

**RESTATEMENT OF 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

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 for PYG 1,298 billion and EBITDA for PYG 462 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.

Restatement of previously issued financial statements and management’s discussion and analysis of financial condition and results of operations

The management of the Company has determined the need to restate the financial statements, issued as of and for the six-month period ended June 30, 2020, after reassessing the accounting treatment of the acquisition of Servicios y Productos Multimedios SA (“SPM”) and Mobile Cash Paraguay SA (“MCASH”), by Telefonica Celular del Paraguay SAE (“Telecel”). The Company has determined that the balances, transactions and cash flows disclosed in the financial statements previously issued, contain inaccuracies resulting from the methodology used to consolidate.

The Company, in its financial statements initially issued, considered the balances, results and cash flows of SPM and MCASH from January 1, 2020 to, and as of June 30, 2020. However, in accordance with IFRS 3, these balances, results and cash flows should have been consolidated from the date of acquisition (see note 4). Hence, the balances of MCASH and SPM should have been consolidated from May 20, 2020 and June 29, 2020, respectively, instead of January 1, 2020.

As a consequence, in accordance with IAS 8, management restated the financial statements initially issued, considering the following points:

- The statement of comprehensive income and cash flows were restated to reflect the consolidation of MCASH and SPM’s results and cash flows from their actual acquisition dates (i.e. from May 20 and June 29, 2020, respectively), and not from January 1, 2020 as initially disclosed.
- Similarly, to the statement of comprehensive income, the statement of financial position was restated to reflect the first consolidation of MCASH and SPM’s balances from their actual acquisition dates, and not from January 1, 2020 as initially disclosed, with a corresponding impact on initial goodwill.

Considering the materiality of the above changes, management has disclosed the effects of the restatements in the corresponding primary statements under a separate column (‘Increase/Decrease’) showing the differences with balances, results and cash flows initially disclosed.

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 company 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 Multimedia S.A. :

On 29 June 2020, through a Share Purchase Agreement (SPA), Telecel acquired 99.90% of the shares of Servicios y Productos Multimedia 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 N° 1182/2020.

Since 29 June 2020, 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 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 as 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, who have limited access to more traditional banking services, have access to secure, appropriate and affordable means of transfer and payment at a lower

cost, and safe storage of funds. 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. MCP generated revenue of PYG 16.2 billion since the acquisition date.

In response to COVID-19 the government is providing subsidies to the most affected and in-need people in the country. The government used Tigo Money 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 revenue-generating units (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 legacy Wimax network to HFC.

Tigo Sports is a multiplatform sports content producer and a key differentiator for our pay-TV service. Tigo Sports is also available as an exclusive value-added service for our mobile phone subscribers, allowing access to content through an app for smartphones and other mobile devices. 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 expenditure 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 expenditure 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 175.9 billion during the period ended June 30, 2020 (including PYG 100.3 billion related to SPM) mainly due to the 3500Mhz extension approved in 2020 for 4 years, compared to PYG 87.5 billion during the period ended June 30, 2019.

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 for PYG 64,066 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	1,298,511	1,440,165	(9.8%)
Cost of sales	(288,997)	(265,919)	8.7%
Gross profit	1,009,514	1,174,246	14.0%
Sales and marketing	(368,178)	(332,998)	10.6%
General and administrative expenses	(178,622)	(196,022)	(8.9%)
Operating expenses	(546,800)	(529,020)	3.4%
EBITDA	462,714	645,226	(28.3%)
Depreciation	(185,417)	(210,269)	(11.8%)
Amortization	(107,440)	(94,376)	13.8%
Other operating income (expenses), net	3,400	7,386	(54.0%)
Corporate fees	(58,931)	-	100.0%
Operating profit	114,326	347,967	(67.1%)
Interest expense	(199,641)	(228,422)	(12.6%)
Interest and other financial income	46,635	27,881	67.3%
Other non-operating income (expenses)	107,721	-	100%
Exchange gain (loss), net	(64,066)	(45,653)	40.3%
Profit before tax	4,975	101,773	(95.1%)
Charge for taxes, net	7,710	(36,326)	(121.2%)
Net profit/(loss) and comprehensive income for the period.	12,685	65,447	(80.6%)
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 customers	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 Mobile Cash impact for the month of June

(**) Includes 4,041 employees from SPM

Revenue

Revenue decreased by 9.8%, year-on-year to PYG 1,298 billion for the period ended June 30, 2020 mainly impacted by a Mobile revenue decline of 8.3% and a Home revenue decline of 20.3%, explained by a decrease of customers in Telecel and the addition of said customers in SPM (as required by the regulatory entity as part of the consolidation operation), offset by MCP acquisition from June 2020. If we disregard the effect of MCP in the consolidated for comparative purposes, we would have a decrease of 10.8%.

In our mobile operation, Mobile revenue decreased 8.3%. Normalizing for a favorable one-off deferred revenue adjustment in 2019, revenue would have decreased 4.2%, mainly due to a decline in the postpaid customer base due to COVID.

