Consolidated Financial Statements of Telefónica Celular del Paraguay S.A.E.

As of and for the year ended 31 December 2019

March 26, 2020

Contents

Ernst & Young Paraguay - Auditores y
Asesores de Negocios
Mcal. López 3794 esq. Cruz del Chaco,
Edificio Citicenter - 6° Piso
Asunción, Paraguay

Tel: (595-21) 664-308
Fax: (595-21) 608-985
ey.com

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Independent auditor's report on the consolidated financial statements

To the shareholders of
Telefónica Celular del Paraguay Sociedad Anónima Emisora (TELECEL S.A.E.)

Opinion

We have audited the accompanying consolidated financial statements of **Telefónica Celular del Paraguay Sociedad Anónima Emisora (the Group)**, which comprise the consolidated statement of financial position as of December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Telefónica Celular del Paraguay Sociedad Anónima Emisora** as of December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Paraguay, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

1. Revenue recognition

Risk identified

The Group's revenue consists of mobile and data telephony services, corporate solutions, fixed-line broadband, fixed-line telephone, cable TV and mobile financial services to retail and business customers.

Revenue from these services is considered a significant risk due to both the bundling of these services and the complexity of the Group's systems and processes used to record revenue. Also, the application of revenue recognition accounting standards is complex and involves a number of key judgments and estimates, especially in the light of the IFRS 15 application.

Our answer

Our audit procedures over revenue included, among others:

- We evaluated the design and tested the operating effectiveness of controls around access rights, system development, program changes and IT dependent business controls to establish that changes to the system were appropriately authorized developed and implemented including those over: set-up of customer accounts, pricing data, segregation of duties and the linkage to usage data that drives revenue recognition.

- We tested the end-to-end reconciliation from the billing systems to the general ledger.

- We tested journal entries processed between the billing systems and general ledger.

- We assessed the accounting for credits and discounts and tested the accuracy of customer invoices.

- We assessed the assumptions used by management to determine the allocation of the transaction price, after consideration of these credits and discounts, to telecom services and handsets and tested the stand-alone selling prices.

- We obtained a sample of customer contracts, including modifications to the contracts, and compared customer contract terms to the revenue systems.

- We evaluated the adequacy of the Group's disclosures included in Note B.1.1. in relation to revenue recognition matters.

2. Adoption of IFRS 16, leases

Risk Identified

The Group adopted IFRS 16, Leases, using the modified retrospective approach with the cumulative effect of applying the new standard recognized in retained profits as of January 1, 2019.

At the transition date, the Group recognized lease liabilities measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The right-of-use asset was measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. Upon adoption, the Group recognized lease liabilities of PYG 324,583 million and right-of-use assets of PYG 333.886 million. The application of IFRS 16 effective from January 1, 2019 was especially challenging and involved complex auditor judgment particularly regarding assessing management's determination of a complete population of the Group's leases, estimation and evaluation of the incremental borrowing rates for each of the leases (including consideration of industry, country and credit risks) and estimation of the useful lives, including consideration of renewal options. These assumptions have a significant effect on the right-of-use asset, on the lease liability and the depreciation and financing costs.

Our answer

Our audit procedures included, among others:

- We evaluated the design and testing the operating effectiveness of controls over the completeness and accuracy of the Group's lease population, valuation and recognition of the right-of-use asset and the lease liability and the Group's determination of their underlying assumptions (including renewal assumptions and estimation of the incremental borrowing rate).

- We inspected a sample of the lease agreements, including modifications and we assessed management's assumptions regarding lease renewal periods including its determination that it was highly probable that the leases would be renewed.

- Regarding the incremental borrowing rates, we involved our valuation specialists to assist with our audit procedures to test management's assumptions and risk considerations as described above used in the measurement process.

- We also assessed the adequacy of the Group's disclosures in respect of the adoption of IFRS 16 as set out in the Introduction and Notes C.3.3. to the consolidated financial statements.

Responsibilities of the Management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Management, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

LUIS ALBERTO AYALA ALBERTINI ACOSTA
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Fecha: 2020.03.26 20:46:52 -04'00'

Luis Ayala
Partner
Ernst & Young Paraguay
Auditores y Asesores de Negocios
Av. Mcal López 3794 esq. Cruz del Chaco
Asunción, Paraguay
March 26, 2020

Consolidated statement of comprehensive income

for the year ended December 31, 2019

PYG millions	Notes	2019	2018 *(i)*
Revenue	B.1.	2,860,480	3,096,572
Cost of sales	B.2.	(511,416)	(634,706)
Gross profit		**2,349,064**	**2,461,866**
Operating expenses	B.2.	(1,069,739)	(1,030,192)
Depreciation	E.2.2 y E.2.5	(397,452)	(363,934)
Amortization	E.1.3	(199,047)	(158,321)
Other operating income (expenses), net		(6,995)	104,299
Operating profit		**675,831**	**1,013,718**
Interest expense		(393,328)	(285,314)
Interest and other financial income		57,824	17,862
Exchange loss, net		(83,138)	(77,045)
Profit before taxes		**257,189**	**669,221**
Charge for taxes, net	B.5.1	(46,182)	(67,362)
Net profit and comprehensive income for the year		**211,007**	**601,859**
Attributable to:			
Equity holders of the company		**211,007**	**601,859**

(i) Not restated for the application of IFRS 16 as the Group elected the modified retrospective approach.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As of December 31, 2019

PYG millions	Notes	31 December 2019	31 December 2018 *(i)*
ASSETS			
NON-CURRENT ASSETS			
Intangible assets, net	E.1.3	1,008,187	1,091,407
Property, plant and equipment, net	E.2.2	1,529,791	1,850,823
Right of use assets *(i)*	E.2.5	413,565	-
Deferred tax assets	B.5.1	83,627	80,827
Contract costs, net	F.6	597	844
Other non-current assets		45,685	28,246
Amounts due from related parties	G.4.	80,242	166,441
TOTAL NON-CURRENT ASSETS		**3,161,694**	**3,218,588**
CURRENT ASSETS			
Inventories, net	F.2.	45,451	37,753
Trade receivables, net	F.1.	328,507	397,545
Contract assets, net	F.6	70,930	78,274
Amounts due from related parties	G.4.	1,876,868	1,588,852
Prepayments and accrued income	F.4.	179,984	162,623
Supplier advances for capital expenditure		18,436	48,335
Other current assets		57,205	116,050
Cash and cash equivalents	C.4.1	187,141	147,771
TOTAL CURRENT ASSETS		**2,764,522**	**2,577,203**
Assets held for sale	E.3.	-	12,422
TOTAL ASSETS		**5,926,216**	**5,808,213**

(i) *Not restated for the application of IFRS 16 as the Group elected the modified retrospective approach.*

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As of December 31, 2019

PYG millions	Notes	31 December 2019	31 December 2018 *(i)*
EQUITY AND LIABILITIES EQUITY			
Share capital and premium	C.1	164,008	164,008
Legal reserve	C.1.1	50,110	50,110
Other reserves	B.4.1	13,122	7,206
Retained profits		237,294	205,483
Profit for the year attributable to equity holders		211,007	601,859
Equity attributable to owners of the Company		**675,541**	**1,028,666**
TOTAL EQUITY		**675,541**	**1,028,666**
LIABILITIES			
Non-current liabilities			
Debt and financing	C.3.	2,962,608	2,790,874
Lease liabilities *(i)*	C.3.3	395,741	-
Provisions and other non-current liabilities	F.5.2	412,214	391,215
Total non-current liabilities		**3,770,563**	**3,182,089**
Current liabilities			
Debt and financing	C.3.	278,212	212,884
Payables and accruals for capital expenditure		272,600	485,198
Lease liabilities *(i)*	C.3.3	86,566	-
Other trade payables		138,496	172,169
Amounts due to related parties	G.4.	249,893	171,562
Accrued interest and other expenses		190,550	239,001
Current income tax liabilities		3,993	9,379
Contract liabilities	F.6	78,945	143,516
Provisions and other current liabilities	F.5.1	180,857	161,316
Total current liabilities		**1,480,112**	**1,595,025**
Liabilities directly associated with assets held for sale	E.3.	-	2,433
TOTAL LIABILITIES		**5,250,675**	**4,779,547**
TOTAL EQUITY AND LIABILITIES		**5,926,216**	**5,808,213**

(i) Not restated for the application of IFRS 16 as the Group elected the modified retrospective approach.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended December 31, 2019

PYG millions	Notes	2019	2018 *(i)*
Cash flows from operating activities			
Profit before taxes from continuing operations		257,189	669,221
Adjustments to reconcile to net cash:			
Interest expense (income), net		393,328	285,314
Interest and other financial income		(57,824)	(17,862)
Exchange loss on foreign exchange		83,138	77,045
Adjustments for non-cash items:			
Depreciation and amortization	E.1.3, E.2.2 y E.2.5	596,499	522,255
Loss/(gain) on disposal and impairment of assets, net		6,758	(104,299)
Share based compensation		5,916	2,174
Changes in working capital:			
Decrease / (Increase) in trade receivables, prepayments and other current assets		36,531	(247,679)
(Increase) / Decrease in inventories		(7,698)	5,523
(Decrease) / Increase in trade and other payables		(118,746)	288,533
Changes in contract assets, liabilities and costs, net		12,406	(17,408)
Total changes in working capital		**(77,507)**	**28,969**
Interest paid		(312,474)	(259,441)
Interest received		58,274	20,210
Taxes paid		(77,722)	(222,525)
Net cash provided by operating activities		**875,575**	**1,001,061**
Cash flows from investing activities:			
Purchase of intangible assets and licenses	E.1.4	(229,631)	(270,591)
Proceeds from sale of intangible assets		-	921
Purchase of property, plant and equipment	E.2.3	(208,546)	(295,838)
Proceeds from sale of property, plant and equipment	E.2.4.	68,314	231,823
Debt and other financing granted to / repaid by related parties, net		(61,139)	(470,233)
Net cash used in investing activities		**(431,002)**	**(803,918)**
Cash flows from financing activities:			
Repayment of debt and financing	C.5	(2,438,500)	(85,020)
Proceeds from issuance of debt and other financing	C.5	2,637,423	200,000
Repayment of Leases		(41,318)	-
Payment of dividends to equity holders	C.2	(570,048)	(660,611)
Net cash used by financing activities		**(412,443)**	**(545,631)**
Exchange impact on cash and cash equivalents, net		7,240	8,213
Net increase in cash and cash equivalents		**39,370**	**(340,275)**
Cash and cash equivalents at the beginning of the year		147,771	488,046
Cash and cash equivalents at the end of the year		**187,141**	**147,771**

(i) Not restated for the application of IFRS 16 as the Group elected the modified retrospective approach.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As of December 31, 2019

PYG millions	Number of shares	Share Capital	Retained profits	Legal reserves	Other Reserves	Total equity
Balance as of December 31, 2017	**10,000**	**164,008**	**827,654**	**50,110**	**5,032**	**1,046,804**
Adjustment on adoption of IFRS15 and IFRS9 (net of tax)	-	-	38,440	-	-	38,440
Total comprehensive income for the year	-	-	601,859	-	-	601,859
Dividends	-	-	(660,611)	-	-	(660,611)
Share based compensation	-	-	-	-	2,174	2,174
Balance as of December 31, 2018	**10,000**	**164,008**	**807,342**	**50,110**	**7,206**	**1,028,666**
Total comprehensive income for the year	-	-	211,007	-	-	211,007
Dividends	-	-	(570,048)	-	-	(570,048)
Share based compensation	-	-	-	-	5,916	5,916
Balance as of December 31, 2019	**10,000**	**164,008**	**448,301**	**50,110**	**13,122**	**675,541**

The accompanying notes are an integral part of these consolidated financial statements.

