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

TELEFONICA CELULAR DEL PARAGUAY S.A.

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

We believe in better. We believe in tigo

1. Overview

We are a leading provider of telecommunications services, including mobile telephony, broadband internet, pay television, and other related products, such as Mobile Financial Services (MFS) and digital media. We hold the number one position in the mobile market with more than 3.45 million mobile customers, while our Hybrid Fiber Cable (HFC) network passes more than 501.3 thousand homes, and we provide Mobile Financial Services (MFS) to 1.16 million customers. In the nine-month period ended 30 September 2017, we generated revenue of Gs. 2,317.2 billion and EBITDA of Gs.1,081 billion.

2. Recent Developments

Acquisitions or disposals

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

On 26 April 2017, we announced an agreement to sell and lease back approximately 1,400 wireless communications towers 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 for our network equipment in exchange for cash. As a result of this transaction, we will receive approximately Gs. 700 billion (equivalent to $125 million) in cash. The portion of the assets that will be transferred and that will not be leased back by Telefonica Celular 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 $76 million). This triggered the recognition of an upfront gain on sale of $26 million under "Other operating income (expenses), net".

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 several 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:

Drivers for revenue growth

We are building state-of-the art fixed and mobile networks to deliver services for consumers and businesses. We are rapidly increasing the digital capabilities of our mobile network, extending our 4G network coverage – a technology that enables a step change in the speed of data services that can be delivered to our mobile customers. We are also expanding the footprint of our HFC fixed network, passing homes and business premises and connecting them to our infrastructure.

We are monetizing the substantial investment we make in fixed and mobile networks by providing high quality, secure connectivity as well as innovative, compelling value-for-money services that consumers and businesses demand.

On the mobile front, we continue to focus on high-value customers and on expanding coverage and capacity on our 4G network. We now have 526 thousand customers on 4G, more than two times last year's level. Our mobile subscriber base declined 8% year-on-year to 3.45 million as of September 2017 as we continue to focus on attracting higher-quality customers only. This is reflected in our monthly ARPU, which increased from $9 in September 2016 to $10.0 in September 2017. In local currency terms, ARPU increased 11% year-on-year, mostly due to higher revenue from increased smartphone penetration in our customer base.

We continue to expand our HFC fixed network at a rapid pace, reaching nearly 501.3 thousand homes passed as of 30 September 2017. We connected 31,138 HFC homes year-on-year, and we continue to invest to provide faster and more reliable broadband connectivity needed to support the economic growth and the expansion of our middle class in Paraguay.

Our fixed network buildout is also opening new opportunities for our B2B segment, where revenue continues to grow at a high-single-digit rate.

Customers

Mobile customers

Our mobile customer numbers as of 30 September 2017, 2016 and 2015 were as follows:

In millions	Period ended 30 September		
	2017	2016	2015
Mobile customers	3.45	3.75	3.91

Our total mobile customer base decreased by 8% to 3.45 million from 3.75 million, with a net loss of 301,000 customers year-on-year, mostly reflecting the loss of pre-paid customers with very low ARPU. Our mobile data customer base grew by almost 36,000 customers year-on-year, to 1.96 million, which accounted for around 57% of the total mobile subscriber base. In the same way, our 4G customer based grew 272% year-on-year and 4G customers accounted for 15% of the total mobile subscriber base reaching 526 thousand customers.

Home

Our HFC network covers approximately 501.3 thousand homes in Paraguay, and we provide services to around 361.4 thousand Revenue Generating Units (RGUs, HFC only). Our home customers can choose from a complete suite of services, including pay TV, internet, and other digital services. Our pay 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 strategy is to expand our HFC network faster and more cost-effectively, increasing our homes passed, homes connected, and revenue.

New products and services

Innovation continues to be a major focus area, as we seek to grow revenue by developing and selling additional products and services through which we can gain a greater share of our customers' disposable income.

