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

TELEFÓNICA CELULAR DEL PARAGUAY S.A.E.
six-month period ended 30 June 2023

We believe in better. We believe in tigo

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 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 June 30, 2023 we hold the number one position in the mobile market with approximately 4.2 million mobile customers, while our Hybrid Fiber-Cable (HFC) / Fiber To The Home (FTTH) network passes approximately 1 million homes. In the six-month period ended June 30, 2023, we generated revenue approximately PYG 2,033 billion and EBITDA approximately for PYG 779 billion.

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

Global growth is projected to slow down in 2023-2024 due to central banks' interest rate hikes to combat inflation. Inflation is expected to decrease globally and immediate financial risks eased with debt ceiling raise in the US and measures to stabilize banking. Despite moderation, downside risks persist: high inflation, renewed conflicts, financial turbulence, China's housing woes, and sovereign debt overhang.

Inflation in Paraguay has decreased, closing Q2 2023 with a year-on-year inflation of 4.2% compared to Q2 2022 which had closed with 11.5%. The improvement is influenced by reduced fruit, vegetable, and fuel prices. The central bank maintained the policy rate at 8.50%, noting the downward trajectory of inflation. A USD 500 million 10-year sovereign bond was issued, receiving strong demand. GDP growth is projected between 4%-6%, with inflation forecasted between 4%-5%, driven by a robust currency and prudent monetary stance.

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 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 June 30, 2023, we had approximately 2.3 million customers on 4G/LTE, an increase of 7.6% compared to June 30, 2022, while our mobile subscriber base increased by 3.7% to 4.2 million during the same period. On June 30, 2023, 4G/LTE customers accounted for 55% of the total mobile customer base compared to 53% on June 30, 2022.

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 June 30, 2023, 1.7 million customers used our MFS services, around 40% of our mobile customer base. MFS generated revenue of approximately PYG 99 billion in the six-month period ending June 30, 2023.

Home

As of June 30, 2023, our HFC / FTTH network covered approximately 1 million homes in Paraguay (an 9.6% increase from June 30, 2022), and we provided services to around 577,000 revenue-generating units (RGUs), a 2.9% increase from June 30, 2022. 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. The extension after December 2023 is currently being negotiated.

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.

Fixed asset additions totaled approximately PYG 308.4 billion for the period ended June 30, 2023 compared to approximately PYG 340.2 billion for the period ended June 30, 2022.

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.

The PYG/$ exchange rate moved from PYG 7,345.9 as of December 31, 2022 to PYG 7,266.1 as of June 30, 2023.This variation positively impacted our net profit for approximately PYG 29.3 billion as of June 30, 2023, 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

Six-month period ended June 30, 2023 and 2022

PYG million	Six-month period ended June 30		Percent change
	2023	2022	
Revenue	2,032,891	1,906,745	6.6%
Cost of sales	(510,879)	(478,890)	6.7%
Gross profit	**1,522,012**	**1,427,855**	**6.6%**
Sales and marketing	(406,682)	(367,694)	10.6%
General and administrative expenses	(336,045)	(341,907)	(1.7)%
Operating expenses	(742,727)	(709,600)	4.7%
EBITDA	**779,285**	**718,255**	**8.5%**
Depreciation	(332,118)	(309,044)	7.5%
Amortization	(175,686)	(159,977)	9.8%
Other operating income (expenses), net	16,170	2,676	504.3%
Operating profit	**287,651**	**251,910**	**14.2%**
Interest expense	(256,528)	(216,714)	18.4%
Interest and other financial result, net	5,232	742	604.8%
Exchange gain (loss), net	29,346	23,917	22.7%
Profit before taxes	**65,701**	**59,855**	**9.8%**
Charge for taxes, net	(11,103)	(18,512)	(40.0)%
Profit for the period	**54,598**	**41,343**	**32.1%**

Operating Data:			
Number of mobile subscribers (In thousands)	**4,174**	**4,024**	**3.7%**
Postpaid	1,052	1,026	2.5%
Prepaid	3,122	2,998	4.1%
Monthly churn %	**2.8%**	**2.4%**	**16.7%**
Monthly ARPU (In local currency and thousands)	**44.6**	**43.1**	**3.5%**
Home (In thousands)			
Homes passed	1,037	947	9.6%
Customer Relationships	495	497	NM
Monthly ARPU (In local currency and thousands)	**179.2**	**173.6**	**3.2%**
Monthly churn %	**2.4%**	**2.2%**	**6.3%**
Number of employees	4,526	4,611	(1.8)%

Revenue

Revenue increased by 6.6%, year-on-year to PYG 2,032.9 billion for the six-month period ended June 30, 2023, as a result of higher revenue in most business lines, mainly in Mobile, Home, MFS and B2B operations.

Mobile service revenue grew 7.1% mainly impacted by the prepaid segment due to customer base growth and better core ARPU performance. Postpaid segment growth was driven by customer base growth partially offset by competitive pressure on ARPU.

Home service revenue increased by 5.6% mainly due to TV revenue impacted by higher customer base. Internet revenue impacted by lower ARPU offset by higher installations fees.

MFS revenue grew by 8.8% due to increased transactions and customer growth as well as higher digital wallet adoption and digital users in line with mobile customer growth during the period.

B2B increased by 11.1% mainly driven by higher digital solutions sales and fixed business due to customer growth in TV and BBI, while the remaining increase is related to an increase in the mobile business due to customer base growth.

Content service revenue decreased by 11.1% mainly impacted by lower production services and advertising.

T&E revenue decreased by 5.5% mainly impacted by less sales of high-end devices in B2C.