Introduction

Corporate information

Telefónica Celular del Paraguay S.A.E. (the "Company"), a Paraguayan Company, and its subsidiaries: Teledeportes Paraguay S.A. and Lothar Systems S.A. (the "Group" or "Telecel") is a Paraguayan group providing communications, information, entertainment and solutions in Paraguay. The Company maintains multiple license contracts with Comisión Nacional de Telecomunicaciones (Conatel), the regulator of the telecommunications system in Paraguay, to operate cellular and cable telephony business in Paraguay. The Company was formed in 1992.

Telecel is a wholly owned subsidiary of Millicom International III N.V. The ultimate parent company is Millicom International Cellular S.A. a Luxembourg Société Anonyme whose shares are traded on the Stockholm stock exchange under the symbol TIGO SDB and, since January 9, 2019, on the Nasdaq Stock Market in the U.S. under the symbol TIGO.

The general administration of the Company is located at Avda. Mariscal López esq. Tte. Insaurralde, Fernando De La Mora, Paraguay.

The Board of Directors ("Board") approved these consolidated financial statements for issuance on March 26, 2020.

Business activities

Telecel is a leading telecommunications and media group operating in Paraguay. It provides a wide range of mobile communications and cable services, as well as other related products, including digital media and e-commerce, to residential, business and wholesale customers.

IFRS consolidated financial statements

Basis of preparation

The consolidated financial statements of the Group are presented in Paraguayan Guaraní and all values are rounded to the nearest million (PYG 'million) except when otherwise indicated. The financial statements have been prepared on an historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

The consolidated financial statements for the year ended December 31, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board (IASB).

The preparation of financial statements in conformity with IFRS requires management to exercise its judgment in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although, these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates.

This section contains the Group's significant accounting policies that relate to the financial statements as a whole. Significant accounting policies specific to one note are included within that note. Accounting policies relating to non-material items are not included in these financial statements.

Consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries as of 31 December of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated.

IFRS consolidated financial statements (Continued)

Foreign currency

Items included in the financial statements of each of the Group's entities are measured and presented in Paraguayan Guaraní, the currency of the primary economic environment in which the entity operates ("the functional currency").

Transactions denominated in a currency other than the functional currency are translated into the functional currency using exchange rates prevailing on transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions, and on translation of monetary assets and liabilities denominated in currencies other than the functional currency at year-end exchange rates, are recognized in the consolidated statement of comprehensive income.

Exchange rates to the US dollar	Functional currency	2019 Average rate	2019 Year-end rate	2018 Year-end rate	Change %
Paraguay	Guaraní (PYG)	6,232	6,453	5,961	8.25

New and amended IFRS accounting standards

The following changes to standards effective for annual periods starting on January 1, 2019 have been adopted by the Group:

- **IFRS 16 "Leases".** The Group had to change its accounting policies as a result of adopting IFRS 16 Leases. IFRS 16 "Leases" primarily affects the accounting for the Group's operating leases. The commitments for operating leases are now recognized as right of use assets and lease liabilities for future payments. As a result, on adoption, on January 1, 2019, an additional lease liability of PYG 162,525 million has been recognized (see note C.3.3). The application of the new standard decreased operating expenses by PYG 33,571 million, respectively, as compared to what our results would have been if we had continued to follow IAS 17 for year ended December 31, 2019. The impact of the adoption of the leasing standard and the new accounting policies are further explained below. The application of this standard also affects the Group's depreciation, operating and financial expenses, debt and other financing, and leverage ratios see note C.3. The change in presentation of operating lease expenses has resulted in a corresponding increase in cash flows derived from operating activities and a decline in cash flows from financing activities.

  For leases previously classified as finance leases the group recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

  The measurement principles of IFRS 16 are only applied after that date.

- The following new or amended standards became applicable for the current reporting period and did not have any significant impact on the Group's accounting policies or disclosures and did not require retrospective adjustments:

  - Amendments to IFRS 9 "Financial instruments" on prepayment features with negative compensation.
  - IFRIC 23 "Uncertainty over Income Tax Treatments" clarifies how the recognition and measurement requirements of IAS 12 Income taxes, are applied where there is uncertainty over income tax treatments.
  - Amendments to IAS 19 "Employee benefits" on plan amendment, curtailment or settlement.
  - Amendments to IAS 28 "Investments in associates" on long term interests in associates and joint ventures.
  - Annual improvements 2015-2017.

- The following changes to standards, which are not expected to materially affect the Group, will be effective from January 1, 2020:

  Amendments to the conceptual framework. The IASB has revised its conceptual framework. The Group does not expect these amendments to have a material impact on the consolidated financial statements.

  Amendments to IFRS 3 - definition of a business. This amendment revises the definition of a business. The Group does not expect these amendments to have a material impact on the consolidated financial statements.

IFRS consolidated financial statements (Continued)

Amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform. The Group is currently assessing the impact of these amendments on the consolidated financial statements.

IFRS 17, 'Insurance contracts', This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

IFRS 17 will not have an impact on the consolidated financial statements.

IFRS 17 has not been yet endorsed by the EU.

Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 "Leases" on the Group's financial statements and discloses the new accounting policies that have been applied from January 1, 2019.

The Group adopted the standard using the modified retrospective approach with the cumulative effect of applying the new Standard recognized in retained profits as of January 1, 2019. Its application had no significant impact on the Group's retained profits.

Comparatives for the 2018 financial statements were not restated.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019.

The right-of-use asset was measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the leases recognized in the statement of financial position immediately before the date of initial application.

The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 8.68%. Each lease commitment was individually discounted using a specific incremental borrowing rate, following a build-up approach including risk-free rates, industry risk, country risk, credit risk at cash generating unit level, currency risk and commitment's maturity.

a) Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The right-of-use asset was measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 8.68%.

For leases previously classified as finance leases the Company recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

IFRS consolidated financial statements (Continued)

The measurement principles of IFRS 16 are only applied after that date.

PYG millions	**2019**
Operating lease commitments disclosed as at December 31, 2018	**192,002**
(Plus): Non lease components obligations	29,674
(Less): Short term leases recognized on a straight line basis as expense	-
(Less): Low value leases recognized on a straight line basis as expense	(2,186)
(Plus): Contracts modification	25,539
(Plus/less): Other	6,405
Gross lease liabilities	**251,434**
Discounted using the lessee's incremental borrowing rate at the date of the initial application	(89,377)
Incremental lease liabilities recognized at January 1, 2019	**162,057**
(Plus): Finance lease liabilities recognized at December 31, 2018	162,525
Lease liabilities recognized at January 1, 2019	**324,582**
Of which are:	
Current lease liabilities	31,452
Non-current lease liabilities	**293,130**

The application of IFRS 16 affected the following items in the statement of financial position on January 1, 2019

FINANCIAL POSITION PYG millions	**As at January 1, 2019 before application**	**Effect of adoption of IFRS 16**	**As at January 1, 2019 after application**	**Reason for the change**
ASSETS				
Property, plant and equipment, net	1,850,823	(171,829)	1,678,994	(i)
Right-of-use (non-current) NEW	-	333,886	333,886	(ii)
Prepayments	58,559	(8,744)	49,815	(iii)
LIABILITIES				
Lease liabilities (non-current) NEW	-	293,131	293,131	(iv)
Debt and other financing (non-current)	2,790,874	(147,369)	2,643,505	(v)
Lease liabilities (current) NEW	-	31,452	31,452	(iv)
Debt and other financing (current)	212,884	(15,157)	197,727	(v)

(i) Transfer of previously capitalized assets under finance leases to Right-of-Use assets.
(ii) Initial recognition of Right-of-Use assets, transfer of previously recognized finance leases and of lease prepayments being part of the Right-of-Use asset cost at transition.
(iii) Transfer of lease prepayments being part of the Right-of-Use asset cost at transition.
(iv) Initial recognition of lease liabilities and transfer of previously recognized finance lease liabilities.
(v) Transfer of previously recognized finance lease liabilities to new Lease liabilities accounts.

The application of IFRS 16 also impacts classifications within the statement of cash flows for the period starting from January 1, 2019. In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- reliance on previous assessments on whether leases are onerous.
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made when applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Further changes to standards not yet effective and not early adopted by the Group on January 1, 2020

Standard amendments	Objetive	IASB Efective date
Amendments to the conceptual framework	The IASB has revised its conceptual framework. The Framework is not an IFRS standard and does not override any standard, so nothing will change in the short term. The revised Framework will be used in future standard-setting decisions, but no changes will be made to current IFRS. Preparers might also use the Framework to assist them in developing accounting policies where an issue is not addressed by an IFRS. The Group does not expect these amendments to have a material impact on the consolidated financial statements as such.	January 1, 2020
Amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors'	These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. The Group does not expect this amendment to have a material impact on the consolidated financial statements.	January 1, 2020
Amendments to IFRS 3 - 'Business Combinations' - definition of a business	This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. The Group does not expect this amendment to have a material impact on the consolidated financial statements. These amendments have not yet been endorsed by the EU.	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform.	The IASB has embarked on a two-phase project to consider what, if any, reliefs to give from the effects of IBOR reform. For Phase 1, the IASB has issued amendments to IFRS9, IAS 39 and IFRS7 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries. The Group is currently assessing the impact of these amendments on the consolidated financial statements but do not expect it will have a material effect.	January 1, 2020
IFRS 17, 'Insurance contracts'	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. IFRS 17 will not have an impact on the consolidated financial statements. IFRS 17 has not been yet endorsed by the EU.	January 1, 2021

Judgments and critical estimates

The preparation of IFRS financial statements requires management to use judgment in applying accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates are based on management's best knowledge of current events and actions, and actual results may ultimately differ from these estimates. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in each note and are summarized below:

Judgments

Management apply judgment in accounting treatment and accounting policies in preparation of these financial statements. In particular a significant level of judgment is applied regarding the following items:

- Contingent liabilities – whether or not a provision should be recorded for any potential liabilities (see note G.2.).
- Leases – whether the substance of leases meets the IFRS criteria for recognition as finance or operating leases or services contracts, or elements of each, mainly in respect of tower sale and leaseback transactions (see notes E.2. and G.1.).
- Control – whether Telecel, through voting rights and potential voting rights attached to shares held, or by way of shareholders' agreements or other factors, has the ability to direct the relevant activities of the subsidiaries it consolidates (see notes A.1.).
- Deferred tax assets – recognition based on likely timing and level of future taxable profits together with future tax planning strategies (see note B.5.3.).
- Assets Held for Sale - definition, classification, presentation and impairment testing (see note E.3.)
- Revenue recognition - Whether or not the Group acts as principal or as an agent, when there is one or several performance obligations and the determination of stand-alone selling prices

Estimates

Estimates are based on historical experience and other factors, including reasonable expectations of future events. These factors are reviewed in preparation of the financial statements, although due to inherent uncertainties in the evaluation process, actual results may differ from original estimates. Estimates are subject to change as new information becomes available and may significantly affect future operating results. Significant estimates have been applied in respect of the following items:

- Accounting for property, plant and equipment, and intangible assets in determining fair values at acquisition dates, particularly for assets acquired in business combinations and sale and leaseback transactions (see notes E.1.1., E.2.1.).
- Useful lives of property, plant and equipment and intangible assets (see notes E.1.1., E.2.1.).
- Provisions, in particular provisions for asset retirement obligations, legal and tax risks (see note F.5.1.)
- Revenue recognition (see note B.1.1.).
- Impairment testing including discount rates and long term growth rates (see notes E.1.1., E.1.2.)
- For leases, estimates in determining the incremental borrowing rate for discounting the lease payments in case interest rate implicit in the lease cannot be determined (see note E.2.5.)
- Share-based compensation (see note B.4.1.)

