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

As of and for the year ended 31 December 2020

April 30, 2021

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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 and their subsidiaries (the Group)**, which comprise the consolidated statement of financial position as of December 31, 2020, 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, 2020, 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

*Description of the matter*

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.

Auditing the revenue from these services was complex and is an area of 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 involves several management key judgments and estimates.

*How we addressed the matter in our audit*

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 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 applied 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 the Note B.1.1. in relation to revenue recognition matters.

2. **Accounting for Business Combinations**

*Description of the matter*

As described in the Note A.1.2 of the consolidated financial statements, the Group acquired control over, and therefore consolidated **Servicios y Productos Multimedios S.A. ("SPM")** for net consideration of USD 370.1 million as of June, 29, 2020, and **Mobile Cash Paraguay S.A. ("Tigo Cash")** for net consideration of PYG 4,461 million as of May 20,2020. These transactions were accounted for as business combinations. Management has determined the purchase accounting for **Servicios y Productos Multimedios S.A. ("SPM")** and **Mobile Cash Paraguay S.A ("Tigo Cash")** allocated on a provisional basis as of December 31, 2020.

Auditing the Company´s accounting for its acquisition of **SPM** and **Tigo Cash** was especially challenging and involved difficult professional judgments due to the complexity of the process to determine the fair value of the acquired identifiable assets and liabilities assumed. The significant estimation uncertainty was primarily due to the complexity of the valuation models used by management to measure the fair value of the contingent consideration and technology-related intangible assets and the sensitivity of the respective fair values to the significant underlying assumptions.

We consider these transactions to be a key audit matter because of the significance of the amounts involved and their impact on the consolidated financial statements, the inherent judgment involved in making fair value estimates and the complexity involved in identifying intangible assets.

*How we addressed the matter in our audit*

Our audit procedures over the Business Combination, included among others:

- Inspecting the purchase agreements and evaluating the terms and conditions and management's accounting for such terms and conditions in its purchase price allocation.
- We reviewed the Management's methodologies and assumptions adopted to determine the provisional amounts for recognizing the business combination, including the process to assign the fair value of the acquired identifiable assets and liabilities assumed, as well as the accounting criteria adopted to book the transaction.
- We assessed whether the underlying assumptions adopted by the Management were consistent with publicly available information and external market data.
- We also assessed the completeness and accuracy of the underlying data through our inspection of and comparison to historical information.
- We evaluated the adequacy of the related disclosures in the Note A.1.2 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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April 30, 2021

# Consolidated statement of comprehensive income

for the year ended December 31, 2020

| PYG millions | Notes | 2020 | 2019 |
|---|---|---|---|
| Revenue | B.1. | 3,153,159 | 2,860,480 |
| Cost of sales | B.2. | (721,062) | (511,416) |
| **Gross profit** | | **2,432,097** | **2,349,064** |
| Operating expenses *(i)* | B.2. | (1,310,738) | (1,069,739) |
| Depreciation | E.2.2. , E.2.5 | (441,045) | (397,452) |
| Amortization | E.1.3. | (238,532) | (199,047) |
| Other operating income (expenses), net | | (900) | (6,995) |
| **Operating profit** | | **440,882** | **675,831** |
| Interest expense | C.3.3. | (408,953) | (393,328) |
| Interest and other financial income | | 51,849 | 57,824 |
| Exchange loss, net | | (97,140) | (83,138) |
| **Profit (Loss) before taxes** | | **(13,362)** | **257,189** |
| Charge for taxes, net | B.5.1. | (16,487) | (46,182) |
| **Net (loss) profit and comprehensive income for the year** | | **(29,849)** | **211,007** |
| **Attributable to:** | | | |
| **Equity holders of the company** | | **(29,849)** | **211,007** |

*(i) Operating expenses includes recharges of VCF (Value-creating fees) for the support services provided by Millicom to the Group for PYG 213,923 million in 2020 (2019: nil).*

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

# Consolidated statement of financial position

As of December 31, 2020

| PYG millions | Notes | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Intangible assets, net | E.1.3. | 3,338,901 | 1,008,187 |
| Property, plant and equipment, net | E.2.2. | 2,254,137 | 1,529,791 |
| Right of use assets | E.2.5. | 457,351 | 413,565 |
| Deferred tax assets | B.5.1. | 84,656 | 83,627 |
| Contract costs, net | F.6. | 53 | 597 |
| Other non-current assets | | 45,731 | 45,685 |
| Amounts due from related parties | G.4. | - | 80,242 |
| **TOTAL NON-CURRENT ASSETS** | | **6,180,829** | **3,161,694** |
| | | | |
| **CURRENT ASSETS** | | | |
| Inventories, net | F.2. | 39,001 | 45,451 |
| Trade receivables, net | F.1. | 295,669 | 328,507 |
| Contract assets, net | F.6. | 45,790 | 70,930 |
| Amounts due from related parties | G.4. | 12,594 | 1,876,868 |
| Prepayments and accrued income | F.4. | 185,918 | 179,984 |
| Supplier advances for capital expenditure | | 37,014 | 18,436 |
| Other current assets | | 83,394 | 57,205 |
| Restricted cash | C.4.2. | 206,151 | - |
| Cash and cash equivalents | C.4.1. | 817,782 | 187,141 |
| **TOTAL CURRENT ASSETS** | | **1,723,313** | **2,764,522** |
| **TOTAL ASSETS** | | **7,904,142** | **5,926,216** |

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

# Consolidated statement of financial position

As of December 31, 2020

| PYG millions | Notes | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| **EQUITY AND LIABILITIES EQUITY** | | | |
| Share capital and premium | C.1. | 168,469 | 164,008 |
| Legal reserve | C.1.1. | 50,110 | 50,110 |
| Other reserves | B.4.1.; C.1.2. | 49,869 | 13,122 |
| Retained profits | | 237,294 | 237,294 |
| Profit (Loss) for the year attributable to equity holders | | (29,849) | 211,007 |
| **Equity attributable to owners of the Company** | | **475,893** | **675,541** |
| **TOTAL EQUITY** | | **475,893** | **675,541** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Debt and financing | C.3. | 4,929,306 | 2,962,608 |
| Lease liabilities | C.3.4. | 467,259 | 431,858 |
| Provisions and other non-current liabilities | F.5.2. | 354,447 | 361,198 |
| **Total non-current liabilities** | | **5,751,012** | **3,755,664** |
| **Current liabilities** | | | |
| Debt and financing | C.3. | 162,124 | 278,212 |
| Payables and accruals for capital expenditure | | 344,514 | 279,374 |
| Lease liabilities | C.3.4. | 78,873 | 79,792 |
| Other trade payables | | 170,019 | 138,496 |
| Amounts due to related parties | G.4. | 155,827 | 249,893 |
| Accrued interest and other expenses | | 185,205 | 190,550 |
| Current income tax liabilities | | 39,449 | 3,993 |
| Contract liabilities | F.6. | 64,803 | 78,945 |
| Provisions and other current liabilities | F.5.1. | 476,423 | 195,756 |
| **Total current liabilities** | | **1,677,237** | **1,495,011** |
| **TOTAL LIABILITIES** | | **7,428,249** | **5,250,675** |
| **TOTAL EQUITY AND LIABILITIES** | | **7,904,142** | **5,926,216** |

