



MILLICOM
THE DIGITAL LIFESTYLE

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

TELEFÓNICA CELULAR DEL PARAGUAY S.A.E.
nine-month period ended 30 September 2022

1. Overview

Telefónica Celular del Paraguay S.A.E. (the “Company”), a Paraguayan Company, and its subsidiaries: Teledeportes Paraguay S.A., Lothar Systems S.A., Mobile Cash Paraguay S.A. and Servicios y Productos Multimedios S.A. (the “Group” or “Telecel”) is a leading provider of telecommunications services, 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 4.05 million mobile customers, while our Hybrid Fiber-Cable (HFC) / Fiber To The Home (FTTH) network passes approximately 975 thousand homes. In the nine-month period ended September 30, 2022, we generated revenue of PYG 2,879.61 billion and EBITDA for PYG 1,098.52 billion.

Current macroeconomic environment and its effect on the Group's business activities, financial situation and economic performance

The inflation rate year on year (August 2021 to September 2022) was 9.3%, which is above the average inflation rate for Paraguay, which is usually kept under 3%-5% year-on-year by Paraguay's Central Bank. The main aspects impacting the above mentioned high inflation were the increase in fuel prices, basic foodstuffs and increases in the services sector. The inflation increase slowed in September aided by a discount on electricity services and a decrease in fuel prices. However, the Central Bank of Paraguay maintains its perspective that inflation levels will stabilize at the end of the year, reaching 8.8% year-on-year and as a result raised interest rates to 8.5% (from a minimum of 0.75% in 2020) to control inflation.

The Group has been closely monitoring the macroeconomic impacts that affect the Group and its results, with actions that seek to mitigate external impacts.

As of September 30, 2022, and for the nine-month period ended September 30, 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 and FTTH 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, 2022, we had approximately 2.21 million customers on 4G/LTE, an increase of 8.5% compared to September 30, 2021, while our mobile subscriber base increased by 5.5% to 4.05 million during the same period. On September 30, 2022, 4G/LTE customers accounted for 55% of the total mobile customer base compared to 53% on September 30, 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 September 30, 2022, 1.68 million customers used our MFS services, around 41% of our mobile customer base. MFS generated revenue of PYG 141.29 billion in the nine-month period ending September 30, 2022, increasing 3.7% year-on-year.

Home

As of September 30, 2022, our HFC / FTTH network covered approximately 975.000 homes in Paraguay (a 9.6% increase from September 30, 2021), and we provided services to around 565.200 revenue-generating units (RGUs), an 1.4% increase from September 30, 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 / FTTH 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 487.91 billion for the period ended September 30, 2022 compared to PYG 416.07 billion for the period ended September 30, 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 7,091.39 as of September 30, 2022. This variation impacted our net loss for PYG 104.27 billion as of September 30, 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

Nine-month period ended September 30, 2022 and 2021

PYG million	Nine-month period ended September 30		Percent change
	2022	2021 ⁽²⁾	
Revenue	2,879,614	2,796,649	3.0%
Cost of sales	(708,907)	(712,847)	(0.6)%
Gross profit	2,170,707	2,083,802	4.2%
Sales and marketing	(572,554)	(529,916)	8.0%
General and administrative expenses	(499,634)	(489,280)	2.1%
Operating expenses	(1,072,188)	(1,019,196)	5.2%
EBITDA	1,098,519	1,064,606	3.2%
Depreciation ⁽²⁾	(464,053)	(444,448)	4.4%
Amortization ⁽²⁾	(245,219)	(233,534)	5.0%
Other operating income (expenses), net	4,830	6,757	(28.5)%
Operating profit	394,077	393,381	0.2%
Interest expense	(332,091)	(303,235)	9.5%
Interest and other financial result, net	3,526	1,071	229.3%
Exchange gain (loss), net	(104,272)	2,282	(4669.3)%
Profit before taxes	-38,760	94,170	(141.2)%
Charge for taxes, net	(21,475)	(20,903)	2.7%
Profit (loss) for the period	(60,235)	73,267	(182.2)%
Operating Data:			
Number of mobile subscribers⁽¹⁾	4,053	3,839	5.6%
Postpaid ⁽¹⁾	1,041	969	7.4%
Prepaid ⁽¹⁾	3,011	2,870	4.9%
Monthly churn %	2.5%	2.6%	(3.8)%
Monthly ARPU⁽¹⁾	43.9	44.9	(2.2)%
Home			
Homes passed ⁽¹⁾	975	890	9.6%
Customer Relationships ⁽¹⁾	499	487	2.5%
Monthly ARPU⁽¹⁾	172.0	189.9	(9.4)%
Monthly churn %	2.2%	1.9%	20.5%
Number of employees	4,415	4,924	(10.3)%

