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

TELEFONICA CELULAR DEL PARAGUAY S.A.E.

As the six-month period ended 30 June 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 3.72 million mobile customers, while our Hybrid Fiber-Cable (HFC) network passes approximately 890 thousand homes. In the six-month period ended 30 June 2021, we generated revenue for PYG 1,837 billion and EBITDA for PYG 688 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, however by of the end of June 2021 was ready for massive deployment. These advances in vaccination campaign at the end of Q2 2021 resulted in progressive recovery of commercial activities and mobility trends improved along the country.

2. Key factors affecting Telefónica Celular del Paraguay S.A.E'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

Acquisitions for the six-month periods ended June 30, 2021.

There were no material acquisitions or disposals during the six-month periods ended June 30, 2021.

Acquisitions for the six-month periods ended June 30, 2020.

During the six-month periods ended June 30, 2020, and as a result of a shareholding restructuring, the Company made the acquisitions under common control of Servicios y Productos Multimedios SA (“SPM”) and Mobile Cash Paraguay SA (“MCP”).

The final purchase accounting and differences compared to the provisional fair values reported as at December 31, 2020 are shown below:

PYG millions	December 31, 2020 As reported	Impact of finalization/update of purchase accounting of: Servicios y Productos Multimedios SA	Impact of finalization/update of purchase accounting of: Mobile Cash Paraguay SA	December 31, 2020 Restated	Reason for the change
Consolidated statement of financial position					
ASSETS					
Intangible assets, net	3,338,901	(90,188)	175,129	3,423,842	*(i)*
Property, plant and equipment, net	2,254,137	130,008	-	2,384,145	*(ii)*
EQUITY					
Share capital and premium	168,469	-	158,776	327,245	*(iii)*
Other reserves	49,869	-	19,651	69,520	*(iv)*
Retained profits	237,294	(41,417)	-	195,877	*(v)*
Profit (Loss) for the year attributable to equity holders	(29,849)	(84,753)	(20,821)	(135,423)	*(vi)*
LIABILITIES					
Deferred tax liabilities	-	165,991	17,517	191,600	*(vii)*

(i) Impact on goodwill and customer lists resulting from the adjustments explained below for SPM and MCP.

(ii) Mainly relates to SPM property, plant and equipment step-up.

(iii) Impact of the 272 new share premium issued by the Company as consideration for MCP shares contribution.

(iv) Mainly relates to MCP's bargain purchase results explained below.

(v) Impact of SPM's final price adjustment.

(vi) Impact of the amortization and depreciation of the intangible and property, plant and equipment set-up.

(vii) Deferred tax impact of these previously explained adjustments.

PYG millions	June 30, 2020 As reported	Impact of finalization/update of purchase accounting of: Servicios y Productos Multimedios SA	Impact of finalization/update of purchase accounting of: Mobile Cash Paraguay SA	June 30, 2020 Restated	Reason for the change
Consolidated statement of comprehensive income					
Amortization	(107,440)	-	(3,304)	-104,136	*(i)*
Other non-operating income (expenses)	107,721	-	(107,721)	-	*(ii)*
Charge for taxes, net	7,710	-	1,983	9,693	*(iii)*

(i) Impact of amortization of customer lists resulting from the adjustments explained below for MCP.

(ii) Mainly relates to the excess fair value of MCP's net identifiable assets acquired, over the consideration transferred, finally recorded as equity contribution under 'Other reserves' considering the transaction as a business combination under common control.

(iii) Impact of the effect of deferred tax as a result of the amortization of customer lists.

The final purchase accounting and differences compared to the provisional fair values reported as at December 31,2020 for MCP are shown below:

(in PYG millions)	Provisional Fair values (100%)	Final Fair Values (100%)	Differences
Intangible assets, net *(i)*	5,742	180,871	175,129
Property, plant and equipment, net	1,703	1,703	-
Current assets (excluding cash and trade receivables)	3,386	3,386	-
Trade receivables, net	2,194	2,194	-
Restricted Cash	116,635	116,635	-
Cash and cash equivalents	86,377	86,377	-
Deferred tax assets	128	128	-
Total assets acquired	**216,165**	**391,294**	**175,129**
Other debt and financing	179,529	179,529	-
Deferred tax liabilities *(ii)*	-	17,517	17,517
Other liabilities	910	910	-
Total liabilities assumed	**180,439**	**197,956**	**17,517**
Fair value of assets acquired and liabilities assumed, net	**35,726**	**193,338**	**157,612**
Purchase consideration *(iii)*	4,455	163,241	158,776
Bargain purchase *(iv)*	**(31,271)**	**(30,107)**	**(1,164)**

(i) Intangible assets not previously recognized at the date of acquisition, are mainly customer lists for an amount of PYG 198,259 million (approximately US$ 29.8 million), with estimated useful lives of 5 years.

