Management's Discussion and Analysis of Financial Condition and Results of Operations of Cable Onda

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited interim condensed consolidated financial statements as of June 30, 2020 and 2019 and the notes.

Overview

Founded in 1990, we are the leading provider of Pay-TV, broadband Internet, telephony and mobile telecommunications services in Panama, serving residential (B2C), business and government (B2B) customers. Through our "Cable Onda" brand, we are the largest fixed broadband Internet provider in Panama, with almost three times as many subscribers as the second-largest provider, and the largest fixed telephony provider to residential consumers. Through our wholly-owned subsidiary Telefónica Móviles Panama S.A, we provide mobile communications services across the most extensive 2G, 3G and 4G networks in the country. We also offer B2B services to governmental and SME corporate customers, including fixed Internet, cloud and backup solutions, outsourcing of both IT department management and operations, personalized IT projects, and cybersecurity. We have approximately 347,000 Pay-TV customers and 351,000 broadband customers. We are the mobile market leader as measured by the number of customers, serving more than 1.6 million as of June 30, 2020.

Throughout our 30-year history, we have experienced significant organic growth, complemented by strategic acquisitions, which have helped us strengthen our position as the leading telecommunications provider in the country. Our growth has also been driven by our consistent investments to maintain, expand and upgrade our network capabilities to allow us to offer advanced communications and entertainment services with a high degree of reliability and customer satisfaction. As a result of these investments, our cable network today is entirely digital, employs the DOCSIS 3.0 standard. Our network also includes more than 10,000 km of HFC and more than 5,000 km of fiber. Our HFC network passes more than 800,000 homes in Panama.

Recent Business Developments

On August 29, 2019 we acquired 100% of the share capital of Telefónica Móviles Panama S.A ("Telefónica Panamá") for $593.6 million from Telefónica Centroamérica Inversiones, S.L., which is owned, directly and indirectly by Telefónica S.A. ("Telefónica Panamá Acquisition"). The Telefónica Panamá acquisition is consistent with our strategy to solidify our telecom market leadership, enhance our existing mobile services, continue improving and increasing mobile and fixed network coverage and capacity, as well as to diversify our sources of cash flow.

On November 1, 2019, Cable Onda completed a bond debt offering under the Rule 144A and Regulation S, of $600 million aggregate principal amount of 4.500% senior unsecured notes due January 30, 2030 (the "Notes). We used the net proceeds from the offering to partially finance the acquisition of Telefónica Panamá, to refinance debt, and for general corporate purposes. The Notes are listed on the Panama Stock Exchange and the on Luxembourg Stock Exchange.

The Notes were sold within the United States to qualified institutional buyers under Rule 144A and to certain non-U.S. persons in offshore transactions under Regulation S under the Securities Act.

Results of operations

The following table sets forth certain income statement items and operating information for the periods or at the dates indicated:

(*in thousands of $*)	Six months ended June 30		
	2020	2019	% Change
Revenue	**293,431**	**198,071**	**48.1%**
Costs and expenses	**251,611**	**149,574**	**68.2%**
Programming and operating costs	70,999	41,944	69.3%
Depreciation and amortization	89,959	44,288	103.1%
Personnel expenses	33,640	27,344	23.0%
General, sales and administrative expenses	57,014	35,997	58.4%
Income from operations	**41,820**	**48,497**	**-13.8%**
Financial expense	27,628	8,719	216.9%
Profit before income tax	**14,192**	**39,778**	**-64.3%**
Income tax	-6,724	-8,582	-21.7%
Net income	**7,468**	**31,195**	**-76.1%**
Attributable to:			
Owners of the Company	7,498	31,197	-76.0%
Non-controlling interest	-30	-1	NM
Operating Data (in thousands) except for ARPU's			
RGUs Cable and other fixed	973	947	2.7%
ARPU Cable and other fixed	$45.8	$46.7	-1.8%
Mobile Subscribers	1,675	N/A	NM
ARPU Mobile	$8.7	N/A	NM

Revenue

Total revenue increased by 48.1%, or $95.4 million, from $198.1 million for the six months ended June 30, 2019 to $293.4 million for the six months ended June 30, 2020, primarily as a result of the acquisition completed during the fiscal year 2019 of Telefonica Moviles Panama, which generated $109.6 million (for the six months ended June 30, 2020) from mobile communications services and sales of mobile devices.

Revenue from data transmission, Internet and data center decreased by 0.2% for the six months ended June 30, 2020, while TV subscriptions revenue decreased by 11.9% and fixed-line services revenue fell by 15.9%. The decreases are mainly driven by the impact of the COVID-19 outbreak, which caused a decline in ARPU due to adjustments in customer bills.

Data transmission, Internet and data center revenue accounted for 30.6% of total revenue in H2 2020, compared to 45.4% in H2 2019, while revenue from TV subscriptions accounted for 22.7% of total revenue in H2 2020, compared to 38.2% in 2019. Fixed-line services revenue accounted for 6.8% of total revenue in H2 2020, compared to 11.9% in H2 2019. Mobile service revenue as a share of total revenue was 34.8% in H2 2020 and sale of mobile devices as a share of total revenue was 2.5% for the same period.