A. The Telecel Group

The Group comprises three companies with various combinations of mobile, media content, cable TV, technological support, software and apps development and internet services.

A.1. Subsidiaries

Subsidiaries are all entities which the Company controls. Telecel controls an entity when it is exposed to, or has rights to variable returns from its investment in the entity, and has the ability to affect those returns through its power over the subsidiary. The Group has power over an entity when it has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the entity's returns. Generally, control accompanies a shareholding of more than half of the voting rights although certain other factors (including contractual arrangements with other shareholders, voting and potential voting rights) are considered when assessing whether the Group controls an entity.

The consolidated financial statements of the Group are comprised of the financial statements of the Company and its subsidiaries: Lothar Systems S.A. (99% owned) and Teledeportes Paraguay S.A. (99.8% owned) as at December 31 each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

A.1.1. Accounting for subsidiaries and non-controlling interests

Subsidiaries are fully consolidated from the date on which control is transferred to Telecel. If facts and circumstances indicate that there are changes to one or more of the elements of control, a reassessment is performed to determine if control still exists. Subsidiaries are de- consolidated from the date that control ceases. Transactions with non-controlling interests are accounted for as transactions with equity owners of the Group. Gains or losses on disposals to non-controlling interests are recorded in equity. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is also recorded in equity.

A.1.2. Acquisition of subsidiaries and increases in non-controlling interests in subsidiaries

During the year ended December 31, 2019 and 2018, the Group did not complete any significant acquisitions.

A.1.3. Disposal of subsidiaries and decreases in non-controlling interests of subsidiaries

For the years ended 31 December 2019 and 2018, The Group did not dispose of any significant investments.

B. Performance

B.1. Revenue

The Group's revenue comprises sale of services from its mobile, cable & digital media, as well as related devices and equipment. Recurring revenue consists of monthly subscription fees, airtime and data usage fees, interconnection fees, roaming fees, TV services, B2B contracts, and fees from other telecommunications services such as data services, short message services and other value added services.

Revenue from continuing operations by category

PYG millions	Timing of revenue recognition	2019	2018
Mobile	Over time	1,846,251	1,990,513
Home	Over time	290,765	338,069
Corporate	Over time	436,748	427,202
Content	Over time	48,201	50,390
Other revenue	Point in time	19,754	19,418
Service		**2,641,719**	**2,825,592**
Telephone and equipment and other	Point in time	218,761	270,980
Total		**2,860,480**	**3,096,572**

B. Performance (Cont.)

B.1.1. Accounting for revenue

Revenue recognition

Revenue is recognized at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer.

The Group applies the following practical expedients foreseen in IFRS 15:

- No adjustment to the transaction price for the means of a financing component whenever the period between the transfer of a promised good or service to a customer and the associated payment is one year or less; when the period is more than one year the financing component is adjusted, if material.

- Disclosure in the Group Financial Statements the transaction price allocated to unsatisfied performance obligations only for contracts that have an original expected duration of more than one year (e.g. unsatisfied performance obligations for contracts that have an original duration of one year or less are not disclosed).

- Application of the practical expedient not to disclose the price allocated to unsatisfied performance obligations, if the consideration from a customer corresponds to the value of the entity's performance obligation to the customer (i.e, if billing corresponds to accounting revenue).

- Application of the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that otherwise would have been recognized is one year or less.

Post-paid connection fees are derived from the payment of a non-refundable / one-time fee charged to customer to connect to the network (e.g. connection / installation fee). Usually, it does not represent a distinct good or service, and therefore does not give rise to a separate performance obligation and revenue is recognized over the minimum contract duration. However, if the fee is paid by a customer to get the right to receive goods or services without having to pay this fee again over his tenure with the Group (e.g. the customer can readily extend his contract without having to pay the same fee again), it is accounted for as a material right and revenue should be recognized over the customer retention period.

Post-paid mobile / cable subscription fees are recognized over the relevant enforceable/subscribed service period (recurring monthly access fees that do not vary based on usage). The service provision is usually considered as a series of distinct services that have the same pattern of transfer to the customer. Remaining unrecognized subscription fees, which are not refunded to the customers, are fully recognized once the customer has been disconnected.

Prepaid scratch / SIM cards are services where customers purchase a specified amount of airtime or other credit in advance. Revenue is recognized as the credit is used. Unused credit is carried in the statement of financial position as a contract liability. Where customers purchase a specified amount of airtime or other credit in advance, revenue is recognized as the credit is used.

Telephone and equipment sales are recognized as revenue once the customer obtains control of the good. That criteria is fulfilled when the customer has the ability to direct the use and obtain substantially all of the remaining benefits from that good.

Revenue from provision of Other Revenue is recognized once the primary service has been provided to the customer.

Customer premise equipment (CPE) are provided to customers as a prerequisite to receive the subscribed Home services and shall be returned at the end of the contract duration. Since CPEs provided over the contract term do not provide benefit to the customer on their own, they do not give rise to separate performance obligations and therefore are accounted for as part of the service provided to the customers.

Bundled offers are considered arrangements with multiple deliverables or elements, which can lead to the identification of separate performance obligations. Revenue is recognized in accordance with the transfer of goods or services to customers in an amount that reflects the relative standalone selling price of the performance obligation (e.g. sale of telecom services, revenue over time + sale of handset, revenue at a point in time).

B. Performance (Cont.)

Principal-Agent, some arrangements involve two or more unrelated parties that contribute to providing a specified good or service to a customer. In these instances, the Group determines whether it has promised to provide the specified good or service itself (as a principal) or to arrange for those specified goods or services to be provided by another party (as an agent). For example, performance obligations relating to services provided by third-party content providers (i.e., mobile Value Added Services or "VAS") or service providers (i.e., wholesale international traffic) where the Group neither controls a right to the provider's service nor controls the underlying service itself are presented net because the Group is acting as an agent. The Group generally acts as a principal for other types of services where the Group is the primary obligor of the arrangement. In cases the Group determines that it acts as a principal, revenue is recognized in the gross amount, whereas in cases the Group acts as an agent revenue is recognized in the net amount.

Revenue from the sale of cables, fiber, wavelength or capacity contracts, when part of the ordinary activities of the operation, is recognized as recurring revenue. Revenue is recognized when the cable, fiber, wavelength or capacity has been delivered to the customer, based on the amount expected to be received from the customer.

Revenue from operating lease of tower space is recognized over the period of the underlying lease contracts. Finance leases revenue is apportioned between lease of tower space and interest income.

Significant judgments

The determination of the standalone selling price for contracts that involve more than one performance obligation may require significant judgment, such as when the selling price of a good or service is not readily observable.

The Group determines the standalone selling price of each performance obligation in the contract in accordance to the prices that the Group would apply when selling the same services and/or telephone and equipment included in the obligation to a similar customer on a standalone basis. When standalone selling price of services and/or telephone and equipment are not directly observable, the Group maximizes the use of external input and uses the expected cost plus margin approach to estimate the standalone selling price.

B.2. Expenses

The cost of sales and operating expenses incurred by the Group can be summarized as follows:

Cost of sales

PYG millions	2019	2018
Direct costs of services sold	219,895	288,235
Cost of telephone, equipment and other accessories	230,417	279,598
Bad debt and obsolescence costs	61,104	66,873
Cost of sales	**511,416**	**634,706**

Operating expenses

PYG millions	2019	2018
Marketing expenses	254,691	215,526
Network maintenance costs	54,899	95,115
Employee related costs	207,176	225,859
External and other services	52,235	43,341
Rentals and operating leases *(i)*	29,152	19,115
Billing and payments	54,535	55,716
Other operating expenses	417,051	375,520
Operating expenses, net	**1,069,739**	**1,030,192**

(i) The leases expenses relating to payments not included in the measurement of the lease liability.

B. Performance (Cont.)

B.2.1. Accounting for cost of sales and operating expenses

Cost of sales

Cost of sales is recorded on an accrual basis.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract, including dealer commissions, are capitalized as Contract Costs in the statement of financial position and amortized in operating expenses over the expected benefit period, which is based on the average duration of contracts with customer.

Operating leases - until 2018 year-end

Operating leases were all leases that did not qualify as finance leases. Operating lease payments were recognized as expenses in the consolidated statement of income on a straight-line basis over the lease term.

B.3. Segmental information

The strategic steering committee is the group's chief operating decision-maker. Management has determined the operating segment based on the information reviewed by the strategic steering committee for the purpose of allocating resources and assessing performance.

The strategic steering committee considers the business from product perspective as one segment; in this point of view management considers the performance of telecommunication and value added services as one.

Therefore, the revenues and assets included in the consolidated statements of comprehensive income and consolidated statements of financial position are representative of this segment.

B.4. People

Number of permanent employees	2019	2018
Continuing operations	1,042	1,062
Total	**1,042**	**1,062**

PYG millions	2019	2018
Wages and salaries	132,385	148,281
Social security	19,040	18,214
Share based compensation	5,916	2,174
Training	4,540	6,286
Other employee related costs	45,295	50,904
Total	**207,176**	**225,859**

B.4.1. Share based compensation

Share awards are granted to management and key employees of the Company. Awards are settled in shares of MIC.

The cost of share-based compensation is based on the fair value (market value) of the shares on grant date and, is recognized, together with a corresponding increase in equity contribution reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employee becomes fully entitled to the award (the vesting date). The cumulative expense recognized for share-based compensation at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

B. Performance (Cont.)

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market conditions are satisfied, provided that all other performance conditions are satisfied. Where the terms of a share-based compensation are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Telecel´s management and key employee compensation includes share based compensation in the form of long-term share incentive plans in Millicom's shares.

