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

TELEFONICA CELULAR DEL PARAGUAY S.A.E.

As at and for the six month period ended 30 June 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 3.23 million mobile customers, while our Hybrid Fiber-Cable (HFC) network passes more than 692,000 homes. In the six-month period ended 30 June 2019, we generated revenue of PYG 1,440.2 billion and EBITDA of PYG 645.2 billion. We are also the leading 4G network in the country, covering up to 85% of population with this technology, giving high speed and quality mobile internet access to 1.103 million mobile customers.

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 six-month period ended 30 June 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 June 30, 2019, we had approximately 1.10 million customers on 4G/LTE, an increase of 40% compared to June 30, 2018. Our mobile subscriber base decreased by 2.9% year-on-year to 3.23 million between June 30, 2019 and June 30, 2018, mostly reflecting the loss of pre-paid customers with lower ARPU, due to increased competition. At June 30, 2019, 4G/LTE customers accounted for 34% of the total mobile customer base compared to 24% at June 30, 2018.

Home

As of June 30, 2019, our HFC network (including SPM the affiliate company) covered approximately 692,000 homes in Paraguay (a 15% increase from June 30, 2018), and we provided services to around 487,000 HFC RGUs, a 13% increase from June 30, 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, customer relationships, 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 a differentiator for Tigo's 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.

Balance sheet capital investment totalled PYG 87.5 billion during the period ended June 30, 2019, compared to PYG 333.9 billion during the period ended June 30, 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. 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. In recent years, 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. In addition, the regulator has reduced interconnection rates, which determine the price we pay to terminate our customers' calls on our competitors' networks, and the price we charge to terminate their clients' calls on our network. 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 5,703 to US$1.00 as of June 30, 2018 to PYG 6,190 to US$1.00 as of June 30, 2019. This variation impacted significantly on our Net Profit for the period ended June 30, 2019, in PYG 45,653 million, mainly due to our borrowings that are denominated in U.S. dollars. Additionally, there is a significant part of our operating costs and capital investments that is also denominated in foreign currency and therefore is impacted by any devaluation.

4. Results of Operations

Period ended 30 June 2019 and 2018

PYG million	Period ended 30 June		Percent change
	2019	2018	
Revenue	1,440,165	1,579,145	(8.8%)
Cost of sales	(265,919)	(329,510)	(19.3%)
Gross profit	**1,174,246**	**1,249,635**	**(6.0%)**
Sales and marketing	(332,998)	(315,681)	5.5%
General and administrative expenses	(196,022)	(185,754)	5.5%
Operating expenses	**(529,020)**	**(501,435)**	**5.5%**
Depreciation	(210,269)	(181,562)	15.8%
Amortization	(94,376)	(73,130)	29.1%
Other operating income (expenses), net	7,386	94,291	(92.2%)
Operating profit	**347,967**	**587,799**	**(40.8%)**
Interest expense	(228,422)	(136,739)	67.0%
Interest and other financial income	27,881	1,632	1,608.4%
Exchange gain (loss), net	(45,653)	(24,553)	85.9%
Profit before tax	**101,773**	**428,139**	**(76.2%)**
Income tax expense	(36,326)	(60,674)	(40.1%)
Net profit and comprehensive income for the period.	**65,447**	**367,465**	**(82.2%)**

Operating Data:			
Number of mobile subscribers	3,226,631	3,324,615	(2.9%)
Postpaid	901,320	905,457	(0.5%)
Prepaid	2,325,311	2,419,158	(3.9%)
Monthly churn %			
Postpaid handset	2.3%	2.1%	0.2 ppts
Postpaid datacard	3.1%	3.9%	(0.8) ppts
Total postpaid	2.3%	2.2%	0.2 ppts
Prepaid handset	3.1%	3.4%	(0.3) ppts
Prepaid datacard	4.4%	5.6%	(1.2) ppts
Total prepaid	3.1%	3.4%	(0.3) ppts
Total monthly churn (1)	2.9%	3.1%	(0.2) ppts
Monthly ARPU (2)			
Postpaid	106.3	97.5	9.0%
Prepaid	33.8	38.8	(12.8%)
Total monthly ARPU(3)	54.1	54.5	(0.7%)
Number of employees	1,078	1,073	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 8.8% year-on-year to PYG 1,440 billion for the six-month period ended June 30, 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 4% until June 30, 2019 compared to the same period of 2018 while voice and SMS revenue fell by 18%. Mobile data accounted for 67% of total mobile service revenue during the six-month period ended June 30, 2019, compared to 59% in the same period of 2018, with the share of voice and SMS in the mix correspondingly falling to 33% in 2019 from 37% in 2018

Fixed service revenue decreased by 7% year-on-year, with fixed B2B revenue increasing by 15% and residential cable revenue falling by 26%. Fixed B2B revenue increased due to new solutions and services offered to customers, while the decline in residential cable reflects increased competition and the impact of migrating customers from our legacy UHF network to the HFC network owned and operated by our sister company SPM.

Cost of sales

Cost of sales decreased by 19.3% year-on-year, to PYG 265.9 billion for the six-month period ended June 30, 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 81.5% for the six-month period ended June 30, 2019 from 79.1% for the period ended June 30, 2018.

