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

The following discussion of our financial condition and results of operations should be read in conjunction with our Audited Financial Statements and the notes thereto and our Interim Financial Statements included elsewhere in this offering memorandum, as well as the information presented under "Presentation of Financial and Other Information," and "Selected Financial and Other Information."

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those set forth in "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors."

Overview

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

Factors Affecting our Results of Operations

Our operating results are primarily affected by the following factors:

The State of the Paraguayan Economy

We derive a majority of our revenues from Paraguay, an emerging market. Inflation rates, rates of GDP growth and remittance levels affect our business, financial condition and results of operations. See "Risk Factors—Certain Factors Relating to Our Business and the Paraguayan Cellular Market." For additional disclosure on Paraguay, see "Annex A—The Republic of Paraguay."

Taxes

Our effective tax rate for the years ended December 31, 2012, 2011 and 2010 remained stable at between 13% and 14%.

Regulatory Fees

CONATEL currently imposes spectrum tariffs of 1% of total gross income, excluding telephone handset and equipment sales, an annual spectrum fee of approximately US$10 million, depending on the actual use of our authorized spectrum, and a license fee equal to 3% of our total investment in our mobile network. For the year ended December 31, 2012, the total fees we paid to CONATEL were Gs.82,615 million, and there can be no assurance that CONATEL will not raise this fee, or impose other similar fees, in the future.

Interconnection Rates

Executive Decree No. 16761 of March 26, 2002, or the Interconnection Regulation, establishes rules governing the interconnection between networks and service providers. Pursuant to the

Interconnection Regulation, CONATEL updates interconnection rate caps annually. Following CONATEL Resolution 1023/12, the most recent resolution of CONATEL setting interconnection rates, the costs of fixed line to mobile line calls fell by 40%. In addition, as of October 2012, the cost of interconnection was set by CONATEL at a rate of Gs.180 per minute or Gs.3 per second. CONATEL regulations currently require that interconnection rates be set at the same level for calls to and from mobile lines and fixed lines.

Acquisition of Cablevisión

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. Cablevisión contributed revenues of Gs.66,930 million and net profit of Gs.26,772 million for the period from acquisition to December 31, 2012.

Revenues

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

Customer Base and Churn

The number of customers we have is dependent upon the number of new customers we obtain and the number of customers that terminate our service, or churn. Our total customer base grew from approximately 3.6 million customers as of December 31, 2011 to approximately 3.9 million customers as of December 31, 2012, an annual growth rate of approximately 9%. Our average churn rate per month for fiscal year 2011 was approximately 2,6%. Our policy is to terminate customers after 60 days of inactivity. We believe the measurement of churn may be overstated by our existing customers who migrate from being prepaid customers to postpaid customers and in some cases disconnect their old telephone numbers and are therefore included in the churn calculation.

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

Cost of Sales

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

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

Gross Margins

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

Sales and Marketing

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

Critical Accounting Policies

Our Financial Statements have been prepared in accordance with IFRS as issued by the IASB on a historical cost basis and expressed in guaraní. In preparing the Financial Statements, management needs to make assumptions, estimates and judgments, which are often subjective and may be affected by changing circumstances or changes in its analysis. Material changes in these assumptions, estimates and judgments have the potential to materially alter our results of operations. We have identified below those of our accounting policies that we believe could potentially produce materially different results if we were to change our underlying assumptions, estimates and judgments. For a detailed discussion of these and other accounting policies, see note 2 to the Audited Financial Statements included elsewhere in this offering memorandum. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Because of inherent uncertainties in this evaluation process, actual results may be different from originally estimated amounts. In addition, significant estimates are involved in the determination of impairments, provisions related to taxes and litigation risks. These estimates are subject to change as new information becomes available and may significantly affect future operating results. Significant management judgment is required to determine any provision for contingent liabilities. Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Telecel. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated.

Impairment of non-financial assets

At each reporting date we make an assessment whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. We determine the recoverable amount based on the higher of its fair value less cost to sell, and its value in use, for individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Where no comparable market information is available, the fair value less cost to sell is determined based on the estimated future cash flows discounted to their present value using a discount rate that reflects current market conditions for the time value of money and risks specific to the asset. 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 of continuing operations are recognized in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

At each reporting date 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.

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.

Trade receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment is recorded when there is objective evidence that we will not be able to collect amounts due according to the original terms of receivables. 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".

