Management's Discussion and Analysis of Financial Condition and Results of Operations of Telecomunicaciones Digitales, S.A.

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited interim condensed consolidated financial statements as of March 31, 2023 and 2022.

Overview

Founded in 1990, we are the leading provider of Pay-TV, broadband Internet, telephony and mobile telecommunications services in Panama, serving residential (B2C). Through our flagship "Tigo" brand, we are the largest provider of fixed broadband internet and fixed telephony in Panama. We also offer B2B services to governmental, enterprise and SME customers, including fixed Internet, cloud and backup solutions, outsourcing of both IT department management and operations, personalized IT projects, and cybersecurity. Through our wholly owned subsidiary Grupo de Comunicaciones Digitales ("GCD"), we are the largest provider of mobile communications services in the country. We are the market leader as measured by revenue and number of customers, serving more than 2.4 million mobile customers and more than 1.1 million fixed revenue generating units (RGUs) as of March 31, 2023.

Throughout our 30-year history, we have experienced significant organic growth, complemented by strategic acquisitions, which have strengthened our leadership position. Our growth has also been driven by our consistent investments to maintain, expand and upgrade our network capabilities, allowing us to offer advanced communications and entertainment services with a high degree of reliability and customer satisfaction. As a result of these investments, our fiber-cable network today is entirely digital and employs the DOCSIS 3.0 standard. Our network includes more than 12,350 km of hybrid-fiber-cable (HFC), a fiber backbone of more than 9,650 km and more than 464,000 customer relationships.

Recent Business Developments

On August 29, 2019 we acquired 100% of the share capital of GCD for $593.6 million from Telefónica Centroamérica Inversiones, S.L., which was owned directly and indirectly by Telefónica S.A. ("Telefónica Panamá Acquisition"). The Telefónica Panamá acquisition is consistent with our strategy to solidify our telecom market leadership, enable fixed-mobile convergence and to grow and diversify our sources of cash flow.

On November 1, 2019, Telecomunicaciones Digitales, S.A. (formerly Cable Onda, S.A.) completed a bond debt offering under the Rule 144A and Regulation S, of $600 million aggregate principal amount of 4.500% senior unsecured notes due January 30, 2030 (the "Notes). We used the net proceeds from the offering to partially finance the acquisition of Telefónica Panamá to refinance other debt and for general corporate purposes. The Notes are listed on the Panama Stock Exchange and on the Luxembourg Stock Exchange.

The Notes were sold within the United States to qualified institutional buyers under Rule 144A and to certain non-U.S. persons in offshore transactions under Regulation S under the Securities Act.

Results of operations

The following table sets forth certain income statement items and operating information for the periods or at the dates indicated:

(*in thousands of $*)	**Three months ended March, 31**		
	2023	**2022**	**% Change**
Revenue	**168,258**	**157,806**	**6.6%**
Costs and expenses	**(144,654)**	**(123,376)**	**17.2%**
Programming and operating costs	(41,197)	(33,263)	23.9%
Depreciation and amortization	(38,326)	(36,406)	5.3%
Personnel expenses	(22,334)	(20,361)	9.7%
General, sales and administrative expenses	(47,796)	(33,346)	28.3%
Income from operations	**23,603**	**34,430**	**-31.4%**
Financial expenses, net	(10.469)	(10,710)	-2.2%
Profit before income tax	**13,134**	**23,720**	**-44.6%**
Income tax	(5,940)	(5,781)	2.8%
Net Income	**7,194**	**17,939**	**-59.9%**
Attributable to:			
Owners of the Company	7,249	17,984	-59.7%
Non-controlling interest	(56)	(45)	24.3%
Operating Data (in thousands) except for ARPU's			
RGUs Cable and other fixed	1,105	1,108	-0.3%
ARPU Cable and other fixed	43.8	44.6	-1.9%
Mobile Subscribers	2,572	2,265	13.5%
ARPU Mobile	8.7	9.0	-2.9%

Revenue

Total revenue increased by 6.6%, or $10.5 million, from $157.8 million for the three months ended March 31, 2022 to $168.3 million for the three months ended March 31, 2023.

Revenue from sales of mobile equipment increased by 52.6%, mobile services increased by 12.4% and data transmission, internet and data center increased by 4.0% for the three months ended March 31, 2023, while TV subscription revenue decreased by 8.1% and fixed-line services revenue fell by 8.9%.

Mobile service revenue as a share of total revenue was 40.9% in the three months ended March 31, 2023, compared to 38.8% in the three months ended March 31, 2022 and sale of mobile devices as a share of total revenue was 4.9% in the three months ended March 31, 2022, compared to 3.4% in the three months ended March 31, 2022.

Data transmission, internet and data center revenue accounted for 32.3% of total revenue in the three months ended March 31, 2023, compared to 33.1% in the three months ended March 31, 2022, while revenue from TV subscriptions accounted for 16.6% of total revenue in the three months ended March 31, 2023, compared to 19.3% in the three months ended March 31, 2022. Fixed-line services revenue accounted for 4.0% of total revenue in the three months ended March 31, 2023, compared to 4.7% in the three months ended March31, 2022.

