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

TELEFONICA CELULAR DEL PARAGUAY S.A.E.

Twelve-month period ended 31 December 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, solution services 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 3.6 million mobile customers, while our Hybrid Fiber-Cable (HFC) network passes to more than 846 thousand homes. In the twelve-month period ended 31 December 2020, we generated revenue for PYG 3,153 billion and EBITDA for PYG 1,121 billion.

Covid-19

Throughout 2020, our company responded to the economic impacts and operational setbacks from COVID-19 with strong governance and oversight. The company approved difficult but necessary financial decisions to maintain operating cash flow, preserve jobs and maintain 24/7 connectivity for customers. The pandemic brought severe economic hardship that threatened to further widen disparities in access to education, healthcare, employment in our market across many industries.

The telecom industry is no exception to the negative effects of COVID-19, the social restrictions and sanitary measures. As a company, we are focusing on protecting our employees’ safety and well-being, deliver continuous and consistent services to customers increasing network resiliency and reliability to improve consumer experience.

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:

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 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 29 June 2020, Telecel controls SPM and fully consolidates it, recognizing non-controlling interests for the 0.10% shareholding it does not own.

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, VAS 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 adopts.

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 December 31, 2020, we had approximately 1.8 million customers on 4G/LTE, an increase of 20.1% compared to December 31, 2019, while our mobile subscriber base increased by 3.5% to 3.6 million during the same period. At December 31, 2020, 4G/LTE customers accounted for 50% of the total mobile customer base compared to 40% at December 31, 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 December, 1.3 million customers used our MFS services, representing 36% of our mobile customer base. MFS generated revenue of PYG 103.7 billion in the twelve-month period ending December 31, 2020.

In response to COVID-19 the government has provided subisides to the most affected and in-need people in the country. The government used Tigo Money to distribute these subsidies to the beneficiaries.

During the 2020, Tigo Money was a key strategic partner to the Government paying USD 100 million (PYG 690,011 million) in subsidies to 500,000 families. 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 December 31, 2020, our HFC network covered approximately 846,000 homes in Paraguay (a 9.9% increase from December 31, 2019), and we provided services to around 526,000 revenue-generating units (RGUs), a 1.3% increase from December 31, 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, customer relationships, 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 soccer 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 totaled PYG 559.4 billion during the period ended December 31, 2020 (including PYG 291 billion related to SPM), mainly due to the 3500Mhz spectrum license extension approved in 2020 for four years, compared to PYG 665.6 billion during the period ended December 31, 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 6,453 as of December 31, 2019 to PYG 6,900 as of December 31, 2020. This variation impacted our 2020 Net loss for PYG 97,140 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 31 December 2020 and 2019

PYG million	Period ended December 31		Percent change
	2020 (*)	2019	
Revenue	3,153,159	2,860,480	10.2%
Cost of sales	(721,062)	(511,416)	41.0%
Gross profit	**2,432,097**	**2,349,064**	**3.5%**
Sales and marketing	(673,272)	(712,501)	(5.5%)
General and administrative expenses	(637,466)	(357,238)	78.4%
Operating expenses	(1,310,738)	(1,069,739)	22.5%
EBITDA	**1,121,359**	**1,279,325**	**(12.3%)**
Depreciation	(441,045)	(397,452)	11.0%
Amortization	(238,532)	(199,047)	19.8%
Other operating income (expenses), net	(900)	(6,995)	(87.1%)
Operating profit	**440,882**	**675,831**	**(34.8%)**
Interest expense	(408,953)	(393,328)	4.0%
Interest and other financial income	51,849	57,824	(10.3%)
Other non-operating income (expenses)	-	-	
Exchange gain (loss), net	(97,140)	(83,138)	16.8%
Loss before tax	**(13,362)**	**257,189**	**NM**
Charge for taxes, net	(16,487)	(46,182)	(64.3%)
Net profit/(loss) and comprehensive income for the period.	**(29,849)**	**211,007**	**NM**

Operating Data:			
Number of mobile subscribers	**3,617,532**	**3,496,086**	**3.5%**
Postpaid	905,056	937,436	(3.5%)
Prepaid	2,712,476	2,558,650	6.0%
Monthly churn %	**2.9%**	**2.7%**	**0.09**
Monthly ARPU(1)	**46.9**	**52.6**	**(10.8%)**
Home			
Homes passed	886	810	9.4%
Customer relationships	452	437	3.6%
TV customers (2)	360	362	(0.4%)
Broadband RGU	279	262	6.4%
Monthly ARPU(1)	**198.2**	**202.9**	**(2.3%)**
Monthly churn %	**2.14%**	**1.53%**	**0.39**
Number of employees (**)	5,050	5,502	(8.2%)

(1) ARPU in local currency is expressed in thousands
(2) Including HFC, UHF and DTH
(*) Includes SPM and Mobile Cash impact
(**) Includes 4,043 employees from SPM

Revenue

Revenue increased by 10.2%, year-on-year to PYG 3,153.16 billion for the period ended December 31, 2020 primarily as a result of the acquisition of the subsidiaries SPM and MCP. If we disregard the effect of the acquisitions, revenue would have decreased 15%.

