114	297,707
Bond financing	1,363,004	1,347,736
Total non-current debt and financing	**1,571,118**	**1,645,443**
Less: portion payable within one year	(89,951)	(89,261)
Total debt and financing due after more than one year	**1,481,167**	**1,556,182**

Borrowings due within one year:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Portion of non-current debt payable within one year	89,951	89,261
Total debt and financing due within one year	**89,951**	**89,261**

16. DEBT AND FINANCING (Continued)

The following table provides details of net debt change for the years 2014 and 2013:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Net debt at the beginning of the year	**1,011,136**	**1,407,664**
Cash items		
Repayment of debt and other financing	(90,306)	(88,909)
Net increase (decrease) in cash and cash equivalents	281,367	(436,367)
Non-cash items		
Exchange movement on debt and other financing	14,821	128,748
Net debt at the end of the year	**1,217,018**	**1,011,136**

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, 2014 was PYG 208,114 million (2013: PYG 297,707 million).

Senior Notes

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

The 6.75% Senior Notes are general unsecured obligations of 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%

16. DEBT AND FINANCING (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, 2014 and 2013, the outstanding amount of the Senior Unsecured Notes was PYG 1,363,004 million and 1,239,635, respectively.

Fair value of financial liabilities

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

17. OTHER NON-CURRENT AND CURRENT PROVISIONS AND LIABILITIES

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

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Long-term portion of asset retirement obligations	62,970	50,778
Long-term payables for Football Rights	127,291	141,882
Other	2,209	2,390
Total	**192,470**	**195,050**

Provisions and other current liabilities are comprised as follows:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Deferred revenue	39,653	61,136
Customer deposits	36,085	37,016
Current legal provisions	7,944	5,347
Other tax payables	2,766	25,652
Prepayment card	15,427	17,979
Advanced payments	13,567	10,920
Current provisions	14	14
Other	18,439	18,429
Total	**133,895**	**176,483**

18. COMMITMENTS AND CONTINGENCIES

Operational environment

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

Litigation

The Company and its subsidiaries are contingently liable with respect to lawsuits and other matters that arise in the normal course of business. As of December 31, 2014, the total amount of provisions related to claims against The group's operations was PYG 7,944 million (December 31, 2013: PYG 5,347 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, 2014 and 2013.

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Operating lease commitments		
Within: one year	16,720	14,539
Between: one to five years	4,770	4,148
After: five years	2,636	2,291
Total	**24,126**	**20,978**

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 6,438 million in 2014 (2013: PYG 5,898 million).

Capital commitments

As of December 31, 2014 the Company has fixed commitments to purchase network equipment, land and buildings and other fixed assets for a value of PYG 597,015 million (2013: PYG 481,425 million).

Dividends

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

19. 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.

19. RELATED PARTY TRANSACTIONS (Continued)

Millicom

During 2014 and 2013 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 in 2014 and 2013, Telecel paid a sum equivalent to 10% and 1.5% of its total revenues, respectively. In addition during 2014 and 2013 the Company sold services to Millicom subsidiaries in Paraguay mainly mobile telephony services.

The following transactions were conducted with related parties:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Millicom – Other Paraguayan operations	50,639	91,603
Millicom - Non-Paraguayan companies	330,123	3,901
Total purchases from related parties	**380,762**	**95,504**

Board of Directors

Compensation for the Board of Directors for the year ended December 31, 2014 and 2013 was as follows:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Fees	(810)	(715)
Other benefits	(233)	(188)
Total compensation	**(1,043)**	**(903)**

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

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Receivables		
Millicom – Other Paraguayan operations	168,482	150,738
Millicom – Non-Paraguayan companies	2,940	3,340
Total	**171,422**	**154,078**
Payables		
Millicom – Other Paraguayan operations	20,400	28,237
Millicom – Non-Paraguayan companies	77,870	33,632
Total	**98,270**	**61,869**

20. 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, 2014, our fixed rate debt and floating rate debt:

(in PYG millions, except percentages)	Amounts due within						
	1 year	1–2 years	2–3 years	3–4 years	4–5 years	>5 years	Total
Fixed rate	-	-	-	-	-	1,363,004	1,363,004
Weighted average nominal interest rate...........	-	-	-	-	-	6.75%	
Floating rate	89,951	71,873	46,290	-	-	-	208,114
Weighted average nominal interest rate	2.38%	2.46%	2.60%				
Total	**89,951**	**71,873**	**46,290**	**-**	**-**	**1,363,004**	**1,571,118**
Weighted average nominal interest rate	2.38%	2.46%	2.60%	**-**	**-**	6.75%	

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

(in PYG millions, except percentages)	Amounts due within						
	1 year	1–2 years	2–3 years	3–4 years	4–5 years	>5 years	Total
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**	**45,852**	**-**	**1,347,736**	**1,645,443**
Weighted average nominal interest rate	1.33%	1.33%	1.19%	0.92%	**-**	6.75%	

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.

20. FINANCIAL RISK MANAGEMENT (Continued)

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, 2014 and 2013.

	Year ended December 31, 2014		Year ended December 31, 2013	
	USD	PYG	USD	PYG
Total	**486**	**2,248,771**	**359**	**1,649,443**

At December 31, 2014, 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 150.6 million (2013: PYG 164.6 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.

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.

20. FINANCIAL RISK MANAGEMENT (Continued)

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.

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, 2014 and 2013 was as follows:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Salaries and bonuses	(810)	(715)
Life insurance and medical benefits	(233)	(188)
Total compensation	**(1,043)**	**(903)**

Remuneration to the key employees for the years ended December 31, 2014 and 2013 was as follows:

PYG millions	Year ended December 31, 2014	Year ended December 31, 2013
Salaries and bonuses	(12,096)	(11,697)
Life insurance and medical benefits	(945)	(611)
Total compensation	**(13,041)**	**(12,308)**

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

22. SUBSEQUENT EVENTS

Dividend

In January 2015, Telecel paid the remaining balance of dividends from 2013 net profit of PYG 43,000 million.

On April, 2015 Telecel Board will propose to the Annual General Meeting of Shareholders a dividend distribution of PYG 96,000 million, to be paid out of Telecel´s profits for the year ended December 31, 2014.

22. SUBSEQUENT EVENTS (Continued)

Agreement to sell Unicanal S.A.

In February 27, 2015 Telecel concluded the process of selling the fully-owned company Unicanal S.A. (99% of shares) to Grupo JBB, a local multimedia group, by finishing the negotiations and transferring all the resources and facilities of this business unit to the buyer. The transaction amount was USD 3.65 million of which USD 2.5 million was collected in cash, the balance will be collected during 2015.

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