Cost of sales

Cost of sales increased by 6.7% year-on-year, to PYG 510.9 billion for the six-month period ended June 30, 2023. The main increase is due to higher programming costs aligned with higher TV revenue, contractual yearly price increase related to our soccer rights, higher roaming costs due to higher traffic and higher Conatel regulatory fees. The remaining increase is due to higher digital solutions costs in line with B2B solution revenue, bad debt costs in line with the revenue increase and other minor increases.

Gross profit margin was 74.9% for the six-month period ended June 30, 2023, similar to the six-month period ended June 30, 2022.

Sales and Marketing

Sales and marketing increased by 10.6% year on year to PYG 406.7 billion for the period ended June 30, 2023 from PYG 367.7 billion for the period ended June 30, 2022; the main increase comes from higher subsidies due to less vendor credit notes in 2023; higher sales commissions and telemarketing services costs to support our customer growth, and also by a minimum salary increase (11.4%) for our frontline employees and severance for PYG 15 billion.

General and administrative expenses

General and administrative expenses decreased by 1.7% year on year to PYG 336 billion for the period ended June 30, 2023 from PYG 341.9 billion for the period ended June 30, 2022, mainly impacted by lower corporate fees offset by higher network maintenance and IT support expenses stemming from the growth of our network and other variations and severance for PYG 8 billion.

Operating expenses

As a result of the above, operating expenses increased by 4.7% for the period ended June 30, 2023 to PYG 742.7 billion from PYG 709.6 billion for the same period in 2022. As a percentage of revenue, operating expenses decreased to 36.5% for the period ended June 30, 2023 from 37.2% for the period ended June 30, 2022.

EBITDA

PYG million	Six-month period ended June 30	
	2023	2022
EBITDA [(1)]	779,285	718,255
EBITDA margin [(2)]	38.3%	37.7%
Net debt to LTM EBITDA [(3)]	2.60	2.80
Total debt to LTM EBITDA [(4)]	3.19	3.56

(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 June 2023.
(4) We calculate Total debt to LTM EBITDA by dividing our total borrowings by our LTM EBITDA.

EBITDA increased by PYG 61 billion (8.5% year-on-year), excluding severance costs EBITDA would have grown 9% year on year. EBITDA margin increased by 0.6% percentage points year-on-year, mainly impacted by the increases in revenue offset by increases in direct costs and sales and marketing expenses explained above in line with revenue increase.

Operating profit

Operating profit increased by 14.2% for the six-month period ended June 30, 2023 to PYG 288 billion from PYG 251.9 billion for the same period ended June 30, 2022 as a result of the above. The operating margin increased from 13.21% for the six-month ended June 30, 2022 to 14.15% for the period ended June 30, 2023. 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 16.4% for the period ended June 30, 2023 to PYG 251.3 billion from PYG 216.0 billion for the period ended June 30, 2022. This increase was mainly due to an adjustment in the asset retirement obligation calculation rate performed in June 2022 and the effect of foreign exchange on international bonds.

Exchange gain (loss)

Exchange gain/loss net, for the period ended June 30, 2023 was a net profit of PYG 29.3 billion compared to a net loss of PYG 23.9 billion for the period ended June 30, 2022. 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 appreciated over the last six months, with the exchange rate decreasing from PYG 7,345.9 as of the end of December 2022 to PYG 7,266.1 as of the end of June 2023.

Charge for taxes

Charge for taxes decreased by 40% from PYG 18.5 billion for the period ended June 30, 2022 compared to PYG 11.1 billion for the period ended June 30, 2023 due to higher tax payments and advanced tax payments in June 2022, while in June 2023 advanced tax payments decreased by 80%.

Net profit (loss)

As a result of the above factors, the net profit for the six-month ended June 30, 2023 increased to PYG 54.6 billion compared to a net profit of PYG 41.3 billion for the six-month ended June 30, 2022.

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 as of June 30, 2023 was PYG 4,895 billion and June 30, 2022 was PYG 5,104 billion, respectively.

Our interest expense for the six-month period ended June 30, 2023 was PYG 256.5 billion and June 30, 2022 was PYG 216.7 billion, respectively.

Cash Flows

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

Six-month period ended June 30	2023	2022
	(in millions of PYG)	
Net cash provided by operating activities	477,702	411,316
Net cash used in investing activities	(471,924)	(471,282)
Net cash provided by (used in) in financing activities	(80,073)	(73,275)
Net (decrease) increase in cash and cash equivalents	**(74,600)**	**(132,124)**
Cash and cash equivalents at the end of the period	465,036	919,804

For the period ended June 30, 2023 cash provided by operating activities was PYG 477.7 billion compared to PYG 411.3 billion for the period ended June 30, 2022. This was mainly due to a better performance compared to the prior year due to the results in profit before taxes offset by a decrease in trade receivables, prepayment and other current assets and increase in trade and other payable and depreciation and amortization.

For the period ended June 30, 2023 cash used in investing activities was PYG 471.9 billion compared to PYG 471.3 billion for the period ended June 30, 2022. This was mainly due to the increase in purchase of property plant and equipment offset by less purchase of intangible assets and licenses.

For the period ended June 30, 2023 cash used in financing activities was PYG 80.1 billion compared to PYG 73.3 billion for the period ended June 30, 2022. The increase in cash used in financing activities is mainly due to an increase in repayment of leases.

The net decrease in cash and cash equivalents for the period ended June 30, 2023 was PYG 74.6 billion compared to the decrease of PYG 132.1 billion for the same period of 2022. We had closing cash and cash equivalents of PYG 465.0 billion as of June 30, 2023, compared to PYG 919.8 billion as of June 30, 2022.

4. Subsequent events

As of the date of publication of this document, the Group has no significant subsequent events to report.