Provisions

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

Revenue recognition

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

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

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 and exclude revenues from the sale of telephone handsets and equipment and roaming fees from visitors to our network who are not our customers, which we believe reflects the regular and ongoing revenues of our customers and is therefore an appropriate metric to analyze the results of our operations. 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 airtime 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 and games 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 we are considered to be acting in substance as an agent. Where we are responsible for the content and determines the price paid by the customer then the revenue is recognized gross amount.

Revenues from the sale of handsets and accessories on a stand-alone basis (without multiple deliverables) 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.

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.

Results of Operations

Ended December 31, 2012 and 2011

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

	Ended December 31,		Impact on comparative results for period	
	2012	2011	Amount of variation	Percent change
	(in millions of guaraní, except percentages, employees and ARPU)			
Revenues	2,825,305	2,462,991	362,314	15%
Cost of sales	(779,888)	(634,185)	(145,703)	(23)%
Gross profit	**2,045,417**	**1,828,806**	**216,611**	**12%**
Sales and marketing	(452,485)	(368,142)	(84,343)	(23)%
General and administrative expenses	(300,666)	(246,375)	(54,291)	(22)%
Operating profit	**1,292,266**	**1,214,289**	**77,977**	**6%**
Interest expense	(30,218)	(8,301)	(21,917)	(264)%
Interest and other financial income	6,240	1,520	4,720	310%
Exchange gains, net	52,138	55,272	(3,134)	(6)%
Profit before tax	**1,320,606**	**1,262,780**	**57,826**	**5%**
Income tax	(179,655)	(166,976)	(12,679)	(8)%
Net profit	**1,140,951**	**1,095,804**	**45,147**	**4%**

Operating Data:

	2012	2011	Amount of variation	Percent change
Number of customers	**3,948,733**	**3,613,754**	**334,979**	**9%**
Postpaid	832,992	644,115	188,877	29%
Prepaid	3,115,741	2,969,639	146,102	5%
Monthly churn %				
Postpaid	2,1%	1,3%	1%	76%
Prepaid	2.7%	4,1%	(1,4)%	(34)%
Total monthly churn (1)	2.6%	3.6%	(1)%	(27)%
Monthly ARPU (US$) (2)				
Postpaid	24,9	25,9	(1)	1%
Prepaid	9.1	10.8	(1,7)	(9)%
Total monthly ARPU (3)	12,1	13,4	(1,3)	(7)%
Number of employees	**743**	**448**	**295**	**65%**

(1) Our total monthly churn is individually calculated by reference to our aggregate prepaid and postpaid customers.
(2) ARPU is calculated based on a historical exchange rate of Gs..4,224 to US$1.00.
(3) Our total ARPU is individually calculated by reference to our aggregate prepaid and postpaid customers.

Revenues

Revenues for the year ended December 31, 2012 amounted to Gs.2,825,305 million, up 15% year-on-year from Gs.2,462,991 for the year ended December 31, 2011, resulting primarily from growth in our customer base of 9% since 2011 as well as maintenance of ARPU and successful up-sales and cross-sales of VAS products and services to existing customers. We also saw increases in revenues from international roaming fees and sales of telephone handsets and related equipment as we further subsidized handsets to increase the penetration of smartphones in the country which enables us to sell additional data-driven products and services to these customers. The acquisition of Cablevisión added Gs.66,930 million to revenues for the year ended December 31, 2012 (2011: nil).

Innovation continues to be a major focus for us as we seek to grow revenues by developing and selling additional products and services through which we can gain a greater share of customers' disposable income, increase loyalty and reduce churn. In 2012, the value-added services represented 50% of recurring revenues and grew by approximately 20% year-on-year, from Gs.1,073,392 million (out of a total of Gs.2,324,748 million in recurring revenues) for the year ended December 31, 2011 to Gs.1,290,500 million (out of a total of Gs.2,611,230 million in recurring revenues) for the year ended December 31, 2012.

