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

TELEFONICA CELULAR DEL PARAGUAY S.A.E.

As the three-month period ended 31 March 2021

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 3.68 million mobile customers, while our Hybrid Fiber-Cable (HFC) network passes more than 853 thousand homes. In the three-month period ended 31 March 2021, we generated revenue for PYG 927 billion and EBITDA for PYG 352 billion.

Covid-19

From the very beginning of the pandemic, Telecel responded to the challenge of COVID-19 with strong governance and an unwavering commitment to protect employees and provide uninterrupted connectivity to customers. As one of the largest private companies in Paraguay, Telecel has also provided support to local governments and health officials throughout the pandemic.

The vaccination campaign has started slowly in Paraguay, with medical personnel representing less than 1% of the population vaccinated as of the end of March 2021. This delay and vaccination uncertainty has resulted in customers balancing the prioritization of their health and connectivity, while seeking to optimize their resources.

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 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.

These acquisitions affect comparisons between the periods ending March 31, 2021 and March 31, 2020

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 Average Revenue per User (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 March 31, 2021, we had approximately 1.84 million customers on 4G/LTE, an increase of 23% compared to March 31, 2020, while our mobile subscriber base increased by 5.9% to 3.68 million during the same period. At March 31, 2021, 4G/LTE customers accounted for 51% of the total mobile customer base compared to 41% at March 31, 2020.

Mobile Financial Services

Through our mobile financial services (MFS), we provide our customers with access to a secure platform to make payments and transfer and store funds. Branded as Tigo Money, the mobile financial services we provide drive financial inclusion, help retain subscribers, and enhance ARPU through access to a wider range of services and increased customer engagement.

As of March, 1.1 million customers used our MFS services, representing 33% of our mobile customer base. MFS generated revenue of PYG 42 billion in the three-month period ending March 31, 2021.

During the pandemic, the Government of Paraguay used Tigo Money and other competing platforms to disburse subsidies to citizens most affected economically by the health crisis. This has accelerated adoption of our Tigo Money services and has produced an increase in transaction volume and revenue generated on our platform.

Home

As of March 31, 2021, our HFC network covered approximately 853,000 homes in Paraguay (a 9.5% increase from March 31, 2020), and we provided services to around 534,000 revenue-generating units (RGUs), a 1.9% increase from March 31, 2020. 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 Q1 2021 we shut down our UHF network, represented 40,000 homes, 3,400 RGUs. As we expand our HFC network, we are also migrating customers from our legacy Wimax and UHF 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 totalled PYG 86.4 billion during the period ended March 31, 2021 (including PYG 50.9 billion related to SPM), compared to PYG 33.5 billion during the period ended March 31, 2020.

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 6,563 as of March 31, 2020 to PYG 6,311.11 as of March 31, 2021.This variation impacted our 2021 Net profit for PYG 372,776 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 March 2021 and 2020

PYG million	Period ended March 31		Percent change
	2021 (*)	2020	
Revenue	927,518	672,020	38.0%
Cost of sales	(240,092)	(133,319)	80.1%
Gross profit	**687,426**	**538,701**	**27.6%**
Sales and marketing	(173,463)	(207,613)	(16.4%)
General and administrative expenses	(161,251)	(165,841)	(2.8%)
Operating expenses	(334,714)	(373,454)	(10.4%)
EBITDA	**352,712**	**165,247**	**113.4%**
Depreciation	(134,957)	(90,949)	48.4%
Amortization	(58,388)	(53,215)	9.7%
Other operating income (expenses), net	3,103	4,337	(28.5%)
Corporate fees	-	-	-
Operating profit	**162,470**	**25,420**	**539.1%**
Interest expense	(103,013)	(95,315)	8.1%
Interest and other financial income	201	18,307	(98.9%)
Other non-operating income (expenses)	-	-	-
Exchange gain (loss), net	372,776	(12,833)	**NM**
Profit before tax	**432,434**	**(64,421)**	**NM**
Charge for taxes, net	(46,672)	7,947	**NM**
Net profit/(loss) and comprehensive income for the period.	**385,762**	**(56,474)**	**NM**

