Consolidated Financial Statements of Telefónica Celular del Paraguay S.A.

As of and for the year ended 31 December, 2016

March 10, 2017

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Ernst & Young Paraguay - Auditores y
Asesores de Negocios
Mcal. López 3794 esq. Cruz del Chaco,
Edificio Citicenter - 6° Piso
Asunción, Paraguay

Tel: (595-21) 664-308
Fax: (595-21) 608-985
ey.com

Independent auditor's report on the consolidated financial statements.

To the shareholders of
Telefónica Celular del Paraguay S.A.

Opinion

We have audited the consolidate financial statements of Telefónica Celular del Paraguay S.A. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidate financial position of Telefonica Celular del Paraguay S.A. as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Paraguay, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

1. Revenue recognition

   The Group's revenue consists of mobile and data telephony services, corporate solutions, fixed-line broadband, and cable TV.

   Revenue from mobile and data telephony services, corporate solutions, fixed-line broadband, and cable TV products is considered a significant risk due to both the bundling of these services and the complexity of the Group's systems and processes used to record revenue. Also, the application of revenue recognition accounting standards is complex and involves a number of key judgements and estimates and the high volume of transaction leading to heightened susceptibility to manipulation.

To address this significant risk, our audit procedures over revenue included, among others:

- Testing of controls, assisted by our information technology specialists, including those over: set-up of customer accounts, pricing data, segregation of duties, and the linkage to usage data that drives revenue recognition.

- Testing as sample of transactions for the main revenue streams: prepaid, postpaid, interconnection and telephone and equipment, tracing back the transaction to the supporting documentation.

- Performing tests on the accuracy of customer bill generation on a sample basis and testing of a sample of the credits and discounts applied to customer bills.

- Substantively reviewing the deferred income, through validation reports used in its determination at period end.

- Testing as sample of reconciliation between the sales report from the billing system/point of sales system, airtime credited on the platform, the cash collection from the bank and sales/collection recorded in the general ledger.

- Performing analytical procedures over the different revenue streams and deferred revenue at year-end based on our industry knowledge, forming an expectation of revenue based on key performance indicators taking into consideration disconnections, installations, changes in rates and trends in deferred income days.

We also assessed the adequacy of the Group's disclosures in respect of the accounting policies on revenue recognition set out in B.1.1 - Accounting for revenue.

2. Capitalization of property, plant, and equipment and intangible assets with definite useful life and assessment of useful lives.

   There are a number of areas where management judgement impacts the carrying value of property, plant and equipment, software intangible assets and their respective depreciation profiles. These include, amongst others, (i) the decision to capitalize or expense costs; (ii) the annual asset life review, and (iii) the timeliness of the transfer from assets in the course of construction.

   Our audit procedures, amongst others included, testing the controls in place over the fixed asset cycle, evaluating the capitalization policies, performing tests of details on costs capitalized and assessed the timeliness of the transfer of assets in the course of construction. In performing these procedures, we analyzed the nature of underlying costs capitalized as part of the cost of the network and the appropriateness of asset lives applied in the calculation of depreciation.

3. Information technology systems and controls

   Telefónica Celular del Paraguay S.A is strongly dependent on its information technology infrastructure for the processing, generation and maintenance of reliable financial information. We place a high level of reliance on the Group's information technology system and key internal controls. As a result, a significant proportion of our audit effort was conducted in this area.

   We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We tailored our audit approach based on the relevance of the system to the financial reporting and whether there were automated procedures supported by that system.

   The procedures performed, amongst others, included testing the operating effectiveness of controls over appropriate access rights and validating that only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications.

   In addition, we tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorized and also developed and implemented properly.

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Where systems changed during the year, we tested information technology general controls in both the legacy and new applications and the completeness and accuracy of any data migration.

Responsibilities of the Management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide with the Management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Management, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Pablo Di Iorio
Partner
Ernst & Young Paraguay
Auditores y Asesores de Negocios
Av. Mcal López 3794 esq. Cruz del Chaco
Asunción, Paraguay
March 10, 2017

Introduction

Corporate information

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 10 March 2017.

Business activities

Telecel is a leading telecommunications and media group operating in Paraguay. It provides a wide range of mobile communications and cable services, as well as other related products, including digital media and e-commerce, to residential, business and wholesale customers.

IFRS consolidated financial statements

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 31 December, 2016 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.

This section contains the Group’s significant accounting policies that relate to the financial statements as a whole. Significant accounting policies specific to one note are included within that note. Accounting policies relating to non-material or non-applicable items are not included in these financial statements.

Consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries as of 31 December of 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.

Introduction – continued

IFRS consolidated financial statements – continued

Foreign currency

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

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.

Exchange rates to the US dollar	Functional currency	2016 Average rate	2016 Year-end rate	2015 Year-end rate	Change %
Paraguay	Guarani (PYG)	**5,685.89**	**5,766.93**	5,806.91	(0.69)

Introduction – continued

New and amended IFRS accounting standards

Standards or amendments	Objective	IASB effective date
Adopted by the Group on 1 January 2016 with no material impact to the consolidated financial statements		
Amendment to IAS 1	These amendments are part of the IASB initiative to improve presentation and disclosure in financial report, and rather clarify than significantly change, the existing IAS 1 requirements. The amendments clarify: the materiality requirements in IAS 1, that specific line items in the statement(s) of profit or loss, and Other Comprehensive Income ('OCI') and the statement of financial position may be disaggregated, that entities have flexibility as to the order in which they present the notes to financial statements, that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.	1 January 2016
Annual improvements 2014	These set of amendments impact four standards: IFRS 5, "Non-current assets held for sale and discontinued operations" regarding methods of disposal, IFRS 7, "Financial instruments: Disclosures", IAS 19, "Employee benefits" regarding discount rates, IAS 34, "Interim financial reporting" regarding disclosure of information.	1 January 2016
Amendments to IAS 38 and IAS 16	Clarification of acceptable methods of depreciation and amortization issued by the IASB in July 2014.	1 January 2016
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations issued by the IASB in May 2014.	1 January 2016
Not yet effective and not early adopted by the Group on 1 January 2016		
IFRS 9, "Financial Instruments"	IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was originally issued in November 2009 and October 2010 and subsequently amended in July 2014. 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 and allows to continue hedge accounting under IAS 39. The Group does not expect IFRS 9 to have a material impact on the consolidated financial statements and intends to adopt IFRS 9 no later than the compulsory adoption date of 1 January 2018.	1 January 2018
IAS 12, "Recognition of deferred tax assets for unrealized losses"	The IASB issued the amendments to IAS 12 Income taxes to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount. The Group does not expect this amendment to have a material impact on the consolidated financial statements and intends to adopt it no later than the compulsory adoption date.	1 January 2017

