



**MILlicom**  
THE DIGITAL LIFESTYLE

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

**TELEFÓNICA CELULAR DEL PARAGUAY S.A.E.**  
**Year ended 31 December 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 Multimedia S.A. (the “Group” or “Telecel”) is a Paraguayan leading provider in mobile telephony, broadband internet, pay television, and other related products, such as mobile financial services (“MFS”) and digital media. As of December 31, 2022 we hold the number one position in the mobile market with approximately 4.3 million mobile customers, while our Hybrid Fiber-Cable (HFC) network passes approximately 995 thousand homes. In the year ended 31 December 2022, we generated revenue of PYG 3,885 billion and EBITDA for PYG 1,471 billion.

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

Inflation in many countries globally has been rising for the past several months due to a variety of factors, including significant disruptions to the global production and distribution of energy and food commodities caused by Russia's invasion of Ukraine as well as the global response to that invasion. As a result, global economic prospects have been severely affected, including in our Latin America markets. During the last semester of 2022, the Group took meaningful steps to mitigate the impact of rising inflation, including the implementation of numerous price increases and establishing cost savings initiative programs, which will position it to sustain healthy service revenue growth and margins going forward.

Although the macro-economic backdrop has become more challenging, business and financial performance through 2022 is broadly in line with our plans.

The Group continues to monitor the developments of the aforementioned events and their potential impact on performance and accounting considerations.

## 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 December 31, 2022, we had approximately 2.4 million customers on 4G/LTE, an increase of 9.9% compared to December 31, 2021, while our mobile subscriber base increased by 9.5% to 4.3 million during the same period. As of December 31, 2022 and December 31, 2021, 4G/LTE customers accounted for 55% of the total mobile customer base.

## 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 December 31, 2022, 1.8 million customers used our MFS services, representing 41% of our mobile customer base. MFS generated revenue of PYG 193.6 billion in the year ended December 31, 2022.

## Home

As of December 31, 2022, our HFC/FTTH network covered approximately 995,000 homes in Paraguay (a 9.4% increase from December 31, 2021), and we provided services to around 576,000 revenue-generating units (RGUs), an 1.2% increase from December 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/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 794 billion for the twelve-month period ended December 31, 2022 compared to PYG 881 billion for the twelve-month period ended December 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 6,886 as of the end of December 2021 to PYG 7,346 as of the end of December 2022. This variation impacted our 2022 Net loss for PYG 238,734 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

Twelve-month period ended December 31, 2022 and 2021

PYG million	Year ended December 31		Percent change
	2022	2021	
Revenue	3,885,363	3,767,473	3.1%
Cost of sales	(959,813)	(955,184)	0.5%
<b>Gross profit</b>	<b>2,925,550</b>	<b>2,812,289</b>	<b>4.0%</b>
Sales and marketing	(755,159)	(735,702)	2.6%
General and administrative expenses	(699,062)	(671,577)	4.1%
Operating expenses	(1,454,221)	(1,407,279)	3.3%
<b>EBITDA</b>	<b>1,471,329</b>	<b>1,405,010</b>	<b>4.7%</b>
Depreciation	(617,939)	(596,607)	3.6%
Amortization	(339,207)	(337,249)	0.6%
Other operating income (expenses), net	39,204	24,822	57.9%
<b>Operating profit</b>	<b>553,387</b>	<b>495,976</b>	<b>11.6%</b>
Interest expense	(417,274)	(330,518)	26.2%
Interest and other financial income	31,481	2,258	1294.5%
Exchange gain/(loss), net	(238,734)	18,748	NM
<b>Profit (Loss) before taxes</b>	<b>(71,140)</b>	<b>186,464</b>	<b>NM</b>
Charge for taxes, net	(19,393)	(37,019)	(47.6)%
<b>Total comprehensive income (loss) for the year</b>	<b>(90,533)</b>	<b>149,445</b>	<b>(160.6)%</b>
<b>Operating Data:</b>			
<b>Number of mobile subscribers <sup>(1)</sup></b>	<b>4,258</b>	<b>3,887</b>	<b>9.5%</b>
Postpaid <sup>(1)</sup>	1,062	997	6.5%
Prepaid <sup>(1)</sup>	3,196	2,890	10.6%
<b>Monthly churn %</b>	<b>2.3%</b>	<b>2.7%</b>	<b>(14.8)%</b>
<b>Monthly ARPU<sup>(1)</sup></b>	<b>43.7</b>	<b>44.7</b>	<b>(2.2)%</b>
<b>Home</b>			
Homes passed <sup>(1)</sup>	992	907	9.4%
Customer Relationships <sup>(1)</sup>	497	495	0.5%
<b>Monthly ARPU<sup>(1)</sup></b>	<b>172.8</b>	<b>188.4</b>	<b>(8.3)%</b>
<b>Monthly churn %</b>	<b>2.2%</b>	<b>1.8%</b>	<b>22.6%</b>
<b>Number of employees</b>	<b>4,718</b>	<b>5,058</b>	<b>(6.7)%</b>

(1) Expressed in local currency and thousands

## Revenue

Revenue increased by 3.1%, year-on-year to PYG 3,885 billion for the twelve months ended December 31, 2022 of which 0.7% is explained by an accrued income adjustment from prior years, accounted in Q2 2021, and 2.4% as a result of higher revenue in most business lines, mainly in Mobile, MFS and B2B offset by Home.

Mobile service revenue grew 4.6% 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 15.8% mainly driven by the fixed business due to customer base growth in TV and BBI and mobile business due to customer growth and higher ARPU; the remaining growth was driven by higher digital solutions sales.