We generate revenue from the provision of communications, information, entertainment and solutions services. Communications services consist of voice and SMS communications services, information services consist of internet access, entertainment services consist primarily of content downloads, ring-back tones, SMS competitions, and television and music products and solutions services consist primarily of "Zero Balance" based products, which permit customers to continue using our services despite running out of account balance, voicemail and handset insurance. While our Communications revenue remained steady for the year end 2012 as compared to the same period ended in 2011, we have seen strong revenue growth in the other categories. Information category revenue grew 53% year-on year for the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily as a result of increasing use of smartphones to access data and connect to the internet, Entertainment category revenue grew 13% year-on-year for the year ended December 31, 2012 compared for the year ended December 31, 2011 primarily as a result of the introduction of new sales channels such as a USSD, or Unstructured Supplementary Service Data, menu, a mobile portal and online sales as well as the introduction of new products, and Solutions category revenue grew 20% year-on-year for the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily as a result of the launch of "Lend me Balance", a Peer-to-Peer balance lending program whereby we allow our customers to borrow credits from another customer to make an additional call when they no longer have balance on their account, higher revenues from handset insurance and new products.

Customer base

As of December 31, 2012, our total mobile customer base was 3,948,733, an increase of 9% from 3,613,754 as of December 31, 2011, with prepaid customers accounting for 79% or 3,115,741 of our total mobile customers at such time. Capital expenditures over the last 12 months have resulted in improvements in the quality of our networks and increased capacity and coverage which we believe has attracted additional customers during the period. Strengthening our distribution network has also helped drive customer growth by making our products more accessible. We further improved the volume and variety of products and services we provide to our customers, as well as the accessibility and availability of our products and services by using innovative distribution channels and techniques.

Cost of sales

Cost of sales increased by 23% for the year ended December 31, 2012 to Gs.779,888 million from Gs.634,185 million for the year ended December 31, 2011. The primary cost of sales incurred by us in relation to the provision of telecommunications services during these periods related to interconnection costs, roaming costs, leased lines to connect the switches and main base stations, cost of handsets, purchase of content and the depreciation of network equipment. The interconnection and roaming costs are a direct function of calls made by our customers, an increase in which results in increased revenues, and therefore these costs increased in connection with the growth in revenues described above. Frequency fees and network depreciation both increased as we continued to expand our networks. Handset manufacturing costs that are passed on to us also increased as more of our revenue was generated by the use of smartphones. Gross profit margin decreased to 72.4% for the year ended December 31, 2012 from 74.3% for the year ended December 31, 2011, resulting primarily from higher telephone and equipment sales, which are typically at a very low margin, representing a larger portion of revenue as well as an increase in content revenue and its related costs.

Sales and marketing

Sales and marketing expenses increased by 23% for the year ended December 31, 2012 to Gs.452,485 million from Gs.368,143 million for year ended December 31, 2011. Sales and marketing costs were comprised mainly of commissions to dealers for obtaining customers on our behalf as well as selling prepaid reloads, handset subsidies, general advertising and promotion costs, point of sales materials for the retail outlets, sponsorship and staff costs. The increase in sales and marketing costs for the year ended December 31, 2012 as compared to the year ended December 31, 2011 were mainly a result of higher handset subsidies. As a percentage of revenues, sales and marketing expenses increased to 16% for year ended December 31, 2012 from 15% for the year ended December 31, 2011.

General and administrative expenses

General and administrative expenses increased by 22% for the year ended December 31, 2012 to Gs.300,666 million from Gs.246,375 million for the year ended December 31, 2011. The increase was mainly attributable to higher billing costs, as postpaid customers increased by 29% period to period and increased as a percentage of our total customers, and higher network maintenance costs as a result of our continued network expansion. As a percentage of revenues, general and administrative expenses remained stable at 11% for the period ended December 31, 2012.

Operating profit

Operating profit increased by 6% for the year ended December 31, 2012 to Gs.1,292,266 million from Gs.1,214,288 million for the year ended December 31, 2011. This increase was mainly as a result of the 15% increase in revenues period to period as well as strong cost control within the organization. Our operating margin decreased from 49.0% for the year ended December 31, 2011 to 46% for the year ended ended December 31, 2012. This decrease was mainly a result of telephone and equipment sales representing a larger portion of revenue and handset subsidies related to these higher sales.

Net finance costs

Net finance costs, which include interest expense and other financing costs, net of interest income, increased by 251% for the year ended December 31, 2012 to Gs.23,797 million from Gs.6,780 million for the year ended December 31, 2011. This increase was mainly due to the Bridge Loan entered into in September 2012 in order to finance the acquisition of the assets and business of Cablevision and the cost of the unsecured note issued in December 2012.