Cost of share based compensation

PYG millions	2019	2018
2015 incentive plans	881	881
2016 incentive plans	1,641	1,641
2017 incentive plans	3,896	3,346
2018 incentive plans	2,227	1,338
2019 incentive plans	4,477	-
Total	**13,122**	**7,206**

Deferred share plan

For the deferred awards plan, participants are granted shares based on past performance, with 16,5% of the shares vesting on January 1st of each of year one and two, and the remaining 67% on 1st January of year three. Vesting is conditional upon the participant remaining employed with Telecel at each vesting date. The cost of this long-term incentive plan, which is not conditional on performance conditions, is calculated as follows:

Fair Value (share price) of Millicom's shares at grant date x number of shares expected to vest.

The cost of these plans is recognized, together with a corresponding increase in equity (share compensation reserve), over the period in which the performance and/or employment conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. Adjustments are made to the expense recorded for forfeitures, mainly due to management and employees leaving the Group. Non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. These are treated as vested, regardless of whether or not the market conditions are satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Shares expected to vest

Deferred Plan

	2019 plans	2018 plans	2017 pans	2016 plans	2015 plans
Initial shares granted	21,178	12,747	15,979	9,057	7,401
Revision for forfeitures	(566)	(4,513)	(6,386)	(3,150)	-
Revision for cancellation	-	-	-	-	-
Total before issuances	20,612	8,234	9,593	5,907	-
Shares issued in 2016	-	-	-	-	1,234
Shares issued in 2017	-	-	-	1,494	1,234
Shares issued in 2018	-	-	2,635	1,496	4,933
Shares still expected to vest	20,612	8,234	6,958	2,917	-
Estimated cost over the vesting period (PYG million)	7,764	2,662	3,744	1,642	-

B. Performance (Cont.)

B.4.2. Directors and executive management

Compensation for the Board of Directors for the year ended 31 December 2019 and 2018 was as follows:

PYG millions	2019	2018
Fees	1,166	894
Other benefits	313	306
Total	**1,479**	**1,200**

B.5. Taxation

B.5.1. Income tax expense

The Company's effective tax rate is (2019: 17.96%, 2018: 10.07%).

The reconciliation between the weighted average statutory rate and the effective average tax rate is as follows:

In %	2019	2018
Weighted average statutory tax rate	10.00	10.00
Effect of:		
Income tax paid on dividends distributions (i)	5.00	5.00
Other adjustments (ii)	2.96	(4.93)
Effective tax rate	**17.96**	**10.07**

(i) Income taxes at other than statutory rates relate to additional taxes paid as a result of distributing dividend to foreign shareholders.
(ii) Main concept WHT, fiscal accessories and interest and Adjustments of 2018 and 2017 of the current tax.

The charge for income taxes is shown in the following table and recognizes that revenue and expenses items may affect the financial statements and tax returns in different periods (temporary differences):

PYG millions	2019	2018
Current income tax charge	48,982	96,952
Net deferred income tax benefit	(2,800)	(29,590)
Income tax expense	**46,182**	**67,362**

The tax effect of significant items comprising the Group's net deferred tax assets as of 31 December 2019 and 2018 are as follows:

	Balance Sheet At December 31		Income statements Year ended December 31	
PYG million	**2019**	**2018**	**2019**	**2018**
Provision for doubtful debtors	22,832	21,922	910	618
Temporary differences between book and tax basis of intangible assets and property, plant and equipment	11,124	20,846	(9,721)	8,799
Provision for taxes on dividend payables	-	(4,887)	4,887	(4,040)
Temporary differences by IFRS 16	7,139	-	7,139	-
Temporary differences for tower sales; License, social and other obligation	38,313	36,976	1,337	13,036
Other temporary differences	4,219	5,970	(1,752)	11,177
Deferred tax assets	**83,627**	**80,827**	**2,800**	**29,590**

B. Performance (Cont.)

B.5.2. Current tax assets and liabilities

Current tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those enacted or substantively enacted by the statement of financial position date.

B.5.3. Deferred tax

Deferred tax is calculated using the liability method on temporary differences at the statement of financial position date between the tax base of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting, nor taxable profit or loss.

Deferred tax assets are recognized for all temporary differences including unused tax credits and tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except where the deferred tax assets relate to deductible temporary differences from initial recognition of an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither accounting, nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilize them. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent it is probable that future taxable profit will enable the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate expected to apply in the year when the assets are realized or liabilities settled, based on tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date. Deferred tax assets and deferred tax liabilities are offset where legally enforceable set off rights exist and the deferred taxes relate to the same taxable entity and the same taxation authority.

C. Capital structure and financing

C.1. Share capital, share premium and reserves

The authorized share capital of the Company is PYG 164,008 million. As at 31 December 2019, the total subscribed and fully paid-in share capital was PYG 164,008 million consisting of 10,000 registered common shares at a par value of PYG 16,4 million each. As at 31 December 2018, the total subscribed and fully paid-in share capital was PYG 164,008 million consisting of 10,000 registered common shares at a par value of PYG 16,4 million each.

C.1.1. Legal reserve

Paraguayan legislation requires share companies (corporations) to allocate at least 5% of their annual net earnings to a legal reserve up to a level of 20% of subscribed capital (whether fully paid or not). As at 31 December 2019 and 2018 PYG 50.110 million of the Group's retained profits represent legal reserves that are unavailable to be distributed to its owners.

C.2. Dividend distributions

Telecel's shareholders approved dividend distribution through the Annual General meetings of 2019 and 2018:

PYG millions	2019	2018
Distribution of dividends	570,048	660,611

C. Capital structure and financing (Cont.)

C.3. Debt and financing

Debt and financing by type

PYG millions	2019	2018
Debt and financing due after more than one year:		
Bank financing (C.3.2)	886,155	707,254
Bond financing (C.3.1)	2,172,554	1,769,553
Finance lease (C.3.3) *(i)*	-	162,525
Other external financing (C.3.2)	182,111	364,426
Total non-current debt and financing	**3,240,820**	**3,003,758**
Less: portion payable within one year	(278,212)	(212,884)
Total debt and financing due after more than one year	**2,962,608**	**2,790,874**
Debt and financing due within one year:		
Portion of non-current debt payable within one year	278,212	212,884
Total debt and financing	**3,240,820**	**3,003,758**

(i) "Finance lease liabilities were included in Debt and Financing until 31 December 2018 but were reclassified to lease liabilities on January 1, 2019 when adopting the new leasing standard. See above in the "New and amended IFRS accounting standards" and below in notes C.3.3. and E.2.5. for further information about the change in accounting policy for leases."

Debt and financings are initially recognized at fair value, net of directly attributable transaction costs. They are subsequently measured at amortized cost using the effective interest rate method or at fair value. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the effective interest rate. Any difference between the initial amount and the maturity amount is recognized in the consolidated income statement over the period of the borrowing. Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the statement of financial position date.

C.3.1. Bond financing

In April 2019, Telecel redeemed early its $300 million (PYG 1,935,900 million) 6.75% Senior Notes due 2022 (the "Telecel 2022 Notes"). As a result, Telecel made cash payments of $307 million (PYG 1,981,071 million), including an early redemption premium of $7 million (PYG 45,171 million). As the amount of the repurchase was able to be estimated at March 31, 2019, the $7 million (PYG 45,171 million) premium and $3 million (PYG 19,359 million) of related unamortized costs were included and the Notes were classified as current liabilities.

On April 2019, Telecel issued USD300 million (PYG 1,935,900 million) 5.875% senior notes due 2027 (the "Telecel 2027 Notes"). The Telecel 2027 Notes bear interest at 5.875% p.a., payable semi-annually in arrears on April 15 and October 15 of each year, starting on October 15, 2019. The net proceeds of the Telecel 2027 Notes were used to finance the purchase of the Telecel 2022 Notes.

The 5.875% Senior Notes are general unsecured obligations of the Telecel and rank equal in right of payment with all future unsecured and unsubordinated obligations of Telecel. The 5.875% Senior Notes are unguaranteed.

On June 2019, Telecel issued a bond on the local Paraguayan stock market. Telecel registered to issue up to PYG 300.000 million (USD 46,490,005 with the closing rate as of December 31, 2019) in different series from 1 year to 10 years. On June 5, 2019, 3 initial series for up to PYG 230.000 million (USD 35,642,337) were registered and issued as follows: (i) PYG 115.000 million (USD 17,821,168), at 8.75%, due June 3, 2024, (ii) PYG 50.000 million (USD 7,748,334), at 9.25%, due May 29, 2026 and (iii) PYG 65.000 million (USD 10,072,834), at 10%, due May 31, 2029.

On December 27, 2019, we issued PYG 35 billion in 2 tranches: (i) PYG. 10 billion which bears a fixed annual interest rate of 9.25% and matures on December 30, 2026; and (ii) PYG 25 billion which bears a fixed annual interest rate of 10% and matures on December 24, 2029.

C. Capital structure and financing (Cont.)

In September 2019, Telecel entered into an amended and restated agreement with Banco Continental S.A.E.C.A., to consolidate three existing loans, for a PYG 370,000 million (USD 57,337,672), which bears an annual interest of 9% paid on a quarterly basis and has a maturity of 7 years.

The outstanding amount of Bond financing as at December 31, 2019 was PYG 2,172,554 million (December 2018: PYG 1,769,553 million).

The fair value of Telecel´s financial instruments are shown at amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of all financial assets and all financial liabilities, except debt and financing approximate their carrying value largely due to the short-term maturities of these instruments. The fair values of all debt and financing have been estimated by the Group, based on discounted future cash flows at market interest rates.

Telecel uses the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

PYG Millions	Carrying Value	Fair Value (i)
	As at December 2019	As at December 2019
Debt and financing	3,240,820	3,211,628

(i) Fair values are measured with reference to Level 1 (for listed bonds) or 2

C.3.2. Bank and other external financing

PYG millions	Issuance date	Maturity date	Fixed interest rate	As at December 31, 2019	As at December 31, 2018
Banco Itaú Paraguay S.A.	10/2015	09/2020	9.00%	102,980	205,934
Banco Continental S.A.E.C.A. *(ii)*	09/2015	09/2019	9.00%	-	247,500
Banco Continental S.A.E.C.A. *(ii)*	08/2016	09/2019	10.25%	-	53,820
Inter-American Development Bank / IPS *(i)*	07/2017	05/2022	10.08%	304,446	364,426
Banco Continental S.A.E.C.A. *(ii)*	06/2018	09/2019	9.00%	-	85,000
Banco Regional S.A.E.C.A.	07/2018	06/2025	8.90%	115,000	115,000
Banco Bilbao Vizcaya Argentaria	01/2019	11/2025	8.94%	176,552	-
Banco Continental S.A.E.C.A.	09/2019	09/2026	9.00%	369,288	-
Bank and other external financing				**1,068,266**	**1,071,680**

(i) This Facility is guaranteed by Millicom
(ii) The loans were cancelled before their maturity in fiscal year 2019.

C.3.3. Lease liabilities

As a result of the adoption of IFRS 16 'Leases', and as of December 31, 2019 (see above in the "New and amended IFRS accounting standards") lease liabilities are presented in the statement of financial position as follows:

PYG millions	2019
Current	86,566
Non-current	395,741
Total Lease liabilities	**482,307**

C. Capital structure and financing (Cont.)

As permitted under IFRS 16, The Group has elected not to recognize a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are rather recognized on a straight-line basis as an expense in the statement of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expenses relating to payments not included in the measurement of the lease liability are disclosed in operating expenses (note B.2.) and are as follows:

PYG millions	2019
Expense relating to short-term leases (included in operating expenses)	**29,152**

At December 31, 2019, the Group has not committed to any material leases which had not yet commenced and has no material lease contracts with variable lease payments.

