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 2023

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 September 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 nine-month period ended September 30, 2023, we generated revenue approximately PYG 3,069 billion and EBITDA approximately for PYG 1,178 billion.

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

Global growth is projected to decrease from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024, staying below historical averages. Long-term growth forecasts are the lowest in decades, hampering improved living standards. Although global inflation is declining, a return to target levels appears unlikely before 2025. Despite balanced risks, a potential downturn persists, attributed to various factors including China's real estate crisis and potential geopolitical and climate shocks.

Inflation in Paraguay has decreased, closing Q3 2023 with a year-on-year inflation of 3.5% compared to Q3 2022 which had closed with 9.3%. The Central Bank of Paraguay unanimously reduced the policy rate to 8.00% for the second consecutive month, referencing a downward inflation trend. Public debt rose to $16 billion in August 2023 due to multilateral loans and debt issuances, remaining stable at approximately 36.0% of GDP. For 2023, economists expect GDP growth to range between 4% and 6%, with inflation forecasted at 4% to 5%.

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

As of September 30, 2023, and for the nine-month period ended September 30, 2023, 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, 2023, we had approximately 2.4 million customers on 4G/LTE, an increase of 6.8% compared to September 30, 2022, while our mobile subscriber base increased by 4.6% to 4.2 million during the same period.

On September 30, 2023, 4G/LTE customers accounted for 56% of the total mobile customer base compared to 55% on September 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 September 30, 2023, 1.6 million customers used our MFS services, around 38% of our mobile customer base. MFS generated revenue of approximately PYG 150 billion in the nine-month period ending September 30, 2023.

Home

As of September 30, 2023, our HFC / FTTH network covered approximately 1 million homes in Paraguay (a 9.8% increase from September 30, 2022), and we provided services to around 593,000 revenue-generating units (RGUs), a 3.9% increase from September 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, which has been renewed in October for four more years.

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.

PP&E (Property, plant and equipment) and Intangible additions totaled approximately PYG 481.6 billion for the period ended September 30, 2023, compared to approximately PYG 488.2 billion for the period ended September 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 7,346 as of December 31, 2022 to PYG 7,296 as of September 30, 2023.This variation positively impacted our net profit for approximately PYG 13.2 billion as of September 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

Nine-month period ended September 30, 2023 and 2022

PYG million	Nine-month period ended September 30		Percent change
	2023	2022	
Revenue	3,069,061	2,879,614	6.6%
Cost of sales	(764,554)	(708,907)	7.8%
Gross profit	**2,304,507**	**2,170,707**	**6.2%**
Sales and marketing	(610,947)	(572,554)	6.7%
Operating expenses	(1,126,086)	(1,072,188)	5.0%
Depreciation	(489,150)	(464,053)	5.4%
Amortization	(269,780)	(245,219)	10.0%
Operating profit	**425,962**	**394,077**	**8.1%**
Profit before taxes	**91,706**	**(38,760)**	**NM**
Profit (loss) for the period	**70,091**	**(60,235)**	**NM**

Operating Data:			
Number of mobile subscribers (In thousands)	**4,241**	**4,053**	**4.6%**
Postpaid	1,048	1,041	0.7%
Prepaid	3,193	3,011	6.0%
Monthly churn %	**2.2%**	**2.5%**	**(12.0)%**
Monthly ARPU (In local currency and thousands)	**44.2**	**43.9**	**0.7%**
Home (In thousands)			
Homes passed	1,071	975	9.8%
Customer Relationships	503	499	0.8%
Monthly ARPU (In local currency and thousands)	**179.6**	**172.0**	**4.4%**
Monthly churn %	**2.2%**	**2.2%**	**0.0**
Number of employees	4,400	4,415	(0.3)%

Revenue

Revenue increased by 6.6%, year-on-year to PYG 3,069.1 billion for the nine-month period ended September 30, 2023, as a result of higher revenue in all business units.

Mobile service revenue grew 6.5% driven largely by prepaid customer growth and higher ARPU. Postpaid segment growth was driven by better ARPU partially offset by lower customer base.

Home service revenue increased by 6.3% mainly due to TV revenue impacted by higher customer base and ARPU and higher installation fees.

MFS revenue grew by 6.1% 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 3.3% mainly impacted by lower production services.

T&E revenue decreased by 5.3% mainly impacted by less sales of high-end devices in B2C.

Cost of sales

Cost of sales increased by 7.8% year-on-year, to PYG 764.6 billion for the nine-month period ended September 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 bad debt costs in line with revenue and higher Conatel regulatory fees. The remaining increase is due to higher digital solutions costs in line with B2B solution revenue, increase in roaming costs due to higher traffic and other minor increases.

Gross profit margin was 75.1% for the nine-month period ended September 30, 2023, similar to the nine-month period ended September 30, 2022.