Introduction – continued

New and amended IFRS accounting standards – continued

Standards or amendments	Objective	IASB effective date
IFRS 15, "Revenue from contracts with customers"	IFRS 15 establishes a five-step model related to revenue recognition from contracts with customers. Under IFRS 15, revenue is recognized at amounts that reflect the consideration that an entity expects to be entitled to in exchange for transferring goods or services to a customer. The Group is currently conducting a Group-wide IFRS 15 assessment and implementation project. Based on the analyses made to date, the Group estimates that IFRS 15 will have an impact on the timing and amount of revenue recognition in connection with certain multiple-element arrangements and more particularly on hardware subsidies (e.g. mobile handsets). Under IFRS 15 a larger portion of the total consideration received in a bundled contract will be attributable to the component delivered at contract inception (e.g. mobile handset), requiring earlier revenue recognition. The delivery of subsidized handsets would likely lead to the recognition of a contract asset. As a result, this would likely lead to higher revenue from the sale of hardware and to lower revenue from the provision of telecommunications services. The recognition of commission costs related to the acquisition of customers is also expected to be affected as the Group will have to capitalize certain of these commissions. Moreover, the new Standard could impact transactions wherein third parties are involved concerning the gross vs net presentation of revenue. Consequently, IFRS 15 might have a material effect on the statement of financial position and income statement at first-time adoption, however a reasonable estimate of the quantitative impact is not possible to be derived at this stage. The Group expects to adopt IFRS 15 using the cumulative catch-up transition method no later than the compulsory adoption date of 1 January 2018. As the Group does not intend to early adopt the Standard, no material impact on revenue recognition is expected at year-end 2017.	1 January 2018
IFRS 16, "Leases"	The application of the Standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of PYG 43,108 million, see note G.2. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's results and classification of cash flows. This said, the application of this Standard will affect net debt and leverage ratios of the Group. Some of the commitments may be covered by the exemption for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The new Standard is effective 1 January 2019. Early application is permitted (as long as the recently issued revenue Standard, IFRS 15 "Revenue from Contracts with Customers" is also applied). The Group intends to adopt it no later than the compulsory adoption date.	1 January 2019
IAS 7, Disclosure initiative – Amendment to IAS 7	The amendments to IAS 7 Statement of cash flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group does not expect this amendment to have a material impact on the consolidated financial statements and intends to adopt it no later than the compulsory adoption date.	1 January 2017
IFRIC 22, "Foreign currency transactions and advance consideration"	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice. The Group does not expect this amendment to have a material impact on the consolidated financial statements.	1 January 2018
Annual improvements 2014–2016	These amendments impact three standards: IFRS 1, "First-time adoption of IFRS", regarding the deletion of short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018. IFRS 12, "Disclosure of interests in other entities" regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. IAS 28, "Investments in associates and joint ventures" regarding measuring an associate or joint venture at fair value effective 1 January 2018. The Group does not expect these improvements to have a material impact on the consolidated financial statements.	1 January 2018

Introduction – continued

Judgments and critical estimates

The preparation of IFRS financial statements requires management to use judgment in applying 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 revenue and expenses during the reporting period. These estimates are based on management's best knowledge of current events and actions, and 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 financial statements are disclosed in each note and are summarized below:

Judgments

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

- **Contingent liabilities** – whether or not a provision should be recorded for any potential liabilities (see note G.3.).
- **Leases** – whether the substance of leases meets the IFRS criteria for recognition as finance or operating leases or services contracts, or elements of each (see notes E.2. and G.2.).
- **Control** – whether Telecel, through voting rights and potential voting rights attached to shares held, or by way of shareholders agreements or other factors, has the ability to direct the relevant activities of the subsidiaries it consolidates (see notes A.1.).
- **Deferred tax assets** – recognition based on likely timing and level of future taxable profits together with future tax planning strategies (see note B.5.3.).

Estimates

Estimates are based on historical experience and other factors, including reasonable expectations of future events. These factors are reviewed in preparation of the financial statements, although due to inherent uncertainties in the evaluation process, actual results may differ from original estimates. Estimates are subject to change as new information becomes available and may significantly affect future operating results. Significant estimates have been applied in respect of the following items:

- **Accounting for property, plant and equipment, and intangible assets** in determining fair values at acquisition dates, particularly for assets acquired in business combinations and sale and leaseback transactions (see note E.2.1.).
- **Useful lives of property, plant and equipment and intangible assets** (see notes E.1.1., E.2.1.).
- **Provisions, in particular provisions for asset retirement obligations, legal and tax risks** (see note F.5.).
- **Revenue recognition** (see note B.1.1.).
- **Impairment testing including** discount rates and long term growth rates (see note E.1.6.).
- **Impairment testing** – Future business performance (see notes E.1.2., E.1.6, E.2.2.)

