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

TELEFONICA CELULAR DEL PARAGUAY S.A.

As at and for the six-month period ended June 30, 2015

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 June 30, 2015, we had over 3.95 million mobile customers, provided cable services to 228.9 thousand households (HFC only) and had 1.3 million MFS customers. In the six-month period ended June 2015, we generated Gs.1,560 million in revenue and an adjusted EBITDA of Gs.708.4 million.

2. Recent Developments

2.1 Acquisitions or disposals

In February 27, 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, the balance will be collected during 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 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, 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 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 interim consolidated financial statements, decreased from $11.3 in June 2014 to $9.3 in fiscal 2015 mainly due to 17% higher foreign exchange rate. ARPU decreased 3.3% YoY in local currency due to due in part to pricing pressures and increased competition.

Customers

Mobile customers

Our mobile customer numbers as of June 30, 2012, 2013 and 2015 were as follows:

In millions	Period ended June 30,		
	2015	2014	2013
Mobile customers at the end of the period	3.95	3.8	3.93

As of June 30, 2015, our total mobile customer base increased by 4% to 3.95 million from 3.8 million as of June 30, 2014. Prepaid customers accounted for 77%, or 3 million, of the total mobile customers as of June 30, 2015. 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 amount increased as a result of customer acquisition measures and improved NPS in relation to June 2014.

Cable customers

Our cable business passes approximately 336.5 thousand homes in Paraguay, and we provided services to approximately 228.9 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 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. During the six-month period ended June 30, 2015, VAS as a percentage of our total revenue increased to 56.2%, compared to 55.8% and 54.5% during the same period of 2014 and 2013, 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 49% and 33%, respectively, from June 2014 to 2015. 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 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 2015 resulted in improvements in the quality of our networks and increased capacity and coverage, which attracted additional customers. in the six-month period ended June 30, 2015, we invested $219.4 million in capital expenditure, which represented an amount equal to 14% of our total revenue.

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 48.5% of our revenue in June 2013, 53.1% in 2014 and 59.3% in 2015) 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 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 we believe will result in future cost savings and efficiency but could also produce one-off costs and expenses that will be necessary to implement them.

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.

Results of Operations

Year ended June 30, 2015 and 2014

PYG millions	Six months ended June 30, 2015	Six months ended June 30, 2014	Percent change
Revenue	1,559,983	1,606,169	(2.9%)
Cost of sales	(517,859)	(547,295)	(5.4%)
Gross profit	**1,042,124**	**1,058,874**	**(1.6%)**
Sales and marketing	(322,532)	(282,570)	14.1%
General and administrative expenses	(292,640)	(278,046)	5.2%
Operating profit	**426,952**	**498,258**	**(14.3%)**
Interest expense	(60,197)	(59,132)	1.8%
Interest and other financial income	3,990	6,240	(36.1%)
Exchange loss, net	(201,470)	50,993	(495.1%)
Profit before tax	**169,275**	**496,359**	**(65.9%)**
Income tax expense	(27,702)	(93,264)	(70.3%)
Net profit and comprehensive income for the period.	**141,573**	**403,095**	**(64.9%)**

Operating Data:			
Number of mobile subscribers	**3,947,891**	**3,794,480**	**4.0%**
Postpaid	908,271	883,243	2.8%
Prepaid	3,039,620	2,911,237	4.4%
Monthly churn %			
Postpaid handset	1.7%	1.6%	7.3%
Postpaid datacard	4.0%	3.9%	3.8%
Total postpaid	1.8%	1.8%	2.1%
Prepaid handset	2.1%	2.5%	(14.9%)
Prepaid datacard	8.4%	8.4%	(0.4%)
Total prepaid	2.1%	2.5%	(15.1%)
Total monthly churn (1)	2.0%	2.3%	(12.0%)
Monthly ARPU (US$) (2)			
Postpaid	19.7	24.5	(19.6%)
Prepaid	6.2	7.5	(17.6%)
Total monthly ARPU (3)	9.3	11.4	(18.6%)
Number of employees	**785**	**745**	**5.4%**

(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 5,152 and 4,336 to US$1.00 in June 30, 2015 and 2014, respectively.

(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 June 30	
	2015	2014
Net profit (loss)	**141,574**	**403,095**
Net finance costs	56,207	65,372
Income tax	27,702	93,264
Depreciation and amortization	214,713	200,395
Royalties/ Franchise fess	78,726	77,819
Net other non-operating expense (income)	189,508	(55,667)
EBITDA	**708,430**	**784,278**

	Period ended June 30	
	2015	2014
EBITDA (1)	708,430	784,278
EBITDA margin (2)	45.4%	48.8%
Net debt to LTM EBITDA (3)	1.02	0.72
Total debt to LTM EBITDA (4)	1.15	0.91

(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 LTM EBITDA by dividing our total borrowings, less cash and cash equivalents, by our EBITDA from the twelve months ended June 30, 2015.

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

Revenue

Total revenue decreased by 2.9% for the period ended in June 30, 2015 to Gs.1,559,983 million from Gs.1,606,169 million for the same period of 2014.The slight decrease of -5% YoY was due to less voice and VAS revenue compensated with higher revenue from TV subscription, TV advertisement and T&E revenue, the non-recurring revenue increased 9.45% YoY in June 2015, mainly due to higher T&E revenue. Our recurring revenue from value-added services represents 49.7% of total recurring revenue for the period ended June 30, 2015, versus 49.4% in the same period of 2014.

