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 2018

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 digital media. We hold the number one position in the mobile market with more than 3.27 million mobile customers, while our Hybrid Fiber Cable (HFC) network passes more than 616.6 thousand homes. In the nine month period ended 30 September 2018, we generated revenue of PYG 2,342.5 billion and EBITDA of PYG 1,080.1 billion.

2. Recent Developments

Acquisitions or disposals

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 second closing of 121 towers occurred on 3 January 2018 and American Tower Company paid PYG 67 billion (approximately $12 million). This triggered the recognition of an upfront gain on sale of $9 million under "Other operating income (expenses), net".

The third and fourth closing of 212 and 97 towers occurred on April and May respectively. American Tower Company paid PYG 118.3 billion (approximately $21.3 million), and PYG 51.5 billion (approximately $9.8 million). This triggered the recognition of an upfront gain on sale of $7.8 million and $2.7 million under "Other operating income (expenses), net".

The fifth closing of 10 towers occurred on September. American Tower Company paid PYG 5.6 billion (approximately $1 million). This triggered the recognition of an upfront gain on sale of $0.3 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 of our 4G network. On the fixed side, 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. 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 2018, 2017 and 2016 were as follows:

In millions	Nine-month period ended 30 September		
	2018	2017	2016
Mobile customers	3.27	3.45	3.75

Our total mobile customer base decreased by 5.2% to 3.27 million from 3.45 million, with a net loss of 181 thousand customers year-on-year, mostly reflecting the loss of pre-paid customers with very low ARPU, consistent with our strategy. At the end of the period, our mobile data customer base reached 1.89 million and accounted for around 58% of the total mobile subscriber base. Meanwhile, our 4G customer base grew 64% year-on-year to 861.4 thousand and 4G customers accounted for 26% of the total mobile subscriber base.

Home

Our HFC network is an integral part of Tigo Paraguay's broader network, which covers approximately 616.6 thousand homes and serves around 446.7 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.

The following table shows the historical evolution of Tigo Paraguay's HFC network and customer base:

Homes Passed HFC	Q3'17	Q4'17	Q1'18	Q2'18	Q3´18
HFC Homes Passed	589,264	602,064	602,064	602,064	616,568
HFC Homes Connected	246,253	255,429	269,860	278,233	286,761
Of which Telecel	*85,658*	*86,459*	*88,345*	*89,022*	*89,537*
HFC RGUs	377,263	393,611	415,891	431,390	446,723
Of which Telecel	*135,489*	*137,452*	*140,463*	*142,422*	*143,664*

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 445.3 billion during the nine-month period ended 30 September 2018, compared to PYG 323.8 billion during the nine-month period ended 30 September 2017, 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. Over the past year, this competition has intensified substantially. 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.

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 5,657 as of 30 September 2017 to 5,895 as of 30 September 2018. This change in the exchange rate had an impact on our Net Profit for the nine-month period ending 30 September 2018, due to the increase of the rate, impacting on our debt in US Dollars.

4. Results of Operations

Nine-month period ended 30 September 2018 and 2017

PYG millions	Nine-month period ended 30 September		Percent change
	2018	2017	
Revenue	2,342,493	2,317,251	1.1%
Cost of sales	(503,649)	(458,370)	9.9%
Gross profit	**1,838,844**	**1,858,881**	**(1.1%)**
Operating expenses	(758,757)	(777,566)	(2.4%)
Depreciation	(275,852)	(276,484)	(0.2%)
Amortization	(113,218)	(103,044)	9.9%
Other operating income (expenses), net	101,164	146,866	(31.1%)
Operating profit	**792,181**	**848,653**	**(6.7%)**
Interest expense	(211,329)	(167,193)	26.4%
Interest and other financial income	7,758	4,430	75.1%
Exchange loss, net	(62,409)	(20,079)	210.8%
Profit before tax	**526,201**	**665,811**	**(21.0%)**
Income tax expense	(62,236)	(112,433)	(44.6%)
Net profit and comprehensive income for the period.	**463,965**	**553,378**	**(16.2%)**

Operating Data:			
Number of mobile subscribers	**3,269,103**	**3,450,655**	**(5.3%)**
Postpaid	914,454	878,822	4.1%
Prepaid	2,354,649	2,621,833	(8.4%)
Monthly churn %			
Postpaid handset	2.1%	1.8%	0.3 ppts
Postpaid datacard	3.8%	3.9%	0.1 ppts
Total postpaid	2.1%	1.9%	0.2 ppts
Prepaid handset	3.3%	3.3%	0.01 ppts
Prepaid datacard	5.3%	7.9%	(2.6 ppts)
Total prepaid	3.3%	3.3%	0.0 ppts
Total monthly churn (1)	3.0%	3.0%	0.0 ppts
Monthly ARPU (2)			
Postpaid	99.5	112.0	(11.1%)
Prepaid	38.3	37.9	1.2%
Total monthly ARPU (3)	55.2	56.6	(2.4%)
Number of employees	**1,071**	**1,159**	**(7.6%)**

(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 2,342.5 billion increased 1.1% 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 11.4% in the nine-month period ended 30 September 2018, while voice and SMS revenue fell by 7.2%. In the current period, mobile data accounted for 50.1% of total mobile revenue, compared to 44% in the previous year, with the share of voice and SMS in the mix correspondingly increasing to 31.5% from 30%.

