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 2019

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 3.22 million mobile customers, while our Hybrid Fiber-Cable (HFC) network passes more than 667.5 thousand homes. In the three month period ended 31 March 2019, we generated revenue of PYG 721.7 billion and EBITDA of PYG 337.7 billion.

2. Recent Developments

Sale and Leaseback Transactions

On April 25, 2017, we announced an agreement to sell and lease back approximately 1,410 wireless communications towers to a subsidiary of American Tower Corporation (“ATC”) whereby we agreed to sell tower assets and lease back a dedicated portion of each tower for our network equipment in exchange for cash. This is consistent with our growth strategy and funding needs. As a result of this transaction, we expect to receive approximately PYG 700 billion in cash. To date, we have sold 1,286 towers for aggregate proceeds of PYG 666.5 billion, recognizing an upfront gain of 257.4 billion as other operating income. In the three month period ended 31 March 2019, we did not recognize any upfront gain.

The tower assets that have not yet been transferred are classified as assets held for sale.

We have the option to sell additional tower sites under the agreement.

We believe the transaction will allow us to focus our capital investment on other fixed assets, such as network equipment, thereby increasing our network coverage, capacity, and the overall quality of our service, while also improving our return on invested capital.

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 described below:

Revenue

We generate revenue mainly from fees associated with communication, entertainment, data, and information services that we provide to our customers, including: airtime and data usage fees, roaming fees, interconnection fees, connection fees, monthly subscription fees, broadband internet, VoIP, data transmission, cable TV, sale of content and other services and sales of equipment, cloud and ICT. We generally seek to increase our revenue through the growth of our customer base and the introduction of new products and value-added services. Our results of operations are therefore dependent on our customer base and the number of services that each customer uses.

Drivers for revenue growth

We are building state-of-the-art fixed and mobile networks to deliver services for consumers and businesses. We intend to rapidly increase the digital capabilities of our mobile network, extending our 4G/LTE network coverage – a technology that increases 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 intend to monetize 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 business demand.

Mobile

On the mobile front, we continue to focus on high-value customers and in the offer of segmented plans to grow the customer base and on expanding coverage and capacity of our 4G/LTE network. As of March 31, 2019, we had approximately 1.13 million customers on 4G/LTE, an increase of 39% compared to March 31, 2018. Our mobile subscriber base decreased by 5.2% to 3.22 million between March 31, 2019 and March 31, 2018, mostly reflecting the loss of pre-paid customers with lower ARPU, due to the competition scenario with the other operators. In 2019, our 4G/LTE customer base grew 39% compared to March 31, 2018 reaching 1.13 million. At March 31, 2018, 4G/LTE customers accounted for 24% of the total mobile customer base compared to 35% at March 31, 2019.

Home

As of March 31, 2019, our HFC network (including SPM the affiliate company) covered approximately 667.5 thousand homes in Paraguay (an 11% increase from March 31, 2018), and we provided services to around 471.3 thousand HFC RGUs, a 13% increase from March 31, 2018. 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 than our competitors, increasing our homes passed, homes connected, and revenue. We continue to invest to provide faster and more reliable broadband connectivity taking into account the expansion of the middle class in Paraguay.

In 2014, we launched Tigo Sports, a multiplatform sports content producer and differentiator of Tigo pay-TV service. The service is also available as a value-added service for mobile phone subscribers, allowing access to content through an app for smartphones. This step represents an important component of our strategy to increase client loyalty by offering exclusive content to our customers in the pay-TV and mobile areas and a significant enhancement to the value of the Tigo brand, as it differentiates us from our competitors and provides our customers with sought-after premium content. For instance, through Tigo Sports, we own the rights to broadcast the Paraguayan national football championship until 2020.

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 offer HFC coverage. Our Tigo Business unit also looks for ways to grow through innovation, with the recent addition of the first UPTIME Tier 3 certified data center to help us expand into business services such as co-location and cloud solutions. This data center allows us to offer services such as virtualization, cloud, storage, backup and housing to our business customers.

Capital expenditures to expand and improve our networks and increase our footprint

We consistently seek to 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 infrastructure. Spending 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 increases 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 expenditures during the period ended March 31, 2017, 2018 and 2019 of PYG 33.6 billion, PYG 235.0 billion and 34.4 billion, respectively, resulted in improvements in the quality of our networks and increased capacity and coverage, which improved customer experience.

Balance sheet capital investment totalled PYG 34.4 billion during the period ended March 31, 2019, compared to PYG 235.0 billion during the period ended March 31, 2018, in which we invested in the acquisition of 4G/LTE spectrum. Our investments remain directed towards the strategic focus areas of 4G/LTE 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 market in which we operate is 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.

