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

TELEFONICA CELULAR DEL PARAGUAY S.A.E.

For the nine-month period ended 30 September 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 3.84 million mobile customers, while our Hybrid Fiber-Cable (HFC) network passes approximately 890 thousand homes. In the nine-month period ended 30 September 2021, we generated revenue of PYG 2,797 billion and EBITDA of PYG 1,065 billion.

Covid-19

During the first nine months of 2021, economic activity continued to recover in our market, in tandem with rapidly increasing vaccination rates and mobility. As of September 30, 2021, the company followed safety protocols and encouraged customers and employees to join the vaccination campaign.

As of September 30, 2021, and for the nine-month period ended September 30, 2021, management did not identify any significant adverse accounting effects as a result of the pandemic.

Comparative figures

Certain reclassifications have been made to the prior year’s quarterly accounts to enhance comparability with the current year’s quarterly accounts. As a result, certain line items have been amended in the statement of comprehensive income, cash flow and the related notes. Comparative figures have been adjusted to conform to the current year’s presentation.

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 nine-month periods ended September 30, 2021.

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

Acquisitions for the nine-month periods ended September 30, 2020.

During the nine-month periods ended September 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 of 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	(112,487)	175,129	3,401,543	*(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	-	143,691	17,517	169,300	*(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 shares premium issued by the Company as consideration for MCP shares contribution.

(iv) Mainly by the MCP's bargain purchase results.

(v) Impact of the 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	September 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	September 30, 2020 Restated	Reason for the change
Consolidated statement of comprehensive income					
Depreciation	(312,815)	(12,591)	-	(325,406)	*(i)*
Amortization	(169,255)	(34,492)	(13,217)	(216,964)	*(ii)*
Other non operating income (expenses)	107,721	-	(107,721)	-	*(iii)*
Charge for taxes, net	1,252	4,706	1,317	7,275	*(iv)*

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

(ii)Mainly relates to the excess of the fair value of the net MCP's 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.

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, digital services, 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 September 30, 2021, we had approximately 2.04 million customers on 4G/LTE, an increase of 19.4% compared to September 30, 2020, while our mobile subscriber base increased by 6.7% to 3.84 million during the same period. On September 30, 2021, 4G/LTE customers accounted for 53% of the total mobile customer base compared to 47% at September 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 September, 1.3 million customers used our MFS services, representing 33% of our mobile customer base. MFS generated revenue of PYG 136.2 billion in the nine-month period ending September 30, 2021.

Home

As of September 30, 2021, our HFC network covered approximately 890,000 homes in Paraguay (a 9.8% increase from September 30, 2020), and we provided services to around 557,600 revenue-generating units (RGUs), a 6.3% increase from September 30, 2020. Our home customers can choose from a complete suite of services, including Pay-TV, broadband 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 416 billion for the nine-month period ended September 30, 2021 compared to PYG 29 billion for the nine-month period ended September 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:USD exchange rate was PYG 6,913.99 as of September 30, 2021, almost unchanged from PYG 6,900.11 as of December 31, 2020.

3. Results of Operations

Nine-month period ended 30 September 2021 and 2020

PYG million	Nine-month period ended September 30		Percent change
	2021 (*)	2020 *(i)*	
Revenue	2,796,649	2,176,905	28.5%
Cost of sales	(712,847)	(442,403)	61.1%
Gross profit	**2,083,802**	**1,734,502**	**20.1%**
Sales and marketing	(529,916)	(556,708)	(4.8%)
General and administrative expenses	(489,280)	(444,590)	10.1%
Operating expenses	(1,019,196)	(1,001,298)	1.8%
EBITDA	**1,064,606**	**733,204**	**45.2%**
Depreciation	(444,448)	(325,406)	36.6%
Amortization	(307,474)	(216,964)	41.7%
Other operating income (expenses), net	6,757	11,244	(39.9%)
Corporate fees	-	-	-
Operating profit	**319,441**	**202,078**	**58.1%**
Interest expense	(303,235)	(306,134)	(0.9%)
Interest and other financial income	1,071	51,823	(97.9%)
Other non operating income (expenses)	671	-	(100%)
Exchange gain (loss), net	2,282	(161,384)	**NM**
Profit before tax	**20,230**	**(213,617)**	**NM**
Charge for taxes, net	(20,903)	7,275	**NM**
Net profit/(loss) and comprehensive income for the period.	**(673)**	**(206,342)**	**NM**