During the first semester of 2017, we launched our Direct-to-Home TV (DTH) and provide TV services to around 24.5 thousand customers. Our DTH service covers approximately 85% of the country. In addition, we use our LTE network to provide fixed telecom services such as high-speed internet in cities where we do not have the HFC coverage. Finally, our Tigo Business unit also looks for ways to grow with innovation, with the recent addition of its first UPTIME Tier 3 certified data center to help us expand into business services such as co-location and cloud solutions.

Capital expenditures

We consistently improve the quality and increase the coverage of our mobile and cable networks. This requires the purchasing of new licenses and spectrum, investing in new infrastructure, and modernizing and upgrading our networks and IT backbones.

Balance sheet capital investment totaled Gs.323,8 billion during the nine-month period ended 30 September 2017, compared to Gs. 602,2 billion during the nine-month period ended 30 September 2016, in which we invested in the acquisition of the 4G spectrum. Our investments remain directed towards the strategic focus areas of 4G mobile, the HFC network rollout, and the IT infrastructure that underpins the future growth.

Competitive and regulatory pressures on pricing

The markets in which we operate are competitive in nature, and we expect competition will remain robust. 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. We seek to sustain our competitive position by providing innovative offers across fast and reliable networks, and by leading with significant positive initiatives that reflect our commitment to sustainability.

Our customers are front and center of everything we do. Our aim is to provide an efficient, first-time-right service that delivers real value. By building partnerships with major global content providers, we are able to connect our customers to a wide-range of audio, video, and other online media solutions. By continuing to innovate with our platforms, developing our services, and expanding our infrastructure, we offer our customers better ways to communicate, work, shop, and play.

The regulatory environment has become more challenging in our market. Over the past year, new regulation has allowed customers to roll over their unused minutes, SMS bundles and data balances at the end of the month rather than losing these. These changes in regulation hinder revenue recognition and affect margins of mobile services, and such changes force us to quickly adapt our pricing models as needed to achieve our desired margin and return targets.

Effect of exchange rate fluctuations

The exchange rate for the Paraguayan Guarani fluctuates in relation to the U.S. dollar and such fluctuations may, from time to time, have a material adverse effect on our earnings, assets and liability valuation, and cash flows. Moreover, currency movements can also affect our financial leverage, as some of our debt is denominated in U.S. dollars.

The PYG/USD exchange rate moved from 5,555 as of 30 September 2016 to 5,657 as of 30 September 2017. This modest change in the exchange rate had no significant impact on our Net Profit for the period ending 30 September 2017.

4. Results of Operations

Nine-month period ended 30 September 2017 and 2016

PYG millions	Nine months ended 30 September		Percent change
	2017	2016	
Revenue	2,317,251	2,420,372	(4.3%)
Cost of sales	(458,370)	(572,035)	(19.9%)
Gross profit	**1,858,881**	**1,848,337**	**0.6%**
Operating expenses	(777,566)	(763,610)	1.8%
Depreciation	(276,484)	(263,614)	4.9%
Amortization	(103,044)	(93,874)	9.8%
Other operating income (expenses), net	146,866	(1,641)	(9049.8%)
Operating profit	**848,653**	**725,598**	**17.0%**
Interest expense	(167,193)	(152,387)	9.7%
Interest and other financial income	4,430	12,456	(64.4%)
Exchange loss, net	(20,079)	109,822	(118.3%)
Profit before tax	**665,811**	**695,489**	**(4.3%)**
Income tax expense	(112,433)	(104,847)	7.2%
Net profit and comprehensive income for the period.	**553,378**	**590,642**	**(6.3%)**

Operating Data:			
Number of mobile subscribers	**3,450,655**	**3,752,159**	**(8.0%)**
Postpaid	878,822	883,593	(0.5%)
Prepaid	2,571,833	2,868,566	(10.3%)
Monthly churn %			
Postpaid handset	1.8%	2.2%	(18.3%)
Postpaid datacard	3.9%	3.7%	6.3%
Total postpaid	1.9%	2.3%	(17.7%)
Prepaid handset	3.3%	5.5%	(39.2%)
Prepaid datacard	7.9%	23.9%	(66.9%)
Total prepaid	3.3%	5.5%	(39.6%)
Total monthly churn (1)	3.0%	4.8%	(37.8%)
Monthly ARPU (US$) (2)			
Postpaid	19.8	19.6	1.1%
Prepaid	6.7	6.0	11.2%
Total monthly ARPU (3)	10.0	9.2	9.0%
Number of employees	**1,159**	**1,148**	**1.0%**

(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 5,657 and 5,555 to US$1.00 in 30 September, 2017 and 2016, respectively.