The Group's leasing activities and how these are accounted for

The Group leases various lands, sites, towers (including those related to towers sold and leased back), offices, warehouses, retail stores, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Through December 31, 2018, leases of property, plant and equipment were classified as either finance or operating leases. See note C.3.3. for further details on existing finance leases as of December 31, 2018. Payments made under operating leases (net of any incentives received from the lessor) were charged to the statement of income on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the reduction of the liability and finance cost. The finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable.
- variable lease payment that are based on an index or a rate.
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. As it is generally impracticable to determine that rate, the Group uses the lessee’s incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The incremental borrowing rate applied can have a significant impact on the net present value of the lease liability recognized under IFRS 16.

The Group determines the incremental borrowing rate by country and by considering the risk-free rate, the country risk, the industry risk, the credit risk and the currency risk, as well as the lease and payment terms and dates.

The Group is also exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is adjusted against the right-of-use asset by discounting the revised lease payments using either the initial discount rate or a revised discount rate. The initial discount rate is used if future lease payments are reflecting market or index rates or if they are in substance fixed. The discount rate is revised, if a change in floating interest rates occurs.

C. Capital structure and financing (Cont.)

The Group reassess the variable payment only when there is a change in cash flows resulting from a change in the reference index or rate and not at each reporting date.

According to IFRS 16, lease term is defined as the non-cancellable period for which a lessee has the right to use an underlying asset, together with both: (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate if the lessee is reasonably certain not to exercise that option. The assessment of such options is performed at the commencement of a lease. As part of the assessment, The Group introduced the 'time horizon concept': the reasonable term under which the company expects to use a leased asset considering economic incentives, management decisions, business plans and the fast-paced industry Telecel operates in. The assessment must be focused on the economic incentives for The Group to exercise (or not) an option to early terminate/extend a contract. The Group has decided to work on the basis the lessor will generally accept a renewal/not early terminate a contract, as there is an economic incentive to maintain the contractual relationship.

The Group considered the specialized nature of most of its assets under lease, the low likelihood the lessor can find a third party to substitute The Group as a lessee and past practice to conclude that, the lease term can go beyond the notice period when there is more than an insignificant penalty for the lessor not to renew the lease. This analysis requires judgment and has a significant impact on the lease liability recognized under IFRS 16.

Under IFRS 16, the accounting for sale and leaseback transactions has changed as the underlying sale transaction needs to be first analysed using the guidance of IFRS 15. The seller/lessee recognizes a right-of-use asset in the amount of the proportional original carrying amount that relates to the right of use retained. Accordingly, only the proportional amount of gain or loss from the sale must be recognized.

Finally, the Group has taken the additional following decisions when adopting the standard:

- Non-lease components are capitalized (IFRS16.15)
- Intangible assets are out of IFRS 16 scope (IFRS16.4)

Finance lease liabilities

Under IAS 17, leases which transferred substantially all risks and benefits incidental to ownership of the leased item to the lessee were capitalized at the inception of the lease. The amount capitalized was the lower of the fair value of the asset or the present value of the minimum lease payments.

The balances contemplated in finance leases correspond to the towers that have been sold until December 31, 2018, prior to the adoption of the IFRS16 standard. These balances have a maturity of 12 years so they will remain under this classification until 2030.

PYG millions	Maturity	2019	2018
Lease of tower space	2030	147,940	162,525
Total finance lease liabilities		**147,940**	**162,525**

Lease payments are allocated between finance charges (interest) and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded as interest expenses in the income statement.

The sale and leaseback of towers and related site operating leases and service contracts are accounted for in accordance with the underlying characteristics of the assets, and the terms and conditions of the lease agreements. When sale and leaseback agreements are concluded, the portions of assets that will not be leased back by Telecel are classified as assets held for sale as completion of their sale is highly probable. Asset retirement obligations related to the towers are classified as liabilities directly associated with assets held for sale. On transfer to the tower companies, the portion of the towers leased back are accounted for as operating leases or finance leases according to the criteria set out above.

C. Capital structure and financing (Cont.)

The portion of towers being leased back represents the dedicated part of each tower on which Telecel's equipment is located and was derived from the average technical capacity of the towers. Rights to use the land on which the towers are located are accounted for as operating leases, and costs of services for the towers are recorded as operating expenses. The gain on disposal is recognized upfront for the portion of towers that is not leased back. It is deferred and recognized over the term of the lease for the portion leased back.

Tower Sale and Leaseback

In 2017, the Group announced an agreement to sell and leaseback approximately 1,400 wireless communications towers to a subsidiary of American Tower Corporation ("ATC") whereby we agreed the cash sale of tower assets and to lease back a dedicated portion of each tower where our network equipment is installed. As a result of this transaction, Telecel received approximately PYG 700 billion (equivalent to USD125 million) in cash. The portions of the assets that will be transferred and that have not yet been leased back by our operations are classified as assets held for sale as completion of their sale is highly probable.

The table below summarises the main aspects of these deals and impacts on the Group financial statements:

	Paraguay
Signature date	April 26, 2017
Total number of towers expected to be sold	1,410
Total number of towers transferred so far	1,410
Expected total cash proceeds (PYG millions)	718,394
Cash proceeds for the year 2017 (PYG millions)	425,941
Cash proceeds for the year 2018 (PYG millions)	223,670
Cash proceeds received in 2019 (PYG millions)	68,314
Upfront gain on sale recognized for the year 2017 (PYG millions)	147,341
Upfront gain on sale recognized for the year 2018 (PYG millions)	110,136
Upfront gain on sale recognized for the year 2019 (PYG millions)	-

C.3.4. Covenants

The Group's financing facilities are subject to a number of covenants including net leverage ratio, debt service coverage ratios, debt to earnings ratios, and cash levels. In addition, certain of its financings contain restrictions on sale of businesses or significant assets within the businesses. At 31 December 2019 there were no breaches in financial covenants.

C.4. Cash and deposits

C.4.1. Cash and cash equivalents

PYG millions	2019	2018
Cash and cash equivalents in USD	68,589	51,521
Cash and cash equivalents in PYG	118,166	96,250
Restricted cash	386	-
Total cash and cash equivalents	**187,141**	**147,771**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash deposits with bank with maturities of more than three months that generally earn interest at market rates are classified as time deposits.

C. Capital structure and financing (Cont.)

C.5. Net financial obligations

PYG millions	2019	2018
Net debt at the beginning of the year *(i)*	2,693,460	2,075,516
Finance lease	-	162,525
Cash items		
Proceeds from issuance of debt and other financing	2,637,423	200,000
Repayment of debt and other financing	(2,438,500)	(85,020)
Increase in finance leases *(i)*	-	47,498
Net decrease (increase) in cash and cash equivalents	(36,210)	340,275
Non-cash items		
Exchange movement on debt and other financing	200,667	115,193
Net debt at the end of the year	**3,056,840**	**2,855,987**

(i) "Finance lease liabilities were included in Debt and Financing until 31 December 2018 but were reclassified to lease liabilities on January 1, 2019 when adopting the new leasing standard. See above in the "New and amended IFRS accounting standards" and below in notes C.3.3. and E.2.5. for further information about the change in accounting policy for leases."

D. Financial risk management

Exposure to interest rate, foreign currency, liquidity, capital management and credit risks arise in the normal course of Telecel's business. The Group analyses each of these risks individually as well as on an interconnected basis and defines and implements strategies to manage the economic impact on the Group's performance in line with its financial risk management policy. Telecel's risk management strategies may include the use of derivatives. Telecel's policy prohibits the use of such derivatives in the context of speculative trading.

D.1. Interest rate risk

Debt and financing issued at floating interest rates expose the Group to cash flow interest rate risk. Debt and financing issued at fixed rates expose the Group to fair value interest rate risk. The Group's exposure to risk of changes in market interest rates relate to both of the above. To manage this risk, the Group's policy is to maintain a combination of fixed and floating rate debt with target for the debt to be distributed between fixed and variable rates. The Group actively monitors borrowings against this target and applies a dynamic interest rate hedging approach. The target mix between fixed and floating rate debt is reviewed periodically. The purpose of Telecel's policy is to achieve an optimal balance between cost of funding and volatility of financial results, while taking into account market conditions as well as our overall business strategy. At 31 December 2019, 96% of the Group's borrowings are at a fixed rate of interest.

D.1.1. Fixed and floating rate debt

Financing at 31 December 2019 Amounts due within:	Amounts due within:						
PYG millions	**1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**>5 years**	**Total**
Fixed rate financing	278,212	233,435	170,979	122,700	226,200	2,209,294	3,240,820
Weighted average nominal interest rate	7.28%	7.07%	6.86%	6.70%	6.58%	6.35%	6.85%
Floating rate financing *(i)*	15,168	15,156	15,156	15,156	15,156	72,158	147,950
Weighted average nominal interest rate	2.02%	2.02%	2.02%	2.02%	2.02%	2.02%	2.02%
Total	**293,380**	**248,591**	**186,135**	**137,856**	**241,356**	**2,281,452**	**3,388,770**
Weighted average nominal interest rate	6.96%	6.77%	6.58%	6.44%	6.35%	6.15%	6.58%

(i) Comprised of finance leases whose discount rates are reviewed on a yearly basis.

D. Financial risk management (Cont.)

Financing at 31 December 2018

Amounts due within:	Amounts due within:						
PYG millions	**1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**>5 years**	**Total**
Fixed rate financing	197,727	258,667	228,356	1,934,529	152,732	69,222	2,841,233
Weighted average nominal interest rate	7.76%	7.64%	7.43%	7.20%	9.07%	8.95%	7.57%
Floating rate financing *(i)*	15,157	15,156	15,156	15,156	15,156	86,744	162,525
Weighted average nominal interest rate	2.02%	2.02%	2.02%	2.02%	2.02%	2.02%	2.02%
Total	**212,884**	**273,823**	**243,512**	**1,949,685**	**167,888**	**155,966**	**3,003,758**
Weighted average nominal interest rate	7.45%	7.34%	7.15%	6.93%	6.85%	5.10%	7.19%

(i) Comprised of finance leases whose discount rates are reviewed on a yearly basis.

D.2. Foreign currency risks

The Group seeks to reduce its foreign currency exposure through a policy of matching, as far as possible, assets and liabilities denominated in foreign currencies, or entering into agreements that limit the risk of exposure to currency fluctuations against the US dollar reporting currency. In some cases, The Group may also borrow in US dollars where it is either commercially more advantageous to incur debt obligations in US dollars or where US dollar denominated borrowing is the only funding source available. In these circumstances, The Group accepts the remaining currency risk associated with financing, principally because of the relatively high cost of forward cover, when available.