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

# Consolidated statement of cash flow

For the year ended December 31, 2020

| PYG millions | Notes | 2020 | 2019 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) before taxes from continuing operations | | (13,362) | 257,189 |
| **Adjustments to reconcile to net cash:** | | | |
| Interest expense | C.3.3 | 408,953 | 393,328 |
| Interest and other financial income | | (51,849) | (57,824) |
| Exchange loss on foreign exchange | | 97,140 | 83,138 |
| **Adjustments for non-cash items:** | | | |
| Depreciation and amortization | E.1.3., E.2.2., E.2.5. | 679,577 | 596,499 |
| Loss/(gain) on disposal and impairment of assets, net | | 900 | 6,758 |
| Share based compensation | B.4.1 | 5,476 | 5,916 |
| **Changes in working capital:** | | | |
| Decrease / (Increase) in trade receivables, prepayments and other current assets, net | | 94,292 | 36,531 |
| (Increase) / Decrease in inventories | | 2,413 | (7,698) |
| (Decrease) / Increase in trade and other payables | | 35,804 | (118,746) |
| Changes in contract assets, liabilities and costs, net | | 15,953 | 12,406 |
| **Total changes in working capital** | | **148,462** | **(77,507)** |
| Interest paid | | (399,477) | (312,474) |
| Interest received | | 70,447 | 58,274 |
| Taxes paid | | (16,974) | (77,722) |
| **Net cash provided by operating activities** | | **929,293** | **875,575** |
| **Cash flows from investing activities:** | | | |
| Acquisition of subsidiaries, net of cash acquired | | (2,438,375) | - |
| Purchase of intangible assets and licenses | E.1.4. | (250,107) | (229,631) |
| Purchase of property, plant and equipment | E.2.3. | (243,233) | (208,546) |
| Proceeds from sale of property, plant and equipment | E.2.4. | 19,682 | 68,314 |
| Debt and other financing granted to / repaid by related parties, net | | 1,172,429 | (61,139) |
| **Net cash used in investing activities** | | **(1,739,604)** | **(431,002)** |
| **Cash flows from financing activities:** | | | |
| Repayment of debt and financing | C.5. | (477,175) | (2,438,500) |
| Proceeds from issuance of debt and other financing | C.5. | 2,141,427 | 2,637,423 |
| Repayment of Leases | C.5. | (46,432) | (41,318) |
| Payment of dividends to equity holders | C.2. | (211,007) | (570,048) |
| **Net cash used by financing activities** | | **1,406,813** | **(412,443)** |
| Exchange impact on cash and cash equivalents, net | | 34,139 | 7,240 |
| **Net increase in cash and cash equivalents** | | **630,641** | **39,370** |
| Cash and cash equivalents at the beginning of the year | | **187,141** | 147,771 |
| **Cash and cash equivalents at the end of the year** | | **817,782** | **187,141** |

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

# Consolidated statement of changes in equity

for the year ended December 31, 2020

| PYG millions | Number of shares | Share Capital | Retained profits | Legal reserves | Other Reserves | Total equity |
|---|---|---|---|---|---|---|
| **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** |
| Total comprehensive income for the year | - | - | (29,849) | - | - | (29,849) |
| Effect of acquisition of subsidiaries (see Note A.1.2., Note C.1.2.) | - | - | - | - | 31,271 | 31,271 |
| Dividends | - | - | (211,007) | - | - | (211,007) |
| Increase of Share Capital (see Note A.1.2.) | 272 | 4,461 | - | - | - | 4,461 |
| Share based compensation (see Note B.4.1.) | - | - | - | - | 5,476 | 5,476 |
| **Balance as of December 31, 2020** | **10,272** | **168,469** | **207,445** | **50,110** | **49,869** | **475,893** |

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., Lothar Systems S.A., Mobile Cash Paraguay S.A. and Servicios y Productos Multimedios S.A. (the “Group” or “Telecel”) is a Paraguayan group providing communications, information, entertainment, cable TV, mobile financial services and solutions in Paraguay. The Company maintains multiple license contracts with the Comisión Nacional de Telecomunicaciones (Conatel), the regulator of the telecommunications system in Paraguay, to operate cellular and cable telephony business in Paraguay and with the Banco Central del Paraguay to operate as an EMPE (Entidad de Medio de Pago Electrónico), which is the form under which Tigo Money operates since March, 2015. The Company was formed in 1992.

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

Telecel is a wholly owned subsidiary of Millicom International III N.V. The ultimate parent company is Millicom International Cellular S.A. (“MIC S.A.”), a Luxembourg Société Anonyme whose shares are traded (as Swedish Depositary Receipts) 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 Board of Directors (“Board”) approved these consolidated financial statements for issuance on April 30, 2021.

## 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.

**COVID-19 - Qualitative and quantitative assessment on business activities, financial situation and economic performance**

On March 11, 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Most countries globally, including ours, reacted by implementing severe restrictions on travel and public gatherings, including the closing of offices, businesses, schools, retail stores and other public venues, and by instituting curfews or quarantines. These restrictions, as well as the dangers posed by the virus, produced a significant reduction in mobility and a severe disruption in global economic activity, the effect of which was felt in our market beginning in mid-March 2020.

*Impact in our market and business*

As one of the largest private companies in Paraguay, we have been supporting local governments and health officials in many ways, especially by communicating important information to the public and applying sanitation measures in our stores and offices.
Our business is at the core of the contingency plans for the millions of individuals and companies who rely on us to connect them to their family and friends, business partners, and the world. Our greatest successes in 2020 stemmed from putting people first when the COVID-19 pandemic hit, and validated our purpose and strategic vision we stayed true.

Our government implemented restrictions beginning in mid-March, and these were generally maintained throughout April, with some gradual relaxation of measures beginning in late May and June. Many of our stores and distribution channels were forced to close temporarily and a majority of our markets experienced very sharp reductions in mobility during the second quarter. This produced an immediate and significant decline in our prepaid mobile business. Since then, the local government has gradually eased these restrictions and we have seen a corresponding increase in the mobility of people. Our subscription services (mobile postpaid and home) as our content operation (Tigo Sports) was affected much faster than prepaid and has been gradually recovering.