Exchange gains

Exchange gains, net decreased by 6% for the year ended December 31, 2012 to Gs.52,138 million from Gs.55,272 million for the year ended December 31, 2011. Exchange gains and losses resulted primarily as a result of movements in the PYG/USD exchange rate resulting in a revaluation of our U.S. dollar borrowings and cash and cash and cash equivalents. The majority of our borrowings and cash and cash equivalents are denominated in U.S. dollars. The PYG/USD exchange rate moved from 4,224 as of December 31, 2012 to 4,226 as of December 31, 2011.

Charge for taxes

Our charge for taxes increased by 8% for the year ended December 31, 2012 to Gs.179,655 million from Gs.166,976 million for year ended December 31, 2011, resulting primarily from the increased profit before tax. Our effective tax rate remained relatively stable at 13,6% for the year ended December 31, 2012 compared to 13,2% for the year ended December 31, 2011.

Net profit

Net profit for the year ended December 31, 2012 increased by 4% to Gs.1,140,951 million compared to a net profit of Gs.1,095,804 million for the year ended December 31, 2011 principally as a result of higher revenues.

Years Ended December 31, 2011 and 2010

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

	Year Ended December 31,		Impact on comparative results for period	
	2011	**2010**	**Amount of variation**	**Percent change**
	(in millions of guaraní, except percentages, employees and ARPU)			
Revenues	2,462,991	2,200,198	262,793	12%
Cost of sales	(634,185)	(518,716)	(115,469)	(22)%
Gross profit	**1,828,806**	**1,681,482**	**147,324**	**9%**
Sales and marketing	(368,142)	(355,652)	(12,490)	(4)%
General and administrative expenses	(246,375)	(196,822)	(49,553)	(25)%
Operating profit	**1,214,289**	**1,129,008**	**85,281**	**8%**
Interest expense	(8,301)	(13,696)	5,395	39%
Interest and other financial income	1,520	274	1,246	455%
Exchange gains/(losses), net	55,272	(1,986)	57,258	2883%
Profit before tax	**1,262,780**	**1,113,600**	**149,180**	**13%**
Income tax	(166,976)	(139,582)	(27,394)	(20)%
Net profit	**1,095,804**	**974,018**	**121,786**	**13%**
Operating Data:				
Number of customers	**3,613,754**	**3,441,423**	**172,331**	**5%**
Postpaid	644,115	491,280	152,835	31%
Prepaid	2,969,639	2,950,143	19,496	1%
Monthly churn %				
Postpaid	1.3%	0.8%	0.2%	18%
Prepaid	3.4%	2.9%	1.7%	71%
Total monthly churn (1)	3.0%	2.6%	1.3%	57%
Monthly ARPU (US$) (2)				
Postpaid	22.7	19.4	3.3	17%
Prepaid	10.0	8.6	1.4	16%
Total monthly ARPU (3)	12.2	10.7	1.5	14%
Number of employees	**434**	**446**	**(14)**	**(3)%**

(1) Our total monthly churn is individually calculated by reference to our aggregate prepaid and postpaid customers.
(2) ARPU is calculated based on a historical exchange rate of Gs.4,462 to US$1.00.
(3) Our total ARPU is individually calculated by reference to our aggregate prepaid and postpaid customers.

Revenues

Total revenues increased by 12% for the year ended December 31, 2011 to Gs.2,462,991 million from Gs.2,200,198 for the year ended December 31, 2010. Growth in revenue was impacted primarily by growth in the number of customers and the type and number of value-added services purchased by customers, which trended toward an increasing level of higher-revenue generating value-added services. Our recurring revenues from value added services increased from 43% of total recurring revenues for the year ended December 31, 2010 to 46% for the year ended December 31, 2011.

Customer base

As of December 31, 2011, our mobile customer base was 3,613,754, an increase of 5% from 3,441,423 as of December 31, 2010. As of December 31, 2011, prepaid customers accounted for 82%, or 2,969,639, of our total mobile customers compared to 86%, or 2,950,143, as of December 31, 2010. This change in the number of prepaid customers as a percentage of total customers is mainly a result of our prepaid customers migrating to postpaid. Growth in our mobile customer base slowed during the year ended December 31, 2010 given the high level of penetration in the Paraguayan market. However, capital expenditures resulted in further improvements in the quality of our networks and increased capacity and coverage which attracted additional customers during the year ended December 31, 2011. We further expanded our distribution network, which also helped drive customer growth and consumption by increasing the number of points of sale where we sell our products, making the products more accessible.