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 8.7% year-on-year, to PYG 288.9 billion for the period ended June 30, 2020. Impacted mainly by Bad debt due to COVID-19 pandemic and the change in accounting criteria for the football broadcasting rights from expenses to cost, net of other savings due to COVID-19.

Gross profit margin decreased to 77.7% for the period ended June 30, 2020 from 81.5% for the period ended June 30, 2019.

Sales and Marketing

Sales and marketing increased by 10.6% year on year to PYG 368.2 billion for the period ended June 30, 2020 from PYG 332.9 billion for the period ended June 30, 2019, mainly due to inter-company salesforces recharge from SPM. Excluding that effect, the variation would have been a decrease of 18.1% due to lower advertising and promotional activity due to COVID-19 and due to the previously-mentioned change in accounting treatment for the football rights.

General and administrative expenses

General and administrative expenses decreased by 8.9% year on year to PYG 178.6 billion for the period ended June 30, 2020 from PYG 196.0 billion for the period ended June 30, 2019, mainly impacted by lower lease costs impacted by new IFRS16 contracts in 2020, and the remaining variance coming from a one-off 2019 accrual expenses provision.

Operating expenses

Operating expenses increased by 3.4% for the period ended June 30, 2020 to PYG 546.8 billion from PYG 529.0 billion for the same period in 2019. The increase stems primarily from intercompany salesforces cost offset by the change in football rights accounting in 2020 from expenses to direct costs.

As a percentage of revenue, operating expenses increased to 42.1% for the period ended June 30, 2020 from 36.7% in 2019.

EBITDA

PYG million	Period ended June 30	
	2020	2019
EBITDA ⁽¹⁾	462,714	645,226
EBITDA margin ⁽²⁾	35.6%	44.8%
Net debt to LTM EBITDA ⁽³⁾	2.78	2.35
Total debt to LTM EBITDA ⁽⁴⁾	3.34	2.44

(1) We define EBITDA as our earnings before interests, taxes, depreciation and amortization, including Telecel, Teledeportes and Lothar year to date results and MCP from June.

(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 decreased by PYG 182.5 billion (28% year-on-year), and EBITDA margin decreased by 9.17 percentage points year-on-year, due to the decrease in revenue and the increase in direct cost and operating expenses.

Operating profit

Operating profit decreased by 67.1% for the period ended June 30, 2020 to PYG 114.3 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 8.8% for the period ended June 30, 2020. The year-on-year variation reflects the lower EBITDA and higher corporates fees (Value Creating Fee), as described above.

Net finance costs

Net finance costs, which include interest expense, net of interest income, decreased by 23.7% for the period ended June 30, 2020 to PYG 153 billion from PYG 200.5 billion for the period ended June 30, 2019. This decrease was mainly due to the costs recognized in 2019 for the refinancing of bonds, redemption fees and related costs. These costs were no longer incurred in during the 2020 period, hence the variation effect.

Other non-operating result

Other non-operating income of PYG 107.72 billion reflects a gain on 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 64.0 billion compared to a net loss of PYG 45.6 billion for the period ended June 30, 2019. This reflects 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 has depreciated over the past year, with the exchange rate increasing from PYG 6,190 as of June 30, 2019 to PYG 6,807 as of June 30, 2020.

Charge for taxes, net

Due primarily to a decrease in deferred taxes, Charge for taxes, net, was positive PYG 7.7 billion for the period ended June 30, 2020, compared to a tax expense of PYG 36.3 billion for the period ended June 30, 2019.

Net profit/(loss)

As a result of the above factors, the net profit for the period ended June 30, 2020 was PYG 12.7 billion compared to a net profit of PYG 65.4 billion for the period ended June 30, 2019.

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 current 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 billion and PYG 199.6 billion respectively.

Cash Flows

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

Period ended June 30	2020	2019
	<i>(in millions of PYG)</i>	
Net cash provided by operating activities	2,924,337	439,037
Net cash used by investing activities	(3,614,094)	(414,877)
Net cash used by financing activities	1,330,385	256,852
Net (decrease) increase in cash and cash equivalents	640,628	281,012
Cash and cash equivalents at the end of the period	827,769	432,218

For the period ended June 30, 2020 cash provided by operating activities was PYG 2,924 billion compared to PYG 439 billion for the period ended June 30, 2019. The variation was mainly to the acquisition of SPM.

For the period ended June 30, 2020 cash used by investing activities was PYG 3,614 billion compared to PYG 414 billion for the period ended June 30, 2019, mainly due to the acquisitions of SPM and MCP.

For the period ended June 30, 2020 cash used by financing activities was PYG 1,330 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 641 billion compared to PYG 281 for the same period of 2019. We had closing cash and cash equivalents of PYG 828 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 merit, 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 January 1, 2021.

On April 23, the Board approved an advanced payment of dividends for Servicios y Productos Multimedia 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.