



MILLICOM
THE DIGITAL LIFESTYLE

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

TELEFÓNICA CELULAR DEL PARAGUAY S.A.E.
Three-month period ended 31 March 2022

1. Overview

Telefónica 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 3.96 million mobile customers, while our Hybrid Fiber-Cable (HFC) network passes approximately 920 thousand homes. In the three-month period ended March 31, 2022, we generated revenue of PYG 954.44 billion and EBITDA for PYG 373.38 billion.

On-going COVID-19 pandemic and Russia-Ukraine war

In February 2022, the Russian Federation commenced an invasion in the country of Ukraine. As a result of this action, various nations have instituted economic sanctions against the Russian Federation. Given the Group has no direct activities in that region of the world, management's view is that these developments and sanctions are unlikely to have a significant impact on the financial results of the Group going forward. Nonetheless, since the situation continues to evolve it remains difficult at this stage to estimate all the direct and indirect impacts which may arise.

In addition, the COVID-19 pandemic continues to have widespread and unpredictable impacts on global societies, economies, financial markets and business practices.

The Group continues to monitor the developments of the aforementioned events.

As of March 31, 2022, and for the three-month period ended March 31, 2022, management did not identify any significant adverse accounting effects as a result of the above-mentioned events.

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:

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 March 31, 2022, we had approximately 2.14 million customers on 4G/LTE, an increase of 13.5% compared to March 31, 2021, while our mobile subscriber base increased by 7.6% to 3.96 million during the same period. On March 31, 2022, 4G/LTE customers accounted for 54% of the total mobile customer base compared to 51% on March 31, 2021.

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 31, 2022, 1.6 million customers used our MFS services, around 40% of our mobile customer base. MFS generated revenue of PYG 44.08 billion in the three-month period ending March 31, 2022.

Home

As of March 31, 2022, our HFC network covered approximately 920,000 homes in Paraguay (a 7.8% increase from March 31, 2021), and we provided services to around 560,000 revenue-generating units (RGUs), an 4.6% increase from March 31, 2021. 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 totaled PYG 127.3 billion for the period ended March 31, 2022 compared to PYG 86.4 billion for the period ended March 31, 2021.

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 6,885.79 as of the end of December 2021 to PYG 6,930.05 as of March 31, 2022. This variation impacted our net loss for PYG 20.79 billion as of March 31, 2022, 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

Three-month period ended March 31, 2022 and 2021

PYG million	Three-month period ended March 31		Percent change
	2022 ⁽²⁾	2021 ⁽⁴⁾	
Revenue	954,436	927,518	2.9%
Cost of sales	(234,814)	(240,092)	(2.2)%
Gross profit	719,622	687,426	4.7%
Sales and marketing	(174,803)	(173,463)	0.8%
General and administrative expenses	(171,437)	(161,251)	6.3%
Operating expenses	(346,240)	(334,714)	3.4%
EBITDA	373,382	352,712	5.9%
Depreciation ⁽⁴⁾	(159,565)	(147,549)	8.1%
Amortization ⁽⁴⁾	(74,256)	(78,146)	(5.0)%
Other operating income (expenses), net	2,546	3,103	(17.9)%
Operating profit	142,107	130,120	9.2%
Interest expense	(113,447)	(103,013)	10.1%
Interest and other financial result, net	1,291	201	542.3%
Exchange gain (loss), net	(20,792)	372,776	NM
Profit before taxes	9,159	400,084	NM
Charge for taxes, net	(1,768)	(43,437)	NM
Profit for the period	7,391	356,647	NM
Operating Data:			
Number of mobile subscribers	3,961,050	3,682,834	7.6%
Postpaid	1,010,402	921,603	9.6%
Prepaid	2,950,648	2,761,231	6.9%
Monthly churn %	2.2%	2.8%	(0.20)
Monthly ARPU⁽¹⁾	43.7	44.2	(1.1)%
Home			
Homes passed	922	853	8.1%
Customer Relationships	494	461	7.2%
Monthly ARPU⁽¹⁾	175.9	192.2	(8.5)%
Monthly churn %	2.3%	1.9%	22.1%
Number of employees⁽³⁾	4,575	4,897	(6.6)%

(1) ARPU in local currency is expressed in thousands

(2) Includes SPM and Mobile Cash impact

(3) Includes 3,627 employees from SPM and MCP for the period ended March 31, 2022

(4) Restated for finalization of purchase accounting for Mobile Cash Paraguay and Servicios y Productos Multimedia S.A. acquisitions

Revenue

Revenue increased by 2.9%, year-on-year to PYG 954.44 billion for period ended March 31, 2022 as a result of higher revenue in most business lines, mainly in Mobile and B2B offset by Home TV operation.

Mobile service revenue grew 7.2% mainly impacted by the prepaid segment due to customer base growth and better ARPU performance; postpaid segment was driven by customer base growth partially offset by competitive pressure on ARPU.

B2B increased by 17.1% mainly driven by our fixed business due to customer base growth in TV and BBI; the remaining growth was driven by mobile customer growth and higher ARPU.

MFS revenue increase by 2.0% due to increased transactions and customer growth as well as higher wallet adoption and digital users in line with mobile customer growth during the period.

Content revenue increased by 14.1%, as a result of higher production services and advertising.

Home revenue decreased by 3.7% mostly affected by TV revenue impacted by lower ARPU and installations fees partially offset by better performance in BBI due to a higher customer base.

T&E revenue decreased by 18.2% mainly impacted by lower value equipment in B2C.