Cost of sales

Cost of sales increased by 22% for the year ended December 31, 2011 to Gs.634,185 million from Gs.518,716 million for the year ended December 31, 2010. The primary cost of sales incurred by us in relation to the provision of telecommunications services during these periods related to interconnection costs, roaming costs, leased lines to connect the switches and main base stations, cost of handsets, purchase of content and the depreciation of network equipment. The interconnection and roaming costs are a direct function of calls made by our customers, an increase in which results in increased revenues, and therefore these costs increased in connection with the growth in revenues described above. The cost of leased lines and frequency fees increased as we continued to expand our networks. Gross profit margin decreased to 74.3% for the year ended December 31, 2011 from 76.4% for the year ended December 31, 2010, resulting primarily from the increased cost of leased lines and frequency fees as well as higher telephone and equipment sales, as a portion of revenue, at very low margins as more of our customers purchased expensive smartphones including those that we subsidize.

Sales and marketing

Sales and marketing expenses increased by 4% for the year ended December 31, 2011 to Gs.368,142 million from Gs.355,652 million for the year ended December 31, 2010. Sales and marketing costs were comprised mainly of commissions to dealers for obtaining customers on our behalf as well as selling prepaid reloads, handset subsidies, general advertising and promotion costs, point of sales materials for the retail outlets, sponsorship and staff costs. The increase in sales and marketing costs was mainly attributable to increased commissions as a result of our stronger sales. As a percentage of revenues, sales and marketing expenses decreased slightly to 15% for the year ended December 31, 2011 from 16% for the year ended December 31, 2010.

General and administrative expenses

General and administrative expenses increased by 25,2% for the year ended December 31, 2011 to Gs.246,375 million from Gs.196,822 million for the year ended December 31, 2010. The increase in general and administrative expenses was attributable to higher employee costs, higher external services as we continued to improve our customer services and increased network maintenance costs as a result of the expansion of our networks. As a percentage of revenues, general and administrative expenses increased from 9% for the year ended December 31, 2010 to 10% for the year ended December 31, 2011.

Operating profit

Operating profit increased by 8% for the year ended December 31, 2011 to Gs.1,214,289 million from Gs.1,129,008 million for the year ended December 31, 2010. This increase was mainly as a result of the increase in revenues period to period. The operating margin decreased from 51.3% for the year ended December 31, 2010 to 49.3% for the year ended December 31, 2011, primarily as the result of the higher level of subsidies on handsets.

Net finance costs

Net finance costs, which include interest expense and other financing costs, net of interest income, decreased by 49% for the year ended December 31, 2011 to Gs.6,781 million from Gs.13,422 million for the year ended December 31, 2010. This increase was mainly due to our lower level of indebtedness for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Exchange gains

There were net exchange gains for the year ended December 31, 2011 of Gs.55,272 million compared to net exchange losses of Gs.1,986 million for the year ended December 31, 2010. Exchange gains and losses resulted primarily as a result of movements in the PYG/USD exchange rate resulting in a revaluation of our U.S. dollar borrowings and cash and cash and cash equivalents. The majority of our borrowings and cash and cash equivalents are denominated in U.S. dollars. The PYG/USD exchange rate moved from 4,645.00 as of December 31, 2010 to 4,478.00 as of December 31, 2011.

Charge for taxes

The charge for taxes increased by 20% year-on-year to Gs.166,976 million for the year ended December 31, 2011, from Gs.139,582 million for the year ended December 31, 2010 due primarily to the increase in profit before tax. The effective tax rate remained relatively stable at 13.2% for the year ended December 31, 2011 compared to 12.6% for the year ended December 31, 2010.

Net profit

Our net profit for the year ended December 31, 2011 was Gs.1,095,804 million, a 12.5% increase over our net profit of Gs.974,018 million for the year ended December 31, 2010, principally as a result of higher revenues.

Trend Information

Our strategy is to grow our revenues by maintaining our Communications revenues and market share while growing our mobile revenues in Information, Entertainment and Solutions categories and developing our new cable business in television and broadband internet. Innovation has become a major focus, as we seek to continue to grow revenues by developing additional products and services to customers. During the year ended December 31, 2012, non-voice revenues increased as a percentage of recurring revenues from 46% for the year ended December 31, 2011 to 52% for the year ended December 31, 2012. We expect innovation to be an important driver of growth in the years ahead. Although these new services tend to have lower profit margins than our core communications business we expect to limit any drop in margins by controlling costs and economies of scale. There is, however, a risk that if new competitors enter our markets and/or price competition intensifies; our customers may be more likely to move from one mobile operator to another. This also has the effect of driving prices down, thus eroding the profitability of our mobile operations. In that event, we believe our strong network coverage and brand awareness should mitigate any adverse effects on our business.

