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 June 30, 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 2.5 million mobile customers and more than 1.1 million fixed revenue generating units (RGUs) as of June 30, 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 12,000 km of hybrid-fiber-cable (HFC), a fiber backbone of more than 9,500 km and more than 456,700 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 $*)	Six months ended June, 30		
	2023	**2022**	**% Change**
Revenue	**338,762**	**320,229**	**5.8%**
Costs and expenses	**(290,971)**	**(246,213)**	**18.2%**
Programming and operating costs	(81,869)	(70,770)	15.7%
Depreciation and amortization	(77,456)	(73,296)	5.7%
Personnel expenses	(42,805)	(40,628)	5.4%
General, sales and administrative expenses	(88,842)	(61,519)	44.4%
Income from operations	**47,790**	**74,016**	**-35.4%**
Financial expenses, net	(20,720)	(22,361)	-7.3%
Profit before income tax	**27,071**	**51,656**	**-47.6%**
Income tax	(11,679)	(13,938)	-16.1%
Net Income	**15,391**	**37,728**	**-59.2%**
Attributable to:			
Owners of the Company	15,447	37,771	-59.1%
Non-controlling interest	(56)	(42)	31.1%
Operating Data (in thousands) except for ARPU's			
RGUs Cable and other fixed	1,101	1,100	0.1%
ARPU Cable and other fixed	45.4	45.4	0.0%
Mobile Subscribers	2,578	2,363	9.1%
ARPU Mobile	8.7	8.8	-1.9%

Revenue

Total revenue increased by 5.8%, or $18.5 million, from $320.2 million for the six months ended June 30, 2022 to $338.8 million for the six months ended June 30, 2023.

Revenue from sales of mobile equipment increased by 35.2%, mobile services increased by 11.6% and data transmission, internet and data center increased by 4.2% for the six months ended June 30, 2023, while TV subscription revenue decreased by 8.4% and fixed-line services revenue fell by 9.4%.

Mobile service revenue as a share of total revenue was 41.1% in the six months ended June 30, 2023, compared to 39.0% in the six months ended June 30, 2022 and sale of mobile devices as a share of total revenue was 5.1% in the six months ended June 30, 2023, compared to 4.0% in the six months ended June 30, 2022.

Data transmission, internet and data center revenue accounted for 32.3% of total revenue in the six months ended June 30, 2023, compared to 32.8% in the six months ended June 30, 2022, while revenue from TV subscriptions accounted for 16.3% of total revenue in the six months ended June 30, 2023, compared to 18.9% in the six months ended June 30, 2022. Fixed-line services revenue accounted for 3.9% of total revenue in the six months ended June 30, 2023, compared to 4.5% in the six months ended June 30, 2022.

Programming and operating costs

Programming and operating costs increased by 15.7% year over year, or $11.1 million, from $70.8 million in the six months ended June 30, 2022 to $81.9 million in the six months ended June 30, 2023, primarily as a result of an increase in programming costs of $3.7 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 $4.2 million related to higher sales of mobile equipment.

Depreciation and amortization

Depreciation and amortization increased by 5.7% year over year, or $4.2 million, from $73.3 million in the six months ended June 30, 2022 to $77.5 million in the six months ended June 30, 2023. The increase was mainly driven by depreciation of fixed assets of $4.1 million, depreciation for right of use of $0.9 and partially offset by decrease in amortization of intangible assets of $0.9 million.

Personnel expenses

Personnel expenses increased by 5.4%, or $2.2 million, to $42.8 million in the six months ended June 30, 2023 from $40.6 million in the six months June 30, 2022. The increase mainly reflects $2.0 million related to higher salaries, commissions, net profit sharing expenses, shared-based compensation and severance and retirement benefits of $1.0 million in the six months ended June 30, 2023

General, sales and administrative expenses

General, sales and administrative expenses increased by 44.4%, or $27.3 million, to $88.8 million in the six months ended June 30, 2023 from $61.5 million in the six months ended June 30, 2022. This increase is mainly driven by higher professional services fees of $23.6 million, due to operational services of VCF (Value Creating Fees) provided by Millicom, bad debts of $3.0 million and partially offset by decrease in services expenses and repair, maintenance and other operating expenses for $3.3 million.

Income from operations

As a result of the above income from operations decreased by 35.4% or 26.2 million year over year, for the six months ended June 30, 2023.

Financial expense

Financial expense, net (which includes interest income), decreased by 7.3%, or $1.6 million, from $22.4 million in the six months ended June 30, 2022 to $20.7 million in the six months ended June 30, 2023. This decrease was mainly the result of refinancing activity over the past year which has lowered the average interest rate on our debt and the payment of a loan of $75 million during the period 2022.

Income tax

Income tax expense was $11.7 million, decrease of 16.1%, or $2.2 million, for the six months ended June 30, 2023 compared to the income tax expense of $13.9 million for the six months ended June 30, 2022. This is due mainly to a lower profit before tax, which decreased from $51.6 million in the six months ended June 30, 2022 to $27.1 million in the six months ended June 30, 2023. The statutory tax rate for Panama is 25%.

Net income

As a result of the foregoing, net income for six months ended June 30, 2023 was $15.4 million, a 59.2% decrease compared with our income of $37.7 million for the six months ended June 30, 2022. As shown above, the main drivers are: the increase in revenue of $18,5 million, the increase in cost and expenses of $44.8 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 six months ended June 30, 2023 were $29.5 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 $*)	Six months ended June, 30		
	2023	**2022**	**% Change**
Net cash provided by operating activities	12,896	33,069	-61.0%
Net cash used in investing activities	(31,378)	(45,642)	-31.3%
Net cash used in financing activities	(16,774)	(10,419)	61.0%
Net decrease in cash and cash equivalents	**(35,256)**	**(22,992)**	53.3%
Cash and cash equivalents at the end of the year	**74,076**	**131|,400**	-43.6%

Six months ended June 30, 2023 and 2022

For the six months ended June 30, 2023, cash provided by operating activities was $12.9 million compared to $33.1 million in the six months ended June 30, 2022. The change was mainly due to impact of income taxes paid of $8.8 million and financing interest paid of $15.2 million, operating activities cash in of $39.5 million, interest paid for leases of $1.2 million and seniority premium and severance paid of $1.4 during the six months ended June 30, 2023

For the six months ended June 30, 2023, cash used in investing activities was $31.4 million compared to $45.6 million used in the six months ended June 30, 2022. The change is mainly due to the year over year impact of $14.3 million in lower acquisition of intangible assets of $8.1 million, acquisition of tangible assets of $3.1 million and contributions to severance fund, net of $3.3 million.

For the six months ended June 30, 2023, cash used in financing activities was $16.8 million compared to $10.4 million used in financing activities in the six months ended June 30, 2022. The change is mainly driven by the decrease for $6.4 million in lease liabilities payment.

As a result of the above, for the six months ended June 30,2023 cash and cash equivalents decreased by $57.3 million. We had closing cash of $74.1 million as of June 30, 2023, compared to $131.4 million as of June 30, 2022.