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 Guaraní 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, 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. See “Risk Factors—Certain factors relating to Paraguay—Fluctuations of the Guaraní relative to the U.S. dollar or the implementation of restrictive currency exchange control policies by the Paraguayan government could result in an increase in our cost of financing and limit our ability to make timely payments on foreign currency-denominated debt.”

The PYG/USD exchange rate moved from PYG 5,548 to US$1.00 as of March 31, 2018 to PYG 6,181 to US$1.00 as of March 31, 2019. This variation impacted significantly on our Net Profit for the period ended March 31, 2019, in PYG 34,192 million, mainly due to our borrowings that are denominated in U.S. dollars.

4. Results of Operations

Period ended 31 March 2017 and 2016

PYG million	Period ended 31 March 2019	Period ended 31 March 2018	Percent change
Revenue	721,666	799,272	(9.7%)
Cost of sales	(131,987)	(162,457)	(18.8%)
Gross profit	**589,679**	**636,815**	**(7.4%)**
Sales and marketing	(165,565)	(154,593)	7.1%
General and administrative expenses	(86,414)	(86,106)	0.4%
Operating expenses	(251,979)	(240,699)	4.7%
Depreciation	(83,933)	799,272	(110.5%)
Amortization	(50,714)	(34,985)	45.0%
Other operating income (expenses), net	5,673	29,221	(80.6%)
Operating profit	**208,726**	**299,742**	**(30.4%)**
Interest expense	(131,987)	(65,376)	101.9%
Interest and other financial income	12,867	817	1,474%
Exchange gain (loss), net	(34,192)	8,672	(494.3%)
Profit before tax	**40,243**	**243,855**	**(83.5%)**
Income tax expense	(15,311)	(27,714)	(44.8%)
Net profit and comprehensive income for the period.	**24,932**	**216,141**	**(88.5%)**

Operating Data:			
Number of mobile subscribers	**3,218,510**	**3,395,110**	**(5.2%)**
Postpaid	904,143	894,217	1.11%
Prepaid	2,313,367	2,500,893	(7.5%)
Monthly churn %			
Postpaid handset	2.5%	2.0%	0.5 ppts
Postpaid datacard	3.5%	3.8%	0.3 ppts
Total postpaid	2.5%	2.0%	0.5 ppts
Prepaid handset	3.4%	3.5%	0.1 ppts
Prepaid datacard	5.7%	6.1%	0.4 ppts
Total prepaid	3.4%	3.5%	0.1 ppts
Total monthly churn (1)	3.1%	3.1%	0.0 ppts
Monthly ARPU (2)			
Postpaid	99.2	104.4	(5.0%)
Prepaid	36.7	38.8	(5.5.%)
Total monthly ARPU(3)	54.2	55.8	(2.9%)
Number of employees	1,068	1,148	(0.5%)

(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. Pospaid include B2C and B2B.

Revenue

Total revenue decreased by 9.7%, or PYG 77,606 million, from PYG 799 billion for the three month period ended March 31, 2018 to PYG 722 billion for the three month period ended March 31, 2019 primarily as a result of lower handset sales in our mobile business and by the ongoing trend of lower 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 8% until March 31, 2019 compared to the same period of 2018 while voice and SMS revenue fell by 25%. By March 31, 2019, mobile data accounted for 67% of total mobile service revenue, compared to 60% in the same period of 2018, with the share of voice and SMS in the mix correspondingly falling to 29% in 2019 from 35% in 2018

Fixed service revenue decrease by 6% year-on-year as reported, with fixed B2B revenue increasing by 13% and residential cable revenue falling by 14%. Fixed B2B revenue increased due to new solutions and services offered to customers and residential cable decreased due to competitive landscape and migration of legacy network UHF to HFC network from the affiliate company SPM.

Cost of sales

Cost of sales decreased by 18.8%, or PYG 30.5 billion, from PYG 162.5 billion for the three month period ended March 31, 2018 to PYG 131.9 billion for the period ended March 31, 2019. The decrease in cost of sales is directly related to the decrease in revenues, and the effect of the implementation of IFRS15.

Gross profit margin increased to 81.7% for the three month period ended March 31, 2019 from 79.7% for the period ended March 31, 2018.

Operating expenses

Operating expenses increased by 4.7% for the three month period ended March 31, 2019 to PYG 251.9 billion from PYG 240.7 billion for the same period in 2018 as a result of lower football payments as other shared costs and employee related costs. As a percentage of revenue, operating expenses increased to 35.9% for the three month period ended March 31, 2019 from 30.1% in 2018.

EBITDA

	Three month period ended 31st March	
	2019	2018
EBITDA (1)	337,700	396,116
EBITDA margin (2)	46.8%	49.6%
Net debt to LTM EBITDA (3)	2.13	1.54
Total debt to LTM EBITDA (4)	2.21	1.88

(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 2018.
(4) We calculate Total debt to EBITDA by dividing our total borrowings by our LTM EBITDA.

