Unaudited Interim Condensed Consolidated Financial Statements

As at and for the three month period ended 31 March 2017

29 May 2017

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Unaudited interim consolidated statement of comprehensive income for the period ended 31 March 2017

PYG millions	Three months ended 31 March 2017	Three months ended 31 March 2016
Revenue	761,058	782,947
Cost of sales	(151,244)	(189,566)
Gross profit	**609,814**	**593,381**
Operating expenses	(229,093)	(239,882)
Depreciation	(94,610)	(84,014)
Amortisation	(32,295)	(28,723)
Other operating income (expenses), net	1,857	(17)
Operating profit	**255,673**	**240,745**
Interest expense	(51,236)	(46,764)
Interest and other financial income	1,805	2,696
Exchange gain (loss), net	(12,264)	69,477
Profit before tax	**193,978**	**266,154**
Income tax expense	(22,109)	(42,545)
Net profit and comprehensive income for the period.	**171,869**	**223,609**

Attributable to:		
Equity holders of the company	171,869	223,609

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

Unaudited interim consolidated statement of financial position as at 31 March 2017

PYG millions	Notes	Three months ended 31 March 2017	Year ended 31 December 2016
ASSETS			
Non-Current Assets			
Intangible assets, net	5	891,120	915,045
Property, plant and equipment, net	4	1,895,517	1,960,626
Deferred taxation		23,397	23,397
Other non-current assets		25,298	26,856
Amounts due to related parties		33,829	69,203
Total Non-Current Assets		**2,869,161**	**2,995,127**
Current Assets			
Inventories		97,525	50,139
Trade receivables, net		380,295	413,249
Amounts due from related parties		605,536	579,151
Prepayments and accrued income		194,974	176,833
Supplier advances for capital expenditure		7,816	10,366
Other current assets		70,318	56,991
Cash and cash equivalents		427,166	310,922
Total Current Assets		**1,783,630**	**1,597,651**
TOTAL ASSETS		**4,652,791**	**4,592,778**
EQUITY AND LIABILITIES			
EQUITY			
Share capital and premium		164,008	164,008
Legal reserve		50,110	50,110
Retained profits		776,097	164,112
Profit for the period / year attributable to equity holders		171,869	611,985
Parents ownership interests		**1,162,084**	**990,215**
TOTAL EQUITY		**1,162,084**	**990,215**
LIABILITIES			
Non-current Liabilities			
Debt and financing	6	2,216,692	2,296,539
Provisions and other non-current liabilities		145,075	156,534
Total non-current liabilities		**2,361,767**	**2,453,073**
Current Liabilities			
Debt and financing	6	98,891	57,669
Payables and accruals for capital expenditure		294,657	395,842
Other trade payables		242,945	164,170
Amounts due to related parties	8	74,977	64,999
Accrued interest and other expenses		147,708	192,383
Current income tax liabilities		64,481	52,131
Provisions and other current liabilities		205,281	222,296
Total current liabilities		**1,128,940**	**1,149,490**
Liabilities directly associated with assets held for sale			
TOTAL LIABILITIES		**3,490,707**	**3,602,563**
TOTAL EQUITY AND LIABILITIES		**4,652,791**	**4,592,778**

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

Unaudited interim consolidated statement of cash flows for the three-month period ended 31 March 2017