## Business activities (Continued)

*Impact of the crisis on accounting matters*

As a consequence of the COVID-19 crisis, the Group identified potential significant accounting implications in impairment of trade receivables area. Since the beginning of COVID-19 pandemic, and as a result of worsening collections, the Group has recognised additional bad debt provisions for an amount of PYG 24,136 million (approx. US$ 3.5 million) compared to the level of provisions recorded during Q1 2020 (pre-pandemic level) and the same amount compared to 2019. However, collections have significantly improved during Q3 2020 and bad debt levels have returned to their pre-pandemic level comparing to Q1 2020. As of December 31, 2020, the total bad debt provisions covered 100% of the receivables overdue by more than 90 days.

## 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, 2020 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 subsidiaries applied consistent accounting policies as the Company for the same reporting year.

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

### 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 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 | 2020 Average rate | 2020 Year-end rate | 2019 Average rate | 2019 Year-end rate | Change % |
|---|---|---|---|---|---|---|
| Paraguay | Guaraní (PYG) | 6,758 | 6,900 | 6,232 | 6,453 | 6.93 |

## IFRS consolidated financial statements (Continued)

**New and amended IFRS accounting standards**

*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 the conceptual framework. The IASB has revised its conceptual framework.
- 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 - Phase 1. This amendment provides certain reliefs in relation to interest rate benchmark reforms. The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.
- Amendments to IFRS 3 - definition of a business. This amendment revises the definition of a business.
- Amendment to IFRS 16, 'Leases' - COVID 19 Rent Concessions - effective for annual periods starting on June 1, 2020. This amendment provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

*The following changes to standards not yet effective are not expected to materially affect the Group:*

- Amendments to IFRS 4 'Insurance contracts' (deferral of effective date of IFRS 9) - effective for annual periods starting on January 1, 2021- These amendments extend the effective date to apply IFRS 9 for insurance contracts to January 1, 2023 in order to align with the effective date of IFRS 7. These amendments will not have an impact for the Group.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2 - effective for annual periods starting on January 1, 2021. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate.

*Main reliefs provided by the Phase 2 amendments relate to:*

- Changes to contractual cash flows: That is, when changing the basis for determining contractual cash flows for financial assets and liabilities required by the reform this will not result in an immediate gain or loss in the income statement but in an update of the effective interest rate (or an update in the discount rate to remeasure the lease liability as a result of the IBOR reform), and;
- Hedge accounting: That is, allowing hedge relationships that are directly affected by the reform to continue, though additional ineffectiveness might need to be recorded.

The Group has inventoried financial assets or liabilities (including lease liabilities), with IBOR features and concluded that it will not be significantly exposed to this reform. As a result, it does not expect any material effects on its consolidated financial statements from the reform and these amendments.

- Amendments to
    - IFRS 3 'Business Combinations' - Reference to Conceptual Framework
    - IAS 16 'Property, Plant and Equipment' - Proceeds before intended use
    - IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' - Cost of fulfilling a contract
    - Annual improvements to IFRS Standards 2018-2020, affecting IFRS 1, IFRS 9, IFRS 16 and IAS 41

All of these amendments are effective for annual periods starting on January 1, 2022.

- Amendments to IAS 1, 'Presentation of Financial Statements' - effective for annual periods starting on January 1, 2023- This amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

### IFRS consolidated financial statements (Continued)

- IFRS 17, 'Insurance contracts', including amendments - effective for annual periods starting on January 1, 2023- IFRS 17 will not have an impact for the Group.
- Amendments to IAS 1, 'Presentation of Financial Statements' and IFRS Practice Statement 2, 'Disclosure of Accounting policies'- effective for annual periods starting on January 1, 2023 - The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.
- Amendments to IAS 8, 'Accounting policies, Changes in Accounting Estimates and Errors': Definition of accounting estimates - effective for annual periods starting on January 1, 2023 - The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

### 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:

- Acquisitions – measurement at fair value of existing and newly identified assets, including the measurement of property, plant and equipment and intangible assets, liabilities, contingent liabilities and remaining goodwill; the assessment of useful lives; as well as the accounting treatment for transaction costs (see notes A.1.2., E.1.1., E.2.1.);
- Impairment testing – key assumptions related to future business performance, perpetual growth rates and discount rates (see notes E.1.1., E.1.2.);
- Contingent liabilities – whether or not a provision should be recorded for any potential liabilities (see note G.2.).
- Leases – In determining the lease term, including the assessment of whether the exercise of extension or termination options is reasonably certain and the corresponding impact on the selected lease term (see notes C.3.4 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.).
- 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, including the effects of the COVID-19 pandemic. 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.).
- 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.)

## Judgments and critical estimates (Continued)

- 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 C.3.4.)
- Share-based compensation (see note B.4.1.)

## Comparatives figures

Certain reclassifications have been made to the prior year's annual accounts to enhance comparability with the current year's annual accounts. As a result, certain line items have been amended in the statement of financial position and the related notes to the annual accounts. Comparative figures have been adjusted to conform to the current year's presentation. This change in presentation has no impact on Group Liabilities.

The items mentioned before are described in the table below, and were reclassified as follow:

| Consolidated statement of financial position | Notes | Previously reported 2019 | After reclassification 2019 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Lease liabilities *(i)* | C.3.4. | 395,741 | 431,858 |
| Provisions and other non-current liabilities *(i) (iii)* | F.5.2. | 412,214 | 361,198 |
| | | | |
| **Current liabilities** | | | |
| Payables and accruals for capital expenditure *(ii)* | | 272,600 | 279,374 |
| Lease liabilities *(ii)* | C.3.4. | 86,566 | 79,792 |
| Provisions and other current liabilities *(iii)* | F.5.1. | 180,857 | 195,756 |

*(i)* *For the year ended December 31, 2019, the non-current portion of finance leases for amount of PYG 36,117 million were classified under the caption "Provisions and other non-current liabilities". This amount was reclassified to the caption "Lease liabilities" (non-current).*

*(ii)* *For the year ended December 31, 2019, accruals for amount of PYG 6,774 million were classified under the caption "Lease liabilities" (current). This amount was reclassified to the caption "Payables and accruals for capital expenditure".*

*(iii)* *For the year ended December 31, 2019, the current portion of deferred income on tower deals for and amount of PYG 14,899 million were classified under "Provisions and other non-current liabilities", which has now been reclassified to "Provisions and other current liabilities".*

## A. The Telecel Group

The Group comprises five companies with various combinations of mobile, media content, cable TV, technological support, software and apps development, internet services and financial 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), Servicios y Productos Multimedios S.A. (99.9% owned), Mobile Cash Paraguay S.A. (99% owned) and Teledeportes Paraguay S.A. (99.7% owned) as at December 31 each year, except for the acquisitions completed during 2020 (see below). The subsidiaries applied consistent accounting policies as the Company for the same reporting year.

