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

The following discussion of our financial condition and results of operations should be read in conjunction with the audited annual consolidated financial statements as of December 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 2.6 million mobile customers and more than 1.1 million fixed revenue generating units (RGUs) as of December 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 12,400 km of hybrid-fiber-cable (HFC), a fiber backbone of more than 9,900 km and more than approximately 440,000 customer relationships.

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"). This 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 GCD 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.

On October 2, 2023, the Company agreed to sell some of its infrastructure activities to Lati Infrastructure Panama, S.A. ('Lati'), a related party, under the same ultimate parent company, Millicom Cellular International, S.A., for a total sale consideration of $12.5 million, 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 transactions contemplates the transfer of 261 sites as well as related provisions, liabilities and employees. As of now the transaction resulted in a gain on disposal of $0.2 million.

In December 2023, Telecomunicaciones Digitales S.A. repurchased some of these Senior notes on the open market for a total amount of $13.4 million. The difference with their carrying value of $15.6 million has been recognized as a financial income. The corresponding Notes have subsequently been cancelled.

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 $*)	Years ended December 31,		
	2023	**2022**	**% Change**
Revenue	**731,055**	**652,264**	**12.1%**
Costs and expenses	**(628,481)**	**(524,362)**	**19.9%**
Programming and operating costs	(206,205)	(152,397)	35.3%
Depreciation and amortization	(154,176)	(149,542)	3.1%
Personnel expenses	(91,518)	(80,304)	14.0%
General, sales and administrative expenses	(176,651)	(142,118)	24.3%
Income from operations	**102,574**	**127,902**	**-19.8%**
Financial expenses, net	(40,406)	(43,159)	-6.4%
Profit before income tax	**62,168**	**84,743**	**-26.6%**
Income tax	(21,213)	(24,812)	-14.5%
Net Income	**40,955**	**59,931**	**-31.7%**
Attributable to:			
Owners of the Company	41,011	59,862	-31.5%
Non-controlling interest	(56)	69	-181.1%
Operating Data in thousands, except ARPUs			
RGUs Cable and other fixed	1,087	1,103	-1.5%
ARPU Cable and other fixed	45.5	45.0	1.0%
Mobile Subscribers	2,642	2,441	8.2%
ARPU Mobile	8.7	8.9	-1.9%

Revenue

Total revenue increased by 12.1%, or $78.8 million, from $652.3 million for the year ended December 31, 2022, to $731.1 million for the year ended December 31, 2023.

Revenue from Projects and solutions increased by $56.9m, mainly from the delivery and installation of medical equipment related to the large B2B government contract; mobile services increased by 9.6% as we continued to gain market share through the growth of our transaction and subscription base, sales of mobile equipment increased 14.1%, and data transmission, internet and data center increased by 3.8% for the year ended December 31, 2023, while TV subscription revenue and fixed-line services revenue fell by 11.0% and 8.6% respectively due to the broader market trend impacting TV services as well as intense competition.

Mobile service revenue as a share of total revenue was 38.7% in the year ended December 31, 2023, compared to 39.6% in the year ended December 31, 2022. The sale of mobile devices as a share of total revenue was 4.2% in the year ended December 31, 2023, compared to 4.1% in the year ended December 31, 2022.

Data transmission, internet, and data center revenue accounted for 30.1% of total revenue in the year ended December 31, 2023, compared to 32.5% in the year ended December 31, 2022, while revenue from TV subscriptions accounted for 14.3% of total revenue in the year ended December 31, 2023, compared to 18.0% in the year ended December 31, 2022. Fixed-line services revenue accounted for 3.6% of total revenue in the year ended December 31, 2023, compared to 4.4% in the year ended December 31, 2022. Project and solutions accounted for 7.8% in the year ended December 31, 2023, compared to 0.0% in the year ended December 31, 2022.

Programming and operating costs

Programming and operating costs increased by 35.3% year over year, or $53.8 million, from $152.4 million in the year ended December 30, 2022, to $206.2 million in the year ended December 31, 2023, primarily due to a large B2B government project cost which ramped up during the third and fourth quarter 2023, as well as increased telephony equipment cost in line with higher sales of equipment in 2023 compared to 2022. Programming also increased due to the introduction of Tigo Sports as part of the strategy to foster sports in Panama and VIX to broadcast mainly the Spanish soccer league, both launched during the second half of 2022.