(1) Expressed in local currency and thousands

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

Revenue

Revenue increased by 3.0%, year-on-year to PYG 2,879.61 billion for the nine month period ended September 30, 2022, of which 0.9% is explained by an accrued income adjustment from prior years, accounted in Q2 2021, and 2.1% as a result of higher revenue in most business lines, mainly in Mobile, MFS and B2B offset by Home TV operation.

Mobile service revenue grew 5.1% mainly impacted by the prepaid segment due to customer base growth and better core ARPU performance; postpaid segment was driven by customer base growth partially offset by competitive pressure on ARPU.

B2B increased by 15.5% mainly driven by our fixed business due to customer base growth in TV and BBI; the remaining growth was driven by mobile business due to customer growth and higher ARPU and higher digital solutions sales.

MFS revenue grew by 3.7% 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 service revenue decreased by 3.1% mainly impacted by lower production services.

Home service revenue decreased by 2.1% mainly due to TV revenue impacted by lower ARPU partially offset by higher base and installations fees. Internet revenue impacted by lower ARPU partially offset by higher base.

T&E revenue decreased by 13.9% mainly impacted by less sales of high-end devices in B2C.

Cost of sales

Cost of sales slightly decreased by 0.6% year-on-year, to PYG 708.91 billion for the nine month period ended September 30, 2022. Main decrease is impacted by lower T&E costs in line with decreased T&E sales and lower interconnection costs due to lower traffic; offset by increases in roaming costs due to higher traffic and football rights.

Gross profit margin increased to 75.4% for the period ended September 30, 2022 from 74.5% for the period ended September 30, 2021.

Sales and Marketing

Sales and marketing increased by 8.0% year on year to PYG 572.55 billion for the period ended September 30, 2022 from PYG 529.92 billion for the period ended September 30, 2021; the main increase comes from MFS advertising campaigns, football sponsorship price increase and higher sales commissions to support our customer growth, also impacted by minimum salary increase (11.4%) for our frontline employees. Increases are partially offset by lower T&E subsidies.

General and administrative expenses

General and administrative expenses increased by 2.1% year on year to PYG 499.63 billion for the period ended September 30, 2022 from PYG 489.28 billion for the period ended September 30, 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 partially offset by other efficiencies. Part of the fixed expenses are impacted by inflation mainly in maintenance network expenses, electricity sites, IT licenses, ERC, salaries and social security obligations.

Operating expenses

As a result of the above, operating expenses increased by 5.2% for the period ended September 30, 2022 to PYG 1,072.19 billion from PYG 1,019.20 billion for the same period in 2021. As a percentage of revenue, operating expenses increased to 37.2% for the period ended September 30, 2022 from 36.4% for the period ended September 30, 2021.

EBITDA

PYG million	Nine-month period ended September 30	
	2022	2021
EBITDA ⁽¹⁾	1,098,519	1,064,606
EBITDA margin ⁽²⁾	38.1%	38.1%
Net debt to LTM EBITDA ⁽³⁾	2.81	2.77
Total debt to LTM EBITDA ⁽⁴⁾	3.61	3.32

(1) We define EBITDA as our earnings before interests, taxes, depreciation and amortization.

(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 2022.

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

EBITDA increased by PYG 33.91 billion (3.2% year-on-year), and EBITDA margin almost equal, mainly impacted by the increases in revenue and decreases in direct costs partially offset by the increases in sales and marketing and administrative expenses explained above. Excluding the Q2 2021 accrued income adjustment, the EBITDA would have increased by PYG 10.21 billion (0.9% year-on-year).