## A. The Telecel Group (Continued)

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

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

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

**Business combinations**

During the year ended December 31, 2020, and as a result of a shareholding restructuring, the Company made the following acquisitions (under common control):

**Mobile Cash Paraguay SA:**

On 20 May 2020, the parent shareholder of the Company contributed its 99% shareholding in Mobile Cash Paraguay SA into the Company. As consideration for this contribution, the Company issued 272 new shares to its parent for a value of PYG 4,461 million. Since that date, the Company controls Mobile Cash Paraguay SA (MCP) and fully consolidates it, recognising non-controlling interests for the 1% shareholding it does not own.

For the purchase accounting, the Company determined the provisional fair values of Mobile Cash Paraguay SA's identifiable assets and liabilities based on transaction and relative fair values. The purchase accounting is still provisional at December 31, 2020, particularly in respect of the valuation of identified assets and liabilities, as well as, the final price adjustment. Management will finalize the purchase accounting in Q2 2021.

The provisional purchase accounting as at December 31, 2020 is as follows:

| | **Provisional Fair values (100%) (PYG millions)** |
|---|---|
| Intangible assets, net | 5,742 |
| Property, plant and equipment, net | 1,703 |
| Current assets (excluding cash and trade receivables) | 3,386 |
| Trade receivables | 2,194 |
| Restricted Cash | 116,635 |
| Cash and cash equivalents | 86,377 |
| Total Assets acquired | **216,037** |
| Other debt and financing | 179,401 |
| Other liabilities | 910 |
| Total Liabilities assumed | **180,311** |
| Fair value of assets acquired and liabilities assumed, net | 35,726 |
| Purchase consideration *(i)* | 4,455 |
| Provisional bargain purchase (See Note C.1.2.) *(ii)* | **31,271** |

## A. The Telecel Group (Continued)

*(i) The purchase consideration refers to the nominal value of the Mobile Cash Paraguay SA shares that were delivered in exchange of the 272 shares issued by Telecel, without considering the PYG 6 million cash contribution that completed the value of the capital increase.*
*(ii) The excess of the fair value of the net identifiable assets acquired, over the consideration transferred is recorded as equity contribution under 'Other reserves' considering the transaction as a business combination under common control.*

For convenience purposes, the acquisition date was set on June 1, 2020 as there were no material transactions from May 20, 2020 to that date. From June 1, 2020 to December 31, 2020, MCP contributed PYG 103,660 million of revenue and a net profit of PYG 47,868 million to the Group. If the acquisition had occurred on January 1, 2020 incremental revenue for the Group for the twelve-month period ended December 31, 2020 would have been PYG 164,293 million and incremental net profit for that period would have been PYG 75,256 million.

**Servicios y Productos Multimedios SA:**

On 29 June 2020, through a Share Purchase Agreement (SPA), the Company acquired 99.90% of Servicios y Productos Multimedios SA (SPM) from Millicom Holdings 300 NV for a final cash consideration of US$ 370.1 million (after final price adjustment).
The transfer of ownership of shares of SPM was approved by the appropriate regulator "Comisión Nacional de Telecomunicaciones (CONATEL)" on June 3, 2020 by Board Resolution Nº 1182/2020.

Since that date, the Company controls and fully consolidates SPM, recognizing non-controlling interests for the remaining 0.10% shareholding it does not own.

For the purchase accounting, the Company will determine the provisional fair values of SPM's identifiable assets and liabilities based on transaction and relative fair values. The purchase accounting is still provisional at December 31, 2020, particularly in respect of the valuation of identified assets and liabilities. Management will finalize the purchase accounting during Q2 2021.

The provisional purchase accounting as at December 31, 2020 is as follows:

| | **Provisional Fair values (100%) (PYG millions)** |
|---|---|
| Intangible assets, net | 106,433 |
| Property, plant and equipment, net | 809,906 |
| Right of use assets, net | 111,755 |
| Other non-current assets | 1,515 |
| Current assets (excluding cash and trade receivables) | 274,168 |
| Trade receivables | 17,034 |
| Cash and cash equivalents | 36,179 |
| **Total Assets acquired** | **1,356,990** |
| Lease liabilities | 115,535 |
| Other debt and financing | 947,844 |
| Other liabilities | 38,641 |
| **Total Liabilities assumed** | **1,102,020** |
| Fair value of assets acquired and liabilities assumed, net | 254,970 |
| Acquisition Price (i) | 2,560,937 |
| **Provisional Goodwill *(ii)*** | **2,305,967** |

*(i) Since the second quarter, the acquisition price has changed from US$ 372,127,500 to US$ 370,129,500 due to the price adjustment established in Section 1.4. of the Share Purchase Agreement, after calculation and presentation of the statement of the net debt by the buyer to the seller.*
*(ii) The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill.*

## A. The Telecel Group (Continued)

The goodwill is currently not tax deductible, and is attributable to expected synergies and convergence with our legacy mobile business in the country, as well as to the fair value of the assembled work force. For convenience purposes, the acquisition date was set on July 1, 2020 as there were no material transactions from June 29, 2020 to that date. From July 1, 2020 to December 31, 2020, SPM contributed PYG 524,014 million of revenue and a net profit of PYG 110,042 million to the Group. If the acquisition had occurred on January 1, 2020 incremental revenue for the Group for the twelve-month period ended December 31, 2020 would have been PYG 988,870 million and incremental net profit for that period would have been PYG 138,978 million.

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

For the years ended 31 December 2020 and 2019, 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 business (including Mobile Financial Services - MFS) and its cable and other fixed services, as well as related devices and equipment. Recurring revenue consists of monthly subscription fees, airtime and data usage fees, interconnection fees, roaming fees, fixed services (Pay-TV and internet), B2B services, MFS commissions 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 | 2020 | 2019 |
|---|---|---|---|
| Mobile | Over time | 1,727,763 | 1,846,251 |
| Home *(i)* | Over time | 614,355 | 290,765 |
| Corporate | Over time | 435,029 | 436,748 |
| Content | Over time | 35,615 | 48,201 |
| Mobile Financial Services *(ii)* | Over time | 103,660 | - |
| Other revenue | Point in time | 26,763 | 19,754 |
| **Service** | | **2,943,185** | **2,641,719** |
| Telephone and equipment and other | Point in time | 209,974 | 218,761 |
| **Total** | | **3,153,159** | **2,860,480** |

*(i)* *The increase in the Home revenue is a result of the consolidation of Servicios y Productos Multimedios SA.*
*(ii)* *The increase in the Mobile Financial Services revenue is a result of the consolidation of Mobile Cash Paraguay SA.*

### 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).

### B. Performance (Continued)

- 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 Mobile Financial Services (MFS) is recognized once the primary service has been provided to the customer.

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).

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.

