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 31 December 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 3.47 million mobile customers, while our Hybrid Fiber Cable (HFC) network passes more than 501,4 thousand homes. In the year ended 31 December 2017, we generated revenue of PYG 3,106.1 billion and EBITDA of PYG 1,413 billion.

2. Recent Developments

Acquisitions or disposals

During the year ended December 31, 2017 Telecel completed the acquisition of Telecentro S.A. for a total consideration of approximately PYG 11.300 million, net of cash acquired. The purchase accounting was finalized in December 2017. The purchase price has been mainly allocated to intangible fixed assets (PYG 1,856 million), tangible fixed assets (PYG 828 million). As a result, the final goodwill amounted to PYG 8,615 million.

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 PYG 700 billion (equivalent to $125 million) in cash.

The first closing of 836 towers occurred on 11 August 2017 and American Tower Company paid PYG 474 billion (approximately $84 million). This triggered the recognition of an upfront gain on sale of $27 million under "Other operating income (expenses), net".

The tower assets that have not yet been transferred are classified as assets held for sale as completion of their sale is highly probable.

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 666.2 thousand customers on 4G, more than two times last year's level. Our mobile subscriber base declined 4.7% year-on-year to 3.47 million as of December 2017 as we continue to focus on attracting higher-quality customers only. This is reflected in our monthly ARPU, which increased from PYG 50,8 thousand as of December 2016 to PYG 54,7 thousand as of December 2017. In local currency terms, ARPU increased 7,8% year-on-year, mostly due to higher revenue from increased smartphone penetration in our customer base.

In the HFC fixed network, of Tigo Paraguay broader network, we reached nearly 501,3 thousand homes passed HFC as of 31 December 2017. We continue to invest to provide faster and more reliable broadband connectivity needed to support the economic growth and the expansion of the middle class in Paraguay, we grew 15,6% YoY in Homes connected HFC and 18,4% in HFC revenue generating units.

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 31 December 2017, 2016 and 2015 were as follows:

In millions	Period ended 31 December		
	2017	2016	2015
Mobile customers	3.47	3.64	3.94

Our total mobile customer base decreased by 4.7% to 3.47 million from 3.64 million, with a net loss of 170 thousand customers year-on-year, mostly reflecting the loss of pre-paid customers with very low ARPU, consistent with our strategy. At year-end, our mobile data customer base reached 2.0 million and accounted for around 58% of the total mobile subscriber base. Meanwhile, our 4G customer base grew 139% year-on-year to 666 thousand and 4G customers accounted for 19,2% of the total mobile subscriber base.

Home

Telecel's HFC network is an integral part of Tigo Paraguay's broader network, which covers approximately 501,3 thousand homes in Paraguay, and we provide services to around 372,5 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

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 PYG 629,5 billion during the year ended 31 December 2017, compared to PYG 823,3 billion during the year ended 31 December 2016, in which we invested in the acquisition of 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 and our convergence capabilities.

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 market leadership position by providing innovative services on 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 have hindered revenue recognition and have affected the profitability of our mobile services, forcing 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 5,767 as of 31 December 2016 to 5,590 as of 31 December 2017. This modest change in the exchange rate had no significant impact on our Net Profit for the period ending 31 December 2017.

4. Results of Operations

Year ended 31 December 2017 and 2016

PYG millions	Year ended 31 December			Percent change
	2017	2016	2015	
Revenue	3,106,130	3,088,659	3,172,136	0.7%
Cost of sales	(609,897)	(713,194)	(750,630)	(15.3%)
Gross profit	**2,496,233**	**2,375,465**	**2,421,506**	**5.5%**
Operating expenses	(1,082,842)	(987,381)	(985,629)	8.4%
Depreciation	(367,294)	(360,008)	(307,182)	2.3%
Amortization	(138,053)	(126,105)	(119,142)	9.5%
Other operating income (expenses), net	168,230	(6,479)	(74,083)	(2696.5%)
Operating profit	**1,076,274**	**895,492**	**935,470**	**22.5%**
Interest expense	(236,130)	(197,870)	(150,526)	19.3%
Interest and other financial income	5,404	9,043	8,934	(40.2%)
Exchange loss, net	(4,651)	9,468	(431,045)	(149.1%)
Profit before tax	**840,897**	**716,133**	**362,833**	**20.3%**
Income tax expense	(137,683)	(104,148)	(54,581)	38.0%
Net profit and comprehensive income for the period.	**703,214**	**611,985**	**308,252**	**17.3%**

