Management's Discussion and Analysis of Financial Condition and Results of Operations of Telecomunicaciones Digitales, S.A. (formely Cable Onda, 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, 2022 and 2021.

Overview

Founded in 1990, we are the leading provider of Pay-TV, broadband Internet, telephony and mobile telecommunications services in Panama, serving residential (B2C) as well as business and government (B2B) customer. Through our flagship "Tigo" brand, we are the largest provider of telecommunications services in Panama, as measured by revenue and number of customers, serving more than 2.3 million mobile customers and 1.1 million fixed revenue generating units (RGUs) as of June 30, 2022.

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 12,100 km of hybrid-fiber-cable (HFC), a fiber backbone of more than 8,500 km and more than 475,000 customer relationships.

Recent Business Developments

On August 29, 2019 we acquired 100% of the share capital of Grupo de Comunicaciones Digitales ("GCD", formerly Telefonica Moviles Panama) 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, Cable Onda completed a bond debt offering under U.S. Securities and Exchange Commission 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		
	2022	**2021**	**% Change**
Revenue	**320,229**	**310,620**	**3.1%**
Costs and expenses	**(246,213)**	**(256,369)**	**-4.0%**
Programming and operating costs	(70,770)	(75,427)	-6.2%
Depreciation and amortization	(73,296)	(77,993)	-6.0%
Personnel expenses	(40,628)	(37,466)	8.4%
General, sales and administrative expenses	(61,519)	(65,483)	-6.1%
Income from operations	**74,016**	**54,251**	**36.4%**
Financial expenses	(22,361)	(23,416)	-4.5%
Profit before income tax	**51,656**	**30,835**	**67.5%**
Income tax	(13,928)	(11,296)	23.3%
Net Income	**37,728**	**19,539**	**93.1%**
Attributable to:			
Owners of the Company	37,771	19,608	92.6%
Non-controlling interest	(42)	(69)	-38.7%
Operating Data (in thousands) except for ARPU's*			
RGUs Cable and other fixed	1,100	1,082	1.6%
ARPU Cable and other fixed	45.4	44.9	1.0%
Mobile Subscribers	2,363	2,132	9.8%
ARPU Mobile	8.8	9.0	-2.6%

***Average Revenue per User per Month (ARPU)**

Revenue

Total revenue increased by 3.1%, or $9.6 million, from $310.6 million for the six months ended June 30, 2021 to $320.2 million for the six months ended June 30, 2022.

Revenue from data transmission, Internet and data center increased by 7.6% for the six months ended June 30, 2022, while TV subscriptions revenue decreased by 3.9% and fixed-line services revenue fell by 19.1%.

Mobile service revenue and sales of mobile equipment increased by 7.2% and decreased 0.7% respectively in H12022, compared with H12021. Mobile service revenue as a share of total revenue was 39.0% in H1 2022, compared to 37.5% in H12021 and sale of mobile devices as a share of total revenue was 4.0% in H12022, compared to 4.1% in H12021.

Data transmission, internet and data center revenue accounted for 32.8% of total revenue in H1 2022, compared to 31.4% in H1 2021, while revenue from TV subscriptions accounted for 18.9% of total revenue in H1 2022, compared to 20.3% in H1 2021. Fixed-voice service revenue accounted for 4.5% of total revenue in H1 2022, compared to 5.8% in H1 2021.

Programming and operating costs

Programming and operating costs decreased by 6.2%year over year, or $4.7 million, from $75.4 million in in the six months ended June 30, 2021 to $70.8 million in the six months ended June 30, 2022, primarily as a result of a decrease in data transmission costs of $3.4 million.

Depreciation and amortization

Depreciation and amortization decreased by 6.0% year over year, or $4.7 million, from $78.0 million in the six months ended June 30, 2021 to $73.3 million in the six months ended June 30, 2022. The decrease was mainly driven by a decreased in depreciation of fixed assets of $5.4 million and an increase in depreciation for right of use of $0.6 million.

Personnel expenses

Personnel expenses increased by 8.4%, or $3.2 million, to $40.6 million in the six months ended June 30, 2022 from $37.5 million in the six months ended June 30, 2021. The increase was mainly driven by a positive adjustment made in H1 2021 for $1.4 million as a result of consolidation and regularization of GCD payroll. As a percentage of revenues, personnel expenses increased 0.6%, from 12.1% in H1 2021 to 12.7% for H1 2022.

General, sales and administrative expenses

General, sales and administrative expenses decreased by 6.1%, or $4.0 million, from $65.5 million in the six months ended June 30, 2021 to $61.5 million in the six months ended June 30, 2022. This decrease was mainly driven by one-time benefit of $4.9 million from a favorable legal ruling.

Income from operations

Income from operations increased by 36.4% or $19.8 million year over year, from $54.3 million in the six months ended June 30, 2021 to $74.0 million in the six months ended June 30, 2022. This increase is mainly driven by the $9.6 million increase in revenues and a decrease in cost and expenses of $10.2 million.

Financial expense

Financial expense, which includes interest expense, net of interest income, decreased by 4.5%, or $1.1 million, from $23.4 million in the six months ended June 20, 2021 to $22.4 million for the six months ended June 30, 2022. 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 $13.9 million, an increase of 23.3%, or $2.6 million, for the six months ended June 30, 2022, compared to the income tax of $11.3 million for the six months ended June 30, 2021. This is due mainly to a higher profit before tax, which increased from $30.8 million in the six months ended June 30, 2021 to $51.7 million in the six months ended June 30, 2022. The statutory tax rate for Panama is 25%.

Net income

As a result of the foregoing, net income for the six months ended June 30, 2022 was $37.7 million, a 93.1% increase compared with our income of 19.5 million for the six months ended June 30, 2021. As shown above, the main drivers are: the increase in income from operations of $19.8 million, the decrease in financial expenses of $1.1 million, partially offset by the $2.6 million increase in income tax.

Liquidity and capital resources

We have historically 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, 2022, were $45.6 million, of which 23% was allocated to intangible assets and 71% to tangible assets, mostly network expansion and customer premise equipment (CPE).

Cash flows

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

(*in thousands of $*)	Six months ended June, 30		
	2022	**2021**	**% Change**
Net cash provided by operating activities	33,069	58,819	-43.8%
Net cash used in investing activities	(45,642)	(51,836)	-11.9%
Net cash used in financing activities	(10,419)	(8,429)	23.6%
Net decrease in cash and cash equivalents	**(22,992)**	**(1,445)**	1,490.8%
Cash and cash equivalents at the end of the period	**131,400**	**84,402**	57.5%

Six months ended June 30, 2022 and 2021

For H1 2022, cash provided by operating activities was $33.1 million compared to $58.8 million provided in H1 2021. The decrease was mainly due by higher income tax paid of $23.4 for H1 2022 million compared to $6.9 million in H1 2021.

For H1 2022, cash used in investing activities was $45.6 million compared to $51.8 million used in H1 2021. The change is mainly due to lower investments in intangible assets from $10.4 million in H1 2021 to $14.8 million in H1 2022, and a decrease in investments in tangible assets from $34.9 million in H1 2021 to $32.6 million in H1 2022.

For H1 2022, cash used in financing activities was $10.4 million compared to $8,4 million used in financing activities in H1 2021. The change is mainly driven by higher levels of lease liability payments.

For H1 2022, cash and cash equivalents decreased by $23.0 million. We had closing cash of $131.4 million as of June 30, 2022, compared to $83.4 million as of June 30, 2021.