Liquidity and Capital Resources

Liquidity is a measure of a company's ability to access cash. Historically we have relied, and in the future we intend to continue to rely, primarily on cash from operations and external financings to fund our operations, capital expenditures and working capital requirements.

We believe that our sources of liquidity are sufficient for our present requirements. Although we believe that we should be able to meet our debt service obligations and fund our operating requirements in the future through cash flow from our operations, we may seek additional financing in the capital markets from time to time, depending on market conditions and our financial requirements. We intend to continue to focus on investments in property, systems and equipment (fixed assets) and working capital management, including timely collection of accounts receivable and efficient management of accounts payable.

For a further discussion on financing- and liquidity-related risks, see note 19 to our Audited Financial Statements for the year ended December 31, 2012.

Capital Expenditures

Our capital expenditures on property, plant and equipment, licenses and other intangible assets for the years ended December 31, 2012, 2011 and December 31, 2010 amounted to Gs.313,061 million, Gs. 318,099 and Gs.175,840 million, respectively. In addition in the year ended December 31, 2012, through the acquisition of Cable Vision we added a further Gs.450,579 million in property, plant and equipment, licenses and other intangible assets excluding goodwill based on the provisionally allocated purchase price of Gs. 767,464 million.

As of December 31, 2012, we had commitments to purchase, within one year, network equipment, land and buildings and other tangible and intangible fixed assets for an aggregate consideration equal to Gs.426,624 million. We expect to meet these commitments from our current cash balances and cash generated from operations.

Dividends

After analyzing our results of operations, our board of directors makes a recommendation to our shareholders on the amount of dividends, if any, that should be paid. The shareholders then resolve in a shareholders' meeting the amount of dividends, if any, that should be paid to shareholders. At the same time it decides whether the amount not paid as dividends should be retained as retained results of the Company or directed to a legal reserve account. Our dividend policy historically has been to pay dividends to our shareholders up to the level of free cash generated after debt repayments which is not required to fund our operations and not in excess of yearly net income. In 2012 and for the years ended December 31, 2012, 2011 and 2010, we paid dividends to our shareholders of Gs 995.941 Gs.901,555 million and Gs.813,143 million, respectively.

Cash Flows

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

	For the year ended December 31,	
	2012	**2011**
Net cash provided by operating activities	1,274,741	1,238,169
Net cash used by investing activities	(1,058,649)	(312,322)
Net cash used by financing activities	60,592	(941,544)
Net (decrease) increase in cash and cash equivalents..	**257,719**	**11,410**
Cash and cash equivalents at the end of the period	1,071,834	814,115

Year ended December 31, 2012 and 2011

For the year ended December 31, 2012 cash provided by operating activities was Gs.1,274,741 million compared to Gs.1,238,169 million for the year ended December 31, 2011. The increase was mainly due to an increase of operating income which was offset by a higher negative change to working capital and higher taxes paid. The higher negative change to working capital was mainly due to the migration of customers from prepaid to postpaid.

Cash used in investing activities was Gs.1,058,649 million for the year ended December 31, 2012 compared to Gs.3123222 million for the year ended December 31, 2011. The increase in cash used for investing activities in 2012 was mainly attributable to the acquisition of Cablevision S.A. Gs.767,464. Telecel also used Gs.297,209 to purchase property, plant and equipment compared to Gs.247,369 for the same period in 2011.

Cash generated from financing activities was Gs.60,592 million for the year ended December 31, 2012 compared to cash used of Gs.941,544 million for the year ended December 31, 2011. The lower cash used for financing activities for the year ended December 31, 2012 was mainly as a result of the proceeds from the issuance of senior notes (see “Financing”), offset by higher dividends and a return of capital to shareholders.

The net increase in cash and cash equivalents for the year ended December 31, 2012 was Gs.257,719 million compared to Gs.11,410 million for the year ended December 31, 2011. We had closing cash and cash equivalents of Gs.1,071,834 million as of December 31, 2012 compared to Gs.814,115 million as of December 31, 2011.

