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

TELEFONICA CELULAR DEL PARAGUAY S.A.

As at and for the year ended December 31, 2014

We believe in better. We believe in tigo

1. Overview

We are a leading multinational telecommunications and media group operating in Paraguay. We provide a wide range of mobile communications and cable services, as well as other related products, including MFS, digital media and e-commerce, to residential, business and wholesale customers. We hold the number one position in the market on our mobile business. As of December 31, 2014, we had over 3.9 million mobile customers, provided cable services to 206.7 thousand households (HFC only) and had 1.3 million MFS customers. For fiscal 2014, we generated PYG 3,225 million in revenue and an adjusted EBITDA of PYG 1,560 million.

2. Recent Developments

2.1 Acquisitions or disposals

None.

3. Key factors affecting the Telefónica Celular del Paraguay S.A.'s business

Our performance and results of operations have been and will continue to be affected by a number of factors, including external factors. Certain of these key factors that have had, or may have, an effect on the results of our operations are set forth below.

3.1 Drivers for revenue growth

We generate revenue mainly from fees associated with the communication, entertainment, data, information and financial services we provide to our customers, such as airtime and data usage fees, roaming fees, interconnect fees, connection fees, monthly subscription fees, broadband internet, fixed-line telephone, VoIP, data transmission, mobile money transfer and related financial services, cable TV, sale of content and other services and equipment sales. We generally seek to increase our revenue through the growth of our customer base and through the introduction of new products and VAS. Our results of operations are therefore dependent on our customer base and the number of services that each customer uses, which we measure using ARPU. Our monthly ARPU, calculated based on historical exchange rates for the applicable periods, as indicated in our annual consolidated financial statements, grew from $12.8 in fiscal 2012 to $13.5 in fiscal 2013, followed by a decline to $11.3 in fiscal 2014 due in part to pricing pressures and increased competition.

Customers

Mobile customers

Our mobile customer numbers as of December 31, 2012, 2013 and 2014 were as follows:

In millions	Year ended December 31,		
	2014	2013	2012
Mobile customers at the end of the period	3.89	3.93	3.94

As of December 31, 2014, our total mobile customer base decreased by 1.0 % to 3.89 million from 3.93 million as of December 31, 2013. Prepaid customers accounted for 77%, or 2.97 million, of the total mobile customers as of December 31, 2014. We continue to focus on attracting higher quality customers in these more penetrated markets and set subsidy levels that support and attract migration from voice to data. In Paraguay, total mobile customers decreased as a result of mobile number portability.

Cable customers

Our cable business passes approximately 336.1 thousand homes in Paraguay, and we provided services to approximately 206.7 thousand RGUs (HFC only). We offer our cable customers a full consolidated suite of services, including cable TV, internet and other digital services. Our cable TV services are generally the first point of entry into our customers' homes, which allows us to increase our penetration by offering internet and mobile services, as well, which we believe creates a stronger brand affinity. Our aim is to increase our customer take-up of services by investing in network upgrades so that they are bidirectional (allowing both uploads and downloads over a communication line) and both broadband internet and cable TV can be accommodated.

New products and services

Innovation continues to be a major focus as we seek to grow revenue by developing and selling additional products and services through which we can gain a greater share of customers' disposable income. Selling new VAS, and other data services to our existing customers increases ARPU and decreases churn. The introduction of innovative or exclusive products and services also helps us to attract new customers, increasing revenue. During fiscal 2014, VAS as a percentage of our total revenue decreased to 43.2%, compared to 45.6% during 2013 and 45.7% in Fiscal 2012, and growth in our data revenues has outpaced revenue growth from voice and SMS usage. Our mobile data customers and revenues grew in local currency by 60.1% and 7.7%, respectively, from 2013 to 2014. We expect innovation to be a key driver of growth in the years ahead as data, internet services and make an increasingly substantial contribution to the growth of MFS.

Capital expenditure to expand and improve our networks and increase our footprint

We consistently improve the quality and increase the coverage of our mobile and cable networks, which requires purchasing new licenses and spectrum, investing in new infrastructure, and modernizing and upgrading our networks and IT backbones. Spending money on capital expenditures ultimately increases our revenue and operating profit, but it also increases our investing cash flows, our carrying value of property, plant and equipment and intangible assets, and our depreciation and amortization expense. In addition, as customers increase their utilization of our networks, we incur higher operating expenses, including interconnection charges, network operation and maintenance costs, employee costs and selling, general and administrative expenses.

Capital expenditure during fiscal 2014 resulted in improvements in the quality of our networks and increased capacity and coverage, which attracted additional customers. In fiscal 2014, we invested $101.9 million in capital expenditure, which represented an amount equal to 13.9% of our total revenues.