Operating Data:				
Number of mobile subscribers	**3,465,254**	**3,635,439**	**3,935,550**	**(4.7%)**
Postpaid	889,439	882,357	909,926	0.8%
Prepaid	2,575,815	2,753,082	3,025,734	(6.4%)
Monthly churn %				
Postpaid handset	1.9%	2.1%	1.9%	0.2 ppts
Postpaid datacard	3.0%	3.6%	3.9%	0.6 ppts
Total postpaid	1.9%	2.1%	2.0%	0.2 ppts
Prepaid handset	2.8%	3.1%	2.4%	0.2 ppts
Prepaid datacard	5.3%	5.8%	5.7%	0.5 ppts
Total prepaid	3.0%	3.1%	2.4%	0.1 ppts
Total monthly churn (1)	2.7%	2.9%	2.3%	0.2 ppts
Monthly ARPU (2)				
Postpaid	108,0	104,3	101.4	3,6%
Prepaid	37,0	34,2	35.5	8,4%
Total monthly ARPU (3)	54,7	50,8	50.8	7,8%
Number of employees	**1,179**	**1,148**	**833**	**2.7%**

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

(2) ARPU in local currency is expressed in thousand

(3) Our total ARPU is individually calculated by reference to our aggregate prepaid and postpaid customers. Postpaid include B2C and B2B

Revenue

Total revenue of PYG 3,106 billion increased 0.7% 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 19,8% in the year ended 31 December 2017, while voice and SMS revenue fell by 13,9%. In the current year, mobile data accounted for 49% of total mobile revenue, compared to 41% in the previous year, with the share of voice and SMS in the mix correspondingly falling to 36% from 42%.

Fixed service revenue grew by 2,1% year-on-year as reported, with fixed B2B revenue increasing by 21,8% and residential cable revenue falling by 3,7%.

Customer base

As of 31 December 2017, our total mobile customer base was 3,46 million which represents a decrease of 4,7% from 3,63 million as of 31 December 2016, with prepaid customers accounting for 74% or 2,58 million of our total mobile customers. We continue to focus on attracting higher quality customer and use subsidies to stimulate adoption of data services. We have been investing to improve the quality of our networks, increasing both capacity and coverage, something that we believe has helped retention of our most valuable customers. Strengthening our network distribution through digital channels has also contributed to making our products more accessible.

Cost of sales

Cost of sales decreased by 14,5% for the year ended 31 December 2017 to PYG 609.9 billion from PYG 713.2 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 80.4% for the year ended 31 December 2017 from 76.9% for the same period in 2016.

Operating expenses

Operating expenses increased by 9.7% for the year ended 31 December 2017 to PYG 1,082.8 billion from PYG 987.4 billion for the same period in 2016. As a percentage of revenue, general and administrative expenses increased to 13,0% for the period ended 31 December 2017 from 11,8% in 2016.

EBITDA

	Year Ended 31st December		
	2017	2016	2015
EBITDA (1)	1.413.391	1.388.084	1.435.877
EBITDA margin (2)	45,50%	44,94%	45,27%
Net debt to LTM EBITDA (3)	1,58	1,47	1,52
Total debt to LTM EBITDA (4)	1,93	1,70	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 year ended 31 December 2017.

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

EBITDA increased by PYG 25,3 billion (1,8% year-on-year), and EBITDA margin improved by 56.2 basis points year-on-year. The margin improvement mostly reflects a decrease in handset revenue and cost, as well as costs associated with the provision of voice and SMS services.

