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

TELEFONICA CELULAR DEL PARAGUAY S.A.

As at and for the three month period ended 31 March, 2016

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 31 March, 2016, we had over 3.84 million mobile customers, provided cable services to 377.7 thousand households (HFC only) and had 1.31 million MFS customers. In the three-month period ended March 2016, we generated Gs.782.9 billion in revenue and an EBITDA of Gs.353.5 billion.

2. Recent Developments

2.1 Acquisitions or disposals

On 27 February, 2015 Telecel concluded the process of selling the fully-owned company Unicanal S.A. (99% of shares) to Grupo JBB, a Paraguayan multimedia group, by finishing the negotiations and transferring all the resources and facilities of this business unit to the buyer. The transaction amount was USD 3.65 million of which USD 2.5 million was collected in cash at the time of the transference in February 2015. The outstanding balance was collected on November 2015.

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 internal and external factors. The key factors that have had or, in the future, 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 communication, entertainment, data, information and financial services that we provide to our customers, including: airtime and data usage fees, roaming fees, interconnection 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 sales of equipment. We generally seek to increase our revenue through growth of our customer base and 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. Our monthly ARPU, calculated based on historical exchange rates for the applicable periods, decreased from $10.2 in March, 2015 to $8.8 in March, 2016 mainly due to 21% higher foreign exchange rate. ARPU increased 4.2% YoY in local currency due, in part, to higher revenue due the progressive smartisation of the base and its resulting increase in mobile data consumption which increase revenue.

Customers

Mobile customers

Our mobile customer numbers As of 31 March, 2016, 2015 and 2014 were as follows:

In millions	Period ended 31 March,		
	2016	2015	20134
Mobile customers at the end of the period	3.84	3.94	3.82

As of 31 March, 2016, our total mobile customer base decreased by 2.3% to 3.84 million from 3.94 million as of 31 March, 2015. Prepaid customers accounted for 76.7%, or 2.9 million, of the total mobile customers as of 31 March, 2016. 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 services. In Paraguay, our total amount of mobile customers increased as a result of customer acquisition measures and improved Net Promoter Score (NPS) in relation to December 2014.

Cable customers

As of 31 March, our cable business covers approximately 377.7 thousand homes in Paraguay, and we provide services to approximately 249.4 thousand RGUs (HFC only). Our cable customers are offered 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 strong brand affinity. Our aim is to increase our customer take-up of services by investing in network upgrades so it becomes bidirectional (allowing both uploads and downloads over a communication line) and both broadband internet and cable TV can be accommodated within it.

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 the disposable income of our customers. 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.

In order to improve our clients' level of satisfaction we have developed post-paid plans in bundle format that are tailored according to their consumption. These bundles, which were launched in August 2015, allow clients to make a better use of their credit and helped the company to improve ARPU and reduce the deferred revenue liability.

During the three month period ended 31 March, 2016, VAS as a percentage of our total revenue increased to 56.8%, compared to 53.4% and 54.5% during the same period of 2015 and 2014, respectively. Growth in our data revenues has outpaced revenue growth from voice and SMS usage. Our mobile data customers and revenue in local currency grew by 10% and 93.8%, respectively, from March 2015 to 2016. We expect innovation to be a key driver of growth in the years ahead as data and internet-related services make an increasingly substantial contribution to the business.

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 decreases our investing cash flows, our carrying value of property, plant and equipment and intangible assets, and increase 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 2015 resulted in improvements in the quality of our networks and increased capacity and coverage, which attracted additional customers. In the three month period ended 31 March, 2016, we invested Gs.363 billion in capital expenditure, which represented an amount equal to 46.6% of our total revenue.

Competitive and regulatory pressures on pricing

The markets in which we operate are competitive in nature, and we expect competition will 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 an important portion of our revenue (together they represented 48.8% of our revenue in March 2014, 42.6% in 2015 and 36.2% in 2016) but they are largely commoditized, as the ability to differentiate these services among operators is limited and penetration is high.

Pricing pressure has resulted in a decline in ARPU, since clients have been shifting from high margin products such as voice and SMS to mobile data products thanks to the variety of OTT services available to them, which constitutes a challenge to develop innovative products that could at the same time balance client satisfaction and profitability.

The prices we are allowed to charge our customers are also heavily regulated which may result in reduced profitability. For example, in Paraguay, we can no longer set an expiry date to our customer's balance of prepaid minutes or SMS bundles, which hinders revenue recognition and affects margins of mobile services. Changes such as these require us to monitor our pricing models and margins consistently to adjust them if required.