Operating Data:			
Number of mobile subscribers	**3,839,142**	**3,599,380**	**6.7%**
Postpaid	969,028	885,635	**9.42%**
Prepaid	2,870,114	2,713,745	**5.8%**
Monthly churn %	**2.6%**	**2.9%**	**(0.09)**
Monthly ARPU(1)	**44.9**	**47.0**	**(4.6%)**
Home			
Homes passed	890	851	4.6%
Customer Relationships	487	446	9.3%
Monthly ARPU(1)	**189.9**	**199.2**	**(4.7%)**
Monthly churn %	**1.85%**	**2.14%**	**(13.6%)**
Number of employees (**)	4,924	5,303	(7.1%)

(1) ARPU in local currency is expressed in thousand
(*) Includes SPM and Mobile Cash impact
(**) Includes 3,941 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 28.5%, year-on-year to PYG 2,796 billion for the nine months ended September 30, 2021 of which 24.8% is explained by the consolidation of the subsidiaries SPM and MCP that occurred during Q2 2020. The remaining 3.7% is the result of higher revenue in most business lines, mainly in Mobile, MFS and Content revenue.

Mobile service revenue grew 1.7% driven mainly by customer and ARPU growth in prepaid, partially offset by a decline in postpaid caused by the impact of competitive pressure on ARPU.

MFS revenue increased 12.5% due to customer growth and increased user engagement during the period.

Content revenue increased by 45.1%, as a result of higher production services and advertising. Content revenue in 9M 2020 was impacted by the Covid pandemic and suspension of the football league in 2020.

B2B Digital segment increase by 25.9% impacted by better performance in Cloud and other solution services.

Home revenue grew 0.9%, driven by customer growth, partially offset by lower installation fees and lower ARPU.

Cost of sales

Cost of sales increased 61.1% year-on-year to PYG 712.8 billion for the nine-month period ended September 30, 2021. The majority of the increase (56.8%) is explained by the consolidation of the subsidiaries SPM and MCP that occurred during Q3 2020, and the remaining 4.3% is mainly explained by the increase in football rights costs, increase in programming costs due to customer base growth, offset by better performance in bad debt.

Gross profit margin decreased to 74.5% for the period ended September 30, 2021 from 79.7% for the period ended September 30, 2020.

Sales and Marketing

Sales and marketing decreased by 4.8% year on year to PYG 529.9 billion for the nine month ended September 30, 2021 from PYG 556.7 billion for the nine month ended September 30, 2020, of which a decrease of 12.3% year on year is explained by the consolidation of the subsidiaries SPM and MCP that occurred during Q2 2020, which was offset by an increase of 7.5% mainly due to higher sales commissions to support our customer growth during the period and football sponsorship price increase.

General and administrative expenses

General and administrative expenses increased by 10.1% year on year to PYG 489.2 billion for the period ended September 30, 2021 from PYG 444.5 billion for the period ended September 30. Most of the variation is explained by the consolidation of the subsidiaries SPM and MCP that occurred during Q2 2020. The remaining variance reflects higher network maintenance and IT support expenses stemming from the growth of our network offset by external services and billing efficiencies.

Operating expenses

As a result of the above, operating expenses increased by 1.8% for the period ended September 30, 2021 to PYG 1,019.2 billion from PYG 1,001.3 billion for the same period in 2020. As a percentage of revenue, operating expenses decreased to 36.4% for the period ended September 30, 2021 from 46% in 2020.