Competitive and regulatory pressures on pricing

The markets in which we operate are competitive in nature, and we expect that competition will continue to remain high. Mobile telecommunications operators compete for customers principally on the basis of price, services offered, advertising and brand image, quality and reliability of service and coverage area. Price competition is significant on voice and SMS services, which still represent the vast majority of our revenue (together they represented 61.7% of our revenue in 2012, 51.7% in 2013 and 46.7% in 2014) but they are largely commoditized, as the ability to differentiate these services among operators is limited and penetration is high. Competition has resulted in pricing pressure, reduced margins and profitability, increased customer churn and the loss of revenue and market share. Pricing pressure has resulted in a decline in ARPU.

The prices we are permitted to charge our customers are also heavily regulated and regulatory measures can result in pricing pressure and reduced profitability. For example, in Paraguay, we can no longer set an expiry date on when our customers must use their prepaid minutes or SMS bundles, which could reduce revenue and margins for mobile services. Changes such as these require us to constantly monitor our pricing models and margins to adjust to changes affecting our pricing and operations.

Cost optimization and efficiencies

In fiscal 2014, we implemented several restructuring and efficiency initiatives that we believe will result in future cost savings and efficiencies but may include one-off costs and expenses to implement.

Effect of exchange rate fluctuations

The exchange rate for the Paraguayan Guarani fluctuates in relation to the U.S. dollar and such fluctuations may have a material adverse effect on our earnings, assets or cash flows. In addition, exchange rates impact our earnings and cash flows due to U.S. dollar denominated debt held at the local operational level where local currency borrowing facilities are either not available or cannot be obtained under commercially acceptable terms.

Results of Operations

Year ended December 31, 2014 and 2013

PYG millions	Year ended December 31,		Percent change
	2014	2013	
Revenue	3,228,925	3,245,082	(0.5%)
Cost of sales	(1,083,508)	(1,010,390)	7.2%
Gross profit	2,145,417	2,234,692	(4.0%)
Sales and marketing	(584,899)	(553,187)	5.7%
General and administrative expenses	(742,310)	(432,478)	71.6%
Operating profit	818,208	1,249,027	(34.5%)
Interest expense	(117,593)	(115,161)	2.1%
Interest and other financial income	7,937	7,263	9.3%
Exchange loss, net	(35,484)	(148,424)	(76.1%)
Profit before tax	673,068	992,705	(32.2%)
Income tax expense	(116,085)	(154,518)	(24.9%)
Net profit and comprehensive income for the period.	556,983	838,187	(33.5%)

Operating Data:			
Number of mobile subscribers	**3,894,217**	**3,936,914**	**(1.1%)**
Postpaid	897,181	936,857	(4.2%)
Prepaid	2,997,036	3,000,057	(0.1%)
Monthly churn %			
Postpaid handset	1.2%	2.3%	(46.6%)
Postpaid datacard	5.1%	6.5%	(21.2%)
Total postpaid	1.5%	2.7%	(46.0%)
Prepaid handset	1.8%	1.7%	6.6%
Prepaid datacard	7.7%	8.4%	(7.3%)
Total prepaid	1.9%	1.8%	4.9%
Total monthly churn (1)	1.8%	2.0%	(11.8%)
Monthly ARPU (US$) (2)			
Postpaid	22.3	28.7	(22.2%)
Prepaid	8.0	8.9	(10.2%)
Total monthly ARPU (3)	11.3	13.6	(16.9%)
Number of employees	**814**	**761**	**(7.0%)**

(1) Our total monthly churn is individually calculated by reference to our aggregate prepaid and postpaid customers.

(2) ARPU is calculated based on a historical exchange rate of 4,628.5 to US$1.00.

(3) Our total ARPU is individually calculated by reference to our aggregate prepaid and postpaid customers.

The following table is a reconciliation of our total comprehensive income to EBITDA:

	Period ended December 31	
	2014	2013
Net profit (loss)	**556,982**	**838,187**
Net finance costs	109,656	107,898
Income tax	116,085	154,518
Depreciation and amortization	410,703	399,307
Royalties/ Franchise fess	321,502	48,046
Net other non-operating expense (income)	44,203	163,262
EBITDA	**1,559,131**	**1,711,217**

	Period ended December 31	
	2014	2013
EBITDA (1)	1,559,131	1,711,217
EBITDA margin (2)	48.3%	52.7%
Net debt to LTM EBITDA (3)	0.78	0.59
Total debt to LTM EBITDA (4)	1.01	0.96

(1) We calculate EBITDA by adding net finance costs; income tax; depreciation and amortization; and net other non-operating expense (income) to our total comprehensive income. EBITDA is not a recognized term or recognized measure of performance under IFRS and should not be considered as an alternative to net profits as a measure of operating performance or to net cash provided by operating activities as a measure of liquidity. EBITDA as used herein is the same as ‘‘EBITDA’’ as defined in the Indenture for purpose of the Notes. EBITDA as presented may not be comparable to similarly titled measures of other companies.