D.2.1. Debt denominated in USD and other currencies

PYG millions /	2019		2018	
USD millions	**USD**	**PYG**	**USD**	**PYG**
Debt denominated in USD	296	1,909,285	297	1,769,553
Debt denominated in PYG	-	1,331,535	-	1,234,205
Total debt	**296**	**3,240,820**	**297**	**3,003,758**

D.3. Credit and counterparty risk

Financial instruments that subject the Group to credit risk include cash and cash equivalents, trade receivables, supplier advances and other current assets. Counterparties to agreements relating to the Group's cash and cash equivalents are significant financial institutions with investment grade ratings. Management does not believe there are significant risks of non-performance by these counterparties and maintain a diversified portfolio of banking partners. Allocation of deposits across banks are managed such that the Group's counterparty risk with a given bank stays within limits which have been set based on each banks credit rating.

A large portion of revenue of the Group comprises prepaid products and services. For postpaid customers, the Group follows risk control procedures to assess the credit quality of the customer, taking into account its financial position, past experience and other factors.

Accounts receivable also comprise balances due from other telecom operators. Credit risk of other telecom operators is limited due to the regulatory nature of the telecom industry, in which licenses are normally only issued to credit worthy companies. The Group maintains a provision for impairment of trade receivables based upon expected collectability.

D.4. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group has significant indebtedness but also has significant cash balances. Telecel evaluates its ability to meet its obligations on an ongoing basis using a recurring liquidity planning tool. This tool considers the operating net cash flows generated from its operations and the future cash needs for borrowing, interest payments, dividend payments and capital and operating expenditures required in maintaining and developing its operating businesses.

D. Financial risk management (Cont.)

The Group manages its liquidity risk through use of bank overdrafts, bank loans, bonds, non-bank loans, and finance leases. The Group believes that there is sufficient liquidity available in the markets to meet ongoing liquidity needs. Additionally, The Group is able to arrange offshore funding. The Group has a diversified financing portfolio with commercial banks representing about 23% of its gross financing (2018: 24%), bonds 64% (2018: 59%), Development Finance Institutions 9% (2018: 12%) and finance leases 4% (2018: 5%).

Maturity Profile of Net Financial Liabilities at 31 December 2019 ***(i)***

PYG million	**Less than 1 year**	**1 to 5 years**	**> 5 years**	**Total**
Total debt and financing	(278,212)	(852,566)	(2,110,042)	(3,240,820)
Cash and cash equivalents	187,141	-	-	187,141
Net cash (debt) including derivatives related to debt	**(91,071)**	**(852,566)**	**(2,110,042)**	**(3,053,680)**
Future interest commitments on debt	(235,946)	(728,489)	(140,282)	(1,104,717)
Trade payables (excluding accruals)	(660,987)	-	-	(660,987)
Other financial liabilities (including accruals)	(444,500)	(412,214)	-	(856,714)
Trade receivables	2,205,375	-	-	2,205,375
Other financial assets	255,625	45,685	-	301,310
Net financial assets (liabilities)	**1,028,496**	**(1,947,584)**	**(2,250,324)**	**(3,169,412)**

(i) As at December 31, 2018, Net financial obligations included finance lease liabilities of 162,525 million. As at December 31, 2019, Net financial obligations also include Lease liabilities recognized under IFRS 16.

Maturity Profile of Net Financial Liabilities at 31 December 2018 (i)

PYG million	**Less than 1 year**	**1 to 5 years**	**> 5 years**	**Total**
Total debt and financing	(212,884)	(2,690,234)	(100,640)	(3,003,758)
Cash and cash equivalents	147,771	-	-	147,771
Net cash (debt) including derivatives related to debt	**(65,113)**	**(2,690,234)**	**(100,640)**	**(2,855,987)**
Future interest commitments	(223,673)	(564,426)	(7,948)	(796,047)
Trade payables (excluding accruals)	(828,930)	-	-	(828,930)
Other financial liabilities (including accruals)	(553,211)	(391,215)	-	(944,426)
Trade receivables	1,986,397	-	-	1,986,397
Other financial assets	327,008	28,246	-	355,254
Net financial liabilities	**642,478**	**(3,617,629)**	**(108,588)**	**(3,083,739)**

(i) As at December 31, 2018, Net financial obligations included finance lease liabilities of 162,525 million. As at December 31, 2019, Net financial obligations also include Lease liabilities recognized under IFRS 16.

D.5. Capital management

The primary objective of the Group’s capital management is to ensure a strong credit rating and solid capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure with reference to economic conditions and imposed restrictions such as debt covenants and local regulations. To maintain or adjust its capital structure, the Group may make dividend payments to shareholders, return capital to shareholders through share repurchases or issue new shares.

D. Financial risk management (Cont.)

The Group reviews its gearing ratio (net debt divided by total capital plus net debt) periodically. Net debt includes interest bearing loans and borrowings, less cash and cash equivalents (included restricted cash) and pledged and time deposits related to bank borrowings. Capital represents equity attributable to the equity holders of the parent.

Net debt to EBITDA (i)

PYG millions	Note	2019	2018
Net financial obligations	C.5	3,056,840	2,855,987
EBITDA		1,279,325	1,431,674
Net debt to EBITDA		**2.39**	**1.99**

(i) As at December 31, 2018, Net financial obligations included finance lease liabilities of 162,526 million. As at December 31, 2019, Net financial obligations also include Lease liabilities recognized under IFRS 16.

Gearing ratio

PYG millions	Note	2019	2018
Net financial obligations	C.5	3,056,840	2,855,987
Equity		675,541	1,028,666
Net financial obligations and Equity		**3,732,381**	**3,884,653**
Gearing ratio		**82%**	**74%**

E. Long-term assets

E.1. Intangible assets

The Group's intangible assets mainly consist of goodwill arising from acquisitions, customer lists acquired through acquisitions, licenses and rights to operate and use spectrum.

E.1.1. Accounting for intangible assets

Intangible assets acquired in business acquisitions are initially measured at fair value at the date of acquisition, and those which are acquired separately are measured at cost. Internally generated intangible assets, excluding capitalized development costs, are not capitalized but expensed to the income statement in the expense category consistent with the function of the intangible assets. Subsequently intangible assets are carried at cost, less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite useful lives are amortized over their estimated useful economic lives using the straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in expected useful lives or the expected beneficial use of the assets are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible assets.

Goodwill

Goodwill represents the excess of cost of an acquisition over the Group's share in the fair value of identifiable assets less liabilities and contingent liabilities of the acquired subsidiary, at the date of the acquisition. If the fair value or the cost of the acquisition can only be determined provisionally, then goodwill is initially accounted for using provisional values. Within 12 months of the acquisition date any adjustments to the provisional values are recognized. This is done when the fair values and the cost of the acquisition have been finally determined. Adjustments to provisional fair values are made as if the adjusted fair values had been recognized from the acquisition date. Goodwill on acquisition of subsidiaries is included in "intangible assets, net". Goodwill on acquisition of joint ventures or associates is included in "investments in joint ventures and associates". Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

E. Long-term assets (Cont.).

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed and the portion of the cash generating unit retained.

Impairment testing of goodwill

Goodwill from CGUs is tested for impairment at least each year and more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses on goodwill are not reversed.

Goodwill arising on business combinations is allocated to each of the Group's cash generating units (CGUs) or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than an operating segment.

Impairment is determined by assessing the recoverable amount (value in use) and, if appropriate, the fair value less costs to sell of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount and fair value less costs to sell of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized for the lower amount.

Key assumptions used in value in use calculations

The process of preparing the cash flow projections considers the current market condition of each CGU, analyzing the macroeconomic, competitive, regulatory and technological environments, as well as the growth opportunities of the CGUs. Therefore, a growth target is defined for each CGU, based on the appropriate allocation of operating resources and the capital investments required to achieve the target. The foregoing forecasts could differ from the results obtained through time; however, the Company prepares its estimates based on the current situation of each of the CGUs. Relevance of budgets used for the impairment test is also reviewed annually, management performing regressive analysis between actual figures and budget/5YP used for previous year impairment test.

The cash flow projections for all CGUs is most sensitive to the following key assumptions:

- EBITDA margin is determined by dividing EBITDA by total revenues.
- CAPEX intensity is determined by dividing CAPEX by total revenues.
- Gross Domestic Product ("GDP") less inflation rates are used as perpetual growth rate.
- Weighted average cost of capital ("WACC") is used to discount the projected cash flows.

The most significant estimates used for the 2019 and 2018 impairment test are shown below:

	Average EBITDA margin (%) (i)		Average CAPEX intensity (%) (i)		Perpetual growth rate (%)		WACC rate after tax (%)	
CGU	2019	2018	2019	2018	2019	2018	2019	2018
Paraguay	46.90	50.40	16.00	17.30	1.60	3.00	9.00	9.80

(i) Average is computed over the period covered by the plan (5 years)

Licenses

Licenses are recorded at either historical cost or, if acquired in a business combination, at fair value at the date of acquisition. Cost includes cost of acquisition and other costs directly related to acquisition and retention of licenses over the license period. These costs may include estimates related to fulfilment of terms and conditions related to the licenses such as service or coverage obligations, and may include up-front and deferred payments.

E. Long-term assets (Cont.).

Licenses have a finite useful life and are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost of the licenses over their estimated useful lives. The terms of licenses, which have been awarded for various periods, are subject to periodic review for, amongst other things, rate setting, frequency allocation and technical standards. Licenses are initially measured at cost and are amortized from the date the network is available for use on a straight-line basis over the license period. Licenses held, subject to certain conditions, are usually renewable and generally non-exclusive. When estimating useful lives of licenses, renewal periods are included only if there is evidence to support renewal by the Group without significant cost.

Trademarks and customer lists

Trademarks and customer bases are recognized as intangible assets only when acquired or gained in a business combination. Their cost represents fair value at the date of acquisition. Trademarks and customer bases have indefinite or finite useful lives. Indefinite useful life trademarks are tested for impairment annually. Finite useful life trademarks are carried at cost, less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the trademarks and customer bases over their estimated useful lives. The estimated useful lives for trademarks and customer bases are based on specific characteristics of the market in which they exist. Trademarks and customer bases are included in “Intangible assets, net”.

Estimated useful lives	Years
Trademarks	1 to 15
Customer lists	4 to 9

Programming and content rights

Programming and content master rights which are purchased or acquired in business combinations which meet certain criteria are recorded at cost as intangible assets. The rights must be exclusive, related to specific assets which are sufficiently developed, and probable to bring future economic benefits and have validity for more than one year. Cost includes consideration paid or payable and other costs directly related to the acquisition of the rights, and are recognized at the earlier of payment or commencement of the broadcasting period to which the rights relate.

Programming and content rights capitalized as intangible assets have a finite useful life and are carried at cost, less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost of the rights over their estimated useful lives.

Non-exclusive and programming and content rights for periods less than one year are expensed over the period of the rights.

Indefeasible rights of use

There is no universally-accepted definition of an indefeasible rights of use (“IRU”). These agreements come in many forms. However, the key characteristics of a typical arrangement include:

- The right to use specified network infrastructure or capacity;
- For a specified term (often the majority of the useful life of the relevant assets);
- Legal title is not transferred;
- A number of associated service agreements including Operations and Maintenance (“O&M”) and co-location agreements. These are typically for the same term as the IRU; and
- Any payments are usually made in advance.