Consolidated statement of comprehensive income

for the year ended 31 December 2016

PYG millions	Notes	2016	2015
Revenue	B.1.	3,088,659	3,172,136
Cost of sales	B.2.	(713,194)	(750,630)
Gross profit		**2,375,465**	**2,421,506**
Operating expenses	B.2.	(987,381)	(985,629)
Depreciation	E.2.	(360,008)	(307,182)
Amortisation	E.1.	(126,105)	(119,142)
Other operating income (expenses), net		(6,479)	(74,083)
Operating profit		**895,492**	**935,470**
Interest expense		(197,870)	(150,526)
Interest and other financial income		9,043	8,934
Exchange gain (loss), net		9,468	(431,045)
Profit before tax		**716,133**	**362,833**
Income tax expense	B.5.	(104,148)	(54,581)
Net profit and comprehensive income for the period.		**611,985**	**308,252**
Attributable to:			
Equity holders of the company		611,985	308,252

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

Consolidated statement of financial position

at 31 December 2016 – continued

PYG millions	Notes	31 December 2016	31 December 2015
ASSETS			
Non-Current Assets			
Intangible assets, net	E.1.	915,045	790,491
Property, plant and equipment, net	E.2.	1,960,626	1,745,816
Deferred taxation	B.5.	23,397	20,757
Other non-current assets		26,856	24,982
Amounts due from related parties	G.5.	69,203	-
Total Non-Current Assets		**2,995,127**	**2,582,046**
Current Assets			
Inventories		50,139	62,669
Trade receivables, net	F.1.	413,249	366,885
Amounts due from related parties	G.5.	579,151	499,895
Prepayments and accrued income	F.4.	176,833	289,397
Supplier advances for capital expenditure		10,366	38,395
Other current assets		56,991	84,940
Cash and cash equivalents	C.4.	310,922	203,984
Total Current Assets		**1,597,651**	**1,546,165**
TOTAL ASSETS		**4,592,778**	**4,128,211**

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EQUITY AND LIABILITIES			
EQUITY			
Share capital and premium	C.1.	164,008	274,008
Legal reserve	C.1.	50,110	50,110
Retained profits		164,112	42,076
Profit for the year attributable to equity holders		611,985	308,252
Parents ownership interests		**990,215**	**674,446**
TOTAL EQUITY		**990,215**	**674,446**
LIABILITIES			
Non-current Liabilities			
Debt and financing	C.3.	2,296,539	2,303,132
Provisions and other non-current liabilities	F.5.	156,534	216,797
Total non-current liabilities		**2,453,073**	**2,519,929**
Current Liabilities			
Debt and financing	C.3.	57,669	87,040
Payables and accruals for capital expenditure		395,842	301,112
Other trade payables		164,170	102,220
Amounts due to related parties	G.5.	64,999	64,045
Accrued interest and other expenses		192,383	197,065
Current income tax liabilities		52,131	8,568
Provisions and other current liabilities	F.5.	222,296	173,786
Total current liabilities		**1,149,490**	**933,836**
TOTAL LIABILITIES		**3,602,563**	**3,453,765**
TOTAL EQUITY AND LIABILITIES		**4,592,778**	**4,128,211**

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

Consolidated statement of cash flows

for the year ended 31 December 2016

PYG millions	Notes	2016	2015
Cash flows from operating activities			
Profit before taxes		**716,133**	**362,833**
Adjustments:			
Interest expense		197,870	150,526
Interest and other financial income		(9,043)	(8,934)
Exchange (gain)/ loss on foreign exchange		(9,468)	431,045
Adjustments for non-cash items:			
Depreciation and amortization	E.1.,E.2.	486,113	426,324
Loss / (gain) on disposal assets		4,894	(11,122)
Impairment of assets		1,585	6,479
		1,388,084	**1,357,151**
(Increase) decrease in trade receivables, prepayments and other current assets		36,830	(686)
(Increase) decrease in inventories		12,530	24,966
Increase (decrease) in trade and other payables		104,166	(416,784)
Changes in working capital		**153,526**	**(392,504)**
Interest paid		(188,778)	(137,685)
Interest received		11,778	12,655
Taxes paid		(32,828)	(64,499)
Net cash provided by operating activities		**1,331,782**	**775,118**
Cash flows for investing activities:			
Purchase of property, plant and equipment	E.2.,G.4.	(422,763)	(465,942)
Purchase of intangible assets and license renewals	E.1.4	(353,095)	(211,087)
Debt and other financing granted to / repaid by related parties, net		(116,632)	(415,706)
Other		2,838	17,609
Net cash used by investing activities		**(889,652)**	**(1,075,126)**
Cash flows for financing activities:			
Repayment of debt and financing	C.5.	(103,508)	(272,247)
Proceeds from issuance of debt and other financing	C.5.	59,800	1,074,300
Payment of dividends	C.2.	(186,216)	(547,006)
Return of capital to shareholders		(110,000)	(145,992)
Net cash used by financing activities		**(339,924)**	**109,055**
Exchange losses on cash and cash equivalents		4,732	40,837
Net decrease in cash and cash equivalents		**106,938**	**(150,116)**
Cash and cash equivalents at the beginning of the year		203,984	354,100
Cash and cash equivalents at the end of the period		**310,922**	**203,984**

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

Consolidated statement of changes in equity

for the year ended 31 December 2016

PYG million	Number of shares	Share Capital	Retained profits	Legal reserves	Total equity
Balance as of 31 December 2014	**1,860**	**93,000**	**916,082**	**50,110**	**1,059,192**
Total comprehensive income for the period	-	-	308,252	-	308,252
Dividends	-	-	(547,006)	-	(547,006)
Increase of Share Capital	8,140	327,000	(327,000)	-	-
Return of capital to shareholders	(3,476)	(145,992)	-	-	(145,992)
Balance as of 31 December 2015	**6,524**	**274,008**	**350,328**	**50,110**	**674,446**
Total comprehensive income for the period	-	-	611,985	-	611,985
Dividends	-	-	(186,216)	-	(186,216)
Increase of Share Capital	-	-	-	-	-
Return of capital to shareholders	3,476	(110,000)	-	-	(110,000)
Balance as of 31 December 2016	**10,000**	**164,008**	**776,097**	**50,110**	**990,215**

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

A. The Telecel Group

The Group comprises three companies and operating subsidiaries with various combinations of mobile, media content, cable TV, technological support, software and apps development and internet services.

A.1. Subsidiaries

Subsidiaries are all entities which the Company controls. Telecel controls an entity when it is exposed to, or has rights to variable returns from its investment in the entity, and has the ability to affect those returns through its power over the subsidiary. The Group has power over an entity when it has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the entity's returns. Generally control accompanies a shareholding of more than half of the voting rights although certain other factors (including contractual arrangements with other shareholders, voting and potential voting rights) are considered when assessing whether The Group controls an entity. 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.