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

Revenue

Total revenue of Gs. 2,317 billion declined 4.3% year-on-year as reported. Our mobile business performance was impacted by lower handset sales and by the ongoing erosion of revenue from voice and SMS services, partly offset by continued growth from data services, consistent with trends seen in many mobile markets globally. Mobile data revenue grew by nearly 17% in the nine-month period ended 30 September 2017, while voice and SMS revenue fell by 15%. In the nine-month period, mobile data accounted for 44% of total mobile revenue, compared to 37% in the nine-month period of 2016, with the share of voice and SMS in the mix correspondingly falling to 30% from 33%.

Total cable revenue grew by 21% year-on-year as reported, with fixed B2B revenue increasing by 30% and residential cable revenue growing by 20%.

Customer base

As of 30 September 2017, our total mobile customer base was 3,450,655, which represents a decrease of 8% from 3,752,159 as of 30 September 2016, with prepaid customers accounting for 75% or 2,572,000 of our total mobile customers. We continue to focus on attracting higher quality customer in this more penetrated market and set subsidy levels that support and attract migration from voice to data. We have been investing in improvements in the quality of our networks and increasing capacity and coverage, something that we believe has helped to retain our most valuable customers and keep them satisfied. Strengthening our network distribution through digital products has also helped making our products more accessible.

Cost of sales

Cost of sales decreased by 19.9% for the nine-month period ended 30 September 2017 to Gs.458,3 billion from Gs. 572 billion for the same period in 2016. Our cost of sales is affected by lower T&E costs and some costs such as voice and SMS decreased in line with the decrease of revenue related to those services.

Gross profit margin increased to 80.2% for the nine-month period ended 30 September 2017 from 76.4% for the same period in 2016.

Operating expenses

Operating expenses increased by 1.8% for the six-month ended 30 September 2017 to Gs.777.5 billion from Gs. 763.6 billion for the same period in 2016. As a percentage of revenue, general and administrative expenses increased to 33.6% for the period ended 30 June 2017 from 31.5% in 2016.

EBITDA

	Nine months ended 30 September	
	2017	2016
EBITDA (1)	1,081,315	1,084,727
EBITDA margin (2)	46.7%	44.8%
Net debt to LTM EBITDA (3)	1.44	1.39
Total debt to LTM EBITDA (4)	1.97	1.66

(1) We define EBITDA as our earnings before interests, taxes, depreciation and amortization.

(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 six months ended 30 September 2017.

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

EBITDA decreased in absolute figures Gs. 3.412 billion and EBITDA margin improved by 180 basis points year-on-year. The margin improvement mostly reflects a decrease handset revenue and cost, as well as costs associated with the provision of voice and SMS services.

Operating profit

Operating profit increased by 17% for the nine-month period ended 30 September 2017 to Gs.848.6 billion from Gs. 725.5 billion for the same period ended 30 September 2016. The operating margin increased from 30.0% at end of 30 September 2016 to 36.6% on 30 September 2017. The year-on-year variation stems mostly from the gain on the sale of towers during the third quarter of 2017.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 16.3% in the nine-month period ended 30 September 2017 to Gs.162.7 billion from Gs.139.9 billion for the same period ended 30 September 2016. This increase was mainly due to higher interest accretion of football rights, interest accretion of new financial debts, and finance leases, and the effect of increased foreign exchange rate on our financial debt which is mainly denominated in US Dollars.

Foreign exchange gain (loss)

Exchange gain, net, decreased by 118% at the end of September 2017 to a net loss of Gs.20 billion from a net gain of Gs.109.8 billion at the end of September 2016. Exchange gains and losses resulted primarily as a result of movements in the PYG/USD exchange rate resulting in the 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 5,555 as of 30 September 2016 to 5,657 as of 30 September 2017.

