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

TELEFONICA CELULAR DEL PARAGUAY S.A.E.

As at and for the nine month period ended 30 September 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 market our services under the brand Tigo, one of the most widely-recognized brands in Paraguay.

We hold the number one position in the mobile market with more than 3.34 million mobile customers, and we are the leading 4G network in the country, covering up to 90% of population with this technology, providing high speed and quality mobile internet access to 1.242 million mobile customers. Along with our affiliate company SPM, our combined Hybrid Fiber-Cable (HFC) networks pass more than 717,900 homes.

In the nine-month period ended 30 September 2019, we generated revenue of PYG 2,237 billion and EBITDA of PYG 970.4 billion.

2. Recent Developments

Local Bonds

Telefónica Celular del Paraguay S.A.E. has achieved the country's largest issuance of local bonds in local currency on the nine-month period ended 30 September 2019, for PYG 230 billion in 3 tranches: 1) PYG 115 billion which bears a fixed annual interest rate of 8.75% and maturing on June 03, 2024; 2) PYG 50 billion which bears a fixed annual interest rate of 9.25% and maturing on May 29, 2026; and finally, 3) PYG 65 billion which bears a fixed annual interest rate of 10.0% and maturing on May 31, 2029.

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 September 30, 2019, we had approximately 1.242 million customers on 4G/LTE, an increase of 44% compared to September 30, 2018. Our mobile subscriber base increased by 2.2% year-on-year to 3.34 million between September 30, 2019 and September 30, 2018, mostly reflecting the higher of pre-paid customers with lower ARPU, due to increased competition. At

September 30, 2019, 4G/LTE customers accounted for 37% of the total mobile customer base compared to 26% at September 30, 2018.

Home

As of September 30, 2019, our HFC network (including our affiliate SPM) covered approximately 717,800 homes in Paraguay (a 16.4% increase from September 30, 2018), and we provided services to around 506,900 HFC RGUs, a 13% increase from September 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 around the country.

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. Tigo Sports is among the most-watched television channels in Paraguay across all genres.

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 increases the carrying value of property, plant and equipment and of intangible assets, resulting in additional 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 totaled PYG 168.08 billion during the period ended September 30, 2019, compared to PYG 445.3 billion during the period ended September 30, 2018. The latter period included the acquisition of 4G/LTE spectrum 700Mhz. Our investments remain directed towards the strategic focus areas of 4G/LTE mobile, the HFC network rollout, and the IT infrastructure that underpins our 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 can also pose challenges 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 periodically reviews and reduces 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 can affect revenue recognition and 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 5,895 to US$1.00 as of 30 September 2018 to PYG 6,380 to US$1.00 as of September 30, 2019. This variation impacted significantly on our Net Profit for the period ended September 30, 2019, in PYG 64,938 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 September 2019 and 2018

PYG million	Period ended 30 September		Percent change
	2019	2018	
Revenue	2,155,472	2,342,493	(8.0%)
Cost of sales	(392,079)	(503,649)	(22.2%)
Gross profit	**1,763,393**	**1,838,844**	**(4.1%)**
Sales and marketing	(515,371)	(471,101)	9.4%
General and administrative expenses	(277,550)	(287,656)	(3.5%)
EBITDA	**970,472**	**1,080,087**	**(10.1%)**
Depreciation	(304,434)	(275,852)	10.4%
Amortization	(144,991)	(113,218)	28.1%
Other operating income (expenses), net	26,269	101,164	(74.0%)
Operating profit	**547,316**	**792,181**	**(30.9%)**
Interest expense	(310,378)	(211,329)	46.9%
Interest and other financial income	42,458	7,758	447.3%
Exchange gain (loss), net	(64,938)	(62,409)	4.1%
Profit before tax	**214,458**	**526,201**	**(59.2%)**
Income tax expense	(32,719)	(62,236)	(47.4%)
Net profit and comprehensive income for the period.	**181,739**	**463,965**	**(60.8%)**

Operating Data:			
Number of mobile subscribers	**3,342,562**	**3,269,103**	**2.2%**
Postpaid	911,311	914,454	(0.3%)
Prepaid	2,431,251	2,354,649	3.3%
Monthly churn %			
Postpaid handset	2.3%	2.1%	0.2
Postpaid datacard	3.2%	3.8%	(0.5)
Total postpaid	1.6%	2.1%	(0.5)
Prepaid handset	3.0%	3.3%	(0.3)
Prepaid datacard	3.7%	5.3%	(1.6)
Total prepaid	3.0%	3.3%	(0.3)
Total monthly churn (1)	2.8%	3.0%	(0.2)
Monthly ARPU (2)			
Postpaid	101.7	99.5	2.2%
Prepaid	33.3	38.3	(13.1%)
Total monthly ARPU(3)	52.2	55.2	(5.5%)
Number of employees	**1,065**	**1,071**	**0.6%**

(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. Pospaid include B2C and B2B.

