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

TELEFONICA CELULAR DEL PARAGUAY S.A.E.

Six-month period ended 30 June 2020

We believe in better. We believe in tigo

1. Overview

Telefonica Celular del Paraguay S.A.E. ("Telecel") is a leading provider of telecommunications services, including the affiliates companies, in 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 approximately 3.40 million mobile customers, while our Hybrid Fiber-Cable (HFC) network passes more than 792 thousand homes. In the six-month period ended 30 June 2020, we generated revenue of PYG 1,818 billion and EBITDA of PYG 834 billion.

Covid-19

Social distancing in the country has reduced infections compared to other countries in the region, though it has had a negative impact on economic activity levels across many industries. The telecom industry is no exception to the negative effects of COVID-19 and the social restrictions and sanitary measures. As a company, we are focusing on increasing network resiliency and reliability to improve consumer experience.

Acquisition of subsidiaries

During the second quarter of 2020, Telecel made the following acquisitions.

a) Mobile Cash Paraguay S.A. :

On 20 May 2020, Telecel SAE acquired a 99.99% shareholding in Mobile Cash Paraguay S.A. (MCP) from Telecel's parent company. As consideration for this acquisition, Telecel issued 272 new shares to its parent for a value of PYG 4,461 million. Since that date, Telecel controls Mobile Cash Paraguay S.A. (MCP) and fully consolidates it, recognizing non-controlling interests for the 0.01% shareholding it does not own.

b) Servicios y Productos Multimedios S.A. :

On 29 June 2020, through a Share Purchase Agreement (SPA), Telecel acquired 99.90% of the shares of Servicios y Productos Multimedios S.A. (SPM) from Millicom Holdings 300 NV for $372 million (subject to potential purchase price adjustments), payable in cash within 90 days from closing.

The transfer of ownership of shares of SPM was approved by the appropriate regulator "Comisión Nacional de Telecomunicaciones (CONATEL)" on June 3, 2020 by Board Resolution Nº 1182/2020.

Since that date, Telecel controls SPM and fully consolidates it, recognizing non-controlling interests for the 0.10% shareholding it does not own.

Revenue

2. 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:

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, ICT and mobile financial services. We generally seek to increase our revenue through the growth of our customer base as well the increase of traffic/usage and the introduction of new products and value-added services. Our results of operations are therefore dependent on our customer base, the ARPU 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 increasing our customer base through portability and new customers with segmented plans to increase traffic per user and on expanding coverage and capacity of our 4G/LTE network. As of June 30, 2020, we had approximately 1.582 million customers on 4G/LTE, an increase of 31% compared to June 30, 2019. On a side note, our mobile subscriber base increased by 5.4% to 3.40 million during the same period. At June 30, 2020, 4G/LTE customers accounted for 43% of the total mobile customer base compared to 34% at June 30, 2019.

Mobile Financial Services

Through our mobile financial services (MFS) many of our customers have limited access to more traditional banking services, Paraguay is largely a cash-based economy with a significant portion of the local population classifiable as “unbanked”. Branded as Tigo Money, we provide mobile financial services that drive greater financial inclusion, help retain subscribers, and enhance ARPU through access to a wider range of services and increased customer engagement.

As of June, 1.3 million customers used our MFS services, representing 42% of our mobile customer base. Thus, MFS generated revenue of PYG 9.62 billion in the six-month period ending June 30, 2020.

In response to COVID-19 the government is providing subisides to the most affected and at-need people in the country. The government used TigoMoney to distribute these subsidies to the beneficiaries.

MFS provides sustainable financial services to unbanked people in Paraguay.

During the second quarter, Tigo Money was a key strategic partner to the Government paying subsidies to 415,000 people, of which 6 out of 10 beneficiaries were women. Small businesses without POS, sold food and collected funds with their mobile wallets and cell phones, multiplying the government's help that also reached small businesses in very remote areas of our country and thus helping reactivate the economy.

Home

As of June 30, 2020, our HFC network covered approximately 792,000 homes in Paraguay (a 14.4% increase from June 30, 2019), and we provided services to around 502,000 RGUs, a 3.1% increase from June 30, 2019. 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 around the country. As we expand our HFC network, we are also migrating customers from our Wimax network to HFC.

Tigo Sports is a multiplatform sports content producer and differentiator of our 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 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. Through Tigo Sports, we own the rights to broadcast the Paraguayan national football championship until December 2023.

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 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 35.5 billion during the period ended June 30, 2020 (Including SPM PYG 11.2 billion), compared to PYG 25.7 billion during the period ended June 30, 2019. The latter period included the 3500Mhz extension approved in 2020 for 4 years.

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.

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/$ exchange rate moved from PYG 6,190 as of June 30, 2019 to PYG 6,807 as of June 30, 2020. This variation impacted our 2020 Net loss PYG 102,721 million, mainly due to higher interest expense, as most of our debt financing is denominated in U.S. dollars. Additionally, there is a significant part of our operating costs and capital investments that are also denominated in foreign currency and therefore impacted by currency devaluation.