Cost of sales

Cost of sales decreased by 2.2% year-on-year, to PYG 234.81 billion for the three month period ended March 31, 2022. The main decrease is explained by lower T&E costs in line with decreased T&E sales and lower bad debt offset by increased football rights costs, programming costs due to customer base growth and roaming costs due to higher traffic.

Gross profit margin increased to 75.4% for the period ended March 31, 2022 from 74.1% for the period ended March 31, 2021.

Sales and Marketing

Sales and marketing increased by 0.8% year on year to PYG 174.80 billion for the period ended March 31, 2022 from PYG 173.46 billion for the period ended March 31, 2021; the main increase comes from MFS advertising campaigns, football sponsorship price increase and higher sales commissions to support our customer growth offset by lower T&E subsidies.

General and administrative expenses

General and administrative expenses increased by 6.3% year on year to PYG 171.44 billion for the period ended March 31, 2022 from PYG 161.25 billion for the period ended March 31, 2021, mainly impacted by higher network maintenance and IT support expenses stemming from the growth of our network, as well as higher telemarketing expenses to support customer experience offset by other efficiencies.

Operating expenses

As a result of the above, operating expenses increased by 3.4% for the period ended March 31, 2022 to PYG 346.24 billion from PYG 334.71 billion for the same period in 2021. As a percentage of revenue, operating expenses increased to 36.3% for the period ended March 31, 2022 from 36.1% for the period ended March 31, 2021.

EBITDA

PYG million	Three-month period ended March 31	
	2022	2021
EBITDA ⁽¹⁾	373,382	352,712
EBITDA margin ⁽²⁾	39%	38%
Net debt to LTM EBITDA ⁽³⁾	2.82	11.27
Total debt to LTM EBITDA ⁽⁴⁾	3.62	12.83

(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 December 2022.

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

EBITDA increased by PYG 20.67 billion (5.9% year-on-year), and EBITDA margin increased by 1.1% percentage points year-on-year, mainly impacted by the increases in revenue and decreases in direct costs offset by increases in sales and marketing and administrative expenses explained above.

Operating profit

Operating profit increased by 9.2% for the three-month period ended March 31, 2022 to PYG 142.11 billion from PYG 130.12 billion for the same period ended March 31, 2021 as a result of the above. The operating margin increased from 14.03% for the three-month ended March 31, 2021 to 14.89% for the period ended March 31, 2022. The year-on-year variation reflects the higher EBITDA offset by the increase in depreciation.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 9.1% for the period ended March 31, 2022 to PYG 112.16 billion from PYG 102.81 billion for the period ended March 31, 2021. This increase was mainly due to issuance of local bonds and the effect of foreign exchange on international bonds.

Exchange gain (loss)

Exchange gain/loss net, for the period ended March 31, 2022 was a net loss of PYG 20.79 billion compared to a net gain of PYG 372.78 billion for the period ended March 31, 2021. 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 quarter, with the exchange rate increasing from PYG 6,885.79 as of the end of December 2021 to PYG 6,930.05 as of the end of March 2022.

Charge for taxes

Charge for taxes decreased by 95.9% to PYG 1.77 billion for the period ended March 31, 2022 as compared to PYG 43.44 billion for the period ended March 31, 2021, due primarily to a lower profit before taxes.

Net profit (loss)

As a result of the above factors, the net profit for the three months ended March 31, 2022 decreased to PYG 7.39 billion compared to a net profit of PYG 356.65 billion for the three-month ended March 31, 2021.

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 three-month ended March 31, 2020, March 31, 2021 and March 31, 2022 was PYG 3.24 billion, PYG 5.09 billion and PYG 5.17 billion, respectively.

Our interest expense for the three months ended March 31, 2020, March 31, 2021 and March 31, 2022 was PYG 95.3 billion, PYG 103.01 billion and PYG 113.45 billion, respectively.

Cash Flows

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

Three-month period ended March 31	2022	2021
	(in millions of PYG)	
Net cash provided by operating activities	211,909	261,138
Net cash used in investing activities	(254,341)	(259,963)
Net cash provided by (used in) in financing activities	(51,160)	(250,871)
Net (decrease) increase in cash and cash equivalents	(91,928)	(269,723)
Cash and cash equivalents at the end of the period	960,000	548,059

For the period ended March 31, 2022 cash provided by operating activities was PYG 211.91 billion compared to PYG 261.14 billion for the period ended March 31, 2021. The decrease was mainly due to a decrease in trade and other payable, taxes paid and interest received, and an increase in depreciation, amortization and inventories.

For the period ended March 31, 2022 cash used in investing activities was PYG 254.34 billion compared to PYG 259.96 billion for the three months ended March 31, 2021. This decrease was mainly due to the purchase of intangibles assets and licenses offset by a decrease in the purchase of property plant and equipment.

For the period ended March 31, 2022 cash used in financing activities was PYG 51.16 billion compared to PYG 250.87 billion for the period ended March 31, 2021. The decrease in cash provided by financing activities during the three months ended March 31, 2022 is the net effect between repayment of debt and financing and proceeds from issuance of debt and other financing.

The net decrease in cash and cash equivalents for the period ended March 31, 2022 was PYG 91.93 billion compared to the decrease of PYG 269.72 billion for the same period of 2021. We had closing cash and cash equivalents of PYG 960 billion as of March 31, 2022, compared to PYG 548.06 billion as of March 31, 2021.

4. Subsequent events

As of the date of approval of these financial statements, the Group has no subsequent events to report.