Programming and operating costs

Programming and operating costs increased by 69.3% year over year, or $29.1 million, from $41.9 million to $71.0 million, primarily as a result of the consolidation of Selling costs of mobile equipment of $31.7 million. As a percentage of revenue, H2 2020 programming and operating costs increased from 21.2% to 24.2%.

Depreciation and amortization

Depreciation and amortization increased by 103.1% year over year, or $45.7 million, to $90.0 million from $44.3 million. The increase was primarily as a result of an increase in property, plant and equipment as well as right of use assets stemming from the acquisition of Telefonica Moviles Panama of $35.9 million.

As part of the re-branding to Tigo and Tigo Business, there is an ongoing plan for changing the Telecarrier brand. This process started May 2020 and is expected to be completed by August 2020. As a result, an $8.0 million adjustment was made in the Q2 2020 Financial Statements to reflect the Telecarrier brand at its fair value. As a percentage of revenues, depreciation and amortization had an increase of 8.3% from 22.3% in H2 2019 to 30.7% in H2 2020.

Personnel expenses

Personnel expenses increased by 23.0%, or $6.3 million, to $33.6 million in H2 2020 from $27.3 million in H2 2019. The increase was primarily a result of the consolidation of Telefonica Moviles payroll on the profit and loss statement. As a percentage of revenues, personnel expenses decreased 2.3%, from 13.8% in H2 2019 to 11.5% for 2020, as a result of the company’s efficiency plan.

General, sales and administrative expenses

General, sales and administrative expenses increased by 58.4%, or $21.0 million, to $57.0 million in H2 2020 from $36.0 in H2 2019. The increase in general, sales and administrative expenses was mainly driven by the merger and acquisition costs related to the Telefonica Moviles transaction, as well as the consolidation of Telefonica Moviles figures on the profit and loss statement. As a percentage of revenues, general, sales and administrative expenses increased 1.2% from 18.2% in H2 2019 to 19.4% in H2 2020.

Income from operations

Income from operations decreased by 13.8% or $6.7 million year over year, for the six months ended June 30, 2020. The decrease is primarily due to the adjustments included in depreciation and amortization for the Telecarrier rebranding process.

Financial expense

Financial expense, which includes interest expense, net of interest income increased by 216.9%, or $18.9 million, from $8.7 million for H2 2019 to $27.6 million for 2020. This increase was mainly driven by an increase in financial expenses related to the $600m bond issued in Q4 2019.

Income tax

Estimated Income tax expense was $6.7 million, a decrease of 21.7%, or $1.9 million, for the six months ended June 30, 2020 compared to the estimated income tax of $8.6 million for the six months ended June 30, 2019. This is due mainly to a lower profit before income from operation, from $48.5 million for H2 20 $41.8 million. Actual tax rate for Panama is 25%.

Net income

As a result of the foregoing, net income for six months ended June 30, 2020 was $7.5 million, a 76.1% decrease compared with our income of $31.2 million for the six months ended June 30, 2019. As shown above, the main drivers are: the increase in revenue ($95.4 million), the increase in cost and expenses ($102.0 million) and the increase in financial expenses due to debt issued for the acquisition of Telefonica Moviles Panama ($18.9 million).

Liquidity and capital resources

Historically we have relied primarily on cash from operations and external bond and bank financings to fund our operations, capital expenditures and working capital requirements. We intend to continue to rely on these funding sources going forward.

We believe that our sources of liquidity are sufficient for our present requirements for the next 12 months. 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.

Capital expenditures

Our capital expenditures on property, plant and equipment for the period ended June 30, 2020 were $40.7 million, mostly driven by investments in customer premise equipment (CPE) installation cost, IT equipment and core network expansion which totaled $38.0 million.

Cash flows

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

(*in thousands of $*)	**Six months ended June 30**		
	2020	**2019**	**% Change**
Net cash provided by operating activities	88,437	52,662	67.9%
Net cash provided by (used in) investing activities	-40,732	-38,339	6.2%
Net cash provided by (used in) financing activities	-6,841	-666	926.6%
Net (decrease) increase in cash and cash equivalents	**40,865**	**13,656**	**199.2%**
Cash and cash equivalents at the end of the period	101,558	20,142	404.2%

Six months ended June 30, 2020 and 2019

For H2 2020, cash provided by operating activities was $88.4 million compared to $52.7 million in H2 2019. The increase was mainly due to strict cash management policies put in place by company in other to mitigate liquidity risk derivate from the COVID-19 outbreak. As reflected on accrued expenses and other liabilities lines of the cash flow statement, the company had a positive impact of $7.5 million for the six month ended June 30, 2020, compared to a negative impact of $14.0 million for the six month ended Jun 30, 2019.

For H2 2020, cash used in investing activities was $40.7 million compared to $38.3 million used in H2 2019, change is mainly due to acquisition of intangible assets for $1.9 million.

For H2 2020, cash provided by financing activities was negative $6.8 million compared to a negative $0.6 million used in financing activities in H2 2019. The decrease in cash provided by financing activities during H2 2020, is mainly due to lease capital repayments of $6.8 million.

For H2 2020, cash and cash equivalents increased by $40.9 million. We had closing cash of $101.6 million as of June 30, 2020, compared to $20.1 million as of March 31, 2019, mainly driven by good performance over cash flows coming from operating activities and higher cash reserves at the beginning of 2020 of $61.0 million vs $6.5 million a the beginning of 2019.