(ii) Deferred tax liability of PYG 19,826 million resulting from the above adjustment.

(iii) The purchase consideration change refers to the difference between the fair value and the nominal value of the Mobile Cash Paraguay SA shares that were delivered in exchange of the 272 shares issued by Telecel.

(iv) The excess of the fair value of the net identifiable assets acquired, over the consideration transferred has been recorded as equity contribution under 'Other reserves' considering the transaction is a business combination under common control.

The final purchase accounting and differences compared to the provisional fair values reported as at December 31,2020 for SPM are shown below:

(in PYG millions)	Provisional Fair values (100%)	Final Fair Values (100%)	Differences
Intangible assets, net (i)	106,433	191,186	84,753
Property, plant and equipment, net (ii)	809,906	939,914	130,008
Right of use assets, net	111,755	111,755	-
Other non-current assets	1,515	1,515	-
Current assets (excluding cash and trade receivables)	274,168	274,168	-
Trade receivables, net	17,034	17,034	-
Cash and cash equivalents	36,179	36,179	-
Deferred tax assets	7,906	7,906	-
Total assets acquired	**1,364,896**	**1,579,657**	**214,761**
Lease liabilities	115,535	115,535	-
Other debt and financing	955,750	955,750	-
Deferred tax liabilities (iii)	-	165,991	165,991
Other liabilities	38,641	38,641	-
Total liabilities assumed	**1,109,926**	**1,275,917**	**165,991**
Fair value of assets acquired and liabilities assumed, net	**254,970**	**303,740**	**48,770**
Purchase consideration (iv)	2,560,937	2,519,520	(41,417)
Goodwill	**2,305,967**	**2,215,780**	**(90,187)**

(i) Intangible assets not previously recognized at the date of acquisition, are mainly customer lists for an amount of PYG 1,379,668 million (approximately US$ 202.6 million) with estimated useful lives of 10 years.

(ii) A fair value step-up of PYG 155,192 million (approximately US$ 23 million) has been recognized on property, plant and equipment, mainly on customer premise equipment PYG 78,618 million (approximately US$11.5 million), towers and other civil works PYG 35,181 million (approximately US$5 million), and other network equipment PYG 22,296 million (approximately US$ 3 million). The expected remaining useful lives were estimated at 6-7 years on average.

(iii) Deferred tax liability of PYG 175,405 million resulting from the above adjustments.

(iv) Impact of SPM's final price adjustment.

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, home installation fees, 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 June 30, 2021, we had approximately 1.94 million customers on 4G/LTE, an increase of 22.6% compared to June 30, 2020, while our mobile subscriber base increased by 9.3% to 3.72 million during the same period. On June 30, 2021, 4G/LTE customers accounted for 52% of the total mobile customer base compared to 43% at June 30, 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 June, 1.3 million customers used our MFS services, representing 34% of our mobile customer base. MFS generated revenue of PYG 88.5 billion in the six-month period ending June 30, 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 June 30, 2021, our HFC network covered approximately 890,000 homes in Paraguay (a 12.4% increase from June 30, 2020), and we provided services to around 545,500 revenue-generating units (RGUs), an 8.8% increase from June 30, 2020. Our home customers can choose from a complete suite of services, including Pay-TV, internet, and other digital services. 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.