Operating Data:			
Number of mobile subscribers	**3,682,834**	**3,478,135**	**5.9%**
Postpaid	921,603	921,963	**(0.04%)**
Prepaid	2,761,231	2,556,172	**8.0%**
Monthly churn %	**2.8%**	**3.2%**	**(0.14)**
Monthly ARPU(1)	**44.2**	**47.0**	**(5.8%)**
Home			
Homes passed	853	819	4.2%
Customer Relationships	461	443	4.0%
Monthly ARPU(1)	**192.2**	**200.7**	**(4.2%)**
Monthly churn %	**1.90%**	**1.93%**	**(1.6%)**
Number of employees (**)	4,897	1,032	374.5%

(1) ARPU in local currency is expressed in thousand
(*) Includes SPM and Mobile Cash impact
(**) Includes 3,905 employees from SPM and MCP

Revenue

Revenue increased by 38.0%, year-on-year to PYG 927 billion for the period ended March 31, 2021 primarily as a result of the acquisition of the subsidiaries SPM and MCP. Excluding the effect of the acquisitions, revenue would have decreased 2.0%.

In our mobile operation, even though the customer base increased, revenue decreased by 3.0% 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 our home operation, revenue decreased by 0.2% due to the pandemic effect in the subscription service which mainly impacted ARPU in in the pay-TV segment.

In our content operation, revenue decreased by 11.1%, as a result of less advertising and production services.

Additionally, revenue from financial services increased significantly as a result of the acquisition of MCP as well as higher wallet use adoption from customers.

Cost of sales

Cost of sales increased by 80.1% year-on-year, to PYG 240.1 billion for the period ended March 31, 2021. This is mainly due to the change in accounting criteria for the soccer broadcasting rights from operating expenses to direct cost beginning in Q2 2020, regularization of 2020 higher frequency charges, equipment insurance costs and previous years provisions, and higher costs due to acquisition of MCP and SPM.

Gross profit margin decreased to 74.1% for the period ended March 31, 2021 from 80.2% for the period ended March 31, 2020.

Sales and Marketing

Sales and marketing decreased by 16.4% year on year to PYG 173.4 billion for the period ended March 31, 2021 from PYG 207.6 billion for the period ended March 31, 2020, mainly due to soccer broadcasting rights reclassification previously mentioned and A&P campaigns efficiencies.

General and administrative expenses

General and administrative expenses decreased by 2.8% year on year to PYG 161.3 billion for the period ended March 31, 2021 from PYG 165.8 billion for the period ended March 31, 2020 mainly impacted by less consultancy fees in 2021 as other shared costs efficiencies.

Operating expenses

Operating expenses decreased by 10.4% for the period ended March 31, 2021 to PYG 334.7 billion from PYG 373.5 billion for the same period in 2020. The decrease comes mainly from the change in soccer rights accounting in 2020 from expenses to direct costs.

As a percentage of revenue, operating expenses decreased to 36.1% for the period ended March 31, 2021 from 55.6% in 2020.

Had the consolidation of SPM and MCP not been performed, the total of operating expenses would have been as follows:

PYG million	Period ended March 31		Percent change
	2021	2020	
Revenue	658,757	672,020	(2.0%)
Cost of sales	(138,875)	(133,319)	4.2%
Gross profit	**519,882**	**538,701**	**(3.5%)**
Sales and marketing	(168,629)	(207,613)	(18.8%)
General and administrative expenses	(119,749)	(165,841)	(27.8%)
Operating expenses*	(288,378)	(373,454)	(22.8%)
EBITDA	**231,504**	**165,247**	**40.1%**
Value Creation Fee (VCF)	36,875	73,676	(49.9%)
EBITDA	**268,379**	**238,923**	**12.3%**

(*) VCF included

EBITDA

PYG million	Period ended March 31	
	2021	2020
EBITDA (1)	352,712	165,247
EBITDA margin (2)	38.0%	24.6%
Net debt to LTM EBITDA (3)	11.27	22.34
Total debt to LTM EBITDA (4)	12.83	28.77

(1) We define EBITDA as our earnings before interests, taxes, depreciation and amortization, including Telecel, Teledeportes, MCP, SPM and Lothar year to date results
(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 March 2021.
(4) We calculate Total debt to LTM EBITDA by dividing our total borrowings by our LTM EBITDA.