### B. Performance (Continued)

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 | 2020 | 2019 |
|---|---|---|
| Direct costs of services sold | (409,709) | (219,895) |
| Cost of telephone, equipment and other accessories | (219,886) | (230,417) |
| Bad debt and obsolescence costs | (91,467) | (61,104) |
| **Cost of sales** | **(721,062)** | **(511,416)** |

**Operating expenses**

| PYG millions | 2020 | 2019 |
|---|---|---|
| Marketing expenses | (237,917) | (254,691) |
| Network maintenance costs | (59,874) | (54,899) |
| Employee related costs | (353,302) | (207,176) |
| External and other services | (89,168) | (52,235) |
| Rentals and operating leases | (16,707) | (29,152) |
| Billing and payments | (51,580) | (54,535) |
| Corporate Fees | (213,923) | - |
| Other operating expenses | (288,267) | (417,051) |
| **Operating expenses, net** | **(1,310,738)** | **(1,069,739)** |

### 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 (see practical expedient in note B.1.1).

## B. Performance (Continued)

### 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 | 2020 | 2019 |
|---|---|---|
| Continuing operations *(i)* | 5,050 | 1,042 |
| **Total** | **5,050** | **1,042** |

| PYG millions | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 257,350 | 132,385 |
| Social security | 37,385 | 19,040 |
| Share based compensation | 5,476 | 5,916 |
| Training | 1,474 | 4,540 |
| Other employee related costs | 51,617 | 45,295 |
| **Total** | **353,302** | **207,176** |

*(i) The increase in the number of employees is a result of the consolidation of Servicios y Productos Multimedios S.A.*

### 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 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 Millicom. 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, 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.

### B. Performance (Continued)

**Cost of share based compensation**

| **PYG millions** | **2020** | **2019** |
|---|---|---|
| 2015 incentive plans | (881) | (881) |
| 2016 incentive plans | (1,641) | (1,641) |
| 2017 incentive plans | (3,896) | (3,896) |
| 2018 incentive plans | (2,836) | (2,227) |
| 2019 incentive plans | (6,809) | (4,477) |
| 2020 incentive plans | (2,535) | - |
| **Total** | **(18,598)** | **(13,122)** |

*Deferred share plan (unchanged since 2014, except for vesting schedule)*

Until 2018 deferred awards plan, participants were granted shares based on past performance, with 16.5% of the shares vesting on January 1 of each of year one and two, and the remaining 67% on 1 January of year three. Beginning with the 2019 plan, while all other guidelines remain the same, shares vest with 30% on January 1 of each of year one and two, and the remaining 40% on 1 January of year three. Vesting is conditional upon the participant remaining employed with Millicom 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.*

*Performance share plan (for plans issued in 2016 and 2017)*

Shares granted under this performance share plan vested at the end of the three-year period, subject to performance conditions, 25% based on Positive Absolute Total Shareholder Return (Absolute TSR), 25% based on Relative Total Shareholder Return (Relative TSR) and 50% based on budgeted Earnings Before Interest Tax Depreciation and Amortization (EBITDA) minus Capital Expenditure (Capex) minus Change in Working Capital (CWC) (Free Cash Flow).

As the TSRs measures are market conditions, the fair value of the shares in the performance share plan required consideration of potential adjustments for future market-based conditions at grant date. For this, a specific valuation had been performed at grant date based on the probability of the TSR conditions being met (and to which extent) and the expected payout based upon leaving conditions.

The Free Cash Flows (FCF) condition is a non-market measure which had been considered together with the leaving estimate and based initially on a 100% fulfilment expectation. The reference share price for this condition is the same share price as the share price for the deferred share plan above.

*Performance share plan (for plans issued from 2018)*

Shares granted under this performance share plan vest at the end of the three-year period, subject to performance conditions, 25% based on Relative Total Shareholder Return ("Relative TSR"), 25% based on the achievement of the Service Revenue target measured on a 3-year CAGRs from year one to year three of the plan ("Service Revenue") and 50% based on the achievement of the Operating Free Cash Flow ("Operating Free Cash Flow") target measured on a 3-year CAGRs from year one to year three of the plan. From 2020 onwards, the Operating Free Cash Flow target has been redefined to consider payments made in respect of leases. As a result, the target is since then the Operating Free Cash Flow after Leases ("OFCFaL").

For the performance share plans, and in order to calculate the fair value of the TSR portion of those plans, it is necessary to make a number of assumptions which are set out below. The assumptions have been set based on an analysis of historical data as at grant date.

### B. Performance (Continued)

**Assumptions and fair value of the shares under the TSR portion(s)**

| | Risk-free rate % | Dividend yield % | Share price volatility(i) % | Award term (years) | Share fair value (in PYG) |
|---|---|---|---|---|---|
| Performance share plan 2020 (Relative TSR) | 0.61 | 1.47 | 24.54 | 2.93 | 384,060 |
| Performance share plan 2019 (Relative TSR) | (0.24) | 3.01 | 26.58 | 2.93 | 343,556 |
| Performance share plan 2018 (Relative TSR) | (0.39) | 3.21 | 30.27 | 2.93 | 398,136 |
| Performance share plan 2017 (Relative TSR) | (0.40) | 3.80 | 22.50 | 2.92 | 186,717 |
| Performance share plan 2017 (Absolute TSR) | (0.40) | 3.80 | 22.50 | 2.92 | 201,207 |
| Performance share plan 2016 (Relative TSR) | (0.65) | 3.49 | 30.00 | 2.61 | 299,120 |
| Performance share plan 2016 (Absolute TSR) | (0.65) | 3.49 | 30.00 | 2.61 | 316,991 |

*(i) Historical volatility retained was determined on the basis of a three-year historic average.*

The cost of the long-term incentive plans which are conditional on market conditions is calculated as follows:

*Fair value (market value) of shares at grant date (as calculated above) x number of shares expected to vest*

**Shares expected to vest**

| Deferred Plan | 2020 plans | 2019 plans | 2018 plans | 2017 pans | 2016 plans | 2015 plans |
|---|---|---|---|---|---|---|
| Initial shares granted | 12,976 | 19,962 | 12,535 | 18,049 | 9,057 | 7,401 |
| Revision for forfeitures | - | (2,031) | (6,113) | (9,154) | (3,150) | - |
| Revision for cancellation | - | - | - | - | - | - |
| Total before issuances | 12,976 | 17,931 | 6,422 | 8,895 | 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 issued in 2019 | - | - | 1,223 | 1,374 | 2,917 | - |
| Shares issued in 2020 | - | 5,57 | 1,197 | 4,886 | - | - |
| Shares still expected to vest | - | 12,361 | 4,002 | - | - | - |
| Estimated cost over the vesting period (PYG million) | 4,472 | 7,764 | 2,662 | 3,744 | 1,642 | - |