Depreciation and amortization

Depreciation and amortization increased by 3.1% year over year, or $4.6 million, from $149.5 million in the year ended December 31, 2022, to $154.2 million in the year ended December 31, 2023. The increase was mainly driven by the accelerated depreciation of an IT project and an increase in right-of-use assets.

Personnel expenses

Personnel expenses increased by 14.0%, or $11.2 million, to $91.5 million in the year ended December 31, 2023, from $80.3 million in the year ended December 31, 2022. The increase mainly reflects the organizational restructuring projects executed in the first half and fourth quarter of the year, as severance expenses totaled $11.2 million in 2023. In addition, personnel expenses were impacted by higher shared-based compensation stemming from the stock price increase, higher vacation, and higher profit sharing in the year ended December 31, 2023.

General, sales and administrative expenses

General, sales and administrative expenses increased by 24.3%, or $34.5 million, to $176.7 million in the year ended December 31, 2023, from $142.1 million in the year ended December 31, 2022. This increase is mainly driven by value-creating fees ("VCF") of $23.8 million for operational services provided by Millicom in 2023, as well as higher bad debt provisions reflecting the growth of our subscription revenue businesses and slower collections on our home business due to competition. Also, repair, maintenance and other operating expenses and other expenses increased. Expenses in 2022 benefited from a favorable legal ruling for $5.7 million.

Income from operations

As a result of the above, income from operations decreased by 19.8%, or 25.3 million year over year, for the year ending December 31, 2023.

Financial expense

Financial expense, net (which includes interest income), decreased by 6.4%, or $2.8 million, from $43.2 million in the year ended December 31, 2022, to $40.4 million in the year ended December 31, 2023. This decrease was driven by the realized gain from the repurchase of $15.6 million of bonds at a discount from face value with a benefit of $2.1 million. Also, a $2 million interest reduction from the cancelation of $75 million loan with The Bank of Nova Scotia during July 2022, and higher interest received as we have increased our cash balance by approximately $20 million, together with a higher interest rate.

Income tax

Income tax expense was $21.2 million, a decrease of 14.5%, or $3.6 million, for the year ended December 31, 2023, compared to the income tax expense of $24.8 million for the year ended December 31, 2022. The above is due mainly to a lower profit before tax, which decreased from $84.7 million in the year ended December 31, 2022, to $62.2 million in the year ended December 31, 2023. The statutory tax rate for Panama is 25%.

Net income

As a result of the above, net income for the year ended December 31, 2023, was $41.0 million, a 31.7% decrease compared with net income of $59.9 million for the year ended December 31, 2022.

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 year ended December 31, 2023, were $96.9 million, mostly driven by investments in customer premise equipment (CPE) installation costs, our expansion of the FFTH network to more than 95,000 new homes and of our mobile network with 45 additional sites, IT equipment, and core network expansion.

Cash flows

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

(*in thousands of $*)	Years ended December 31,		
	2023	**2022**	**% Change**
Net cash provided by operating activities	163,110	182,442	-10.6%
Net cash used in investing activities	(103,038)	(130,646)	-21.1%
Net cash used in financing activities	(40,173)	(96,854)	-58.5%
Net decrease in cash and cash equivalents	**19,899**	**(45,059)**	-144.2%
Cash and cash equivalents at the end of the year	**129,232**	**109,333**	18.2%

Years ended December 31, 2023, and 2022

For the year ended December 31, 2023, cash provided by operating activities of $163.1 million compared to $182.4 million in the year ended December 31, 2022, and reflected cash from operations of $240.2 million, partially offset by $33.9 million of financing interest paid, $21.1 million of income taxes paid, $8.9 million for lease interest paid, and $13.3 million for severance and seniority premiums paid during the year ended December 31, 2023.

For the year ended December 31, 2023, cash used in investing activities was $103.0 million compared to $130.6 million used in the year ended December 31, 2022. The change is mainly due to the investment done during 2022 on spectrum licenses for $33.0 million.

For the year ended December 31, 2023, cash used in financing activities was $40.2 million compared to $96.9 million used in financing activities in the year ended December 31, 2022. The change is mainly driven by a $75.0 million Scotia Bank loan repayment in 2022, partially offset by a bond repurchase for $13.4 million in December 2023 at a discount from face value, as well as additional lease payments for $5.3 million.

As a result of the above, for the year ended December 31, 2023, cash and cash equivalents increased by $19.9 million. We had closing cash of $129.2 million as of December 31, 2023, compared to $109.3 million as of December 31, 2022.