EBITDA increased by PYG 187.5 billion (113% year-on-year), and EBITDA margin increased by 13.4 percentage points year-on-year, due to the increase in revenue.

Had the consolidation of SPM and MCP not been performed and excluding VCF, the EBITDA, EBITDA margin, net debt to LTM EBITDA and total debt to LTM EBITDA would have been as follows:

PYG million	Period ended March 31	
	2021	2020
EBITDA (1)	268,379	238,923
EBITDA margin (2)	40.7%	35.6%
Net debt to LTM EBITDA (3)	14.82	15.45
Total debt to LTM EBITDA (4)	16.86	19.90

(1) We define EBITDA as our earnings before interests, taxes, depreciation and amortization, including Telecel, Teledeportes and Lothar year to date results
(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 March 2021.
(4) We calculate Total debt to LTM EBITDA by dividing our total borrowings by our LTM EBITDA.

Operating profit

Operating profit increased by 539.1% for the period ended March 31, 2021 to PYG 162.4 billion from PYG 25.4 billion for the same period ended March 31, 2020 as a result of the above. The operating margin increased from 3.8% for the period ended March 31, 2020 to 17.5% for the period ended March 31, 2021. The year-on-year variation reflects the higher EBITDA and depreciation and amortization costs.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 33.5% for the period ended March 31, 2021 to PYG 102.8 billion from PYG 77 billion for the period ended March 31, 2020. This increase was mainly as a result of the consolidation of the subsidiaries SPM and MCP and their results, increase in bank charges and interest expense on bonds.

Exchange gain (loss)

Exchange gain/loss net, for the period ended March 31, 2021 was a net profit of PYG 372.7 billion compared to a net loss of PYG 12.8 billion for the period ended March 31, 2020. 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 decreasing from PYG 6,563 as of March 31, 2020 to PYG 6,311 as of March 31, 2021.

Charge for taxes increased by 687.3% to PYG 46.7 billion for the period ended March 31, 2021, from tax credit of PYG 7.9 billion for the period ended March 31, 2020.

Net profit

As a result of the above factors, the net profit for the period ended March 31, 2021 increased by 783.1% to PYG 385.7 billion compared to a net loss of PYG 56.5 billion for the period ended March 31, 2020.

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 March 31, 2019, March 31, 2020 and March 31, 2021 was PYG 3,034 billion, PYG 4,753 billion and PYG 4,524 billion respectively.

Our interest expense for the periods ended March 31, 2019, March 31, 2020 and March 31, 2021 was PYG 147.1 billion, PYG 95.3 billion and PYG 103 billion respectively.

Cash Flows

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

Period ended March 31	2021	2020
	(in millions of PYG)	
Net cash provided by operating activities	261,138	146,027
Net cash used by investing activities	(259,963)	(775,903)
Net cash used by financing activities	(250,871)	1,501,440
Net (decrease) increase in cash and cash equivalents	**(269,723)**	**880,534**
Cash and cash equivalents at the end of the period	548,059	1,067,675

For the period ended March 31, 2021 cash provided by operating activities was PYG 261.1 billion compared to PYG 146 billion for the period ended March 31, 2020. The increase was mainly to a better performance vs prior year due to the results before taxes offset by a decrease in trade and other payables, taxes paid, and interest received and an increase in trade receivables and inventories.

For the period ended March 31, 2021 cash used by investing activities was PYG 260 billion compared to PYG 776 billion for the period ended March 31, 2020, mainly due to the absence of disbursements or reimbursement of intercompany loans offset by an increase in purchase of property, plant and equipment related to the consolidation of MCP and SPM.

For the period ended March 31, 2021 cash used by financing activities was PYG 250.9 billion compared to the cash provided by PYG 1,501.4 billion for the period ended March 31, 2020. The change in cash used for financing activities during the period ended March 31, 2021 is the net effect between repayment of debt and financing as opposed to the proceed from the issuance of local and international bonus during the same period in 2020.

The net decrease in cash and cash equivalents for the period ended March 31, 2021 was PYG 269.7 billion compared to the increase of PYG 880.5 for the same period of 2020. We had closing cash and cash equivalents of PYG 548.0 billion as of March 31, 2021, compared to PYG 1,067.6 billion as of March 31, 2020.

4. Subsequent events

Today the Group has no subsequent events to report.