Operating profit

Operating profit increased by 20,2% for year period ended 31 December 2017 to PYG 1,076.3 billion from PYG 895.5 billion for the same period ended 31 December 2016. The operating margin increased from 29% at end of 31 December 2016 to 34,6% on 31 December 2017. The year-on-year variation stems mostly from the gain on the sale of towers, accounting a total of PYG 152 billion during the third quarter of 2017.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 22.2% in the year ended 31 December 2017 to PYG 230.7 billion from PYG 188.8 billion for the same period ended 31 December 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 decreased foreign exchange rate on our financial debt which is mainly denominated in US Dollars.

Foreign exchange gain (loss)

Exchange gain, net, decreased by 149% at the end of December 2017 to a net loss of PYG 4.6 billion from a net gain of PYG 9.5 billion at the end of December 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 5,767 as of 31 December 2016 to 5,590 as of 31 December 2017.

Charge for taxes

The charge for taxes increased by 32% to PYG 137.7 billion for the year ended 31 December 2017, from PYG 104.1 billion for the same period ended 31 December 2016, due primarily to a lower profit before tax. The effective tax rate for the period ended 31 December 2017 was 16.4% compared to 14.5% for the same period ended 31 December 2016.

Net profit for the period

Net profit at the end of 31 December 2017 increased by 14,9% to PYG 703.2 billion compared to a net profit of PYG 611.9 billion at the end of 31 December 2016 as a result of the effects explained above.

5. Trend Information

Our strategy is centered on 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 December 2017, our smartphone user base reached 1.8 million subscribers, or 54% 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 December 2017, we had almost 2 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 31 December 2017, our total outstanding indebtedness and other financing was PYG 2,726 billion. As of 31 December 2016, our total outstanding indebtedness and other financing was PYG 2,354 billion.

Our interest expense for the year ended 31 December 2017 was PYG 236.1 billion and for the same year ended 31 December 2016 was PYG 197.8 billion.

Cash Flows

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

PYG million	Year Ended 31st December		
	2017	2016	2015
Net cash provided by operating activities	953.085	1.241.601	573.204
Net cash used in investing activities	-422.130	-817.324	-1.037.361
Net cash used in financing activities	-340.384	-322.070	273.204
Net (decrease) increase in cash and cash equivalents	177.124	106.938	-150.116
Cash and cash equivalents at the end of the period	488.046	310.922	203.984

For the year ended 31 December 2017 cash provided by operating activities was PYG 953 billion compared to PYG 1,241.6 billion for the same period ended 31 December 2016. The decrease was mainly due to an increase of payments made to suppliers and taxes.

For the year ended 31 December 2017 cash used by investing activities was PYG (422,1) billion compared to PYG (817.3) billion for the same period ended 31 December 2016, mainly due to the sale of the towers occurred on the third quarter of 2017.

For the year ended 31 December 2017 cash used by financing activities was PYG (340,4) billion compared to PYG (322,1) billion for the same period ended 31 December 2016. The variation of cash used for financing activities during the year ended 31 December 2017 is mainly due to a higher payment of dividends to our shareholders net off set of a new issue of a Loan for 367 billion.

The net increase in cash and cash equivalents for the year ended 31 December 2017 was PYG 177.7 billion compared to PYG 106,9 billion for the same period of 2016. We are closing with a cash and cash equivalents of PYG 488 billion as of 31 December 2017 compared to PYG 310.9 billion as of 31 December 2016.

6. Subsequent events

Tower sale and lease-back agreement

As part of the agreement, in January and April 2018, the Company transferred 121 and 212 towers to American Tower International Inc. and collected cash for PYG 70,733 million and PYG 119,058 million, respectively.

4G/LTE Licence 700 mhz

In February 2018 the Company paid PYG 118,093 million to Conatel, the industry's regulator, for the acquisition of three sub bands for 4G spectrum: mobile services, internet and data, which was granted by Resolution 08/2018 on January 5, 2018.