EBITDA

PYG million	Nine-month period ended September 30	
	2021	2020 (i)
EBITDA (1)	1,064,606	733,204
EBITDA margin (2)	38.1%	33.7%
Net debt to LTM EBITDA (3)	2.77	4.03
Total debt to LTM EBITDA (4)	3.32	4.75

(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 September 2021.
(4) We calculate Total debt to LTM EBITDA by dividing our total borrowings by our LTM EBITDA.
(i) Restated for finalization of purchase accounting for Mobile Cash Paraguay and Servicios y Productos Multimedios S.A. acquisitions

EBITDA increased by PYG 331.4 billion (45.2% year-on-year), and EBITDA margin increased by 4.4 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 58.1% for the nine-month ended September 30, 2021 to PYG 319.4 billion from PYG 202.1 billion for the same period ended September 30, 2020 as a result of the above. The operating margin increased from 9.3% for the nine-month ended September 30, 2020 to 11.4% for the period ended September 30, 2021. The year-on-year variation reflects the higher EBITDA and depreciation and amortization costs mainly due to the consolidation of SPM and MCP.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 18.8% for the period ended September 30, 2021 to PYG 302.1 billion from PYG 254.3 billion for the period ended September 30, 2020. This increase was mainly the result of the consolidation of the subsidiaries SPM and MCP and their finance results.

Exchange gain (loss)

Exchange gain/loss net, for the nine-month ended September 30, 2021 was a net profit of PYG 2.3 billion compared to a net loss of PYG 161.3 billion for the nine-month period ended September 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 remained relatively stable in the nine-month period, as compared to the 6.5% depreciation recorded in 2020.

Taxes

Charge for taxes increased to PYG 20.9 billion for the period ended September 30, 2021 as compared to a tax credit of PYG 7.3 billion for the period ended September 30, 2020. The increase reflects higher current taxes as well as the consolidation of SPM and MCP. For the period ended September 30, 2021 the charge for taxes is higher than profit before taxes mostly due to the fact that amortization of intangibles stemming from the SPM and MCP acquisitions is not tax-deductible.

Net profit (loss)

As a result of the above factors, the loss for the nine months ended September 30, 2021 decreased to PYG 603 million compared to a net loss of PYG 206.3 billion for the nine months ended September 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 nine-month ended September 30, 2019, September 30, 2020 and September 30, 2021 was PYG 3,244 billion, PYG 4,945 billion and PYG 4,817 billion, respectively.

Our interest expense for the six months ended June 30, 2019, June 30, 2020 and June 30, 2021 was PYG 310.4 billion, PYG 306.13 billion and PYG 303.24 billion, respectively.

Cash Flows

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

Nine-month period ended September 30	2021	2020
	(in millions of PYG)	
Net cash provided by operating activities	703,058	745,558
Net cash used in investing activities	(540,574)	(2,755,380)
Net cash provided by (used in) in financing activities	(316,785)	2,399,693
Net (decrease) increase in cash and cash equivalents	**(158,315)**	**426,650**
Cash and cash equivalents at the end of the period	659,467	613,791

For the nine months ended September 30, 2021 cash provided by operating activities was PYG 703.1 billion compared to PYG 745.6 billion for the period ended September 30, 2020. The decrease reflects adverse working capital movements and higher taxes paid in 2021.

For the period ended September 30, 2021 cash used in investing activities was PYG 540.6 billion compared to PYG 2,755 billion for the nine months ended September 30, 2020, mainly due to the acquisition of MCP and SPM in 2020, partly offset by and an increase in purchase of property, plant and equipment, compared to the prior period.

For the period ended September 30, 2021 cash used in financing activities was PYG 316.7 billion compared to cash provided from financing of PYG 2,399 billion for the nine-month period ended September 30, 2020. Financing activities in 2020 included the issuance of local and international bonds and reimbursement of intercompany loans.

The net decrease in cash and cash equivalents for the period ended September 30, 2021 was PYG 158.3 billion compared to the increase of PYG 426.6 billion for the same period of 2020. We had closing cash and cash equivalents of PYG 659.4 billion as of September 30, 2021, compared to PYG 614 billion as of September 30, 2020.

4. Subsequent events

Financing

On October 1, 2021, Telecel SAE issued a PYG 400,000 million bond (approximately US$58 million) in three series with fixed interest rates ranging between 6.0% to 7.5% and a repayment period of 5 to 10 years.

Litigation & claims

On the 24th of November, 2021 we have been notified by the CONACOM (local antitrust regulatory entity) of their decision to dismiss the case against Teledeportes for an alleged refusal to share exclusive content (football rights) with its competitors, as informed by them, and acquit the company.