Customer base

As of 30 September 2018, our total mobile customer base was 3,27 million which represents a decrease of 5% from 3,45 million as of 30 September 2017, with prepaid customers accounting for 74% or 2.42 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 increased by 9.9% for the nine-month period ended 30 September 2018 to PYG 503.7 billion from PYG 458.4 billion for the same period in 2017. Our cost of sales is affected by higher handset costs, increased programming cost and some costs such as voice and SMS decreased in line with the decrease of revenue related to those services.

Gross profit margin decreased to 78.5% for the nine-month period ended 30 September 2018 from 80.2% for the same period in 2017.

Operating expenses

Operating expenses decreased by 2.4% for the nine-month period ended 30 September 2018 to PYG 758.7 billion from PYG 777.6 billion for the same period in 2017. As a percentage of revenue, general and administrative expenses decreased to 32.4% for the nine-month period ended 30 September 2018 from 33.6% in 2017.

EBITDA

	Nine-month Period Ended 30 September	
	2018	2017
EBITDA (1)	1,080,087	1,081,315
EBITDA margin (2)	46.1%	46.7%
Net debt to LTM EBITDA (3)	2.04	1.44
Total debt to LTM EBITDA (4)	2.12	1.97

(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 nine-month period ended 30 September 2018.

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

EBITDA decreased by PYG 1.2 billion (0.1% year-on-year), and EBITDA margin decreased by 0.5 percentage points year-on-year. The minor decrease is mainly due to higher telephone and equipment costs.

Operating profit

Operating profit decreased by 6.7% for the nine-month period ended 30 September 2018 to PYG 792.2 billion from PYG 848.7 billion for the same period ended 30 September 2017. The operating margin decreased from 36.6% at end of 30 September 2017 to 33.8% on 30 September 2018. The year-on-year variation stems mostly from the gain on the sale of towers during 2018, for approximately PYG 101 billion.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 25.1% in the nine-month period ended 30 September 2018 to PYG 203.6 billion from PYG 162.8 billion for the same period ended 30 September 2017. 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 loss, net, increased by 210.8% at the end of September 2018 to a net loss of PYG 62.4 billion from a net loss of PYG 20.1 billion at the end of September 2017. 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, on 2017 from 5,767 on December 2016, to 5,657 on September 2017, generating a loss of PYG 20.1 billion. On 2018, the rate increased from 5,590 on December 2017, to 5,895 as of 30 September 2018, generating a net loss of PYG 62.4 billion.

Charge for taxes

The charge for taxes decreased by 44.6% to PYG 62.2 billion for the nine-month period ended 30 September 2018, from PYG 112.4 billion for the same period ended 30 September 2017. The effective tax rate for the period ended 30 September 2018 was 11.8% compared to 16.9% for the same period ended 30 September 2017.

Net profit for the period

Net profit at the end of 30 September 2018 decreased by 16,2% to PYG 463.9 billion compared to a net profit of PYG 553.4 billion at the end of 30 September 2017 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 September 2018, our smartphone user base reached 1.8 million subscribers, or 55% 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 2018, we had almost 2 million data users, representing more than a half of our total customer base.

Demand for Pay TV 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 2018, our total outstanding indebtedness and other financing was PYG 2,987 billion. As of 31 December 2017, our total outstanding indebtedness and other financing was PYG 2,726 billion.

Our interest expense for the year ended 30 September 2018 was PYG 211.3 billion and for the same period ended 30 September 2017 was PYG 167.2 billion.

Cash Flows

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

PYG million	Nine-month period ended 30 September	
	2018	2017
Net cash provided by operating activities	711,595	710,119
Net cash used in investing activities	(1,221,926)	91,233
Net cash used in financing activities	124,879	(373,639)
Net (decrease) increase in cash and cash equivalents	**(385,452)**	**427,712**
Cash and cash equivalents at the end of the period	102,594	738,634

For the period ended 30 September 2018 cash provided by operating activities was PYG 711.6 billion compared to PYG 710.1 billion for the same period ended 30 September 2017. The increase was mainly due to an increase of collections from customers.

For the period ended 30 September 2018 cash used by investing activities was PYG (1,221.9) billion compared to PYG 91.2 billion provided from investing activities for the same period ended 30 September 2017, mainly due to loans to related parties.

For the period ended 30 September 2018 cash provided from financing activities was PYG 124.9 billion compared to PYG (373.6) billion used on the same period ended 30 September 2017. The variation of cash provided and used for financing activities during the period ended 30 September 2018 is mainly due to new loans from local banks.

The net decrease in cash and cash equivalents for the period ended 30 September 2018 was PYG (385.5) billion compared to the increase of PYG 427.7 billion for the same period of 2017. We closed the period with cash and cash equivalents of PYG 102.6 billion as of 30 September 2018 compared to PYG 738.6 billion as of 30 September 2017.

6. Subsequent events

Between the date of closing 30 September 2018, and the date of presentation of these information, there were no significant events or situations that affect the company’s economic and financial structure or its results.