MFS service revenue grew by 4.7% 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 increased by 6.7% mainly impacted by higher advertising revenue explained by World Cup offset by lower production services.

Home service revenue decreased by 2.7% 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 10.2% mainly impacted by less sales of high-end devices in B2C.

## Cost of sales

Cost of sales increased by 0.5% year-on-year, to PYG 960 billion for the twelve month period ended December 31, 2022. Mainly due a contractual yearly cost increase related to our soccer rights; higher roaming costs impacted by traffic and higher MFS costs in line with revenue; increases offset by lower T&E costs in line with revenue.

Gross profit margin increased to 75.3% for the period ended December 31, 2022 from 74.6% for the period ended December 31, 2021.

## Sales and Marketing

Sales and marketing increased by 2.6% year on year to PYG 755.2 billion for the twelve month ended December 31, 2022 from PYG 736 billion for the twelve month ended December 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 4.1% year on year to PYG 699.1 billion for the period ended December 31, 2022 from PYG 671.6 billion for the period ended December 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 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 3.3% for the period ended December 31, 2022 to PYG 1,454.2 billion from PYG 1,407.3 billion for the same period in 2021. As a percentage of revenue, operating expenses are 37.4% for the years ended December 31, 2022 and December 31, 2021.

**EBITDA**

PYG million	Year ended December 31	
	2022	2021
EBITDA <sup>(1)</sup>	1,471,329	1,405,010
EBITDA margin <sup>(2)</sup>	37.9%	37.3%
Net debt to LTM EBITDA <sup>(3)</sup>	2.58	3.18
Total debt to LTM EBITDA <sup>(4)</sup>	3.39	3.68

(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 66.3 billion (4.7% year-on-year), and EBITDA margin increased by 0.6 percentage points year-on-year, mainly impacted by the increases in revenue offset by increases in general and administrative expenses and sales and marketing explained above.

**Operating profit**

Operating profit increased by 11.6% for the twelve-month ended December 31, 2022 to PYG 553.4 billion from PYG 496.0 billion for the same period ended December 31, 2021 as a result of the above. The operating margin increased from 13.2% for the twelve-month ended December 31, 2021 to 14.2% for the period ended December 31, 2022. The year-on-year variation reflects the higher EBITDA offset by the increase in depreciation and amortization costs.

**Net finance costs**

Net finance costs, which include interest expense, net of interest income, increased by 17.5% for the period ended December 31, 2022 to PYG 385.8 billion from PYG 328.3 billion for the period ended December 31, 2021. This increase was mainly due to an adjustment in the asset retirement obligation calculation rate performed in 2022 and recovery of social security obligations.

**Exchange gain (loss)**

Exchange gain/loss net, for the twelve-month ended December 31, 2022 was a net loss of PYG 238.7 billion compared to a net profit of PYG 18.7 billion for the twelve-month ended December 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 depreciated over the past year, with the exchange rate increasing from PYG 6,885.79 as of the end of December 2021 to PYG 7,345.93 as of the end of December 31, 2022.

**Charge for taxes**

Charge for taxes decreased by 47.6% to PYG 19.4 billion for the period ended December 31, 2022, due to the decrease of PYG 257.4 billion in profit before taxes, from PYG 37.0 billion for the period ended December 31, 2021.

**Net profit (loss)**

As a result of the above factors, the net loss for the twelve months ended December 31, 2022 decreased to PYG 90.5 billion compared to a net profit off PYG 149.4 billion for the twelve-month ended December 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 twelve-month ended December 31, 2020, December 31, 2021 and December 31, 2022 was PYG 5,091 billion, PYG 5,174 billion and PYG 4,984 billion, respectively.

Our interest expense for the twelve months ended December 31, 2020, December 31, 2021 and December 31, 2022 was PYG 408.95 billion, PYG 330.52 billion and PYG 417.27 billion, respectively.

## Cash Flows

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

Year ended December 31	2022	2021
	(in millions of PYG)	
Net cash provided by operating activities	915,712	967,085
Net cash used in investing activities	(858,583)	(778,697)
Net cash provided by (used in) in financing activities	(577,645)	50,040
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(512,292)</b>	<b>234,146</b>
Cash and cash equivalents at the end of the period	539,636	1,051,928

For the period ended December 31, 2022 cash provided by operating activities was PYG 915.7 billion compared to PYG 967.1 billion for the period ended December 31, 2021. This was mainly due to a decrease in trade and other payable and foreign exchange net loss impact.

For the period ended December 31, 2022 cash used in investing activities was PYG 858.6 billion compared to PYG 778.7 billion for the twelve months ended December 31, 2021, due to an increase in purchase of property plant and equipment and intangible assets and licenses offset by proceeds from sale of property, plant and equipment.

For the period ended December 31, 2022 cash used in financing activities was PYG 577.6 billion compared to the cash increase of PYG 50 billion for the twelve-month period ended December 31, 2021. The change in cash used in financing activities during the twelve months ended December 31, 2022 is the net effect between repayment of debt and financing compared to the proceed from the issuance and payment of dividends.

The net decrease in cash and cash equivalents for the period ended December 31, 2022 was PYG 512.3 billion compared to the increase of PYG 234.1 billion for the same period of 2021. We had closing cash and cash equivalents of PYG 539.6 billion as of December 31, 2022, compared to PYG 1,051.9 billion as of December 31, 2021.

## 4. Subsequent events

### Potential acquisition

On January 25, 2023, Millicom confirmed that a potential acquisition of all outstanding shares in Millicom is being discussed with Apollo Global Management and Claire Group. There is no certainty that a transaction will materialize nor as to the terms, timing or form of any potential transaction.