A.1.1. Accounting for subsidiaries and non-controlling interests

Subsidiaries are fully consolidated from the date on which control is transferred to The Group. If facts and circumstances indicate that there are changes to one or more of the elements of control a reassessment is performed to determine if control still exists. Subsidiaries are de-consolidated from the date that control ceases. Transactions with non-controlling interests are accounted for 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.

A.1.2. Acquisition of subsidiaries and increases in non-controlling interests in subsidiaries

During the year ended 31 December 2016, Telecel did not make any significant acquisition.

Notes to the consolidated financial statements
for the year ended 31 December 2016

B. Performance
B.1. Revenue

The Group's revenue comprises sale of services from its mobile, cable & digital media, as well as related devices and equipment. Recurring revenue consists of monthly subscription fees, airtime and data usage fees, interconnection fees, roaming fees, TV services, B2B contracts and fees from other telecommunications services such as data services, short message services and other value added services.

Revenue from continuing operations by business unit

PYG millions	2016	2015
Mobile	2,249,243	2,287,964
Home	393,353	427,673
Corporate	404,120	412,848
Content	41,943	43,651
Total	**3,088,659**	**3,172,136**

B.1.1. Accounting for revenue

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable for the sale of good and services, net of value added tax, rebates and discounts and after eliminating intra-group sales. Generally, this is the value of the invoice to the customer.

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. Generally, this occurs when the service has been provided to the customer, or when the related equipment is delivered or passed to the customer.

Recurring revenue is recognized on an accrual basis, i.e. as the related services are rendered. Unbilled revenue for airtime and data usage and subscription fees resulting from services provided from the billing cycle date to the end of each month are estimated and recorded.

Subscription product and service revenue is deferred and recognized over subscription period. Related costs are deferred and recognized over the same period.

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

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

Bundled offers such as various services sold together, are divided into separate units of accounting if the products and services in the bundle meet certain criteria. The price paid by the customer is then allocated among the separate products and services based on their relative fair values or using the residual method. Revenue is then recognized separately for each product and service.

Revenue from content services such as video messaging, ringtones, games, music, etc., are recognized net of payments to the content providers under certain conditions. These include whether the providers are responsible for the content, determining the price paid by the customer, and where the provider assumes the credit risk. For such services the Group is considered to be acting in substance as an agent. Other revenue is recognized on a gross basis with any third party costs recognized as cost of sales and services.

Revenue from the sale of capacity is recognized when the capacity has been delivered to the customer, based on the amount expected to be received from the customer.

Where customers purchase a specified amount of capacity, revenue is recognized as the capacity is used. Unused capacity is carried in the statement of financial position as deferred revenue within "provisions and other current liabilities".

Revenue from operating lease of tower space is recognized over the period of the underlying lease contracts.

Notes to the consolidated financial statements
for the year ended 31 December 2016

B.2. Expenses

The cost of sales and operating expenses incurred by the Group can be summarized as follows:

Cost of sales PYG millions	2016	2015
Direct costs of services sold	**367,196**	380,721
Cost of telephone, equipment and other accessories	**279,596**	320,800
Bad debt and obsolescence costs	**66,402**	49,109
Cost of sales	**713,194**	750,630

Operating expenses PYG millions	2016	2015
Marketing expenses	**275,956**	419,197
Network maintenance costs	**114,417**	101,044
Employee related costs	**203,470**	149,154
External and other services	**76,482**	95,749
Rentals and operating leases	**15,763**	11,693
Billing and payments	**52,359**	50,750
Other operating expenses	**248,934**	158,042
Operating expenses, net	**987,381**	985,629

B.2.1. Accounting for cost of sales and operating expenses

Cost of sales

Cost of sales is recorded on an accrual basis.

Customer acquisition costs

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

Operating leases

Operating leases are all leases that do not qualify as finance leases. Operating lease payments are recognized as expenses in the consolidated income statement on a straight-line basis over the lease term.

B.3. Segmental information

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.

Notes to the consolidated financial statements
for the year ended 31 December 2016

B.4. People

Number of permanent employees	2016	2015
Continuing operations	**1,148**	833
Total	**1,148**	833

PYG millions	2016	2015
Wages and salaries	**159,444**	110,567
Social security	**15,677**	14,807
Training	**4,046**	4,066
Other employee related costs	**24,303**	19,714
Total	**203,470**	149,154

B.5. Taxation

B.5.1. Income tax expense

The Company's effective tax rate ir (2016: 14.5%, 2015: 15.0%)
The reconciliation between the weighted average statutory rate and the effective average tax rate is as follows:

In %	2016	2015
Weighted average statutory tax rate	**10**	10
Provision for:		
Income tax paid on dividends distributions (i)	**5.1**	4.3
Other adjustments	**(0.6)**	0.7
Effective tax rate	**14.5**	15.0

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

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

PYG millions	2016	2015
Current income tax charge	**85,041**	31,875
Net deferred income tax benefit	**19,107**	22,706
Income tax expense	**104,148**	54,581

The tax effects of significant items comprising the Group's net deferred tax assets as of 31 December 2016 and 2015 are as follows:

	Balance sheets Year ended 31 December		Income statements Year ended 31 December	
PYG millions	2016	2015	2016	2015
Provision for doubtful debtors	**20,622**	17,934	**2,687**	2,907
Temporary differences between book and tax basis of intangible assets and property, plant and equipment	**1,647**	1,150	**(1,150)**	(17,480)
Provision for taxes on dividend payables	**(18,913)**	(7,410)	**(6,956)**	(7,410)
Other temporary differences	**20,041**	9,083	**8,058**	(723)
Deferred tax benefit (expense)	**-**	-	**2,640**	(22,706)
Deferred tax assets	**23,397**	20,757	**-**	-

Notes to the consolidated financial statements

for the year ended 31 December 2016

B.5.2 Current tax assets and liabilities

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.

B.5.3 Deferred tax

Deferred tax is calculated using the liability method on 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 tax assets are recognized for all temporary differences including unused tax credits and tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences 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 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 them. Unrecognized deferred 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 asset to be recovered.

Deferred 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. 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.