In our mobile operation, even though the customer base increased, revenue decreased by 4.5% mainly due to a decline in the postpaid customer base due to COVID-19 impact in subscription segment and the sensibility of ARPU in this segment.

As for home operation, revenue decreased by 9.8% due to the pandemic effect in the subscription service impacting mainly in the pay-TV segment, being accentuated by the delay of the local soccer championship tournament, which is a differentiator against competitors.

In our content operation, revenue decreased by 8.8%, as a result of less advertising and production services, and as mentioned above, the local soccer tournament was delayed because of the quarantine which had a negative impact on revenue (due to COVID-19).

Additionally, revenue from financial services increased significantly as a result of the acquisition of MCP and high levels of transactions as a result of the COVID-19 government subsidies and digital wallet adoption.

Cost of sales

Cost of sales increased by 41.0% year-on-year, to PYG 721.06 billion for the period ended December 31, 2020. Mainly impacted by the change in accounting criteria for the soccer broadcasting rights from operating expenses to direct cost, higher costs due to acquisition of MCP in line with revenue increase, bad debt due to COVID-19 pandemic and bandwidth costs impacted by higher traffic mainly in the Home segment due to COVID-19 quarantine.

Gross profit margin decreased to 77.1% for the period ended December 31, 2020 from 82.1% for the period ended December 31, 2019.

Sales and Marketing

Sales and marketing decreased by 5.5% year on year to PYG 673.3 billion for the period ended December 31, 2020 from PYG 712.5 billion for the period ended December 31, 2019, mainly due to soccer broadcasting rights reclassification previously mentioned and A&P campaigns savings due to the COVID-19 pandemic.

General and administrative expenses

General and administrative expenses increased by 78.4% year on year to PYG 637.5 billion for the period ended December 31, 2020 from PYG 357.2 billion for the period ended December 31, 2019, mainly impacted by the recognition of VCF (value-creating fee) costs for the support services provided by Millicom to its international affiliates to optimize services and knowledge that result in obtaining more viable, efficient and profitable telecommunications and cable operators.

Had VCF costs not been incurred, the total of general and administrative expenses would have been as follows:

PYG million	Period ended December 31		Percent change
	2020	2019	
Revenue	3,153,159	2,860,480	10.2%
Cost of sales	(721,062)	(511,416)	41.0%
Gross profit	**2,432,097**	**2,349,064**	**3.5%**
Sales and marketing	(673,272)	(712,501)	(5.5%)
General and administrative expenses	(431,922)	(357,238)	20.9%
Operating expenses	(1,105,194)	(1,069,739)	3.3%
EBITDA	**1,326,903**	**1,279,325**	**3.7%**

In this case, the increase of 20.9% is mainly caused by employee costs increase because of the acquisition of SPM offset partially by facilities savings in office costs and vehicle costs due to efficiencies measures resulting from the COVID-19 pandemic.

Operating expenses

Operating expenses increased by 22.5% for the period ended December 31, 2020 to PYG 1,310.7 billion from PYG 1,069.7 billion for the same period in 2019. Excluding the VCF costs mentioned above, the increase stems primarily from Employee Costs as result of the acquisition of SPM, offset partially by the change in soccer rights accounting treatment in 2020 from operating expenses to direct costs.

As a percentage of revenue, operating expenses increased to 41.6% for the period ended December 31, 2020 from 37.4% in 2019.

EBITDA

PYG million	Period ended December 31	
	2020	2019
EBITDA [(1)]	1,121,359	1,279,325
EBITDA margin [(2)]	35.6%	44.7%
Net debt to LTM EBITDA [(3)]	3.81	2.39
Total debt to LTM EBITDA [(4)]	4.54	2.53

(1) We define EBITDA as our earnings before interests, taxes, depreciation and amortization, including Telecel, Teledeportes and Lothar year to date results, MCP from June and SPM from July.
(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 12 months ended 31 December 2020.
(4) We calculate Total debt to LTM EBITDA by dividing our total borrowings by our LTM EBITDA.

EBITDA decreased by PYG 157.9 billion (12% year-on-year), and EBITDA margin decreased by 9.2 percentage points year-on-year, due to the increase in cost of sales and general and administrative expenses as the impact of VCF mentioned above.

Had VCF costs not been incurred, the EBITDA, EBITDA margin, net debt to LTM EBITDA and total debt to LTM EBITDA would have been as follows:

PYG million	Period ended December 31	
	2020	2019
EBITDA	1,326,903	1,279,325
EBITDA margin	42.1%	44.7%
Net debt to LTM EBITDA	3.22	2.39
Total debt to LTM EBITDA	3.84	2.53

Operating profit

Operating profit decreased by 34.8% for the period ended December 31, 2020 to PYG 440.8 billion from PYG 675.8 billion for the same period ended December 31, 2019 as a result of the above. The operating margin decreased from 23.6% for the period ended December 31, 2019 to 13.9% for the period ended December 31, 2020. The year-on-year variation reflects the lower EBITDA and higher depreciation and amortization costs.

Net finance costs

Net finance costs, which includes interest expense net of interest income, increased by 6.4% for the period ended December 31, 2020 to PYG 357.1 billion from PYG 335.5 billion for the period ended December 31, 2019. The increase was mainly due to higher levels debt on average during 2020, partially offset by the impact of early redemption charges incurred in 2020 as compared to 2019.

Exchange gain (loss)

Exchange loss, net, for the period ended December 31, 2020 was a net loss of PYG 97.1 billion compared to a net loss of PYG 83.1 billion for the period ended December 31, 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 6,453 as of December 31, 2019 to PYG 6,900 as of December 31, 2020.

Charge for taxes

Charge for taxes decreased by 64.3% to PYG 16.5 billion for the period ended December 31, 2020, from PYG 46.2 billion for the period ended December 31, 2019 as result of less profit.

Net profit

As a result of the above factors, the net loss for the period ended December 31, 2020 was PYG 29.9 billion compared to a net profit of PYG 211.0 billion for the period ended December 31, 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 December 31, 2018, December 31, 2019 and December 31, 2020 was PYG 3,004 billion, PYG 3,241 billion and PYG 5,091 billion respectively.

Our interest expense for the periods ended December 31, 2018, December 31, 2019 and December 31, 2020 was PYG 285.3 billion, PYG 393.3 billion and PYG 409.0 billion respectively.

Cash Flows

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

Period ended December 31	2020	2019
	(in millions of PYG)	
Net cash provided by operating activities	929,293	875,575
Net cash used by investing activities	(1,739,604)	(431,002)
Net cash used by financing activities	1,406,813	(412,443)
Exchange impact on cash and cash equivalents net	34,139	7,240
Net (decrease) increase in cash and cash equivalents	**630,641**	**39,370**
Cash and cash equivalents at the end of the period	817,782	187,141

For the period ended December 31, 2020 cash provided by operating activities was PYG 929.3 billion compared to PYG 875.6 billion for the period ended December 31, 2019. The increase was mainly to a better performance compared to the prior year due to an increase in trade receivables and payables and interests paid, a decrease in taxes paid, and to the acquisitions of SPM.

For the period ended December 31, 2020 cash used by investing activities was PYG 1,739.6 billion compared to PYG 431 billion for the period ended December 31, 2019, mainly due to the acquisitions of SPM and MCP and to intercompany loans reimbursement.

For the period ended December 31, 2020 cash provided by financing activities was PYG 1,406.8 billion compared to PYG 412.4 billion for the period ended December 31, 2019. The change in cash provided by financing activities during the period ended December 31, 2020 is the net effect between repayment of debt and financing and proceeds from issuance of debt and other financing.

For the period ended December 31, 2020 the net impact of exchange rates on cash and cash equivalents was PYG 34.1 billion compared to PYG 7.2 billion for the period ended December 31, 2019. The PYG/$ exchange rate moved from PYG 6,453 as of December 31, 2019 to PYG 6,900 as of December 31, 2020

The net increase in cash and cash equivalents for the period ended December 31, 2020 was PYG 630.6 billion compared to PYG 39.4 for the same period of 2019. We had closing cash and cash equivalents of PYG 817.8 billion as of December 31, 2020, compared to PYG 187.1 billion as of December 31, 2019.

4. Subsequent events

Commitments

In January 2021, Telecel has processed early capital repayments (maturity in 2021 - 2023) on loans with BBVA (in the process of merger with GNB) and Itaú Bank, for PYG 92,772 million and PYG 106,200 million respectively.

With these transactions, combined with the new loan agreement with Continental Bank signed in December 2020 for PYG 200,000 million, Telecel has extended the repayment terms of its loans and achieved interest savings.

Regulatory

In January 2021, Telecel has received a communication from the regulatory entity (CONATEL) stating that they had decided on December 16, 2020 to request a payment of USD 440,193 and PYG 88,481,054 for the extension of the AWS band license given to us by CONATEL. The Group has made a formal objection on the decision, but would need to pay if the latter is rejected.

In January 2021, considering the communication previously received by the regulatory entity (CONATEL), Telecel has shut down all UHF connections. The remaining clients on that technology will be offered to migrate to DTH/HFC connections.

In February 2021, Telecel received the approval of the extension of the CATV licenses of SPM for the Central department (47 cities) and 11 additional cities. The Group also regularized 121 HFC Nodes.

Legal

In April 2021, the Group received a notification by the CONACOM (local antitrust regulatory entity) for the opening of a case against Teledeportes for its refusal to share exclusive content (football rights) with its competitors, as informed by them. Based on the arguments provided and the preliminary feedback of our lawyers our analysis is that at this stage there is no need to consider a provision yet.