Programming and operating costs

Programming and operating costs increased by 23.9% year over year, or $7.9 million, from $33.3 million in the three months ended March 31, 2022 to $41.2 million in the three months ended March 31, 2023, primarily as a result of an increase in programming costs of $2.2 million related to acquisition of broadcast rights for local and international soccer leagues (Tigo Sports and Vix) and an increase in selling costs of mobile equipment and accessories of $2.9 million related to higher sales of mobile equipment.

Depreciation and amortization

Depreciation and amortization increased by 5.3% year over year, or $1.9 million, from $36.4 million in the three months ended March 31, 2022 to $38.3 million in the three months ended March 31, 2023. The increase was mainly driven by depreciation of fixed assets of $2.5 million and partially offset by decrease in amortization of intangible assets of $0.9 million.

Personnel expenses

Personnel expenses increased by 9.7%, or $2.0 million, to $22.3 million in the three months ended March 31, 2023 from $20.3 million in the three months March 31, 2022. The increase mainly reflects $1.7 million related to higher net profit sharing expenses and employee layoffs and retirement benefits in the three months ended March 31, 2023

General, sales and administrative expenses

General, sales and administrative expenses increased by 28.3%, or $9.5 million, to $42.8 million in the three months ended March 31, 2023 from $33.3 million in the three months ended March 31, 2022. This increase is mainly driven by higher professional services fees of $12.1 million, due to operational services of VCF (Value Creating Fees) provided by Millicom and partially offset by decrease in services expenses and repair, maintenance and other operating expenses for $2.3 million.

Income from operations

As a result of the above income from operations decreased by 31.4% or 10.8 million year over year, for the three months ended March 31, 2023.

Financial expense

Financial expense, net (which includes interest income), decreased by 2.2%, or $0.2 million, from $10.7 million in the three months ended March 31, 2022 to $10.5 million in the three months ended March 31, 2023. This decrease was mainly the result of refinancing activity over the past year which has lowered the average interest rate on our debt.

Income tax

Income tax expense was $5.9 million, n increase of 2.8%, or $0.2 million, for the three months ended March 31, 2023 compared to the income tax expense of $5.7 million for the three months ended March 31, 2022. This is due mainly to a higher profit before tax, which increased from $23.7 million in the three months ended March 31, 2022 to $13.1 million in the three months ended March 31, 2023. The statutory tax rate for Panama is 25%.

Net income

As a result of the foregoing, net income for three months ended March 31, 2023 was $7.2 million, a 59.9% decrease compared with our income of $17,9 million for the three months ended March 31, 2022. As shown above, the main drivers are: the increase in revenue of $10.5 million, the increase in cost and expenses of $21.3 million.

Liquidity and capital resources

Historically we have relied primarily on cash from operations and external bond and bank financings to fund our operations, capital expenditures and working capital requirements. We intend to continue to rely on these funding sources going forward.

We believe that our sources of liquidity are sufficient for our present requirements for the next 12 months. Although we believe that we should be able to meet our debt service obligations and fund our operating requirements in the future through cash flow from our operations, we may seek additional financing in the capital markets from time to time, depending on market conditions and our financial requirements. We intend to continue to focus on investments in property, systems and equipment (fixed assets) and working capital management, including the timely collection of accounts receivable and efficient management of accounts payable.

Capital expenditures

Our capital expenditures on property, plant and equipment for the the three months ended March 31, 2023 were $15.7 million, mostly driven by investments in customer premise equipment (CPE) installation cost, IT equipment and core network expansion.

Cash flows

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

(*in thousands of $*)	Three months ended March, 31		
	2023	**2022**	**% Change**
Net cash used in operating activities	(26,854)	(4,031)	566.2%
Net cash used in investing activities	(14,695)	(19,158)	-23.3%
Net cash used in financing activities	(2,810)	(3,931)	-28.5%
Net decrease in cash and cash equivalents	**(44,358)**	**(27,120)**	63.6%
Cash and cash equivalents at the end of the year	**64,975**	**127,272**	-48.9%

Three months ended March 31, 2023 and 2022

For the three months ended March 31, 2023, cash used in operating activities was $26.9 million compared to $4.0 million in the three months ended March 31, 2022. The change was mainly due to the year over year impact of $2.8 million of income taxes paid and financing interest paid of $15.2 million, operating activities paid of $6.7 million, interest paid for leases of $1.2 million and seniority premium and severance paid of $1.4 during the three months ended March 31, 2023

For the three months ended March 31, 2023, cash used in investing activities was $14.7 million compared to $19.2 million used in the three months ended March 31, 2022. The change is mainly due to the year over year impact of $4.5 million in lower acquisition of tangible assets.

For the three months ended March 31, 2023, cash used in financing activities was $2.8 million compared to $3.9 million used in financing activities in the three months ended March 31, 2022. The change in mainly driven by the decrease for $1.1 million in lease liabilities payment.

As a result of the above, for the three months ended March 31,2023 cash and cash equivalents decreased by $62.3 million. We had closing cash of $65.0 million as of March 31, 2023, compared to $127.3 million as of March 31, 2022.