3. Results of Operations

Period ended 30 June 2020 and 2019

PYG million	Period ended June 30		Percent change
	2020 (*)	2019	
Revenue	1,818,567	1,440,165	26.3%
Cost of sales	(466,525)	(265,919)	75.4%
Gross profit	**1,352,042**	**1,174,246**	**15.1%**
Sales and marketing	(305,524)	(332,998)	(8.3%)
General and administrative expenses	(212,581)	(196,022)	8.4%
Operating expenses	(518,105)	(529,020)	(2.1%)
EBITDA	**833,937**	**645,226**	**29.2%**
Depreciation	(244,332)	(210,269)	16.2%
Amortization	(117,716)	(94,376)	24.7%
Other operating income (expenses), net	(1,241)	7,386	(116.8%)
Corporate fees	(142,462)	-	100.0%
Operating profit	**328,182**	**347,967**	**(5.7%)**
Interest expense	(206,333)	(228,422)	(9.7%)
Interest and other financial income	35,465	27,881	27.2%
Other non-operating income (expenses)	144,671	-	100%
Exchange gain (loss), net	(102,721)	(45,653)	125.0%
Profit before tax	**199,268**	**101,773**	**(95.8%)**
Charge for taxes, net	(9,168)	(36,326)	(74.8%)
Net profit/(loss) and comprehensive income for the period.	**190,100**	**65,447**	**(190.5%)**

Operating Data:			
Number of mobile subscribers	**3,402,322**	**3,226,631**	**5.4%**
Postpaid	855,392	901,824	**(5.1%)**
Prepaid	2,546,930	2,325,311	**9.5%**
Monthly churn %	**3.5%**	**3.0%**	**0.5%**
Monthly ARPU(1)	**47.3**	**49.4**	**(4.2%)**
Home			
Homes passed	832	771	7.9%
Customer Relationships	411	426	(3.5%)
TV customers (2)	333	351	(5.1%)
Broadband RGU	262	249	5.2%
Monthly ARPU(1)	**201.1**	**199.5**	**0.8%**
Monthly churn %	**1.6%**	**3.1%**	**(1.5%)**
Number of employees (**)	5.080	1.078	371.2%

(1) ARPU in local currency is expressed in thousand
(2) Including HFC, UHF and DTH
(*) Includes SPM and Mobile Cash impact
(**) includes 4041 employees from SPM

Revenue

Revenue increased by 26.3%, year-on-year to PYG 1,819 billion for the period ended June 30, 2020 primarily as a result of the acquisition of the subsidiaries SPM and MCP,if we disregard the effect of these two companies in the consolidated for comparative purposes, we would have a decrease of 25%. In our mobile operation, mobile data revenue decreased by 2.9%, while voice revenue fell by 12%, due to increased price competition impacting ARPU and the legacy of SMS and voice.

Fixed service revenue increased by 4% year-on-year in B2C and decrease 1% in fixed B2B revenue.

Cost of sales

Cost of sales increased by 75.4% year-on-year, to PYG 466.5 billion for the period ended June 30, 2020, as the effect of the consolidation of SPM and Mobile Cash Paraguay, excluding that consolidation effect, the variation was an increase of 1.7%.

Gross profit margin decreased to 74.3% for the period ended June 30, 2020 from 81.5% for the period ended June 30, 2019.

Sales and Marketing

Decreased by 8.3% year on year to PYG 305.5 billion for the period ended June 30, 2020 from PYG 332.9 billion for the period ended June 30, 2019, mostly as an effect of the consolidation of SPM and MCP expenses, excluding the consolidation effect the decrease was 46.4% as a result of our plan to recover customer base, increase salesforce and focus in portability since Q2 2019.

General and administrative expenses

Increased by 8.4% year on year to PYG 212.5 billion for the period ended June 30, 2020 from PYG 196 billion for the period ended June 30, 2019 mainly due to the consolidation of SPM and MCP and the exchange rate variance in contracts, Consultancy fees, Value Creation fee since 2020. If we exclude the consolidation effect, there is a decrease by 8.9%.

Operating expenses

Operating expenses decreased by 2.1% for the period ended June 30, 2020 to PYG 518.1 billion from PYG 529 billion for the same period in 2019 due to the consolidation of SPM and MCP, if we exclude the consolidation effect, decrease by 32,5%. The increase stems primarily from higher programming costs and sponsorship costs. As a percentage of revenue, operating expenses increased to 28.5% for the period ended June 30, 2020 from 36.7% in 2019.