Cost optimization and efficiencies

In fiscal year 2014, we started to implement several restructuring and efficiency initiatives that produced cost savings and efficiencies in 2015. As of 31 March, 2016, our costs increased 3.4% which slightly reduced our gross margin and Ebitda by 0.4pp and 0.8pp, respectively.

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 and liabilities valuation or cash flows. Exchange rates affects our earnings and cash flows due to U.S. dollar-denominated debt held at the local operational level, in a market where local currency borrowing facilities are either not available or cannot be obtained under commercially acceptable terms.

The effect of the increase in the PYG/USD exchange rate has greatly affected our Net Profit as of 31 December, 2015. However, during the three month period 31 March, 2016, the US dollar decreased its value against Paraguayan Guarani by 3.2% which produced and exchange gain of PYG 69,447 as of 31 March, 2015.

Results of Operations

Three month period ended 31 March, 2016 and 2015

PYG millions	Year ended 31 March,		Percent change
	2016	2015	
Revenue	782,947	769,520	1.7%
Cost of sales	(189,566)	(183,316)	3.4%
Gross profit	**593,381**	**586,204**	**1.2%**
Operating expenses	(239,882)	(232,800)	3.0%
Depreciation	(84,014)	(76,825)	9.4%
Amortization	(28,723)	(29,875)	(3.9%)
Other operating income (expenses), net	(17)	(66,764)	(100.0%)
Operating profit	**240,745**	**179,940**	**33.8%**
Interest expense	(46,764)	(29,580)	58.1%
Interest and other financial income	2,696	1,959	37.6%
Exchange loss, net	69,477	(60,699)	(214.5%)
Profit before tax	**266,154**	**91,620**	**190.5%**
Income tax expense	(42,545)	(14,464)	194.1%
Net profit and comprehensive income for the period.	**223,609**	**77,156**	**189.8%**

Operating Data:			
Number of mobile subscribers	**3,844,312**	**3,935,210**	**(2.3%)**
Postpaid	894,802	901,562	(0.7%)
Prepaid	2,949,510	3,033,648	(2.8%)
Monthly churn %			
Postpaid handset	2.8%	1.8%	55.4%
Postpaid datacard	5.0%	5.0%	(0.4%)
Total postpaid	2.9%	2.0%	43.7%
Prepaid handset	3.5%	2.5%	40.9%
Prepaid datacard	5.3%	3.8%	40.0%
Total prepaid	3.5%	2.5%	41.0%
Total monthly churn (1)	3.4%	2.4%	40.6%
Monthly ARPU (US$) (2)			
Postpaid	18.7	20.9	(10.5%)
Prepaid	5.8	7.0	(17.5%)
Total monthly ARPU (3)	8.8	12.1	(27.4%)
Number of employees	**786**	**702**	**12.0%**

(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 5,629 and 4,799 to US$1.00 in 31 March, 2016 and 2015, respectively.

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

Revenue

Total revenue increased by 1.7% for the three month period ended 31 March, 2016 to Gs.782.9 billion from Gs.769.5 billion for the same period of 2015. The increase was due to higher VAS (8.4%) revenue compensated with lower revenue from voice revenue (-8.3%). Our recurring revenue from value-added services represents 63.8% of total recurring revenue for the three month period ended 31 March, 2016, versus 59.8% in the same period of 2015.

The cable TV business has contributed revenue of Gs.70.7 billion during 2016 in comparison to Gs.74.2 billion in 2015.

Customer base

As of 31 March, 2016, our total mobile customer base was 3,844,312, which represents a decrease of 2.3% from 3,935,210 as of 31 March, 2015, with prepaid customers accounting for 76.7% or 2,949,510 of our total mobile customers at such date. Additionally we have been investing in improvements in the quality of our networks and increased capacity and coverage, something that we believe has helped to retain our customer base and keep it satisfied. Strengthening our network distribution has also helped making our products more accessible.

Cost of sales

Cost of sales increased by 3.4% for the three month period ended 31 March, 2016 to Gs.189.6 billion from Gs.183.3 billion for the same period in 2015. Our cost of sales is affected by higher T&E costs due to strong campaigns to push adoption of smartphones and mobile data during 2015. Increase in cable TV programing costs in line with incremental revenue from Tigo Home. Interconnection costs decreased 3.6% YoY due to regulatory measures. Bad debt increased by 43.1% YoY. Some costs such as voice and SMS decreased in line with the decrease of revenue related to those concepts.

Gross profit margin decreased to 75.8% for the three month period ended 31 March, 2016 from 76.2% for the same period of 2015.