Operating profit

Operating profit increased by 0.2% for the nine-month period ended September 30, 2022 to PYG 394.08 billion from PYG 393.38 billion for the same period ended September 30, 2021 as a result of the above. The operating margin increased from 14.07% for the nine-month ended September 30, 2021 to 13.69% for the period ended September 30, 2022. The year-on-year variation reflects the higher EBITDA offset by the increase in depreciation and amortization.

Net finance costs

Net finance costs, which include interest expense, net of interest income, increased by 8.7% for the period ended September 30, 2022 to PYG 328.57 billion from PYG 302.16 billion for the period ended September 30, 2021. This increase was mainly due to an increase in gross debt due to the issuance of local bonds in October 2021.

Exchange gain (loss)

Exchange gain/loss net, for the period ended September 30, 2022 was a net loss of PYG 104.27 billion compared to a net gain of PYG 2.28 billion for the period ended September 30, 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 depreciated over the last nine months, with the exchange rate increasing from PYG 6,885.79 as of the end of December 2021 to PYG 7,091.39 as of the end of September 2022.

Charge for taxes

Charge for taxes increased by 2.7% to PYG 21.48 billion for the period ended September 30, 2022 as compared to PYG 20.90 billion for the period ended September 30, 2021, due primarily to a lower profit before taxes.

Net profit (loss)

As a result of the above factors, the net loss for the nine-month ended September 30, 2022 decreased to PYG 60.24 billion compared to a net profit of PYG 73.27 billion for the nine-month ended September 30, 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 nine-month ended September 30, 2020, September 30, 2021 and September 30, 2022 was PYG 4,945 billion, PYG 4,817 billion and PYG 5,200 billion, respectively.

Our interest expense for the nine months ended September 30, 2020, September 30, 2021 and September 30, 2022 was PYG (306.1) billion, PYG 303.24 billion and PYG 332.09 billion, respectively.

Cash Flows

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

Nine-month period ended September 30	2022	2021
	(in millions of PYG)	
Net cash provided by operating activities	688,298	703,058
Net cash used in investing activities	(732,555)	(540,574)
Net cash provided by (used in) in financing activities	(126,358)	(316,785)
Net (decrease) increase in cash and cash equivalents	(165,103)	(158,315)
Cash and cash equivalents at the end of the period	886,825	659,467

For the period ended September 30, 2022 cash provided by operating activities was PYG 688.30 billion compared to PYG 703.06 billion for the period ended September 30, 2021. The decrease was mainly due to an increase in trade receivable, prepayments and other current asset, taxes paid and interest received, as well as depreciation and amortization.

For the period ended September 30, 2022 cash used in investing activities was PYG 732.56 billion compared to PYG 540.57 billion for the nine months ended September 30, 2021. This increase was mainly due to the purchase of intangibles assets and licenses offset by an increase in the proceeds from sale of property plant and equipment.

For the period ended September 30, 2022 cash used in financing activities was PYG 126.36 billion compared to PYG 316.79 billion for the period ended September 30, 2021. The decrease in cash used in financing activities during the nine months ended September 30, 2022 is the net effect between repayment of debt and financing and proceeds from issuance of debt and other financing.

The net increase in cash and cash equivalents for the period ended September 30, 2022 was PYG 165.10 billion compared to the decrease of PYG 158.32 billion for the same period of 2021. We had closing cash and cash equivalents of PYG 886.83 billion as of September 30, 2022, compared to PYG 659.47 billion as of September 30, 2021.

4. Subsequent events

On November 4, 2022, Telecel announced that it has commenced a tender offer to purchase for cash (the "Tender Offer") up to \$55 million (PYG 390,027 million using September 30, 2022 exchange rate) in aggregate principal amount of its 5.875% Senior Notes due 2027 (the "Notes"). The Tender Offer details are available on Millicom's website. The latter will expire on December 5, 2022 and final payment date will be December 6, 2022.