EBITDA

PYG million	Period ended June 30	
	2020	2019
EBITDA (1)	833,937	645,226
EBITDA margin (2)	45.9%	44.8%
Net debt to LTM EBITDA (3)	4.73	3.96
Total debt to LTM EBITDA (4)	5.86	5.02

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

EBITDA increased by PYG 188.8 billion (29.2% year-on-year), and EBITDA margin increased by 1.05 percentage points year-on-year, due to the decline in revenue and the increase in operating expenses. The increase is mainly due to the consolidation of SPM an MCP, excluding the consolidation effect, EBITDA decrease in 29.7%.

Operating profit

Operating profit decreased by 5.7% for the period ended June 30, 2020 to PYG 328.2 billion from PYG 347.9 billion for the same period ended June 30, 2019 as a result of the above. The operating margin decreased from 24% for the period ended June 30, 2019 to 18% for the period ended June 30, 2020. The year-on-year variation reflects the lower EBITDA, as described above.

Net finance costs

Net finance costs, which include interest expense, net of interest income, decreased by 14.8% for the period ended June 30, 2020 to PYG 170.8 billion from PYG 200.5 billion for the period ended June 30, 2019. This increase was mainly due to corporate fees (Value Creating Fee).

Other non-operating result

During the last quarter, has been recognized as other non-operating result, income for PYG 144.67 billion corresponding to the gain in the acquisition of Mobile Cash Paraguay

Exchange gain (loss)

Exchange loss, net, for the period ended June 30, 2020 was a net loss of PYG 102.7 billion compared to a net loss of PYG 45.6 billion for the period ended June 30, 2019. Exchange gains and losses were primarily a result of movements in the PYG/$ 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/$ exchange rate increased from PYG 6,190 as of June 30, 2019 to PYG 6,807 as of June 30, 2020.

Income tax expenses

The charge for taxes decreased by 74.8% to PYG 9.2 billion for the period ended June 30, 2020, from PYG 36.3 billion for the period ended June 30, 2019, due primarily to a lower profit before tax.

Net profit

Net result for the period ended June 30, 2020 increased by 190.5% to PYG 190.1 billion (loss), compared to a net profit of PYG 65.4 billion for the period ended June 30, 2019, 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 enough for our present requirements.

Financing

Our total outstanding indebtedness and other financing for the periods ended June 30, 2018, June 30, 2019 and June 30, 2020 was PYG 2,859 billion, PYG 3,238 billion and PYG 4,887 billion respectively.

Our interest expense for the periods ended June 30, 2018, June 30, 2019 and June 30, 2020 was PYG 136.7 billion, PYG 228.4.1 billion and PYG 206.3 billion respectively.

Cash Flows

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

Period ended June 30	2020	2019
	(in millions of PYG)	
Net cash provided by operating activities	3,043,277	439,037
Net cash used by investing activities	(3,610,051)	(414,877)
Net cash used by financing activities	1,019,328	256,852
Net (decrease) increase in cash and cash equivalents	**481,962**	**284,447**
Cash and cash equivalents at the end of the period	944,376	432,218

For the period ended June 30, 2020 cash provided by operating activities was PYG 3,043 billion compared to PYG 439 billion for the period ended June 30, 2019. The decrease was mainly to a less performance vs prior year due to a decrease in trade receivables and payables, and a decrease in taxes paid.

For the period ended June 30, 2020 cash used by investing activities was PYG 3,610 billion compared to PYG 414 billion for the period ended June 30, 2019, mainly due to the acquisition of SPM and MCP

For the period ended June 30, 2020 cash used by financing activities was PYG 1,019 billion compared to PYG 256 billion for the period ended June 30, 2019. The change in cash used for financing activities during the period ended June 30, 2020 is the net effect between repayment of debt and financing and proceeds from issuance of debt and other financing.

The net increase in cash and cash equivalents for the period ended June 30, 2020 was PYG 482 billion compared to PYG 284 for the same period of 2019. We had closing cash and cash equivalents of PYG 944 billion as of June 30, 2020, compared to PYG 432 billion as of June 30, 2019.

4. Subsequent events

Commitments

On July 13, we received the total amount of Intercompany loans between Telecel – MIOSA (a wholly-owned subsidiary of MICSA) and Telecel – MICSA for $306 million, including principal of $301 million and interest of $5 million.

Litigation

On July 17, we received a notification of a new legal claim for PYG 3,000 million. The claimant is a journalist claiming non-pecuniary damages related to an unauthorized SIM card change. We have found the claim to have no merits, therefore no legal provision has been recorded.

Others

On July 23, the Company renewed the Football Transmission Rights Agreement with the Paraguayan Football Association (known in Spanish as APF) for a three-year term beginning on the 1st of January, 2021.

On April 23, the Board approved an advanced payment of dividends for Servicios y Productos Multimedios S.A. based on 80% of the preliminary results, totaling PYG 227,839 million. On June 25, after receiving the audited financial statements from our external auditors, we got the final results for PYG 214,347 million. Consequently, on July 28, the Company received the return of excess advance dividends from Millicom Holding 300 N.V. for PYG 12,142 million ($1.7 million) after withholding tax.