EBITDA decreased by PYG 58,4 billion (15% year-on-year), and EBITDA margin decreased by 2.81 basis points year-on-year.

Operating profit

Operating profit decreased by 30.4% for the three month period ended March 31, 2019 to PYG 208.7 billion from PYG 299.7 billion for the same period ended March 31, 2018 as a result of the above. The operating margin decreased from 37.5% for the period ended March 31, 2018 to 28.9% for the period ended March 31, 2019. The year-on-year variation was primarily driven by the gain on the sale of 121 towers, which represented a gain of PYG 24.9 billion during the first quarter of 2018. In the first quarter of 2019 we did not recognized any revenue from sale of towers.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 108% for the three month period ended March 31, 2019 to PYG 134.3 billion from PYG 64.6 billion for the same period ended March 31, 2018. This increase was mainly due to the callback transaction related to the Telecel 2022 Notes, as the amount of the repurchase was able to be estimated at March 31, 2019, the $7 million (PYG 43,627 million) premium and $3 million (PYG 18,543 million) of related unamortized costs were included as financial expenses in the statement of income in the three month period ended March 31, 2019.

Exchange gain (loss)

Exchange loss, net, for the three month period ended March 31, 2019 was a net loss of PYG 34.2 billion compared to a net gain of PYG 8.7 billion for the period ended March 31, 2018. Exchange gains and losses were primarily 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 decreased from PYG 5,961 to US$1.00 as of December 31, 2018 to PYG 6,181 to US$1.00 as of March 31, 2019.

Income tax expenses

The charge for taxes decreased by 44.8% to PYG 15.3 billion for the three month period ended March 31, 2019, from PYG 27.1 billion for the period ended March 31, 2018, due primarily to a lower profit before tax.

Net profit

Net profit for the three month period ended March 31, 2019 decreased by 88.5% to PYG 24.9 billion, compared to a net profit of PYG 216.1 billion for the period ended March 31, 2018, as a result of the above.

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 bond and bank financings to fund our operations, capital expenditures and working capital requirements.

We believe that our sources of liquidity are sufficient for our present requirements. Although we believe that we should be able to meet our debt service obligations and fund our operating requirements in the future through cash flow from our operations, we may seek additional financing in the capital markets from time to time, depending on market conditions and our financial requirements. We intend to continue to focus on investments in property, systems and equipment (fixed assets) and working capital management, including the timely collection of accounts receivable and efficient management of accounts payable.

Financing

Our total outstanding indebtedness and other financing for the periods ended March 31, 2017, March 31, 2018 and March 31, 2019 was PYG 2,689 billion, PYG 2,687 billion and PYG 3,034 billion, respectively.

Our interest expense for the three month period ended March 31, 2017, March 31, 2018 and March 31, 2019 was PYG 51.2 billion, PYG 65.4 billion and PYG 147.2 billion, respectively.

Cash Flows

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

Period ended March 31,	2019	2018
	(in millions of PYG)	
Net cash provided by operating activities	232,100	243,049
Net cash used by investing activities	(366,632)	(186,858)
Net cash used (from) by financing activities	100,166	(42,510)
Net (decrease) increase in cash and cash equivalents	**(32,126)**	**13,681**
Cash and cash equivalents at the end of the period	115,645	485,905

For the period ended March 31, 2019 cash provided by operating activities was PYG 232.1 billion compared to PYG 243.0 billion for the period ended March 31, 2018. The decrease was mainly due to increase in trade receivables and payables, and a decrease in taxes paid.

For the period ended March 31, 2019 cash used by investing activities was PYG 366.6 billion compared to PYG 186.9 billion for the period ended March 31, 2018, mainly due to loans granted to related parties.

For the period ended March 31, 2019 cash used by financing activities was PYG 100.2 billion compared to cash used of PYG 42.5 billion for the period ended March 31, 2018. The change in cash used for financing activities during the period ended March 31, 2019 is mainly due to the issuance of the new loan with BBVA.

The net decrease in cash and cash equivalents for the period ended March 31, 2019 was PYG 32.1 billion compared to the net increase of PYG 13.7 billion for the same period of 2018. We had closing cash and cash equivalents of PYG 115.6 billion as of March 31, 2019, compared to PYG 485.9 billion as of March 31, 2018**.**

6. Subsequent events

Financing

On April 8, 2019, Telecel issued a $300 million 5.875% senior notes due 2027 (the “Telecel 2027 Notes”). The Telecel 2027 Notes bear interest at 5.875% p.a., payable semi-annually in arrears on April 15 and October 15 of each year, starting on October 15, 2019. The net proceeds of the Telecel 2027 Notes have been used to finance the purchase of the Telecel 2022 Notes.