Charge for taxes

The charge for taxes increased by 7.2%, to Gs.112.4 billion for the nine-month period ended 30 September 2017, from Gs. 104.8 billion for the same period ended 30 September 2016, due primarily to a lower profit before tax. The effective tax rate for the period ended 30 September 2017 was 16.9% compared to 15.1% for the same period ended 30 September 2016.

Net profit for the period

Net profit at the end of 30 September 2017 decreased by 6% to Gs.553.4 billion compared to a net profit of Gs.590.6 billion at the end of 30 September 2016 as a result of the effects explained above.

5. Trend Information

Our strategy is centered around the deployment of high-speed data networks, both mobile and fixed. On the revenue side, we accelerated the migration from mobile legacy voice and SMS to data, as well as continued expanding our cable footprint as an enabler for our fast-growing Home and Business-to-Business (B2B) businesses. On the operational side, we continued the reconfiguration of our cost base, with Digital as a key enabler to capture efficiencies and increase operational leverage to drive cash flow growth. We also increased our focus and efforts to delight our customers with a superior customer experience.

Our strategy to monetize the rapidly growing demand for mobile data is built around expanding our 4G coverage. We are driving the adoption of data-capable smartphone devices that enable customers to use data services on the move. By the end of September 2017, our smartphone user base reached 1.7 million subscribers, or 52% of our total customer base. We are creating compelling data-centric products and services to encourage our consumers to consume more data, while maintaining price discipline. By the end of September 2017, we had almost 1.9 million data users, representing more than a half of our total customer base.

Demand for PayTV and fixed broadband access continues to grow rapidly in our market, as coverage, usage and affordability increase. Our strategy to address this attractive digital growth opportunity is built around accelerating the roll-out of our high-speed HFC fixed network. We fill the network as fast as possible, converting homes passed into homes connected. We upsell through bundling of services to ensure we maximize the number of revenue-generating units per household, and we drive customer connections onto our network by expanding our range of digital services and aggregating content, including exclusive local content, enabling us to differentiate our offerings from others in the market.

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.

Financing

As of 30 September 2017, our total outstanding indebtedness and other financing was Gs. 2,736 billion. As of 31 December 2016, our total outstanding indebtedness and other financing was Gs. 2,354 billion.

Our interest expense for the period ended 30 September 2017 was Gs.167,1 billion and for the same period ended 30 September 2016 was Gs.152.4 billion.

Cash Flows

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

PYG million	Nine months ended 30 September	
	2017	2016
Net cash provided by operating activities	710,119	948,639
Net cash used in investing activities	91,232	(627,703)
Net cash used in financing activities	(373,639)	(136,575)
Net (decrease) increase in cash and cash equivalents	**427,713**	**184,361**
Cash and cash equivalents at the end of the period	738,635	388,345

For the nine-month period ended 30 September 2017 cash provided by operating activities was Gs.710.1 billion compared to Gs.948.6 billion for the same period ended 30 September 2016. The decrease was mainly due to an increase of payments made to suppliers, compared to the same period last year.

For the nine-month period ended 30 September 2017 cash provided by investing activities was Gs. 91.2 billion compared to used Gs. (627.7) billion for the same period ended 30 September 2016, mainly due to the sale of the towers occurred on the third quarter of 2017.

For the nine-month period ended 30 September 2017 cash used by financing activities was Gs. (373.6) billion compared to Gs. (136.5) billion for the same period ended 30 September 2016. The variation of cash used for financing activities during the nine-month period ended 30 September 2017 is mainly due to a higher payment of dividends to our shareholders.

The net increase in cash and cash equivalents for the nine-month period ended 30 September 2017 was Gs. 427.7 billion compared to Gs. 184.4 billion for the same period of 2016. We are closing with a cash and cash equivalents of Gs.738.6 billion as of 30 September 2017 compared to Gs. 388.3 billion as of 30 September 2016.

6. Subsequent events

Dividend advance

In October 2017, Telecel Board proposed to the Annual General Meeting of Shareholders a dividend advance of USD 40 million. The advance was approved and executed on the same month.