(2) We define EBITDA Margin as our EBITDA divided by revenue. EBITDA Margin is not a recognized term or measure of performance under IFRS.

(3) We calculate Net debt to EBITDA by dividing our total borrowings, less cash and cash equivalents, by our EBITDA.

(4) We calculate Total debt to EBITDA by dividing our total borrowings by our EBITDA.

Revenue

Total revenue decreased by 0,5% for the year ended December 31, 2014 to Gs.3,228,925 million from Gs.3,245,082 million for the year ended December 31, 2013.The slight decrease was due to less voice and VAS revenue (-4%YoY) compensated with higher revenue from TV subscription, TV advertisement and T&E revenue, the non-recurring revenue remained at almost the same level as of December 2013. Our recurring revenue from value-added services represents 48.1% of total recurring revenue for the year ended December 31, 2014, versus 50.6% in the year ended December 31, 2013.

The cable TV business has contributed revenue of Gs.312,345 million during the year ended December 31, 2014 in comparison to Gs. 264,769 million in December 31, 2013.

Customer base

As of December 31, 2014, our total mobile customer base was 3,894,217 a decrease of 1.0% from 3,936,914 as of December 31, 2013, with prepaid customers accounting for 77.0% or 2,997,036 of our total mobile customers at such time. Additionally we have been investing in improvements in the quality of our networks and increased capacity and coverage which we believe has helped to maintain our customers during the period despite the high level of penetration in the Paraguayan market. Strengthening our distribution network has also helped making our products more accessible.

Cost of sales

Cost of sales increased by 7.2% for the year ended December 31, 2014 to Gs.1,083,508 million from Gs.1,010,390 million for the year ended December 31, 2013. Our cost of sales is mainly affected by higher T&E costs due to strong campaigns to push for smartphone and mobile data adoption during 2014, increased cost of frequency and bandwidth as we continued to focus on data penetration and the expansion of our networks, an increase in cable TV programing costs in line with incremental revenue from Tigo Home, an increase in bad debt as a result of the migration of customers from prepaid to postpaid, there is also a decrease of some costs such as voice and SMS in line with the decrease of revenue related to those concepts.

Gross profit margin decreased to 66.4% for the year ended December 31, 2014 from 68.9% for the year ended December 31, 2013, resulting primarily from higher telephone and equipment sales, which are typically sold for low or no margin, representing a larger portion of revenue as well as an increase in content revenue and its related costs and the depreciation of the fixed assets and intangible assets coming from the 2012 purchase of Cablevision (our cable TV business).

Sales and marketing

Sales and marketing expenses increased by 5.7% for the year ended December 31, 2014 to Gs. 584,899 million from Gs.553,187 million for the year ended December 31, 2013. Sales and marketing costs were comprised mainly of commissions to dealers for the sale of prepaid reloads, smartphone subsidies aimed at obtaining and maintaining customers, as well as general advertising and promotion costs, point of sale materials for our retail outlets and staff costs. The increase in sales and marketing costs was mainly attributable to increased handset subsidies to increase smartphone penetration and our postpaid customer base. As a percentage of revenue, sales and marketing expenses increased to 18.1% for the year ended December 31, 2014 from 17.0% for the year ended December 31, 2013.

General and administrative expenses

General and administrative expenses increased by 70.4% for the year ended December 31, 2014 to Gs.742,310 million from Gs.432,478 million for the year ended December 31, 2013. The increase was mainly attributable to higher technical service fee as well as higher ERC and external services, billing costs and network maintenance costs as a result of our continued network expansion. As a percentage of revenue, general and administrative expenses increased to 22.9% for the year ended December 31, 2014 from 13.3% for the year ended December 31, 2013.

Operating profit

Operating profit decreased by 34.4% for the year ended December 31, 2014 to Gs.818,208 million from Gs.1,249,027 million for the year ended December 31, 2013. The operating margin decreased from 38.5% for the year ended December 31, 2013 to 25.3% for the year ended December 31, 2014. This decrease was mainly as a result of the higher expense in technical service fee, subsidies and sales commissions related to data mobile plans and TV subscriptions and the lower operating margin of the Cablevision businesses.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 1.6% for the year ended December 31, 2014 to Gs.109,656 million from Gs.107,898 million for the year ended December 31, 2013. This increase was mainly due to interest accretion on financing of football rights and increased USD Dollar exchange rate.