Operating expenses

Operating expenses increased by 5.5% year-on-year for the six-month period ended June 30, 2019 to PYG 529.0 billion from PYG 501.4 billion for the same period in 2018. The increase stems primarily from higher programming costs and sponsorship costs, as well as a non-recurring adjustment to accrued expenses booked in June 2019. As a percentage of revenue, operating expenses increased to 36.7% for the six-month period ended June 30, 2019, up from 31.7% in the same period of 2018.

EBITDA

	Six-month period ended June 30,	
	2019	2018
EBITDA (1)	645,226	748,200
EBITDA margin (2)	44.8%	47.3%
Net debt to LTM EBITDA (3)	2.35	1.78
Total debt to LTM EBITDA (4)	2.44	1.99

(1) We define EBITDA as our earnings before interests, taxes, depreciation and amortization
(2) We define EBITDA margin as 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 EBITDA from the last 12 months ended 30 June 2019.(4) We calculate Total debt to EBITDA by dividing our total borrowings by our LTM EBITDA.

EBITDA decreased by PYG 102,9 billion (14% year-on-year), and EBITDA margin decreased by 2.58 basis points year-on-year, mostly due to the impact of increased competition

Operating profit

Operating profit decreased by 40.8% for the six-month period ended June 30, 2019 to PYG 347.9 billion from PYG 587.8 billion for the same period ended June 30, 2018 as a result of the above. The operating margin decreased from 40.8% for the period ended June 30, 2018 to 24.6% for the period ended June 30, 2019. The year-on-year variation reflects the lower EBITDA, as described above, as well as the gain of PYG 79.8 billion on the sale of 430 towers during the first half of 2018. In the first half of 2019, we did not recognize any gain on tower sales.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 48.4% for the six-month period ended June 30, 2019 to PYG 200.5 billion from PYG 135.1 billion for the same period ended June 30, 2018. This increase was mainly due to one-time expenses of $7 million (PYG 43,627 million) for the call premium and $3 million (PYG 18,543 million) of related unamortized costs related to the repurchase of the Telecel 2022 Notes.

Exchange gain (loss)

Exchange loss, net, for the six-month period ended June 30, 2019 was a net loss of PYG 45.6 billion compared to a net loss of PYG 24.5 billion for the period ended June 30, 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 increased from PYG 5,961 to US$1.00 as of December 31, 2018 to PYG 6,190 to US$1.00 as of June 30, 2019.

Income tax expenses

The charge for taxes decreased by 40.1% to PYG 36.3 billion for the six-month period ended June 30, 2019, from PYG 60.7 billion for the period ended June 30, 2018, due primarily to a lower profit before tax.

Net profit

Net profit for the six-month period ended June 30, 2019 decreased by 82.2% to PYG 65.5 billion, compared to a net profit of PYG 367.4 billion for the period ended June 30, 2018, as a result of the above.

Liquidity and Capital Resources

We 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 to meet our requirements.

Financing

Our total outstanding indebtedness and other financing for the periods ended June 30, 2017, June 30, 2018 and June 30, 2019 was PYG 2,726 billion, PYG 2,859 billion and PYG 3,394 billion, respectively.

Our interest expense for the six-month period ended June 30, 2017, June 30, 2018 and June 30, 2019 was PYG 102.8 billion, PYG 136.7 billion and PYG 228.4 billion, respectively.

Cash Flows

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

Period ended June 30,	2019	2018
	(in millions of PYG)	
Net cash provided by operating activities	439,037	452,387
Net cash used by investing activities	(414,877)	(691,149)
Net cash used (from) by financing activities	256,852	42,490
Net (decrease) increase in cash and cash equivalents	**281,012**	**(196,272)**
Cash and cash equivalents at the end of the period	432,218	297,628

For the period ended June 30, 2019 cash provided by operating activities was PYG 439.0 billion compared to PYG 452.4 billion for the period ended June 30, 2018. The decrease was mainly due to decrease in trade receivables and payables, and a decrease in taxes paid.

For the period ended June 30, 2019 cash used by investing activities was PYG 414.9 billion compared to PYG 691.2 billion for the period ended June 30, 2018, mainly due to loans granted to related parties, and less proceeds from sale of property, plant and equipment. During the six-month period ended June 30, 2019 we sold 31 towers, compared to 430 towers during the six-month period ended June 30, 2018.

For the period ended June 30, 2019 cash used by financing activities was PYG 256.9 billion compared to cash used of PYG 42.5 billion for the period ended June 30, 2018. The change in cash used for financing activities during the period ended June 30, 2019 is mainly due to the issuance of the new loan with BBVA, and local bonds issuance.

The net increase in cash and cash equivalents for the period ended June 30, 2019 was PYG 281.0 billion compared to the net decrease of PYG 196.3 billion for the same period of 2018. We had closing cash and cash equivalents of PYG 432.2 billion as of June 30, 2019, compared to PYG 297.6 billion as of June 30, 2018**.**

6. Subsequent events

Tower sale and lease-back agreement

In July 2019, as part of the contract signed with ATC, the Group Company transferred 104 towers and collected cash for PYG 58,286 million.

Intercompany transactions

On July 2, the Company paid the Intercompany Loan with Millicom International Operations S.A., for $10 million plus interest.

On July 3, the Company collected $4 million of interest generated from a $100 million Intercompany Loan with Millicom International S.A.. This loan was extended for one year, and bears a fixed annual interest rate of 3.8%.