PYG millions	Notes	Three months ended 31 March 2017	Three months ended 31 March 2016
Cash flows from operating activities			
Profit before taxes		**193,978**	**266,154**
Adjustments:			
Interest expense		51,236	46,764
Interest and other financial income		(1,805)	(2,696)
Other non-operating expenses, net		12,264	(69,477)
Adjustments for non-cash items:			
Depreciation and amortization		126,905	112,737
Loss on disposal assets		(1,857)	17
		380,721	**353,499**
(Increase) decrease in trade receivables, prepayments and other current assets		(83,091)	(63,202)
(Increase) decrease in inventories		(47,386)	(16,832)
Increase (decrease) in trade and other payables		21,986	129,489
Changes in working capital		**(108,491)**	**49,455**
Interest paid		(24,724)	(11,427)
Interest received		6,699	2,131
Taxes paid		3,441	(9,071)
Net cash provided by operating activities		**257,646**	**384,587**
Cash flows for investing activities:			
Purchase of property, plant and equipment	4	(45,140)	(104,394)
Purchase of intangible assets and license renewals	5	(102,332)	(199,933)
Debt and other financing granted to / repaid by related parties, net		28,875	9,235
Other		-	(17)
Net cash used by investing activities		**(118,597)**	**(295,109)**
Cash flows for financing activities:			
Repayment of debt and financing		(16,914)	(64,492)
Net cash used by financing activities		**(16,914)**	**(64,492)**
Exchange losses on cash and cash equivalents		(5,891)	(1,233)
Net increase in cash and cash equivalents		**116,244**	**23,753**
Cash and cash equivalents at the beginning of the year		310,922	203,984
Cash and cash equivalents at the end of the period		**427,166**	**227,737**

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

Unaudited interim consolidated statement of changes in equity for the three months ended 31 March 2017

PYG million	Number of shares	Share Capital	Retained profits	Legal reserves	Total equity
Balance as of 31 December 2015 (audited)	**6,524**	**274,008**	**350,328**	**50,110**	**674,446**
Total comprehensive income for the period	-	-	223,609	-	223,609
Balance as of 31 March 2016 (unaudited)	**6,524**	**274,008**	**573,937**	**50,110**	**898,055**
Total comprehensive income for the period	-	-	388,376	-	388,376
Dividends	-	-	(186,216)	-	(186,216)
Return of capital to shareholders	3,476	(110,000)	-	-	(110,000)
Balance as of 31 December 2016 (audited)	**10,000**	**164,008**	**776,097**	**50,110**	**990,215**
Total comprehensive income for the period	-	-	171,869	-	171,869
Balance as of 31 March 2016 (unaudited)	**10,000**	**164,008**	**947,966**	**50,110**	**1,162,084**

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

Notes to the unaudited interim consolidated financial statements

1. ORGANIZATION

Telefónica Celular del Paraguay S.A. (the "Company"), a Paraguayan Company, and its subsidiaries: Teledeportes Paraguay S.A. and Lothar Systems S.A. (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 25 April 2017.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES

These interim condensed consolidated financial statements of the Company are unaudited. They are presented in Paraguayan Guaranies and have been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' issued by the International Accounting Standard Board (IASB). In the opinion of management, these unaudited condensed interim consolidated financial statements reflect all adjustments that are necessary for a proper presentation of the results for interim periods. The Company's operations are not affected by significant seasonal or cyclical patterns

These unaudited condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016. These financial statements are prepared in accordance with consolidation and accounting policies consistent with the 2016 consolidated financial statements. The following changes to standards effective for annual periods starting after 1 January 2017 did not have a significant impact on the Group:

- IAS Amendments to IAS 7, 'Statement of cash flows' on disclosure initiative. These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports;
- Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses.

There are no other changes to standards effective for annual periods starting on 1 January 2017.

3. DISPOSAL OF SUBSIDIARIES, JOINT VENTURES AND NON-CONTROLLING INTERESTS

During the three month period ended 31 March 2017 and 2016, the Group did not make any significant acquisition or disposal.

4. PROPERTY, PLANT AND EQUIPMENT

During the three months ended 31 March 2017, the Company added property, plant and equipment for PYG 12,769 million.

Cash used for property, plant and equipment additions PYG million	Three months ended 31 March	
	2017	2016
Additions	12,769	84,296
Increase (decrease) in advances to suppliers	(2,615)	1,929
Decrease (increase) in accruals and payables for intangibles	34,986	18,169
Cash used from continuing operations for additions	**45,140**	**104,394**

5. INTANGIBLE ASSETS

During the three months ended 31 March 2016, the Company added intangible assets of PYG 20,804 million.