Foreign exchange gain (loss)

Exchange loss, net decreased by 76.1% for the year ended December 31, 2014 to Gs.35,428 million from a net loss of Gs. 148,424 million for the year ended December 31, 2013. Exchange gains and losses resulted primarily as a result of movements in the PYG/USD exchange rate resulting in a revaluation of our U.S. dollar borrowings, trade payables and cash and cash equivalents. The majority of our borrowings and cash and cash equivalents are denominated in U.S. dollars. The PYG/USD exchange rate moved from 4,585 as of December 31, 2013 to 4,629 as of December 31, 2014.

Charge for taxes

The charge for taxes decreased by 24.9%, to Gs. 116,085 million for the year ended December 31, 2014, from Gs. 154,518 million for the year ended December 31, 2013, due primarily to a higher depreciation of fixed assets in the year ended December 31, 2014 compared to the same period of 2013. The effective tax rate for the year ended December 31, 2014 was 17.2% compared to 15.5% for the year ended December 31, 2013.

Net profit for the period

Net profit for the year ended December 31, 2014 decreased by 33.5% to Gs.556,983 million compared to a net profit of Gs.838,187 million for the year ended December 31, 2013 principally as a result of higher administrative expenses.

Trend Information

Our strategy is to maintain our voice and SMS revenue and market share while growing our revenue in value-added products and services such as mobile internet access, content downloads, and music and video streaming. For the year ended December 31, 2014, value-added services represent 48.1% of recurring revenue, versus 50.6% in the year ended December 31, 2013. Data usage is increasing among consumers as a result of an increasingly digital lifestyle. At the same time, smartphone market penetration is increasing as a result of lower prices and more phone options available to consumers. We expect innovation to be an important driver of growth in the years ahead. Although these new services tend to have lower profit margins than our core communications business, we aim to limit any drop in margins by controlling costs and through economies of scale. New competitors entering our markets and/or price competition could erode the profitability of our mobile operations, however.

Liquidity and Capital Resources

Historically we have relied, and in the future we intend to continue to rely, primarily on cash from operations and external financings to fund our operations, capital expenditures and working capital requirements.

We intend to continue to focus on investments in property, systems and equipment (fixed assets) and working capital management, including timely collection of accounts receivable and efficient management of accounts payable.

Capital Expenditures

Our capital expenditures on property, plant and equipment, licenses and other intangible assets for the year ended December 31, 2014 and 2013 amounted to Gs.455,850 million and Gs.643,486 million, respectively.

Financing

As of December 31, 2014, our total outstanding indebtedness and other financing was Gs.1,571.118 million. As of December 31, 2013, our total outstanding indebtedness and other financing was Gs.1,645,443 million.

Our interest expense for the year ended December 31, 2014 was Gs.117,593 million and for the year ended December 31, 2013 was Gs.115,161 million.

Dividends

After analyzing our results of operations, our board of directors makes a recommendation to our shareholders on the amount of dividends, if any, that should be paid. The shareholders then resolve in a shareholders' meeting the amount of dividends, if any, that should be paid to shareholders. At the same time they decide whether the amount not paid as dividends should be retained as retained results of the Company or directed to a legal reserve account. Our dividend policy historically has been to pay dividends to our shareholders up to the level of free cash generated after debt repayments which is not required to fund our operations and not in excess of yearly net income. For the year ended December 31, 2014 we paid dividends to our shareholders Gs.670,638 million against Gs.1,042,077 for the same period of 2013.

Cash Flows

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

PYG millions	Year ended December 31,	
	2014	2013
Net cash provided by operating activities	957,492	1,334,557
Net cash used in investing activities	(476,675)	(628,954)
Net cash used in financing activities	(762,184)	(1,141,970)
Net (decrease) increase in cash and cash equivalents	**(281,367)**	**(436,367)**
Cash and cash equivalents at the end of the period	354,100	635,467

Year ended December 31, 2014 and 2013

For the year ended December 31, 2014 cash provided by operating activities was Gs.957,492 million compared to Gs.1,334,557 million for the year ended December 31, 2013. The decrease was mainly due to fewer revenue and higher payments to suppliers.

Cash used in investing activities was Gs.476,675 million for the year ended December 31, 2014 compared to Gs.628,954 million for the year ended December 31, 2013 mainly due to fewer investments in intangibles assets than the previous year.

Cash used in financing activities was Gs.762,184 million for the year ended December 31, 2014 compared to Gs.1,130,986 million for the year ended December 31, 2013. The lower cash used for financing activities for the year ended December 31, 2014 was mainly as a result of lower dividend paid during 2013.

The net decrease in cash and cash equivalents for the year ended December 31, 2014 was Gs.281,367 million compared to a decrease of Gs.436,367 million for the year ended December 31, 2013. We had closing cash and cash equivalents of Gs.354,100 million as of December 31, 2014 compared to Gs.635,467 million as of December 31, 2013.

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