Notes to the consolidated financial statements

for the year ended 31 December 2016

C. Capital structure and financing

C.1. Share capital, share premium and reserves

The authorized share capital of the Company is PYG 164,008 million. As at 31 December 2016, the total subscribed and fully paid-in share capital was PYG 164,008 million consisting of 10,000 registered common shares at a par value of PYG 16,4 million each. As at 31 December 2015, the total subscribed and fully paid-in share capital was PYG 274,008 million consisting of 6,524 registered common shares at a par value of PYG 42 million each.

C.1.1. 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). As at 31 December 2016 and 2015 PYG 50.110 million of the Group's retained profits represent legal reserves that are unavailable to be distributed to its owners.

C.2. Dividend distributions

Telecel's shareholders approved dividend distribution through the Annual General meetings of 2016 and 2015

PYG millions	2016	2015
Distribution of dividends	**186,216**	547,006

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

C.3. Debt and financing

Debt and financing by type

PYG millions	2016	2015
Borrowings due after more than one year:		
Bank financing	**649,684**	677,195
Bond financing	**1,704,524**	1,712,977
Total non-current debt and financing	**2,354,208**	2,390,172
Less: portion payable within one year	**(57,669)**	(87,040)
Total debt and financing due after more than one year	**2,296,539**	2,303,132
Borrowings due within one year:		
Portion of non-current debt payable within one year	**57,669**	87,040
Total debt and financing due within one year	**57,669**	87,040
Total debt and financing	**2,354,208**	**2,390,172**

Debt and financings are initially recognized at fair value, net of directly attributable transaction costs. They are subsequently measured at amortized cost using the effective interest rate method or at fair value. 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. Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the statement of financial position date.

Notes to the consolidated financial statements
for the year ended 31 December 2016

C.3.1. Bond financing

On 7 December 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:

• 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.

• 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.

• 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 31 December 2016 and 2015, the outstanding amount of the Senior Unsecured Notes was PYG 1,704,524 million and PYG 1,712,977 million respectively.

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

C.3.2. 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 0.237% 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, 2016 was PYG 57,669 million (2015: PYG 145,109 million).

In the last quarter of 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 for PYG million 59,800, and bear a fixed annual interest rate of 10%. As of December 31, 2016 the combined balance of such loans is PYG million 592,015 (2015: PYG million 532,082).

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for the year ended 31 December 2016

C.3.3. 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 fulfilment 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.

C.3.4. Covenants

The Group's financing facilities are subject to a number of covenants including net leverage ratio, debt service coverage ratios, debt to earnings ratios, and cash levels. In addition, certain of its financings contain restrictions on sale of businesses or significant assets within the businesses. At 31 December 2016 there were no breaches in financial covenants.

C.4. Cash and deposits

C.4.1. Cash and cash equivalents

PYG millions	2016	2015
Cash and cash equivalents in USD	**191,282**	140,441
Cash and cash equivalents in PYG	**119,640**	57,735
Restricted cash	**-**	5,808
Total cash and cash equivalents	**310,922**	**203,984**

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.

Cash deposits with bank with maturities of more than three months that generally earn interest at market rates are classified as time deposits.

C.5. Net debt

PYG millions	2016	2015
Net debt at the beginning of the year	**2,186,188**	1,217,018
Cash items		
Proceeds from issuance of debt and other financing	**59,800**	1,074,300
Repayment of debt and other financing	**(103,508)**	(272,247)
Net decrease (increase) in cash and cash equivalents	**(106,938)**	150,116
Non-cash items		
Exchange movement on debt and other financing	**7,744**	17,001
Net debt at the end of the year	**2,043,286**	2,186,188

D. Financial risk management

Exposure to interest rate, foreign currency, liquidity, capital management 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.

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D.1. Interest rate risk

Debt and financing issued at floating interest rates expose the Group to cash flow interest rate risk. Debt and financing 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 relate to both of the above. To manage this risk, the Group's policy is to maintain a combination of fixed and floating rate debt with target for the debt to be distributed between fixed and variable rates. The Group actively monitors borrowings against this target and applies a dynamic interest rate hedging approach. 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. At 31 December 2016, approximately 94% of the Group's borrowings are at a fixed rate of interest.

D.1.1. Fixed and floating rate debt

Financing at 31 December 2016 Amounts due within:	Amounts due within:						
PYG millions	**1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**>5 years**	**Total**
Fixed rate financing	-	85,020	136,560	136,075	66,960	1,871,924	2,296,539
Weighted average nominal interest rate	-	9.09%	9.05%	9.05%	9.22%	6.97%	7.65%
Floating rate financing	57,669	-	-	-	-	-	57,669
Weighted average nominal interest rate	4.73%	-	-	-	-	-	4.73%
Total	**57,669**	**85,020**	**136,560**	**136,075**	**66,960**	**1,871,924**	**2,354,208**
Weighted average nominal interest rate	4.73%	9.09%	9.05%	9.05%	9.22%	6.97%	7.57%

Financing at 31 December 2015 Amounts due within:	Amounts due within:						
PYG millions	**1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**>5 years**	**Total**
Fixed rate financing	-	-	79,040	130,580	129,966	1,905,477	2,245,063
Weighted average nominal interest rate	0.00%	0.00%	9.00%	9.00%	9.00%	6.98%	7.28%
Floating rate financing	87,040	58,069	-	-	-	-	145,109
Weighted average nominal interest rate	2.73%	2.88%	-	-	-	-	2.79%
Total	**87,040**	**58,069**	**79,040**	**130,580**	**129,966**	**1,905,477**	**2,390,172**
Weighted average nominal interest rate	2.73%	2.88%	9.00%	9.00%	9.00%	6.98%	7.01%

A 100 basis point fall or rise in market interest rates for all currencies in which the Group had borrowings at 31 December 2016 would increase or reduce profit before tax from continuing operations for the year by approximately PYG 577 million (2015: PYG 1,451 million).

D.2. Foreign currency risks

The Group seeks to reduce its foreign currency exposure through a policy of matching, as far as possible, assets and liabilities denominated in foreign currencies, or entering into agreements that limit the risk of exposure to currency fluctuations against the US dollar. In some cases, The Group may also borrow in US dollars where it is either commercially more advantageous to incur debt obligations in US dollars or where US dollar denominated borrowing is the only funding source available. In these circumstances, The Group accepts the remaining currency risks 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, 2016 and 2015:

	Year ended December 31,			
PYG millions /	**2016**		**2015**	
USD thousands	**USD**	**PYG**	**USD**	**PYG**
Debt denominated in USD	438,542	2,529,046	465,915	2,705,531
Debt denominated in PYG	-	592,015	-	532,086
Total debt	**438,542**	**3,121,061**	**466,915**	**3,237,617**

D.3. Credit and counterparty risk

Financial instruments that subject the Group to credit risk include cash and cash equivalents, trade receivables, supplier advances and other current assets. 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 and maintain a diversified portfolio of banking partners. Allocation of deposits across banks are managed such that the Group's counterparty risk with a given bank stays within limits which have been set based on each banks credit rating.

Notes to the consolidated financial statements

for the year ended 31 December 2016

A large portion of revenue of the Group comprises prepaid products and services. For postpaid customers, 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.

Accounts receivable also comprise 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.

D.4. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group has significant indebtedness but also has significant cash balances. The Group 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, interest payments, dividend payments and capital and operating expenditures required in maintaining and developing its operating businesses.

The Group manages its liquidity risk through use of bank overdrafts, bank loans and bonds. The Group believes that there is sufficient liquidity available in the local market to meet ongoing liquidity needs. Additionally, The Group is able to arrange offshore funding. The Group has a diversified financing portfolio with commercial banks representing about 25% of its gross financing (2015: 22%), bonds 72% (2015: 72%), Development Finance Institutions 2% (2015: 6%).

Maturity Profile of Net Financial Liabilities at 31 December 2016 **PYG million**	**Less than 1 year**	**1 to 5 years**	**> 5 years**	**Total**
Total debt and financing	(57,669)	(424,615)	(1,871,924)	(2,354,208)
Cash and cash equivalents	310,922	-	-	310,922
Net cash (debt) including derivatives related to debt	**253,253**	**(424,615)**	**(1,871,924)**	**(2,043,286)**
Future interest commitments	(171,812)	(616,105)	(130,495)	(918,413)
Trade payables (excluding accruals)	(625,012)	-	-	(625,012)
Other financial liabilities (including accruals)	(455,581)	(156,534)	-	(612,115)
Trade receivables	1,070,247	-	-	1,070,247
Other financial assets	244,315	26,856	-	271,171
Net financial liabilities	**315,410**	**(1,170,398)**	**(2,002,419)**	**(2,857,408)**

Maturity Profile of Net Financial Liabilities at 31 December 2015 **PYG million**	**Less than 1 year**	**1 to 5 years**	**> 5 years**	**Total**
Total debt and financing	(87,040)	(397,655)	(1,905,477)	(2,390,172)
Cash and cash equivalents	203,984	-	-	203,984
Net cash (debt) including derivatives related to debt	**116,944**	**(397,655)**	**(1,905,477)**	**(2,186,188)**
Future interest commitments	(167,566)	(629,747)	(265,902)	(1,063,215)
Trade payables (excluding accruals)	(467,377)	-	-	(467,377)
Other financial liabilities (including accruals)	(379,419)	(216,797)	-	(596,216)
Trade receivables	866,780	-	-	866,780
Other financial assets	412,732	24,982		437,714
Net financial liabilities	**382,094**	**(1,219,217)**	**(2,171,379)**	**(3,008,502)**

Notes to the consolidated financial statements
for the year ended 31 December 2016

D.6. Capital management

The primary objective of the Group's capital management is to ensure a strong credit rating and solid capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure with reference to economic conditions and imposed restrictions such as debt covenants and local regulations. To maintain or adjust its capital structure, the Group may make dividend payments to shareholders, return capital to shareholders through share repurchases or issue new shares. The Group primarily monitors capital using net debt to adjusted operating profit as well as a set of other indicators.

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

Net debt to EBITDA (PYG millions)	Note	2016	2015
Net debt	C.5.	2,043,286	2,186,188
EBITDA		1,388,084	1,434,946
Net debt to EBITDA		**1.47**	**1.52**

Gearing ratio (PYG millions)	Note	2016	2015
Net debt	C.5.	2,043,286	2,186,188
Equity		990,215	674,446
Net debt and Equity		**3,033,501**	**2,860,634**
Gearing ratio		**67%**	**76%**

Notes to the consolidated financial statements

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E. Long-term assets

E.1. Intangible assets

The Group's intangible assets mainly consist of goodwill arising from acquisitions, customer lists acquired through acquisitions, licenses and rights to operate and use spectrum.

E.1.1. Accounting for intangible assets

Intangible assets acquired in business acquisitions are initially measured at fair value at the date of acquisition, and those which are acquired separately are measured at cost. Internally generated intangible assets, excluding capitalized development costs, are not capitalized but expensed to the income statement in the expense category consistent with the function of the intangible assets. Subsequently intangible assets are carried at cost, less any accumulated amortization and any accumulated impairment losses.

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 expected useful lives or the expected beneficial use of the assets are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

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.

Licenses

Licenses are recorded at either historical cost or, if acquired in a business combination, at fair value at the date of acquisition. Cost includes cost of acquisition and other costs directly related to acquisition and retention of licenses over the license period. These costs may include estimates related to fulfillment of terms and conditions related to the licenses such as service or coverage obligations, and may include up-front and deferred payments.

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 included only if there is evidence to support renewal by the Group without significant cost.

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for the year ended 31 December 2016

E.1.1. Accounting for intangible assets – continued

Trademarks and customer lists

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 indefinite or finite useful lives. Indefinite useful life trademarks are tested for impairment annually. Finite useful life trademarks 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:

Estimated useful lives	Years
Trademarks	1 to 15
Customer lists	4 to 9

Programming, Sponsorship and content rights

Programming, sponsorship 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.

Sponsorship contracts are those that grant the rights to use and market the image of the entities with which such agreements are signed.

Programming, sponsorship 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 programming, sponsorship and content rights for periods less than one year are expensed over the period of the rights.

Indefeasible rights of use

Indefeasible rights of use ("IRU") agreements are mainly composed of purchase and/or sale of specified infrastructure, purchase and/or sale of lit fiber capacity and exchange of network infrastructure or lit fiber capacity. These arrangements are either accounted for as leases, service contracts, or partly as leases and partly as service contracts. Determination of the appropriate classification depends on an assessment of the characteristics of the arrangements.

A network capacity contract is accounted for as a lease if, and when:

- The purchaser has an exclusive right for a specified period and has the ability to resell (or sub-let) the capacity; and
- The capacity is physically limited and defined; and
- The purchaser bears all costs related to the capacity (directly or not) including costs of operation, administration and maintenance; and
- The purchaser bears the risk of obsolescence during the contract term.

If all of these criteria are not met, the IRU is treated as a service contract.

If the arrangement is, or contains a lease, the lease is accounted for as either an operating lease or a financial lease (see policy note Leases C.3.3.).

A financial lease of an IRU of network infrastructure is accounted for as a tangible asset. A financial lease of an IRU on capacity is accounted for as an intangible asset.

Estimated useful lives of finance leases of IRU's of capacity are between 12 and 15 years, or shorter if the estimated useful life of the underlying cable is shorter.

E.1.2 Impairment of non-financial assets

At each reporting date Telecel assesses whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for a non-financial asset is required, an estimate of the asset's recoverable amount is made. The recoverable amount is determined 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.

Notes to the consolidated financial statements

for the year ended 31 December 2016

E.1.2 Impairment of non-financial assets - continued

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

At each reporting date an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. Other than for goodwill, a previously recognized impairment loss is reversed if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognized. If so, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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E.1.3. Movements in intangible assets

Movements in intangible assets in 2016 PYG millions	Goodwill	Licenses	Content	Customer lists	Other (i)	Total
Opening balance, net	**284,404**	**98,495**	**123,064**	**57,744**	**226,784**	**790,491**
Additions (ii)	-	245,948	-	-	168,345	414,293
Impairments and net disposals	-	-	-	-	(1,492)	(1,492)
Amortization charge	-	(44,559)	(24,615)	(20,997)	(35,934)	(126,105)
Transfers	-	13,056	-	-	(175,198)	(162,142)
Closing balance, net	**284,404**	**312,940**	**98,449**	**36,747**	**182,505**	**915,045**
As at 31 December 2016						
Cost	284,404	454,913	186,440	126,829	435,599	1,488,185
Accumulated amortization	-	(141,973)	(87,991)	(90,082)	(253,094)	(573,140)
Net	**284,404**	**312,940**	**98,449**	**36,747**	**182,505**	**915,045**

Movements in intangile assets in 2015 PYG millions	Goodwill	Licenses	Content	Customer lists	Other (i)	Total
Opening balance, net	**284,404**	**22,448**	**116,289**	**78,741**	**182,659**	**684,541**
Additions	-	86,380	31,388	-	169,170	286,938
Impairments and net disposals	-	-	-	-	(7,121)	(7,121)
Amortization charge	-	(10,663)	(24,613)	(20,997)	(62,869)	(119,142)
Transfers	-	330	-	-	(55,055)	(54,725)
Closing balance, net	**284,404**	**98,495**	**123,064**	**57,744**	**226,784**	**790,491**
As at 31 December, 2015						
Cost	284,404	195,909	186,440	126,829	443,944	1,237,526
Accumulated amortization	-	(97,414)	(63,376)	(69,085)	(217,160)	(447,035)
Net	**284,404**	**98,495**	**123,064**	**57,744**	**226,784**	**790,491**

(i) The caption "Other" includes mainly software licenses and development of intangibles.
(ii) On the current period 4G licenses were acquired for PYG 175,543 million. It also includes Spectrum and other social obligations.

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E.1.4. Cash used for the purchase of intangible assets

Cash used for intangible asset additions

PYG million	2016	2015
Additions	(414,293)	(286,938)
Change in advances to suppliers	(587)	(1,117)
Change in accruals and payables for intangibles	61,785	76,968
Cash used from continuing operations for additions	**(353,095)**	**(211,087)**

E.1.5. 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.

E.1.6. Impairment testing of goodwill

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 cash generation units or groups of cash-generating units.

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.

E.2. Property, plant and equipment

E.2.1. Accounting for property, plant and equipment

Items of property, plant and equipment are stated at either historical cost, or the lower of fair value and present value of the future minimum lease payments for assets under finance leases, 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	Years
Buildings	40 years or lease period, if shorter
Networks (including civil works)	5 to 15 years or lease period, if shorter
Other	2 to 7

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 its carrying amount is greater than its estimated recoverable amount.

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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.

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 (for example set-top boxes), 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.

E.2.2. Movements in tangible assets

Movements in tangible assets in 2016 PYG millions	Network equipment	Land and Buildings	Construction in Progress	Other(i)	Total
Opening balance, net	**1,256,116**	**63,012**	**353,653**	**73,035**	**1,745,816**
Additions	-	3	409,007	18	409,028
Impairments and net disposals	(6,592)	(71)	(118)	(4,241)	(11,022)
Depreciation charge	(332,523)	(793)	-	(26,692)	(360,008)
Asset retirement obligations	15,684	-	-	-	15,684
Transfers	586,773	2,055	(493,368)	65,668	161,128
Closing balance at December 31, 2016	**1,519,458**	**64,206**	**269,174**	**107,788**	**1,960,626**
Cost	3,977,799	74,081	269,174	254,806	4,575,860
Accumulated depreciation	(2,458,341)	(9,875)	-	(147,018)	(2,615,234)
Net	**1,519,458**	**64,206**	**269,174**	**107,788**	**1,960,626**

Movements in tangible assets in 2015 PYG millions	Network equipment	Land and Buildings	Construction in Progress	Other(i)	Total
Opening balance, net	**1,069,413**	**67,428**	**312,002**	**73,958**	**1,522,801**
Additions	-	54	474,129	300	474,483
Impairments and net disposals	(1,145)	(3,840)	(116)	(2,547)	(7,648)
Depreciation charge	(285,542)	(705)	-	(20,935)	(307,182)
Asset retirement obligations	8,594	-	-	-	8,594
Transfers	464,796	75	(432,362)	22,259	54,768
Closing balance at December 31, 2015	**1,256,116**	**63,012**	**353,653**	**73,035**	**1,745,816**
Cost	3,416,987	72,094	353,653	192,790	4,035,524
Accumulated depreciation	(2,160,871)	(9,082)	-	(119,755)	(2,289,708)
Net	**1,256,116**	**63,012**	**353,653**	**73,035**	**1,745,816**

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

Borrowing costs capitalized for the years ended December 31, 2016 and 2015 were not significant.

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E.2.3. Cash used for the purchase of tangible assets

Cash used for property, plant and equipment additions

PYG million	2016	2015
Additions	**(409,028)**	(474,483)
Change in advances to suppliers	**23,562**	(23,351)
Change in accruals and payables for intangibles	**(37,297)**	31,892
Cash used from continuing operations for additions	**(422,763)**	**(465,942)**

F. Other assets and liabilities

F.1. Trade receivables

The Group's trade receivables mainly comprise interconnect receivables from other operators, postpaid mobile and residential cable subscribers as well as B2B customers. The nominal value of receivables adjusted for impairment approximates the fair value of trade receivables.

(PYG millions)	2016	2015
Gross trade receivables	**616,817**	545,846
Less: provisions for impairment of receivables	**(203,568)**	(178,961)
Trade receivables, net	**413,249**	366,885

Ageing of trade receivables (PYG million)	Neither past due nor impaired	Past due (net of impairments) < 30 days	30–90 days	>90 days	Total
2016:					
Telecom operators	**37,926**	**1,447**	**984**	—	**40,357**
Own customers	**256,342**	**14,386**	**17,156**	—	**287,884**
Others	**74,562**	**5,276**	**5,170**	—	**85,008**
Total	**368,830**	**21,109**	**23,310**	—	**413,249**
2015:					
Telecom operators	38,782	14,582	4,335	—	57,699
Own customers	163,617	10,039	15,189	—	188,845
Others	58,003	50,159	12,179	—	120,341
Total	260,402	74,780	31,703	—	366,885

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".

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 those maturing more 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.

F.2. Inventories

Inventories 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.

Inventories (PYG millions)	2016	2015
Telephone and equipment	**44,550**	57,300
SIM cards	**865**	767
IRUs	—	—
Other	**4,724**	4,602
Inventory at 31 December 2016	**50,139**	62,669

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F.3. 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.

F.4. Prepayments and accrued income

PYG millions	2016	2015
Accrued income from rendered services	**147,966**	263,717
Prepayments	**28,867**	25,680
Total Prepayment and accrued income	**176,833**	**289,397**

F.5. Current and non-current provisions and other liabilities

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.

F.5.1. Current provisions and other liabilities

Current PYG millions	2016	2015
Deferred revenue	**100,153**	51,109
Customer deposits	**36,314**	35,587
Current legal provisions	**7,812**	7,735
Other tax payables	**13,326**	16,927
Prepayment card	**19,519**	16,251
Advanced payments	**10,376**	20,335
Current provisions	**-**	15
Other	**34,796**	25,827
Total	**222,296**	**173,786**

F.5.2. Non-current provisions and other liabilities

Non-current PYG millions	2016	2015
Long-term portion of asset retirement obligations	**89,136**	75,844
Long-term payables for Football Rights	**-**	138,435
Accounts payable and accruals for the purchase of license and spectrum	**64,519**	-
Other	**2,879**	2,518
Total	**156,534**	**216,797**

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G. Additional disclosure items

G.1 Fees to auditors

(PYG millions)	2016	2015
Audit fees	**1,085**	838
Total	**1,085**	838

G.2. Capital and operational commitments

Telecel has a number of capital and operational commitments to suppliers and service providers in the normal course of its business. These commitments are mainly contracts for acquiring network and other equipment, and leases for towers and other operational equipment.

G.2.1. Capital commitments

At 31 December 2016 the Company had fixed commitments to purchase network equipment, land and buildings, other fixed assets and intangible assets of PYG 882,818 million (December 31, 2015: PYG 1,042,910 million).

G.2.2 Lease commitments

Operating leases

Operating leases are all other leases that are not finance leases. Operating lease payments are recognized as expenses in the consolidated income statement on a straight-line basis over the lease term.

Operating leases mainly comprise land in which cell towers are located (including those related to towers sold and leased back) and buildings. Total operating lease expense from continuing operations for the year ended 31 December 2016 was PYG 15,763 million (2015: PYG 11,693 million – see note B.2.).

Annual operating lease commitments
(PYG millions) from continuing operations

	2016	2015
Within one year	**29,875**	23,154
Between one and five years	**8,524**	6,606
After five years	**4,709**	3,650
Total	**43,108**	33,410

G.3. Contingent liabilities

G.3.1. Litigation and legal risks

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.

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, 2016, the total amount of provisions related to claims against the Group's operations was PYG 7,570 million (December 31, 2015: PYG 7,735 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.

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G.4. Non-cash investing and financing activities

Non-cash investing and financing activities from continuing operations (PYG millions)	Note	2016	2015
Investing activities			
Financing / (Acquisition) of property, plant and equipment	.	**(16,930)**	8,541
Asset retirement obligations	E.2.2.	**15,684**	8,594
Financing activities			
Effect of forex exchange on financial debt	C.5.	**7,744**	**17,001**

G.5. Related party balances and 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.

Expenses from transactions with related parties (PYG millions)	2016	2015
Millicom – Other Paraguayan operations	**145,297**	75,873
Millicom – Non-Paraguayan companies	**(8,662)**	72,458
Total purchases from related parties	**136,635**	148,331

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

PYG millions	2016	2015
Receivables		
Millicom – Other Paraguayan operations	**299,893**	198,623
Millicom – Non-Paraguayan companies	**348,461**	301,272
Total	**648,354**	**499,895**
Payables		
Millicom – Other Paraguayan operations	**53,985**	42,140
Millicom – Non-Paraguayan companies	**11,014**	21,905
Total	**64,999**	**64,045**

Board of Directors

Compensation for the Board of Directors for the year ended 31 December 2016 and 2015 was as follows:

PYG millions	2016	2015
Fees	**(887)**	(374)
Other benefits	**(307)**	(235)
Total compensation	**(1,194)**	(610)

H. Subsequent events

As of the date of issuance of these financial statements, material or significant events that could have a material effect on the financial statements as of December 31, 2016 have not occurred.