IRUs are accounted for either as a lease, or service contract based on the substance of the underlying agreement.

IRU arrangements will qualify as a lease if, and when:

- The purchaser has an exclusive right for a specified period and has the ability to resell (or sub-let) the capacity; and
- The capacity is physically limited and defined; and

E. Long-term assets (Cont.).

- The purchaser bears all costs related to the capacity (directly or not) including costs of operation, administration and maintenance; and
- The purchaser bears the risk of obsolescence during the contract term.
- If all of these criteria are not met, the IRU is treated as a service contract.

If an IRU is determined to be a lease, the following indicators need to be present in order for the capitalization of an IRU as a finance lease to be considered:

- The Group will be consuming the major part of the useful economic life of the asset (generally considered to be 75% of the total remaining useful economic life of the asset). The Group assumes that the useful economic life of a new fiber cable is 15 years;
- Substantially all of the risks and rewards of ownership are transferred to the Group (e.g. Telecel can sublease excess capacity on the cables to other operators; Telecel is responsible for maintaining the cables during the contract period);
- Neither party has the right to terminate the contract early (other than for “force majeure”);
- The contract price is not subject to renegotiation or change (other than for inflationary increases);
- The minimum contractual payments are for substantially all of the fair value of the asset (generally considered to be greater or equal to 90% of the fair value of the leased asset);
- The Group can determine the fair value of the leased asset;
- The Group has physical access rights to the cable. Otherwise the IRU will be considered as an operating lease.

A finance lease of an IRU of network infrastructure (cables or fiber) is accounted for as a tangible asset. A finance lease of a capacity IRU (wavelength) is accounted for as an intangible asset.

Estimated useful lives of finance leases of IRUs of capacity are between 12 and 15 years, or shorter if the estimated useful life of the underlying cable is shorter.

The costs of an IRU recognized as operating lease is recognized as prepayment and amortized in the income statement on a straight-line basis over the lease term.

The costs of an IRU recognized as service contract is recognized as prepayment and amortized in the income statement as incurred over the duration of the contract.

E.1.2. Impairment of non-financial assets

At each reporting date Telecel assesses whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for a non-financial asset is required, an estimate of the asset’s recoverable amount is made. The recoverable amount is determined based on the higher of its fair value less cost to sell, and its value in use, for individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Where no comparable market information is available, the fair value, less cost to sell, is determined based on the estimated future cash flows discounted to their present value using a discount rate that reflects current market conditions for the time value of money and risks specific to the asset. The foregoing analysis also evaluates the appropriateness of the expected useful lives of the assets. Impairment losses of continuing operations are recognized in the consolidated income statement in expense categories consistent with the function of the impaired asset.

At each reporting date an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. Other than for goodwill, a previously recognized impairment loss is reversed if there has been a change in the estimate used to determine the asset’s recoverable amount since the last impairment loss was recognized. If so, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

E. Long-term assets (Cont.).

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

E.1.3. Movements in intangible assets

Movements in intangible assets 2019

PYG millions	Goodwill	Licenses	Content	Customer lists	Other (i)	Total
Opening balance, net	**293,019**	**527,469**	**38,764**	**-**	**232,155**	**1,091,407**
Additions	-	12,575	-	-	124,901	137,476
Impairments and net disposals	-	-	-	-	(24)	(24)
Amortization charge *(i)*	-	(110,011)	(19,385)	-	(69,651)	(199,047)
Transfers	-	967	552	8	(23,152)	(21,625)
Closing balance, net	**293,019**	**431,000**	**19,931**	**8**	**264,229**	**1,008,187**
Cost	293,019	803,487	155,605	126,836	716,475	2,095,422
Accumulated amortization	-	(372,487)	(135,674)	(126,828)	(452,246)	(1,087,235)
Net	**293,019**	**431,000**	**19,931**	**8**	**264,229**	**1,008,187**

Movements in intangible assets 2018

PYG millions	Goodwill	Licenses (ii)	Content	Customer lists	Other (i)	Total
Opening balance, net	**293,019**	**383,419**	**58,145**	**15,748**	**220,175**	**970,506**
Additions	-	220,352	-	-	133,617	353,969
Impairments and net disposals	-	-	-	-	(2,778)	(2,778)
Amortization charge *(i)*	-	(71,305)	(19,381)	(15,748)	(51,887)	(158,321)
Transfers	-	(4,997)	-	-	(66,972)	(71,969)
Closing balance, net	**293,019**	**527,469**	**38,764**	**-**	**232,155**	**1,091,407**
Cost	293,019	789,955	155,051	126,830	585,067	1,949,922
Accumulated amortization	-	(262,486)	(116,287)	(126,830)	(352,912)	(858,515)
Net	**293,019**	**527,469**	**38,764**	**-**	**232,155**	**1,091,407**

(i) The caption "Other" includes mainly software licenses and development of intangibles.
(ii) In the current period, 4G licenses were acquired for PYG 193,242 million. It also includes Spectrum and other social obligations.

E.1.4. Cash used for the purchase of intangible assets

Cash used for intangible asset additions

PYG millions	2019	2018
Additions	(137,476)	(353,969)
Change in advances to suppliers	7,295	(6,904)
Change in accruals and payables for intangibles	(99,450)	90,282
Cash used from continuing operations for additions	**(229,631)**	**(270,591)**

E.2. Property, plant and equipment

E.2.1. Accounting for property, plant and equipment

Items of property, plant and equipment are stated at either historical cost, or the lower of fair value and present value of the future minimum lease payments for assets under finance leases, less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to acquisition of items. The carrying amount of replaced parts is derecognized.

E. Long-term assets (Cont.).

Depreciation is calculated using the straight-line method over the shorter of the estimated useful life of the asset and the remaining life of the license associated with the assets, unless the renewal of the license is contractually possible.

Estimated useful lives	Years
Buildings	40 years or lease period, if shorter
Networks (including civil works)	5 to 15 years or lease period, if shorter
Other	2 to 7

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The assets' residual value and useful life is reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Construction in progress consists of the cost of assets, labor and other direct costs associated with property, plant and equipment being constructed by the Group, or purchased assets which have yet to be deployed. When the assets become operational, the related costs are transferred from construction in progress to the appropriate asset category and depreciation commences.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Ongoing routine repairs and maintenance are charged to the income statement in the financial period in which they are incurred.

Costs of major inspections and overhauls are added to the carrying value of property, plant and equipment and the carrying amount of previous major inspections and overhauls is derecognized.

Equipment installed on customer premises which is not sold to customers is capitalized and amortized over the customer contract period.

A liability for the present value of the cost to remove an asset on both owned and leased sites (for example cell towers) and for assets installed on customer premises (for example set-top boxes), is recognized when a present obligation for the removal exists. The corresponding cost of the obligation is included in the cost of the asset and depreciated over the useful life of the asset, or lease period if shorter.

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset when it is probable that such costs will contribute to future economic benefits for the Group and the costs can be measured reliably.

E.2.2. Movements in tangible assets

Movements in tangible assets 2019

PYG millions	Network equipment	Land and Buildings	Construction in Progress	Other (i)	Total
Opening balance, net	**1,425,227**	**69,038**	**278,664**	**77,894**	**1,850,823**
Additions	30,334	15	181,813	-	212,162
Impairments and net disposals	(38,941)	4,910	(9,592)	(2,012)	(45,635)
Depreciation charge	(324,440)	(1,392)	-	(28,576)	(354,408)
Asset retirement obligations	3,845	785	-	-	4,630
Transfers (ii)	8,894	(4,711)	(153,883)	11,919	(137,781)
Closing balance at December 31, 2019	**1,104,919**	**68,645**	**297,002**	**59,225**	**1,529,791**
Cost	4,069,977	81,980	297,002	282,638	4,731,597
Accumulated depreciation	(2,965,058)	(13,335)	-	(223,413)	(3,201,806)
Net	**1,104,919**	**68,645**	**297,002**	**59,225**	**1,529,791**

E. Long-term assets (Cont.).

-

Movements in tangible assets 2018

PYG millions	Network equipment	Land and Buildings	Construction in Progress	Other (i)	Total
Opening balance, net (ii)	**1,477,077**	**66,957**	**196,813**	**93,371**	**1,834,218**
Additions	67,341	-	275,503	66	342,910
Impairments and net disposals	(62,716)	(12)	(186)	178	(62,736)
Depreciation charge	(318,349)	(1,288)	-	(44,297)	(363,934)
Asset retirement obligations	827	1,536	-	-	2,363
Transfers	261,047	1,845	(193,466)	28,576	98,002
Closing balance at December 31, 2018	**1,425,227**	**69,038**	**278,664**	**77,894**	**1,850,823**
Cost	4,137,709	80,981	278,664	306,782	4,804,136
Accumulated depreciation	(2,712,482)	(11,943)	-	(228,888)	(2,953,313)
Net	**1,425,227**	**69,038**	**278,664**	**77,894**	**1,850,823**

(i) The caption "Other" includes mainly office equipment and motor vehicles.

(ii) As of December 31, 2018 Network and equipment balance closing balance included balances of tower under finance leases for 171,828 million, these are now transfer and disclosed in a separate note (G.1.2)

Borrowing costs capitalized for the years ended December 31, 2019 and 2018 were not significant.

E.2.3. Cash used for the purchase of tangible assets

Cash used for tangible asset additions

PYG millions	2019	2018
Additions	(210,236)	(342,910)
Change in advances to suppliers	22,301	(35,501)
Change in accruals and payables for tangibles	(20,611)	82,573
Cash used for additions	**(208,546)**	**(295,838)**

E.2.4 Proceeds from sale of property, plant and equipment

Proceeds from sale of property, plant and equipment

PYG millions	2019	2018
Tower sale, net of taxes	68,314	223,670
Other	-	8,153
Total	**68,314**	**231,823**

E.2.5 Right-of-use assets

- Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct cost, and
- restoration costs

Refer to note C.3.3 for further details on lease accounting policies.

E. Long-term assets (Cont.).

Right-of-use	Land and buildings	Sites rental	Tower rental	Tower under finance lease (i)	Other network equipment	Other	Total
				PYG millions			
Opening balance, net	**40,911**	**17,277**	**101,000**	**-**	**11,472**	**140**	**170,800**
Modifications	5,111	1,004	119,348	-	578	783	126,824
Disposals	(1,759)	(9,888)	(196)	-	(1,000)	-	(12,843)
Depreciation	(10,604)	(2,286)	(12,089)	(15,925)	(1,581)	(559)	(43,044)
Transfer	-	-	-	171,828	-	-	171,828
Closing balance, net	**33,659**	**6,107**	**208,063**	**155,903**	**9,469**	**364**	**413,565**
Cost	46,022	18,281	220,348	191,122	12,050	923	488,746
Accumulated amortization	(12,363)	(12,174)	(12,285)	(35,219)	(2,581)	(559)	(75,181)
Net at December 31, 2019	**33,659**	**6,107**	**208,063**	**155,903**	**9,469**	**364**	**413,565**

(i) The opening balance for tower under finance lease is the gross book value for towers sold before January 1, 2019

E.3. Assets held for sale

If Telecel decides to sell subsidiaries, investments in joint ventures or associates, or specific non-current assets in its businesses, these items qualify as assets held for sale if certain conditions are met.