Sales and Marketing

Sales and marketing increased by 6.7% year on year to PYG 610.9 billion for the period ended September 30, 2023 from PYG 572.6 billion for the period ended September 30, 2022; the main increase comes from sales commissions and telemarketing services costs to support our customer growth, impacted also by a minimum salary increase (11.4%) and severance for PYG 25 billion.

General and administrative expenses

General and administrative expenses increased by 3.1% year on year to PYG 515 billion for the period ended September 30, 2023 from PYG 499.6 billion for the period ended September 30, 2022, mainly impacted by higher severance for PYG 11 billion; higher network maintenance and IT support expenses stemming from the growth of our network.

Operating expenses

As a result of the above, operating expenses increased by 5.0% for the period ended September 30, 2023 to PYG 1,126.1 billion from PYG 1,072.2 billion for the same period in 2022. As a percentage of revenue, operating expenses decreased to 36.7% for the period ended September 30, 2023 from 37.2% for the period ended September 30, 2022.

EBITDA

PYG million	Nine-month period ended September 30	
	2023	2022
EBITDA (1)	1,178,421	1,098,519
EBITDA margin (2)	38.4%	38.1%
Net debt to LTM EBITDA (3)	2.55	2.81
Total debt to LTM EBITDA (4)	3.14	3.61

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

EBITDA increased by PYG 80 billion (7.3% year-on-year), excluding severance costs EBITDA would have grown 8.6% year on year. EBITDA margin increased by 0.3 percentage points year-on-year, mainly impacted by the increases in revenue offset by increases in direct costs and expenses explained above.

Operating profit

Operating profit increased by 8.1% for the nine-month period ended September 30, 2023 to PYG 426 billion from PYG 394 billion for the same period ended September 30, 2022 as a result of the above. The operating margin increased from 13.69% for the nine-month ended September 30, 2022 to 13.88% for the period ended September 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 5.8% for the period ended September 30, 2023 to PYG 347.5 billion from PYG 328.6 billion for the period ended September 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 September 30, 2023 was a net profit of PYG 13.2 billion compared to a net loss of PYG 104.3 billion for the period ended September 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 7,295.7 as of the end of September 2023.

Charge for taxes

Charge for taxes increased by 0.7% from PYG 21.5 billion for the period ended September 30, 2022 compared to PYG 21.6 billion for the period ended September 30, 2023 due to higher tax payments and advanced tax payments.

Net profit (loss)

As a result of the above factors, the net profit for the nine-month ended September 30, 2023 increased to PYG 70.1 billion compared to a net loss of PYG 60.2 billion for the nine-month ended September 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 September 30, 2023 was PYG 4,871 billion and September 30, 2022 was PYG 5,200 billion.

Cash Flows

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

Nine-month period ended September 30	2023	2022
	(in millions of PYG)	
Net cash provided by operating activities	851,248	688,298
Net cash used in investing activities	(635,047)	(732,555)
Net cash provided by (used in) in financing activities	(134,685)	(126,358)
Net (decrease) increase in cash and cash equivalents	**82,251**	**(165,103)**
Cash and cash equivalents at the end of the period	621,887	886,825

For the period ended September 30, 2023 cash provided by operating activities was PYG 851.2 billion compared to PYG 688.3 billion for the period ended September 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 September 30, 2023 cash used in investing activities was PYG 635.0 billion compared to PYG 732.6 billion for the period ended September 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 September 30, 2023 cash used in financing activities was PYG 134.7 billion compared to PYG 126.4 billion for the period ended September 30, 2022. The increase in cash used in financing activities is mainly due to an increase in repayment of leases.

The net increase in cash and cash equivalents for the period ended September 30, 2023 was PYG 82.3 billion compared to the decrease of PYG 165.1 billion for the same period of 2022. We had closing cash and cash equivalents of PYG 621.9 billion as of September 30, 2023, compared to PYG 886.8 billion as of September 30, 2022.

4. Subsequent events

On October 2, 2023, the Company agreed to sell some of its infrastructure assets to Lati Paraguay S.A. (‘Lati’), a related party, under the same ultimate parent company, MIC S.A, for a total sale consideration of PYG 117,490 million (US$ 15.7 million using September 30, 2023 exchange rate), and, at the same time, entered into a Master Lease Agreement (‘MLA’) and a Transition Services Agreement (‘TSA’) for the use and operation of these infrastructures. The sale contemplates the transfer to Lati of 329 sites as well as related provisions, liabilities, and employees. The transfer is expected to take place in stages, as Tigo obtains required landlord consents for the novation or transfer of the land lease agreements to Lati. So far, 271 sites have been transferred to Lati, and the transaction resulted in a gain on disposal of PYG 25,885 million (US$ 3.5 million using September 30, 2023 exchange rate).

On October 31, 2023, the Company granted financing through a loan agreement to a Millicom Group entity (Millicom International III N.V.) for an amount of PYG 117,756 million (approximately US$15.7 million using the settlement exchange rate).