**B.4.2. Directors and executive management**

Compensation for the Board of Directors for the year ended 31 December 2020 and 2019 was as follows:

| PYG millions | 2020 | 2019 |
|---|---|---|
| Fees | 1,007 | 1,166 |
| Other benefits | 125 | 313 |
| **Total** | **1,132** | **1,479** |

Remuneration charge for the Executive Team for the year ended 31 December 2020 and 2019 was as follows:

| PYG millions | 2020 | 2019 |
|---|---|---|
| Base salary | 8,815 | 9,219 |
| Bonus | 3,409 | 5,189 |
| Pension | 399 | 197 |
| Other benefits | 1,439 | 1,219 |
| Termination benefits | 3,771 | 4,538 |
| **Total before share based compensation** | **17,833** | 20,362 |
| Share based compensation in respect of 2020 LTIP | 5,476 | 5,916 |
| **Total** | **23,309** | **26,278** |

## B. Performance (Continued)

### B.5. Taxation

### B.5.1. Income tax expense

The Company's effective tax rate is 2020: 123.40%, 2019: 17.96%.

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

| In % | 2020 | 2019 |
|---|---|---|
| Weighted average statutory tax rate *(i)* | (10.00) | 10.00 |
| **Effect of:** | | |
| Limitation on the deductibility of interests, royalties and technical assistance with related parties (VCF) *(ii)* | 105.78 | - |
| Non deductible bonuses | 14.69 | - |
| Other taxes | 13.62 | - |
| Other *(iii)* | (0.69) | 2.96 |
| Tax on dividends *(iv)* | - | 5.00 |
| **Effective tax rate** | **123.40** | **17.96** |

*(i) Statutory tax rate applied on the (loss) of profit before taxes*
*(ii) Since January 1st, 2020 a new tax reform came into force. Expenses for interests, royalties and technical assistance paid to related parties are considered deductible if the expense does not exceed the market price. The corresponding withholdings have been made and the amount of the expenses does not represent 30% of the taxable base of the fiscal year before the inclusion of those expenses*
*(iii) Includes prior year adjustments and other expenses that do not meet fiscal requirements for deductibility*
(iv) *The new tax reform created a new tax on dividends (IDU, for its acronym in Spanish). The additional tax rate of 5% in dividend was eliminated.*

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 | 2020 | 2019 |
|---|---|---|
| Current income tax charge | (25,548) | (48,982) |
| Net deferred income tax benefit | 9,061 | 2,800 |
| **Income tax expense** | **(16,487)** | **(46,182)** |

The tax effect of significant items comprising the Group's net deferred tax assets as of 31 December 2020 and 2019 are as follows:

| | Balance Sheet At December 31 | | Income statements Year ended December 31 | |
|---|---|---|---|---|
| **PYG million** | **2020** | **2019** | **2020 *(i)*** | **2019** |
| Provision for doubtful debtors | 27,185 | 22,832 | 3,069 | 910 |
| Temporary differences between book and tax basis of intangible assets and property, plant and equipment | (4,740) | 11,124 | 10,646 | (9,721) |
| Provision for taxes on dividend payables | - | - | - | 4,887 |
| Temporary differences by IFRS 16 | 4,755 | 7,139 | 439 | 7,139 |
| Temporary differences for tower sales; License, social and other obligation | 67,103 | 38,313 | (4,121) | 1,337 |
| Other temporary differences | (9,647) | 4,219 | (972) | (1,752) |
| **Deferred tax assets** | **84,656** | **83,627** | **9,061** | **2,800** |

(i) The difference between the movement in balances in equity from 2019 to 2020 and the balance booked in the income statements is explained by the inclusion, since 2020, of the balances of Servicios y Productos Multimedios S.A. and Mobile Cash Paraguay S.A. in the consolidated financial statements of 2020, which were not present in those of 2019. The impact of this situation is estimated in PYG 8,032.

## B. Performance (Continued)

### 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

As at 31 December 2020, the total subscribed and fully paid-in share capital was PYG 168,469 million consisting of 10,272 registered common shares at a par value of PYG 16.4 million each. 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. During the year, in accordance with the resolution of the Extraordinary General Meeting, the Company issued 333 common shares at a par value of PYG 16.4 million each, of which 272 shares were subscribed and fully paid-in, with the remaining 61 shares pending subscription and integration.

### 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 2020 and 2019 PYG 50,110 million of the Group’s retained profits represent legal reserves that are unavailable to be distributed to its owners.

### C.1.2. Other reserves

As of December 31, 2020, the Group has recognized an equity contribution for PYG 31,271 million resulting from the difference between the fair value of the consideration transferred and the fair value of the net assets of Mobile Cash Paraguay SA.

## C. Capital structure and financing (Continued)

### C.2. Dividend distributions

Telecel's shareholders approved dividend distribution through the Annual General meetings of 2020 and 2019:

| PYG millions | 2020 | 2019 |
|---|---|---|
| Distribution of dividends | 211,007 | 570,048 |

### C.3. Debt and financing

| Debt and financing by type<br>PYG millions | 2020 | 2019 |
|---|---|---|
| **Debt and financing due after more than one year:** | | |
| Bank financing (C.3.2) | 946,165 | 763,820 |
| Bond financing (C.3.1) | 4,145,265 | 2,172,554 |
| Other external financing (C.3.2) | - | 304,446 |
| **Total non-current debt and financing** | **5,091,430** | **3,240,820** |
| Less: portion payable within one year | (162,124) | (278,212) |
| **Total debt and financing due after more than one year** | **4,929,306** | **2,962,608** |
| **Debt and financing due within one year:** | | |
| Portion of current debt payable within one year | 162,124 | 278,212 |
| **Total debt and financing** | **5,091,430** | **3,240,820** |

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

***International Bonds - Senior Notes 2027***

In April 2019, Telecel issued US$ 300 million (PYG 2,070,033 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 15th and October 15th of each year, starting on October 15th, 2019. The net proceeds of the Telecel 2027 Notes were used to finance the purchase of the Telecel 2022 Notes.

On January 28, 2020, Telecel issued at a premium US$250 million (PYG 1,725,028 million) of 5.875% Telecel 2027 Notes (the "New Notes"), representing an additional issuance from the Senior Notes described above. The New Notes are treated as a single class with the initial notes, and were priced at 106.375 for an implied yield to maturity of 4.817%. The corresponding US$ 15.9 million premium received will be amortized over the Senior Notes maturity.

**Paraguayan Stock Exchange bonds issue**

In June 2019, Telecel registered to issue bonds on the Paraguayan stock market. Telecel registered a bond program for PYG 300,000,000,000 (US$ 43,477,568) that has been launched in different series from 5 years to 10 years.

The first three series were launched on June 5th, 2019 for PYG 230,000,000,000 (US$ 33,332,802). They were registered and issued as follows: (i) PYG 115,000,000,000 (US$ 16,666,401) at an 8.75% rate, due June 3rd, 2024; (ii) PYG 50,000,000,000 (US$ 7,246,261) at a 9.25% rate, due May 29th, 2026; and (iii) PYG 65,000,000,000 (US$ 9,420,140) at a 10% rate, due May 31st, 2029.

## C. Capital structure and financing (Continued)

In December 2019, Telecel issued two additional series for PYG 35,000,000,000 (US$ 5,072,383) as follows: (iv) PYG 10,000,000,000 (US$ 1,449,252) at a 9.25% rate, due December 30th, 2026; and (v) PYG 25,000,000,000 (US$ 3,623,131) at a 10% rate, due December 24th, 2029.

Additionally, in February 2020, Telecel completed the issuance of the remaining program with the following series: (vi) PYG 15,000,000,000 (US$ 2,173,878) at a 9.25% rate, due by January 29th, 2027; and (vii) PYG 20,000,000,000 (US$ 2,898,505) at a 10% rate, due by January 31st, 2030.

In May 2020, the Group completed the acquisition of Mobile Cash Paraguay S.A , and further on June 30, 2020, the acquisition of Servicios y Productos Multimedios S.A.. Effective as of those dates, these new entities now form part of the borrower's group for the purposes of the US$550 million 5.875% Senior Notes due 2027 issued by the Group. In addition, as of July 7, 2020 Servicios y Productos Multimedios S.A. became guarantor of the 5.875% Notes due 2027.

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.

Other than the items disclosed below, the fair values of financial assets and financial liabilities approximate their carrying values as at December 30, 2020:

| **PYG Millions** | **Carrying Value** | **Fair Value (i)** |
|---|---|---|
| | **As at December 2020** | **As at December 2020** |
| Debt and financing | 5,091,430 | 5,432,927 |

*(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 Currency | Issuance date | Maturity date | Fixed interest rate | As at December 31, 2020 | As at December 31, 2019 |
|---|---|---|---|---|---|---|
| Banco Itaú Paraguay S.A. | PYG | 10/2015 | 09/2020 | 9.00% | - | 102,980 |
| Inter-American Development Bank / IPS *(i)* | PYG | 07/2017 | 05/2022 | 10.08% | - | 304,446 |
| Banco Regional S.A.E.C.A. | PYG | 07/2018 | 06/2025 | 8.90% | 115,000 | 115,000 |
| Banco Bilbao Vizcaya Argentaria | PYG | 01/2019 | 11/2025 | 8.94% | 176,628 | 176,552 |
| Banco Continental S.A.E.C.A. | PYG | 09/2019 | 09/2026 | 9.00% | 316,595 | 369,288 |
| Banco Continental S.A.E.C.A. | PYG | 12/2020 | 12/2023 | 5.00% | 199,410 | - |
| Banco Itaú Paraguay S.A. | PYG | 01/2020 | 12/2024 | 9.00% | 138,532 | - |
| **Bank and other external financing** | | | | | **946,165** | **1,068,266** |

*(i) This Facility was guaranteed by Millicom. In February 2020, Telecel, IPS (Instituto de Previsión Social) and IIC (Interamerican Investment Corporation) signed an agreement to cancel the outstanding credit facility with the Paraguayan Social Security Entity (IPS) paying the principal plus cumulate interests by an amount of PYG 319,232 million.*

### C.3.3. Interest expense

The Group's interest and other financial expenses comprised the following:

## C. Capital structure and financing (Continued)

| PYG millions | 2020 | 2019 |
|---|---|---|
| Interest expense on bonds and bank financing | (319,673) | (202,192) |
| Interest expense on leases | (79,590) | (89,841) |
| Early redemption charges | - | (64,479) |
| Others | (9,690) | (36,816) |
| **Total Interest Expense** | **(408,953)** | **(393,328)** |

### C.3.4. Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

| PYG millions | 2020 | 2019 |
|---|---|---|
| Current | 78,873 | 79,792 |
| Non-current | 467,259 | 431,858 |
| **Total Lease liabilities** | **546,132** | **511,650** |

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 | 2020 | 2019 |
|---|---|---|
| Expense relating to short-term leases (included in operating expenses) | **16,707** | **29,152** |

At December 31, 2020, 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. 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. 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.

### C. Capital structure and financing (Continued)

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.

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.

## C. Capital structure and financing (Continued)

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 | 2020 | 2019 |
|---|---|---|---|
| Lease of tower space | 2030 | 133,502 | 147,940 |
| **Total finance lease liabilities** | | **133,502** | **147,940** |

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.

Still under IAS 17, 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.

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 |
| Cash proceeds received in 2020 (PYG millions) .......... | - |
| 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) .......... | - |
| Upfront gain on sale recognized for the year 2020 (PYG millions) .......... | - |

## C. Capital structure and financing (Continued)

### C.3.5. 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 2020 there were no breaches in financial covenants.

### C.4. Cash and deposits

### C.4.1. Cash and cash equivalents

| PYG millions | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents in USD | 418,759 | 68,589 |
| Cash and cash equivalents in PYG | 397,059 | 118,166 |
| Restricted cash | 1,964 | 386 |
| **Total cash and cash equivalents** | **817,782** | **187,141** |

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.4.2. Restricted Cash

| PYG millions | 2020 | 2019 |
|---|---|---|
| Mobile Financial Services | 206,151 | - |
| **Total Restricted Cash** | **206,151** | **-** |

This cash balance is held in banks by Mobile Cash Paraguay S.A. whose use is restricted by local regulation established by Paraguay's central bank (Banco Central del Paraguay) as part of its regulatory measures for entities that have electronic payments for business (EMPE, for its acronym in Spanish).

### C.5. Net financial obligations

| PYG millions | 2020 | 2019 |
|---|---|---|
| Total debt and financing (See Note C.3) | 5,091,430 | 3,240,820 |
| Lease Liabilities (See Note C.3.4) | 546,132 | 511,650 |
| **Gross financial obligations** | **5,637,562** | **3,752,470** |
| **Less:** | | |
| Cash and Cash equivalents (See Note C.4.1) | (817,782) | (187,141) |
| **Net financial obligations at the end of the year** | **4,819,780** | **3,565,329** |

| PYG millions | Assets | Liabilities from financing activities | | |
|---|---|---|---|---|
| | Cash and Cash equivalents | Bond and Bank Financing | Lease Liability | Total |
| **Net financial obligations as at December 31, 2019** | **187,141** | **3,240,820** | **511,650** | **3,565,329** |
| Cash Flow | 473,946 | 1,664,252 | (82,709) | **1,107,597** |
| Change in scope (See Note A.1.2) | 122,556 | - | 115,535 | **(7,021)** |
| Recognition / Remeasurement | - | - | (37,028) | **(37,028)** |
| Interest accretion | - | - | 36,640 | **36,640** |
| Foreign exchange movements. | 34,139 | 229,240 | 2,044 | **197,145** |
| Other non-cash movements | - | (42,882) | - | **(42,882)** |
| **Net financial obligations as at December 31, 2020** | **817,782** | **5,091,430** | **546,132** | **4,819,780** |