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is expected to be recovered principally through sale, not through continuing use. Liabilities of disposal groups are classified as “Liabilities directly associated with assets held for sale”.

In 2017, the Group announced an agreement to sell and leaseback approximately 1,400 wireless communications towers to a subsidiary of ATC (refer to note C above). The following table summarises the nature of the assets and liabilities reported under assets held for sale and liabilities directly associated with assets held for sale as at December 31, 2018, sale as at December 31, 2019 the group have not assets held for sale.

Assets and liabilities reclassified as held for sale (PYG millions)	As at December 31, 2019	As at December 31, 2018
Towers	-	12,422
Total assets of held for sale	**-**	**12,422**
Towers	-	2,433
Total liabilities directly associated with assets held for sale	**-**	**2,433**
Net assets held for sale / book value	**-**	**9,989**

F. Other assets and liabilities

F.1. Trade receivables

The Group’s trade receivables mainly comprise interconnect receivables from other operators, postpaid mobile and residential cable subscribers as well as B2B customers. The nominal value of receivables adjusted for impairment approximates the fair value of trade receivables.

PYG millions	2019	2018
Gross trade receivables	556,564	616,764
Less: provisions for impairment of receivables	(228,057)	(219,219)
Trade receivables, net	**328,507**	**397,545**

F. Other assets and liabilities (Cont.)

Aging of trade receivables PYG millions	Neither past due nor impaired	Past due (net of impairments)			Total
		< 30 days	30-90 days	>90 days	
2019					
Telecom operators	2,195	824	676	1,380	5,075
Own customers	219,945	19,130	7,706	25,922	272,703
Others	35,968	3,748	2,023	8,990	50,729
Total	**258,108**	**23,702**	**10,405**	**36,292**	**328,507**
2018					
Telecom operators	10,824	575	453	2,150	14,002
Own customers	267,944	17,937	5,163	26,088	317,132
Others	58,523	2,681	2,023	3,184	66,411
Total	**337,291**	**21,193**	**7,639**	**31,422**	**397,545**

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for expected credit losses. The Group recognizes an allowance for expected credit losses (ECLs) applying a simplified approach in calculating the ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime of ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The provision for expected credit losses is recognized in the consolidated statement of income within Cost of sales.

F.2. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Inventories PYG millions	2019	2018
Telephone and equipment	28,760	28,700
SIM cards	806	687
Other	15,885	8,366
Total Inventory	**45,451**	**37,753**

F.3. Trade payables

Trade payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method where the effect of the passage of time is material.

F.4. Prepayment and accrued income

PYG millions	2019	2018
Accrued income from rendered services	145,325	104,119
Prepayments	34,659	58,504
Total Prepayment and accrued income	**179,984**	**162,623**

F.5. Current and non-current provisions and other liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

F. Other assets and liabilities (Cont.)

The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax cost of debt rate that reflects, where appropriate, risks specific to the liability. Where discounting is used, increases in the provision due to the passage of time are recognized as interest expenses.

F.5.1. Current provisions and other liabilities

Current

PYG millions	2019	2018
Customer deposits	33,893	34,611
Current legal provisions	8,218	8,845
Other tax payables	8,690	11,700
Prepayment card	15,908	20,980
Advanced payments	2,263	2,708
Tax risk provision	8,320	9,300
Other	103,565	73,172
Total	**180,857**	**161,316**

F.5.2. Non-current provisions and other liabilities

Non-current

PYG millions	2019	2018
Deferred income on tower deals	151,559	210,423
Long-term portion of asset retirement obligations	106,891	104,754
Acc. payable and accruals for the purchase of license and spectrum (non-current)	86,499	74,234
Other	67,265	1,804
Total	**412,214**	**391,215**

F.6. Assets and liabilities related to contract with customers

Contract assets, net

PYG millions	2019	2018
Long-term	8,402	8,552
Short-term	62,528	69,722
Less: provisions for expected credit	-	-
Total	**70,930**	**78,274**

Contract liabilities

PYG millions	2019	2018
Long-term	3,236	3,014
Short-term	75,709	140,502
Total	**78,945**	**143,516**

The Group recognized revenue for PYG 104,913 million in 2019 that was included in the contract liability balance at the beginning of the year.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31, 2019 is PYG 367,337 million (expected to be recognized as revenue in the 2020 financial year) (i).

F. Other assets and liabilities (Cont.)

(i) This amount does not consider contracts that have an original expected duration of one year or less, neither contracts in which consideration from a customer corresponds to the value of the entity's performance obligation to the customer (i.e. billing corresponds to accounting revenue).

Contract costs, net (i)

PYG millions	**2019**	**2018**
Net at January	844	519
Contract costs	867	1,117
Amortization of contract	(1,114)	(792)
Net at December	**597**	**844**

(i) Incremental costs of obtaining a contract are expensed when incurred if the amortization period of the asset that Telecel otherwise would have recognized is one year or less.

G. Additional disclosure items

G.1. Capital and operational commitments

Telecel has a number of capital and operational commitments to suppliers and service providers in the normal course of its business. These commitments are mainly contracts for acquiring network and other equipment, and leases for towers and other operational equipment.

G.1.1. Capital commitments

At 31 December 2019 the Group had fixed commitments to purchase network equipment, land and buildings, other fixed assets and intangible assets of PYG 345,496 million (December 31, 2018: PYG 686,857 million).

G.1.2. Lease commitments– until December 31,2018"

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and involves an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether or not the arrangement conveys a right to use the asset. The sale and leaseback of towers and related site operating leases and service contracts are accounted for in accordance with the underlying characteristics of the assets, and the terms and conditions of the lease agreements. On transfer to the tower companies, the portion of the towers leased back are accounted for as operating leases or finance leases according to the criteria set out above. The portion of towers being leased back represents the dedicated part of each tower on which Telecel's equipment is located and was derived from the average technical capacity of the towers. Rights to use the land on which the towers are located are accounted for as operating leases, and costs of services for the towers are recorded as operating expenses.

From January 1, 2019, the Group has recognized right of use assets for these leases, except for short term or low value leases. See above in the "New and amended IFRS accounting standards", note C.3.3 and E.2.5. for further information.

Finance leases

Finance leases, which transfer substantially all risks and benefits incidental to ownership of the leased item to the lessee, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Where a finance lease results from a sale and leaseback transaction, any excess of sales proceeds over the carrying amount of the assets is deferred and amortized over the lease term.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets, or the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

G. Additional disclosure items (Cont.)

Finance leases mainly comprise lease of tower space (see note C.3.3.).

G.2. Contingent liabilities

G.2.1. Litigation and legal risks

Telecel is operating in an emerging market, where the regulatory, political, technological and economic environments are evolving. As a result, there are uncertainties that may affect future operations, the ability to conduct business, foreign exchange transactions and debt repayments and which may impact upon agreements with other parties. In the normal course of business, Telecel faces uncertainties regarding taxation, interconnect, license renewal and tariff arrangements, which can have a significant impact on the long-term economic viability of its operations.

The Company and its subsidiaries are contingently liable with respect to lawsuits and other matters that arise in the normal course of business. As of December 31, 2019, the total amount of provisions related to claims against the Group's operations was PYG 8,218 million (December 31, 2018: PYG 8,845 million). Management is of the opinion that while it is impossible to ascertain the ultimate legal and financial liability with respect to these claims, the ultimate outcome of these contingencies is not anticipated to have a material effect on the Group's financial position and operations.

G.2.2. Tax related risks and uncertain tax position.

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

G.3. Non-cash investing and financing activities

Non-cash investing and financing activities from continuing operations

PYG millions	**2019**	**2018**
Investing Activities		
Financing / (Acquisition) of property, plant and equipment	1,690	47,072
Financing / (Acquisition) of intangibles	(92,155)	91,993
Asset retirement obligations	4,630	2,363
Financing Activities		
Effect of forex exchange on financial debt	200,667	115,193

G.4. Related party balances and transactions

The Company conducts transactions with its principal shareholder, Millicom International Cellular S.A. ("Millicom") and its subsidiaries. Transactions with related parties are conducted on normal commercial terms and conditions.

Expenses from transactions with related parties

PYG millions	**2019**	**2018**
Millicom – Other Paraguayan operations	260,803	240,904
Millicom - Non-Paraguayan companies	917	2,175
Total	**261,720**	**243,079**

G. Additional disclosure items (Cont.)

Income and gains from transactions with related parties

PYG millions	2019	2018
Millicom – Other Paraguayan operations	20,946	103,745
Millicom - Non-Paraguayan companies	58,155	26,757
Total	**79,101**	**130,502**

As at 31 December the Company had the following balances with related parties:

PYG millions	2019	2018
Receivables - Short Term		
Millicom – Other Paraguayan operations	33,4719	151,951
Millicom – Non-Paraguayan companies	1,542,149	1,436,901
Total	**1,876,868**	**1,588,852**

PYG millions	2019	2018
Receivables - Long Term		
Millicom – Other Paraguayan operations	80,242	166,441
Total	**80,242**	**166,441**

PYG millions	2019	2018
Payables		
Millicom – Other Paraguayan operations	227,860	164,792
Millicom – Non-Paraguayan companies	22,033	6,770
Total	**249,893**	**171,562**

Loans and receivables include receivables from related parties and are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those maturing more than 12 months after the end of the reporting period. These are classified within non-current assets. Loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. In respect of impairment of financial assets, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

H. Subsequent events

Itau loan

On January 23rd, 2020, Telecel obtained a four-year loan from ITAU Paraguay S.A. Bank for PYG 154,620 million, denominated in Paraguayan guaranies and bears a fixed annual interest rate of 9%.

International Bonds

On January 28rd, 2020, Telecel closed a 250,000,000 USD re-tap on its international bonds with seven-years maturity and bears a fixed annual interest rate of 5.75%.

Local Bonds

On February 13, 2020, Telecel topped up the local bond issue in 2019 by an additional for PYG 35.000 million. Bonds are denominated in local currency guaranies with two different maturities (7 and 10yrs) and interest rate (9.25% and 10%).

H. Subsequent events (Cont.)

Legal Entity

On January 2020, Telecel has received a notification from the customers protection authority (SEDECO: Secretaría del Consumidor) N° 23/2020 regarding the cut on the provision of cable service to our customers. The TV signal went down for 15 minutes during an important soccer event. We have provisioned the penalty (13,000 USD) but are contesting the customer reparation request (10% of the monthly invoice or 1m USD). The legal team believes that the customer reparation is not legal and therefore we have high chances to win in court.

IPS-BID Loan

On February 28, 2020, Telecel has cancelled the loan for PYG 304,446 million.

COVID-19

The recent outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries. The impact of COVID-19 also led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. We are monitoring the potential impact of the recent outbreak of COVID-19, which could negatively impact our global business and results of operations in future reporting periods which, as a consequence, could trigger potential asset impairments. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess.