MILLICOM
THE DIGITAL LIFESTYLE

Unaudited Interim Condensed Consolidated Financial Statements

As at and for the nine month period ended 30 September 2017

20 November 2017

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Unaudited interim consolidated statement of comprehensive income for the period ended 30 September 2017

PYG millions	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Revenue	2,317,251	2,420,372
Cost of sales	(458,370)	(572,035)
Gross profit	**1,858,881**	**1,848,337**
Operating expenses	(777,566)	(763,610)
Depreciation	(276,484)	(263,614)
Amortization	(103,044)	(93,874)
Other operating income (expenses), net	146,866	(1,641)
Operating profit	**848,653**	**725,598**
Interest expense	(167,193)	(152,387)
Interest and other financial income	4,430	12,456
Exchange gain (loss), net	(20,079)	109,822
Profit before tax	**665,811**	**695,489**
Income tax expense	(112,433)	(104,847)
Net profit and comprehensive income for the period.	**553,378**	**590,642**

Attributable to:		
Equity holders of the company	553,378	590,642

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

Unaudited interim consolidated statement of financial position as at 30 September 2017

PYG millions	Notes	Nine months ended 30 September 2017	Year ended 31 December 2016
ASSETS			
Non-Current Assets			
Intangible assets, net	5	883,786	915,045
Property, plant and equipment, net	4	1,763,689	1,960,626
Deferred taxation		37,885	23,397
Other non-current assets		25,594	26,856
Amounts due to related parties	8	-	69,203
Total Non-Current Assets		**2,710,954**	**2,995,127**
Current Assets			
Inventories		49,917	50,139
Trade receivables, net		384,784	413,249
Amounts due from related parties	8	742,940	579,151
Prepayments and accrued income		171,547	176,833
Supplier advances for capital expenditure		3,326	10,366
Other current assets		40,190	56,991
Cash and cash equivalents		738,634	310,922
Total Current Assets		**2,131,338**	**1,597,651**
Assets held for sale	9	38,456	**-**
TOTAL ASSETS		**4,880,748**	**4,592,778**
EQUITY AND LIABILITIES			
EQUITY			
Share capital and premium		164,008	164,008
Legal reserve		50,110	50,110
Retained profits		124,440	164,112
Profit for the period / year attributable to equity holders		553,378	611,985
Parents ownership interests		**891,936**	**990,215**
TOTAL EQUITY		**891,936**	**990,215**
LIABILITIES			
Non-current Liabilities			
Debt and financing	6	2,642,178	2,296,539
Provisions and other non-current liabilities		316,139	156,534
Total non-current liabilities		**2,958,317**	**2,453,073**
Current Liabilities			
Debt and financing	6	93,910	57,669
Payables and accruals for capital expenditure		266,808	395,842
Other trade payables		161,473	164,170
Amounts due to related parties	8	53,204	64,999
Accrued interest and other expenses		192,510	192,383
Current income tax liabilities		44,008	52,131
Provisions and other current liabilities		208,306	222,296
Total current liabilities		**1,020,219**	**1,149,490**
Liabilities directly associated with assets held for sale	9	10,276	-
TOTAL LIABILITIES		**3,988,812**	**3,602,563**
TOTAL EQUITY AND LIABILITIES		**4,880,748**	**4,592,778**

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

Unaudited interim consolidated statement of cash flows for the six-month period ended 30 September 2017

PYG millions	Notes	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Cash flows from operating activities			
Profit before taxes		**665,811**	**695,489**
Adjustments:			
Interest expense		167,193	152,387
Interest and other financial income		(4,430)	(12,456)
Other non-operating expenses, net		20,079	(109,822)
Adjustments for non-cash items:			
Depreciation and amortization		379,528	357,488
Loss on disposal of assets		(146,866)	1,641
		1,081,315	**1,084,727**
(Increase) decrease in trade receivables, prepayments and other current assets		46,738	4,028
(Increase) decrease in inventories		222	(12,247)
Increase (decrease) in trade and other payables		(68,590)	(19,239)
Changes in working capital		**(21,630)**	**(27,458)**
Interest paid		(101,958)	(109,424)
Interest received		397	11,359
Taxes paid	10	(248,005)	(10,565)
Net cash provided by operating activities		**710,119**	**948,639**
Cash flows for investing activities:			
Purchase of property, plant and equipment	4	(140,282)	(265,413)
Proceeds from disposal of property, plant and equipment	4	427,749	-
Purchase of intangible assets and license renewals	5	(196,234)	(344,872)
Debt and other financing granted to / repaid by related parties, net		-	(17,422)
Other		-	4
Net cash used by investing activities		**91,232**	**(627,703)**
Cash flows for financing activities:			
Repayment of debt and financing		(5,161)	(74,352)
Proceeds from issuance of debt and financing		367,000	59,800
Payment of dividends		(732,160)	(118,252)
Net cash used by financing activities		**(370,321)**	**(132,804)**
Exchange losses on cash and cash equivalents		(3,319)	(3,771)
Net decrease in cash and cash equivalents		**427,713**	**184,361**
Cash and cash equivalents at the beginning of the year		310,922	203,984
Cash and cash equivalents at the end of the period		**738,635**	**388,345**

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

Unaudited interim consolidated statement of changes in equity for the six months ended 30 September 2017

PYG million	Number of shares	Share Capital	Retained profits	Legal reserves	Total equity
Balance as of 31 December 2015 (audited)	**6,524**	**274,008**	**350,328**	**50,110**	**674,446**
Total comprehensive income for the period	-	-	590,642	-	590,642
Dividends	-	-	(186,216)	-	(186,216)
Balance as of 30 September 2016 (unaudited)	**6,524**	**274,008**	**754,755**	**50,110**	**1,078,873**
Total comprehensive income for the period	-	-	611,985	-	611,985
Dividends	-	-	(186,216)	-	(186,216)
Return of capital to shareholders	3,476	(110,000)	-	-	(110,000)
Balance as of 31 December 2016 (audited)	**10,000**	**164,008**	**776,097**	**50,110**	**990,215**
Total comprehensive income for the period			553,378		553,378
Dividends	-	-	(651,657)	-	(651,657)
Balance as of 30 September 2017 (unaudited)	**10,000**	**164,008**	**677,818**	**50,110**	**891,936**

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

Notes to the unaudited interim consolidated financial statements

1. ORGANIZATION

Telefónica Celular del Paraguay S.A. (the “Company”), a Paraguayan company, and its subsidiaries, Teledeportes Paraguay S.A. and Lothar Systems S.A. (the “Group” or “Telecel”), is a Paraguayan group providing communications, information, entertainment, and solutions in Paraguay. The Company maintains multiple license contracts with Paraguay’s telecom regulator, Comisión Nacional de Telecomunicaciones (Conatel), to operate cellular and cable businesses 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.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES

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

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

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

Update on the implementations of IFRS 15, “Revenue from contracts with customers” and IFRS 9, “Financial Instruments”:

- IFRS 15: We plan to adopt the accounting standard on 1 January 2018. We anticipate a meaningful impact on our Group financial statements, but we think it is premature to quantify this impact due primarily to the high volume of transactions that we process. From a qualitative standpoint, we expect that:
    - Some revenue will be recognized earlier, as a larger portion of the total consideration received in a bundled contract will be attributable to the component delivered at contract inception. Therefore, we expect this will produce a shift from service revenue (which will decrease) to the benefit of Telephone and Equipment revenue.
    - The cost incurred to obtain a contract (mainly commissions) will be capitalized in the balance sheet and amortized over the expected customers’ retention period.
    - No material changes for the purpose of determining whether the Group acts as principal or an agent in the sale of products.

  As a result, we expect this will produce a net increase in both revenue and EBITDA in the first year. We anticipate that other adjustments will be less meaningful than the two adjustments explained above.

2. SUMMARY OF CONSOLIDATION AND ACCOUNTING POLICIES (Continued)

Additionally, the Group has decided to take some of the practical expedients foreseen in the Standard, such as:

- The Group will not adjust the transaction price for the means of a financing component whenever the period between the transfer of a promised good or service to a customer and the associated payment is one year or less; when the period is more than one year the significant financing component should be adjusted, if material.
- The Group will disclose in the Group Financial Statements the transaction price allocated to unsatisfied performance obligations only for contracts that have an original expected duration of more than one year (e.g. unsatisfied performance obligations for contracts that that have an original duration of one year or less will not be disclosed).
- The Group will apply the practical expedient not to disclose the price allocated to unsatisfied performance obligations, if the consideration from a customer directly corresponds to the value to the customer of the entity's performance to date (i.e, if billing = revenue).

IFRS 9: The Group has started the implementation project in early 2017 for IFRS 9 and does expect it to have an impact on impairment of trade receivables and contracts assets (IFRS 15) as well as on amounts due from joint ventures and related parties – with the application of the expected credit loss model. However, the Group does not expect this impact to be material on the consolidated financial statements taken as a whole.

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

During the nine-month periods ended 30 September 2017 and 2016, the Group did not make any significant acquisition.

4. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended 30 September 2017, the Company added property, plant and equipment for PYG 140,282 million. (30 September 2016: PYG 248,583 million) and received PYG 427,748 million in cash from disposal of property, plant and equipment (30 September 2016: PYG nil), see note 9.

5. INTANGIBLE ASSETS

During the six months ended 30 September 2017 the Company added intangible assets of PYG 120,615 million. (30 September 2016: PYG 353,604 million)

6. DEBT AND FINANCING

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

PYG millions	Nine months ended 30 September 2017	Year ended 31 December 2016
Due within:		
One year	93,910	57,669
One-two years	145,450	85,020
Two-three years	267,396	136,560
Three-four years	198,183	136,075
Four-five years	194,092	66,960
After five years	1,837,057	1,871,924
Total debt	**2,736,088**	**2,354,208**

Bank financing

In July 2008, Telecel entered into an 8-year $100 million loan with the European Investment Bank ("EIB"). The loan bears interest at rates between dollar LIBOR 90 plus 0.234% and dollar 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 loan was repaid in June 2017. The outstanding amount as at 30 September 2017 was PYG nil (31 December 2016: PYG 57,669 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, denominated in Paraguayan guaranties, and bear a fixed annual interest rate of 10%. As of 30 September 2017, the combined balance of such loans is PYG million 507,092.

On 7 July 2017, Telecel signed a five-year loan agreement with the IPS (Instituto de Prevision Social) and the Inter-American Development Bank for a total amount of PYG 367,000 million (approximately US$66 million). The loan, denominated in local currency, will carry a 9.75% interest rate and start amortizing in Q4 2019.

Senior Notes

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

The 6.75% Senior Notes are general unsecured obligations of the Telecel and rank equal in right of payment with all future unsecured and unsubordinated obligations of Telecel. The 6.75% Senior Notes are unguaranteed.

Telecel has options to partially or fully redeem the 6.75% Senior Notes as follows:

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

(ii) Full or partial redemption at any time on or after 13 December 2017 for the following percentage of principal to be redeemed, plus accrued and unpaid interest and all other amounts dues, if any:
13 December 2017 103.375%
13 December 2018 102.25%
13 December 2019 101.125%
13 December 2020 100.00%
13 December 2021 100.00%

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

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

The outstanding amount as at 30 September 2017 was PYG 1,674,387 million (December 2016: PYG 1,704,524 million)

Fair value of financial liabilities

Other than the items disclosed below, the fair values of financial assets and financial liabilities approximate their carrying values as at 30 September 2017 and 31 December 2016:

	Carrying Value		Fair Value	
PYG millions	30 September 2017 (unaudited)	31 December 2016	30 September 2017 (unaudited)	31 December 2016
FINANCIAL LIABILITIES				
Other debt and financing	2,736,088	2,354,208	2,768,072	2,283,295

7. COMMITMENTS AND CONTINGENCIES

Operational environment

Telecel is operating in an emerging market, where the regulatory, political, technological, and economic environments are evolving. As a result, there are uncertainties that may affect future operations, the ability to conduct business, foreign exchange transactions, and debt repayments. In the normal course of business, Telecel also faces uncertainties regarding taxation, interconnection with other networks, license renewals, and tariff arrangements. These uncertainties can have a significant impact on the Company's long-term economic performance.

Litigation

The Company and its subsidiaries are contingently liable with respect to lawsuits and other matters that arise in the normal course of business. As of 30 September 2017, the total amount of provisions related to claims against the Group's operations was PYG 7,537 million (December 2016: PYG 7,811 million). While it is impossible to ascertain the ultimate legal and financial liability with respect to these claims, the ultimate outcome of these contingencies is not anticipated to have a material effect on the Group's financial position and operations.

Lease commitments

Operating Leases:

The Group had the following annual operating lease commitments as of 30 September 2017 and 31 December 2016.

PYG millions	Nine months ended 30 September 2017	Year ended 31 December 2016
Operating lease commitments		
Within: one year	22,406	29,875
Between: one to five years	6,393	8,524
After: five years	3,532	4,709
Total	**32,331**	**43,108**

Operating leases are comprised mainly of lease agreements relating to land and buildings. The operating lease terms and conditions reflect normal market conditions. Total operating lease expense was PYG 11,909 million in the nine months ended 30 September 2017 (30 September 2016: PYG 11,688 million).

7. COMMITMENTS AND CONTINGENCIES (Continued)

Capital commitments

As of 30 September 2017, the Company has fixed commitments to purchase network equipment, land and buildings and other fixed assets for a value of PYG 504,335 million (31 December 2016: PYG 882,818 million).

Dividends

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

8. RELATED PARTY TRANSACTIONS

The Company conducts transactions with its principal shareholder, Millicom International Cellular S.A. ("Millicom") and its subsidiaries. Transactions with related parties are conducted on normal commercial terms and conditions.

The following transactions were conducted with related parties:

PYG millions	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Millicom – Other Paraguayan operations	125,012	98,167
Millicom - Non-Paraguayan companies	(6,925)	(6,032)
Total purchases from related parties	**118,087**	**92,135**

As at 30 September 2017, the Company had the following balances with related parties:

PYG millions	Nine months ended 30 September 2017	Year ended 31 December 2016
Receivables		
Millicom – Other Paraguayan operations	320,597	320,205
Millicom – Non-Paraguayan companies	422,343	348,461
Total	**742,940**	**668,666**
Payables		
Millicom – Other Paraguayan operations	79,970	53,985
Millicom – Non-Paraguayan companies	33,221	11,014
Total	**113,191**	**64,999**

9. ASSETS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD FOR SALE

On 26 April 2017, the Group announced an agreement to sell and leaseback approximately 1,400 wireless communications towers in Paraguay to a subsidiary of American Tower Corporation ("ATC") whereby we agreed the sale of tower assets and to lease back a dedicated portion of each tower to locate its network equipment in exchange for cash. As a result of this transaction, Telecel will receive approximately PYG 700 billion (equivalent to $125 million) in cash. The portions of the assets that will be transferred and that will not be leased back are classified as assets held for sale as completion of their sale is highly probable.

The first closing of 836 towers occurred on 11 August 2017 and American Tower Company paid PYG 426 billion (approximately USD 76million). This triggered the recognition of an upfront gain on sale of USD 26 million under "Other operating income (expenses), net".

10. TAXES PAID

During the nine-month period ended 30 September 2017, Telecel paid the remaining PYG 386,072 million dividends related to the net profit of FY 2016, as well as dividends of PYG 635,546 million as an advance on FY 2017 net profit. These dividend payments triggered tax payments of PYG 91,469 million.

11. SUBSEQUENT EVENTS

Dividend advance

In October 2017, Telecel's Board of Directors proposed to the Annual General Meeting of Shareholders a dividend advance of $40 million. The advance was approved and executed during October 2017.

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