The cable TV business has contributed revenue of Gs.156,845,281 million during Q2, 2015 in comparison to Gs.122,083,471 million in Q2, 2014.

Customer base

As of June 30, 2015, our total mobile customer base was 3,947,891, which represents an increase of 4% from 3,794,480 as of June 30, 2014, with prepaid customers accounting for 77% or 3,039,620 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 keep our customers during the period despite the high level of penetration in the Paraguayan market. Strengthening our network distribution has also helped making our products more accessible.

Cost of sales

Cost of sales decreased by 5.4% for the year ended June 30, 2015 to Gs.517,859 million from Gs.547,295 million for the same period of, 2014. 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, also by increased cost of frequency and bandwidth as we continued to focus on data penetration and the expansion of our networks. Increase in cable TV programing costs in line with incremental revenue from Tigo Home. Interconnection costs decreased 31% YoY due to regulatory measures, there is also a decrease in bad debt by 37%. Some costs such as voice and SMS decreased in line with the decrease of revenue related to those concepts.

Gross profit margin increased to 66.8% for the six months ended June 30, 2015 from 65.9% for the same period of 2014, primarily from reduction of costs in the mobile business and higher revenue from TV business.

Sales and marketing

Sales and marketing expenses increased by 14% for the six months ended June 30, 2015 to Gs.322,532 million from Gs.282,570 million for the same period ended June 30, 2014. 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.

General and administrative expenses

General and administrative expenses increased by 5.2% for the six months ended June 30, 2015 to Gs.292,640 million from Gs.278,046 million for the same period of 2014. 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 39.4% for the period ended June 30, 2015 from 34.9% in 2014.

Operating profit

Operating profit decreased by 14.3% for the six-month period ended June 30, 2015 to Gs.426,952 million from Gs.498,258 million for the same period ended June 30, 2014. The operating margin decreased from 31% at the end of June 30, 2014 to 27.4% as of June 30, 2015. This decrease was mainly because of the higher expense in technical service fee, subsidies and sales commissions related to data mobile plans, 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 6.3% in the six-month period ended June 30, 2015 to Gs.56,207 million from Gs.52,892 million for the same period ended June 30, 2014. 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 increased by 495% at the end of June, 2015 to Gs.(201,470) million from a net gain of Gs.50,993 million at the end of June, 2014. 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 4,384 as of June 30, 2014 to 5,184 as of June 30, 2015.

Charge for taxes

The charge for taxes decreased by 70.3%, to Gs. 27,702 million as of June 30, 2015, from Gs. 93,264 million for the same period ended June 30, 2014, due primarily to reduced gross margin and higher G&A expenses. The effective tax rate for the period ended June 30, 2015 was 16.4% compared to 18.8% for the same period ended June 30, 2014.

Net profit for the period

Net profit at the end of June 30, 2015 decreased by 65% to Gs.141,573 million compared to a net profit of Gs.403,095 million at the end of June 30, 2014 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. In the six-month period ended June 30, 2015, value-added services represent 49.7% of recurring revenue, versus 49.4% in the same period ended June 30, 2014. 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 six-month period ended June 30, 2015 and 2014 amounted to Gs.219,457 million and Gs.177,166 million, respectively.

Financing

As of June 30, 2015, our total outstanding indebtedness and other financing was Gs.1,709,013 million. As of June 30, 2014, our total outstanding indebtedness and other financing was Gs.1,571,118 million.

Our interest expense for the period ended June 30, 2015 was Gs.60,197 million and for the same period ended June 30, 2014 was Gs.59,132 million.

Cash Flows

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

PYG millions	Period ended June 30,	
	2015	2014
Net cash provided by operating activities	319,432	551,427
Net cash used in investing activities	(377,107)	(303,537)
Net cash used in financing activities	(95,379)	(556,535)
Net (decrease) increase in cash and cash equivalents	**(153,054)**	**(308,645)**
Cash and cash equivalents at the end of the period	201,046	326,822

Six-month periods ended June 30, 2015 and 2014

For the six-month period ended June 30, 2015 cash provided by operating activities was Gs.319,432 million compared to Gs.551,427 million for the same period ended June 30, 2014. The decrease was mainly due to reduced revenue and higher payments to suppliers.

For the six-month period ended June 30, 2015 cash provided by investing activities was Gs.(377,107) million compared to Gs.(303,537) million for the same period ended June 30, 2014, mainly due to higher investments in CAPEX than the previous year.

For the six-month period ended June 30, 2015 cash provided by financing activities was Gs.(95,379) million compared to Gs.(556,535) million for the same period ended June 30, 2014. The variation of cash used for financing activities during the six-month period ended June 30, 2015 is mainly due to 49% less dividends paid than in the previous year.

The net decrease in cash and cash equivalents for the six-month period ended June 30, 2015 was Gs.(153,054) million compared to Gs.(308,645) million for the same period of 2014. We had closing cash and cash equivalents of Gs.201,046 million as of June 30, 2015 compared to Gs.326,822 million as of June 30, 2014.

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