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 214.7 billion for the six-month period ended June 30, 2021 compared to PYG 175.9 billion for the six-month period ended June 30, 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 6,900.11 as of the end of December 2020 to PYG 6,754.47 as of the end of June 2021.This variation impacted our 2021 Net profit for PYG 94,057 million, 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

Six-month period ended 30 June 2021 and 2020

PYG million	Six-month period ended June 30		Percent change
	2021 (*)	2020 *(i)*	
Revenue	1,837,932	1,298,511	41.5%
Cost of sales	(477,410)	(288,997)	65.2%
Gross profit	**1,360,522**	**1,009,514**	**34.8%**
Sales and marketing	(348,844)	(368,178)	(5.3%)
General and administrative expenses	(323,202)	(237,554)	36.1%
Operating expenses	(672,046)	(605,732)	10.9%
EBITDA	**688,476**	**403,782**	**70.5%**
Depreciation	(293,202)	(185,417)	58.1%
Amortization	(204,575)	(110,744)	84.7%
Other operating income (expenses), net	1,794	3,400	(47.2%)
Corporate fees	-	-	-
Operating profit	**192,493**	**111,021**	**73.4%**
Interest expense	(202,570)	(199,641)	1.5%
Interest and other financial income	582	46,635	(98.8%)
Exchange gain (loss), net	94,057	(64,066)	**NM**
Profit before tax	**84,562**	**(106,051)**	**NM**
Charge for taxes, net	(21,964)	9,693	**NM**
Net profit/(loss) and comprehensive income for the period.	**62,598**	**(96,358)**	**NM**

Operating Data:			
Number of mobile subscribers	**3,718,653**	**3,402,322**	**9.3%**
Postpaid	941,028	855,392	**10.01%**
Prepaid	2,777,625	2,546,930	**9.1%**
Monthly churn %	**2.9%**	**3.5%**	**(0.17)**
Monthly ARPU(1)	**44.0**	**47.3**	**(6.9%)**
Home			
Homes passed	890	832	6.9%
Customer Relationships	476	411	15.6%
Monthly ARPU(1)	**191.8**	**201.1**	**(4.6%)**
Monthly churn %	**1.8%**	**1.6%**	**12.5%**
Number of employees (**)	4,896	5,080	(3.6%)

(1) ARPU in local currency is expressed in thousand
(*) Includes SPM and Mobile Cash impact
(**) Includes 3,909 employees from SPM and MCP
(i) Restated for finalization of purchase accounting for Mobile Cash Paraguay and Servicios y Productos Multimedios S.A. acquisitions

Revenue

Revenue increased by 41.5%, year-on-year to PYG 1,837 billion for the six months ended June 30, 2021 of which 38.5% is explained by the consolidation of the subsidiaries SPM and MCP that occurred during Q2 2020. The remaining 3% the result of higher revenue in most business lines, partially offset by a one-time adjustment to Home installation fee revenue.

T&E revenue increased by 9.8% year on year due to higher equipment sales.

In MFS operation revenue increase by 14.1% due to increased transactions and customer base as well as higher wallet adoption in line with the mobile customer increase during the period.

In our content operation, revenue increased by 57.4%, as a result of higher production services and advertising. Content revenue in H1 2020 was impacted by the Covid pandemic and suspension of the football league in 2020.

B2B Digital segment increase by 24.4% impacted by better performance in Cloud and other solution services.

Mobile service revenue grew 0.6% as customer growth was largely offset by lower ARPU.

Home revenue decreased 2.8% mainly impacted by a one-time adjustment to installation fees, which more than offset revenue growth from both Pay-TV and Broadband internet services.

Cost of sales

Cost of sales increased by 65.2% year-on-year, to PYG 477.4 billion for the six month period ended June 30, 2021. This is explained mainly by the consolidation of the subsidiaries SPM and MCP that occurred during Q2 2020 and an increase in the cost of football rights and football production costs related to return of local tournament. Additionally, an increase in programming costs due to customer base growth offset by better performance in bad debt.

Gross profit margin decreased to 74% for the period ended June 30, 2021 from 77.7% for the period ended June 30, 2020.

Sales and Marketing

Sales and marketing decreased by 5.3% year on year to PYG 348.8 billion for the six months ended June 30, 2021 from PYG 368.2 billion for the six months ended June 30, 2020, of which a decrease of 9.7% year on year is explained by the consolidation of the subsidiaries SPM and MCP that occurred during Q2 2020. The remaining variance of 4.5% mainly reflects higher phone subsidies and sales commissions to support our customer growth during the period.

General and administrative expenses

General and administrative expenses increased by 36.1% year on year to PYG 323.2 billion for the period ended June 30, 2021 from PYG 237.6 billion for the period ended June 30, of which 24.3% is explained by the consolidation of the subsidiaries SPM and MCP that occurred during Q2 2020. The remaining variance of 11.7% year on year mainly reflects higher network maintenance and electricity expenses stemming from the growth of our network. In addition, COVID-related lockdowns implemented in 2020 had temporarily reduced some cost items in H1 2020.