Years Ended December 31, 2011 and 2010

For the year ended December 31, 2011 cash provided by operating activities was Gs.1,238,169 million compared to Gs.1,118,472 million for the year ended December 31, 2010. The increase was due to the higher operating profit for the year ended December 31, 2011, offset in part by an increase in accounts receivable and a decrease in trade and other payables.

Cash used in investing activities was Gs.312,322 million for the year ended December 31, 2011 compared to Gs.137,960 million for the year ended December 31, 2010. The increase in cash used for investing activities for the year ended December 31, 2011 was mainly attributable to higher capital expenditures.

Cash used in financing activities was Gs.941,544 million for the year ended December 31, 2011 compared to Gs.597,508 million for the year ended December 31, 2010. The higher cash used for financing activities for the year ended December 31, 2011 was mainly as a result of no proceeds from the issuance of debt for the year ended December 31, 2011as compared to proceeds from the issuance of debt of Gs.236,000 million for the year ended December 31, 2010 and higher dividend payments during the year ended December 31, 2011.

The net increase in cash and cash equivalents for the year ended December 31, 2011 was Gs.11,410 million compared to Gs.376,038 million for the year ended December 31, 2010. We had closing cash and cash equivalents of Gs.814,115 million as of December 31, 2011 compared to Gs.802,705 million as of December 31, 2010.

Financing

As of December 31, 2012, our total outstanding indebtedness and other financing was Gs.1,600,188 million. As of December 31, 2011, our total outstanding indebtedness and other financing was Gs.433,194 million.

On December 7, 2012 Telecel issued $ 300million 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 Nortes as follows:

(i) Full or partial redemption at any time prior to December 13, 2017, for the highest of, 100% of the principal to be redeemed or, the present value of the remaining scheduled payments of principal to be redeemed and interest

(ii) Full or partial redemption at any time on or after December 13, 2017 for the following percentage of principal to be redeemed, plus accrued and unpaid interest and all other amounts dues, if any:

December 13, 2017 103.375%
December 13, 2018 102.25%
December 13, 2019 101.125%
December 13, 2020 100.00%
December 13, 2021 100.00%

These options represent embedded derivatives which, in accordance with IAS 39 have been valued and determined to be closely related to the underlying bond.

(iii) Redemption of up to 35% of the original principal of the 6.75% Senior Notes if, prior to December 13, 2015, Telefónica Celular del Paraguay S.A. receives proceeds from issuance of shares, at a redemption price of 106.75% of the principal amount to be redeemed plus accrued and unpaid interest and all other amounts due, if any, on the redeemed notes. If Telefónica Celular del Paraguay S.A. experiences a Change of Control Triggering Event, defined as a rating decline resulting from a change in control, each holder will have the right to require repurchase of its notes at 101% of their principal amount plus accrued and unpaid interest and all other amounts due, if any.

As at December 31, 2012, the outstanding amount of the Senior Unsecured Notes was PYG 1,239,635 million.

On September 5, 2012, we entered into the Bridge Loan for an aggregate principal amount equal to US$151 million, which bears interest at a rate equal to the one, two or three month London Interbank Offered Rate for U.S. dollars plus a margin equal to, for the first three months of the facility, 2% and thereafter, 3%, and which matures six months following the closing date thereunder, in order to fund our acquisition of substantially all of the assets and business of Cablevision. This loan is guaranteed by Millicom. The facility was cancelled in December, 2012.

In July 2008, Telecel entered into an 8 year loan (the “EIB Loan”) for an aggregate principal amount equal to US$100 million with the European Investment Bank (“EIB”), which bears interest at a rate equal to the 90-day London Interbank Offered Rate for U.S. dollars plus a margin ranging from 0.234% to 0.667%. The EIB Loan is guaranteed for commercial risks by Royal Bank of Scotland, which earns a guarantee fee equal to 1.25% per annum. The aggregate outstanding principal amount of the EIB Loan was Gs.358,594 million as of December 31, 2012 and Gs.431,479 million as of December 31, 2011.

In addition, Telecel had other bank and vendor financing in an aggregate outstanding principal amount equal to Gs.1,959 million as of December 31, 2012 and Gs.8,357 million as of December 31, 2011.

Our interest expense for the year ended December 31, 2012 was Gs.30,218 million and for the year ended December 31, 2011 was Gs.8,301 million.