Revenue

Total revenue decreased by 8.0% year-on-year to PYG 2,155 billion for the nine-month period ended September 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 2% until September 30, 2019 compared to the same period of 2018 while voice and SMS revenue fell by 18%, due to increased price competition and the legacy of SMS and voice. Mobile data accounted for 66% of total mobile service revenue during the nine-month period ended September 30, 2019, compared to 60% 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 15% year-on-year, with fixed B2B revenue increasing by 4% and residential cable revenue falling by 9%. 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 operated by our affiliate SPM that owns most of our HFC network in the country.

Cost of sales

Cost of sales decreased by 22.2% year-on-year, to PYG 392.08 billion for the nine-month period ended September 30, 2019. The decrease in cost of sales is directly related to the decrease in revenues, and the effect of the implementation of IFRS 15.

Gross profit margin increased to 81.8% for the nine-month period ended September 30, 2019 from 78.5% for the period ended September 30, 2018.

Operating expenses

Operating expenses increased by 4.5% year-on-year for the nine-month period ended September 30, 2019 to PYG 792.9 billion from PYG 758.7 billion for the same period in 2018. The increase stems primarily from higher programming costs and sponsorship costs, as well as a partially offset by a positive adjustment to accrued expenses booked in September 2019. As a percentage of revenue, operating expenses increased to 36.8% for the nine-month period ended September 30, 2019, up from 32.4% in the same period of 2018.

EBITDA

	Nine-month period ended September 30,	
	2019	2018
EBITDA (1)	970,472	1,080,087
EBITDA margin (2)	45.0%	46.1%
Net debt to LTM EBITDA (3)	1.89	2.04
Total debt to LTM EBITDA (4)	2.24	2.12

(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 September 2019.(4) We calculate Total debt to EBITDA by dividing our total borrowings by our LTM EBITDA.

EBITDA decreased by PYG 109,6 billion (10% year-on-year), and EBITDA margin decreased by 1.1 percentage points year-on-year, due to the decline in revenue and in the increase in operating expenses.

Operating profit

Operating profit decreased by 30.9% for the nine-month period ended September 30, 2019 to PYG 547.2 billion from PYG 792.1 billion for the same period ended September 30, 2018 as a result of the above. The operating margin decreased from 33.9% for the period ended September 30, 2018 to 25.4% for the period ended September 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 440 towers during the first nine months of 2018. In the first nine months 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 31.6% for the nine-month period ended September 30, 2019 to PYG 267.9 billion from PYG 203.6 billion for the same period ended September 30, 2018. This increase was mainly due to Loan Redemption Fee $10.1 million (PYG 64.5 billion) and IFRS 16 impact in interest of $1.8 million (PYG 11.8 billion).

Exchange gain (loss)

Exchange loss, net, for the nine-month period ended September 30, 2019 was a net loss of PYG 64.9 billion compared to a net loss of PYG 62.4 billion for the period ended September 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 6,380 to US$1.00 as of September 30, 2019.

Income tax expenses

The charge for taxes decreased by 47.4% to PYG 32.7 billion for the nine-month period ended September 30, 2019, from PYG 62.2 billion for the period ended September 30, 2018, due primarily to a lower profit before tax.

Net profit

Net profit for the nine-month period ended September 30, 2019 decreased by 60.8% to PYG 181.7 billion, compared to a net profit of PYG 463.9 billion for the period ended September 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 September 30, 2017, September 30, 2018 and September 30, 2019 was PYG 2,736 billion, PYG 2,987 billion and PYG 2,966 billion, respectively.

Our interest expense for the nine-month period ended September 30, 2017, September 30, 2018 and September 30, 2019 was PYG 167,1 billion, PYG 211.3 billion and PYG 310.4 billion, respectively.

Cash Flows

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

Period ended September 30,	**2019**	**2018**
	(in millions of PYG)	
Net cash provided by operating activities	731,537	711,595
Net cash used by investing activities	(475,868)	(1,221,926)
Net cash used (from) by financing activities	58,372	124,879
Net (decrease) increase in cash and cash equivalents	314,041	**(385,452)**
Cash and cash equivalents at the end of the period	461,812	102,594

For the period ended September 30, 2019 cash provided by operating activities was PYG 731.5 billion compared to PYG 711.6 billion for the period ended September 30, 2018. The increase was mainly due to increase in interest income and payables, and a decrease in taxes paid.

For the period ended September 30, 2019 cash used by investing activities was PYG 475.9 billion compared to PYG 1,222 billion for the period ended September 30, 2018, mainly due to less loans granted to related parties, and less proceeds from sale of property, plant and equipment. During the nine-month period ended September 30, 2019 we sold 135 towers, compared to 440 towers during the nine-month period ended September 30, 2018.

For the period ended September 30, 2019 cash used by financing activities was PYG 58.4 billion compared to cash used of PYG 124.9 billion for the period ended September 30, 2018. The change in cash used for financing activities during the period ended September 30, 2019 is mainly due to the dividends payments to equity holders.

The net increase in cash and cash equivalents for the period ended September 30, 2019 was PYG 314.0 billion compared to the net decrease of PYG 385.5 billion for the same period of 2018. We had closing cash and cash equivalents of PYG 461.8 billion as of September 30, 2019, compared to PYG 102.6 billion as of September 30, 2018.

6. Subsequent events

Dividends Payment

On October 22, the company paid the remaining dividends to the shareholders for USD 5M.