Operating expenses

As a result of the above, operating expenses increased by 10.9% for the period ended June 30, 2021 to PYG 672 billion from PYG 605.7 billion for the same period in 2020. As a percentage of revenue, operating expenses decreased to 36.6% for the period ended June 30, 2021 from 46.6% in 2020.

EBITDA

PYG million	Six-month period ended June 30

	2021	2020
EBITDA (1)	688,476	403,782
EBITDA margin (2)	37.5%	31.1%
Net debt to LTM EBITDA (3)	2.86	2.78
Total debt to LTM EBITDA (4)	3.39	3.34

(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 30 June 2021.
(4) We calculate Total debt to LTM EBITDA by dividing our total borrowings by our LTM EBITDA.

EBITDA increased by PYG 284.7 billion (70.5% year-on-year), and EBITDA margin increased by 6.4 percentage points year-on-year, mainly impacted by the increases in revenue offset by increases in general and administrative expenses and costs of sales explained above.

Operating profit

Operating profit increased by 73.4% for the six months ended June 30, 2021 to PYG 192.4 billion from PYG 111 billion for the same period ended June 30, 2020 as a result of the above. The operating margin increased from 8.5% for the six months ended June 30, 2020 to 10.5% for the period ended June 30, 2021. The year-on-year variation reflects the higher EBITDA and depreciation and amortization costs mainly due to the consolidation of the subsidiaries SPM and MCP.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 32% for the period ended June 30, 2021 to PYG 201.9 billion from PYG 153 billion for the period ended June 30, 2020. This increase was mainly the result of the consolidation of the subsidiaries SPM and MCP and their results, increase in interest expense on bonds and finance lease.

Exchange gain (loss)

Exchange gain/loss net, for the six months ended June 30, 2021 was a net profit of PYG 94.1 billion compared to a net loss of PYG 64.0 billion for the six months ended June 30, 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 6,900.11 as of the end of June 2020 to PYG 6,754 as of the end of June 30 2021.

Charge for taxes increased by 532.7% to PYG 33.3 billion for the period ended June 30, 2021, due to a tax credit of PYG 7.7 billion for the period ended June 30, 2020.

Net profit (loss)

As a result of the above factors, the net profit for the six months ended June 30, 2021 increased to PYG 62.6 billion compared to a net loss of PYG 96.3 billion for the six months ended June 30, 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 six months ended June 30, 2019, June 30, 2020 and June 30, 2021 was PYG 3,238 billion, PYG 4,887 billion and PYG 4,769 billion, respectively.

Our interest expense for the six months ended June 30, 2019, June 30, 2020 and June 30, 2021 was PYG 228.4 billion, PYG 199.6 billion and PYG 202.5 billion, respectively.

Cash Flows

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

Six-month period ended June 30	2021	2020
	(in millions of PYG)	
Net cash provided by operating activities	475,670	2,816,616
Net cash used in investing activities	(395,271)	(3,506,373)
Net cash provided by (used in) in financing activities	(263,452)	1,305,330
Net (decrease) increase in cash and cash equivalents	**(191,196)**	**640,628**
Cash and cash equivalents at the end of the period	626,586	827,769

For the six months ended June 30, 2021 cash provided by operating activities was PYG 475.6 billion compared to PYG 2,816 billion for the period ended June 30, 2020. The decrease was mainly in trade intercompany due to the payment made for the acquisition of the subsidiaries SPM and MCP in addition to a better performance compared to prior year due to results before taxes offset by a decrease in trade and other payable, taxes paid and interest received, and an increase in trade receivables and inventories.

For the period ended June 30, 2021 cash used in investing activities was PYG 359.2 billion compared to PYG 3,506 billion for the six months ended June 30, 2020, mainly due to the acquisition of subsidiaries net of cash acquired, 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 June 30, 2021 cash used in financing activities was PYG 263.4 billion compared to the cash increase of PYG 1,305 billion for the six month period ended June 30, 2020. The change in cash (used in) provided by financing activities during the six months ended June 30, 2021 is the net effect between repayment of debt and financing compared 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 June 30, 2021 was PYG 191.1 billion compared to the increase of PYG 641billion for the same period of 2020. We had closing cash and cash equivalents of PYG 627 billion as of June 30, 2021, compared to PYG 828 billion as of June 30, 2020.

4. Subsequent events

None.