Cash used for intangible asset additions PYG million	Three months ended 31 March	
	2017	2016
Additions	20,804	280,779
Increase (decrease) in advances to suppliers	170	2,151
Decrease (increase) in accruals and payables for intangibles	81,358	(82,997)
Cash used from continuing operations for additions	**102,332**	**199,933**

6. DEBT AND FINANCING

The total amount of debt and financing is repayable as follows:

PYG millions	Three months ended 31 March 2017	Year ended 31 December 2016
Due within:		
One year	98,891	57,669
One-two years	110,790	85,020
Two-three years	136,560	136,560
Three-four years	101,308	136,075
Four-five years	66,960	66,960
After five years	1,801,074	1,871,924
Total debt	**2,315,583**	**2,354,208**

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 31 March 2017 was PYG 56,381 million (31 December 2016: PYG 57,669 million).

In 2015, Telecel obtained two new long-term loans from local banks Banco ITAU and Banco Continental. Both loans are denominated in Paraguayan guaranies and bear a fixed annual interest rate of 9%. In the third quarter of 2016, Telecel obtained a new long-term loan from Banco Continental, denominated in Paraguayan guaranties, and bear a fixed annual interest rate of 10%. As of 31 March 2017 the combined balance of such loans is PYG million 592,047.

Senior Notes

On 7 December 2012, Telecel issued $ 300 million aggregate principal amount of 6.75% Senior Unsecured Notes (the "6.75 Senior Notes") due on 13 December 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 13 June and 13 December. 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 13 December 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 13 December 2017 for the following percentage of principal to be redeemed, plus accrued and unpaid interest and all other amounts dues, if any:
13 December 2017 103.375%
13 December 2018 102.25%

6. DEBT AND FINANCING (Continued)

13 December 2019 101.125%
13 December 2020 100.00%
13 December 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 13 December 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.

The outstanding amount as at 31 March, 2017 was PYG 1,667,153 million (December 2016: PYG 1,712,977 million)

Fair value of financial liabilities

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

7. 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 31 March 2017, the total amount of provisions related to claims against the Group's operations was PYG 8,443 million (December 2016: PYG 7,811 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 31 March 2017 and 31 December 2016.

PYG millions	Three months ended 31 March 2017	Year ended 31 December 2016
Operating lease commitments		
Within: one year	29,875	29,875
Between: one to five years	8,524	8,524
After: five years	47,318	4,709
Total	**85,717**	**43,108**

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 4,236 million in the three months ended March, 2017 (March 2016: PYG 3,614 million).

7. COMMITMENTS AND CONTINGENCIES (Continued)

Capital commitments

As of 31 March 2017 the Company has fixed commitments to purchase network equipment, land and buildings and other fixed assets for a value of PYG 110,233 million (31 December, 2016: PYG 882,818 million).

Dividends

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

8. 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.

The following transactions were conducted with related parties:

PYG millions	Three months ended 31 March 2017	Three months ended 31 March 2016
Millicom – Other Paraguayan operations	42,429	21,353
Millicom - Non-Paraguayan companies	(3,208)	(2,095)
Total purchases from related parties	**39,221**	**19,258**

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

PYG millions	Three months ended 31 March 2017	Year ended 31 December 2016
Receivables		
Millicom – Other Paraguayan operations	336,809	320,205
Millicom – Non-Paraguayan companies	290,602	348,461
Total	**627,411**	**668,666**
Payables		
Millicom – Other Paraguayan operations	63,083	53,985
Millicom – Non-Paraguayan companies	10,016	11,014
Total	**73,099**	**64,999**

9. SUBSEQUENT EVENTS

Dividend distribution

In May, 2017 Telecel Board has proposed to the Annual General Meeting of Shareholders the distribution of a dividend of USD 116 million, to be paid out of Telecel´s profits for the year ended 31 December 2016.

Tower sale and leaseback

On 26 April, 2017, the Group announced an agreement to sell approximately 1,400 wireless communications towers to a subsidiary of American Tower Corporation ("ATC"). As a result of this transaction, Telecel will receive approximately PYG 700 billion, equivalent to USD 125 million, in cash.

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