Operating expenses

Operating expenses increased by 3% for the three months ended 31 March, 2016 to Gs.240 billion from Gs.133 billion for the same period ended 31 March, 2015. The increase was mainly attributable to higher A&P expenses (+11%), ERC (+14.7%), network maintained cost (+14.5%) as a result of our continued network expansion. As a percentage of revenue, general and administrative expenses increased to 31% for the period ended 31 March, 2016 from 30% in 2015.

EBITDA

	Year ended 31 March,	
	2016	2015
EBITDA	353,499	353,404
EBITDA margin (1)	45.1%	45.9%
Net debt to LTM EBITDA (2)	1.47	0.81
Total debt to LTM EBITDA (3)	1.63	1.07

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

(2) We calculate Net debt to LTM EBITDA by dividing our total borrowings, less cash and cash equivalents, by our EBITDA from the three months ended 31 March, 2016.

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

Operating profit

Operating profit increased by 33.8% for the three month period ended 31 March, 2016 to Gs.241 billion from Gs.180 billion for the same period ended 31 March, 2015. The operating margin increased from 23.4% at end of 31 March, 2015 to 30.7% in 31 March, 2016. This increase was mainly because of reduced technical service fees in other operating expenses and the other expenses remaining relatively constant.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 59.5% in the three month period ended 31 March, 2016 to Gs.44 billion from Gs.27.6 billion for the same period ended 31 March. This increase was mainly due to higher interest accretion on financing of football rights and the effect of increased foreign exchange rate on our financial debt which is 78% denominated in US Dollars.

Foreign exchange gain (loss)

Exchange gain, net increased by 214% at the end of March, 2016 to a net gain of Gs.69.4 billion from a net loss of Gs.60.9 billion at the end of March, 2015. 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, receivables, supplier advances 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 5,806.9 as of 31 December, 2015 to 5,629 as of 31 March, 2016.

Charge for taxes

The charge for taxes increased by 194.1%, to Gs.42.5 billion As of 31 March, 2016, from Gs.14.5 billion for the same period ended 31 March, 2015, due primarily to increased profit before tax produced by reduced operating expenses and foreign exchange gain. The effective tax rate for the period ended 31 March, 2016 was 16% compared to 15.8% for the same period ended 31 March, 2015.

Net profit for the period

Net profit at the end of 31 March, 2016 increased by 190% to Gs.223.6 billion compared to a net profit of Gs.77.2 billion at the end of 31 March, 2015.

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. In the three month period ended 31 March, 2016, value-added services represent 63.8% of recurring revenue, versus 59.8% in the same period ended 31 March, 2015. 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.

Revenue from our cable business, which includes TV and broadband internet, decreased by 8.6% in the year 31 March, 2016 to Gs. 88.2 billion from Gs. 96.5 in 31 March, 2015. We expect increasing growth, especially in the broadband business, with the expansion of our network.

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 three month period ended 31 March, 2016 and 2015 amounted to Gs.365 billion and Gs.90 billion, respectively.

Financing

As of 31 March, 2016, our total outstanding indebtedness and other financing was Gs.2,334 billion. As of 31 December, 2015, our total outstanding indebtedness and other financing was Gs.2,390 billion.

Our interest expense for the period ended 31 March, 2016 was Gs.46.8 billion and for the same period ended 31 March, 2015 was Gs.29.6 billion.

Cash Flows

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

PYG millions	Year ended 31 March,	
	2016	2015
Net cash provided by operating activities	384,587	144,759
Net cash used in investing activities	(295,109)	(121,109)
Net cash used in financing activities	(65,725)	14,275
Net (decrease) increase in cash and cash equivalents	**23,753**	**37,925**
Cash and cash equivalents at the end of the period	227,737	392,025

For the three month period ended 31 March, 2016 cash provided by operating activities was Gs.384.5 billion compared to Gs.144.8 billion for the same period ended 31 March, 2015. The increase was mainly due to higher financing obtain for suppliers and reduced operating expenses.

For the three month period ended 31 March, 2016 cash provided by investing activities was Gs. (295) billion compared to Gs. (121) billion for the same period ended 31 March, 2015, mainly due to higher investments in CAPEX than the previous year.

For the three month period ended 31 March, 2016 cash provided by financing activities was Gs. (65.7) billion compared to Gs. 14.3 billion for the same period ended 31 March, 2015. The variation of cash used for financing activities during the three month period ended 31 March, 2016 is mainly due to repayment of financial debt.

The net decrease in cash and cash equivalents for the three month period ended 31 March, 2016 was Gs 23.7 billion compared to Gs. 37.9 billion for the same period of 2015. We had closing cash and cash equivalents of Gs.227.7 billion as of 31 March, 2016 compared to Gs.392 billion as of 31 March, 2015.

*****