### C. Capital structure and financing (Continued)

| PYG millions | Assets | Liabilities from financing activities | | |
|---|---|---|---|---|
| | Cash and Cash equivalents | Bond and Bank Financing | Lease Liability | Total |
| **Net financial obligations as at December 31, 2018** | **147,771** | **3,003,758** | **-** | **2,855,987** |
| Cash Flow | 32,130 | 198,923 | (52,804) | **113,989** |
| Recognition / Remeasurement | - | - | 338,306 | **338,306** |
| Interest accretion | - | - | 18,876 | **18,876** |
| Foreign exchange movements. | 7,240 | 147,963 | 2,385 | **143,108** |
| Other non-cash movements | - | (109,824) | 204,887 | **95,063** |
| **Net financial obligations as at December 31, 2019** | **187,141** | **3,240,820** | **511,650** | **3,565,329** |

### 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 2020, 97% of the Group's borrowings are at a fixed rate of interest.

#### D.1.1. Fixed and floating rate debt

**Financing at 31 December 2020**

| 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 | 162,124 | 142,123 | 333,033 | 271,961 | 99,329 | 4,082,860 | **5,091,430** |
| Floating rate financing *(i)* | 15,157 | 15,155 | 15,156 | 15,156 | 15,156 | 57,721 | **133,501** |
| **Total** | **177,281** | **157,278** | **348,189** | **287,117** | **114,485** | **4,140,581** | **5,224,931** |
| Weighted average nominal interest rate | 6.49% | 6.42% | 6.35% | 6.32% | 6.15% | 6.09% | 6.31% |

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

**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** |
| Floating rate financing *(i)* | 15,168 | 15,156 | 15,156 | 15,156 | 15,156 | 72,158 | **147,950** |
| **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 (Continued)

### 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. 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 / | 2020 | | 2019 | |
|---|---|---|---|---|
| USD millions | USD | PYG | USD | PYG |
| Debt denominated in USD | 558 | 3,847,055 | 296 | 1,909,285 |
| Debt denominated in PYG | | 1,244,375 | - | 1,331,535 |

### 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 expected credit losses of trade receivables based on its historical credit loss experience.

### 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.

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 17% of its gross financing (2019: 20%), bonds 74% (2019: 58%), Development Finance Institutions null (2019: 9%) and leases 9% (2019: 14%).

## D. Financial risk management (Continued)

**Maturity Profile of Net Financial Liabilities at 31 December 2020**

| PYG million | Less than 1 year | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|
| Total debt and financing | (162,124) | (846,446) | (4,082,860) | (5,091,430) |
| Lease Liability | (78,873) | (180,486) | (286,773) | (546,132) |
| Cash and cash equivalents | 817,782 | - | - | 817,782 |
| **Net cash (debt) including derivatives related to debt** | **576,785** | **(1,026,932)** | **(4,369,633)** | **(4,819,780)** |
| Future interest commitments related to debt and financing | (330,345) | (1,159,374) | (248,482) | (1,738,201) |
| Future interest commitments related to leases | (75,515) | (272,115) | (231,004) | (578,634) |
| Trade payables (excluding accruals) | (556,516) | - | - | (556,516) |
| Other financial liabilities (including accruals) | (882,193) | (300,140) | (54,307) | (1,236,640) |
| Trade receivables | 308,263 | - | - | 308,263 |
| Other financial assets | 306,326 | 45,731 | - | 352,057 |
| **Net financial liabilities** | **(653,195)** | **(2,712,830)** | **(4,903,426)** | **(8,269,451)** |

**Maturity Profile of Net Financial Liabilities at 31 December 2019**

| 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) |
| Lease Liability | (79,792) | (181,645) | (250,213) | (511,650) |
| Cash and cash equivalents | 187,141 | - | - | 187,141 |
| **Net cash (debt) including derivatives related to debt** | **(170,863)** | **(1,034,211)** | **(2,360,255)** | **(3,565,329)** |
| Future interest commitments related to debt and financing | (235,948) | (728,490) | (140,282) | (1,104,720) |
| Future interest commitments related to leases | (62,967) | (231,724) | (248,260) | (542,951) |
| Trade payables (excluding accruals) | (660,988) | - | - | (660,988) |
| Other financial liabilities (including accruals) | (454,345) | (412,214) | - | (866,559) |
| Trade receivables | 2,205,375 | - | - | 2,205,375 |
| Other financial assets | 255,625 | 45,685 | - | 301,310 |
| **Net financial liabilities** | **875,889** | **(2,360,954)** | **(2,748,797)** | **(4,233,862)** |

### 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.

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.

### D. Financial risk management (Continued)

| PYG millions | Note | 2020 | 2019 |
|---|---|---|---|
| Net financial obligations | C.5 | 4,819,780 | 3,565,329 |
| Equity | | 481,720 | 675,541 |
| **Net financial obligations and Equity** | | **5,301,500** | **4,240,870** |
| **Gearing ratio** | | **91%** | **84%** |

### 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.

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.

## E. Long-term assets (Continued)

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.

**Impairment testing at December 31, 2020**

Goodwill was tested for impairment by assessing the recoverable amount against the carrying amount of the CGU based on discounted cash flows. The recoverable amounts are based on value-in-use. The value-in-use is determined based on the method of discounted cash flows. The cash flow projections used (operating profit margins, income tax, working capital, capex and license renewal cost) are extracted from business plans approved by management and presented to the Board, covering a fifteen-year planning horizon. The Group uses a fifteen-year planning horizon to obtain a stable business outlook, in particular due to the long investment cycles in the industry and the long-term planned and expected investments in licenses and spectrum. Cash flows beyond this period are extrapolated using a perpetual growth rate. When value-in-use results are lower than the carrying values of the CGUs, management determines the recoverable amount by using the fair value less cost of disposal (FVLCD) of the CGUs. FVLCD is usually determined by using recent offers received from third parties (Level 1).

For the year ended December 31, 2020, management concluded that no impairment should be recorded in the Group consolidated financial statements.

For the year ended December 31, 2019, management concluded that no impairment should be recorded in the Group consolidated financial statements.

**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.
- Perpetual growth rate does not exceed the country IGDP (“Gross Domestic Product”).
- Weighted average cost of capital (“WACC”) is used to discount the projected cash flows.

The most significant estimates used for the 2020 and 2019 impairment test are shown below:

| | Average EBITDA margin (%) (i) | | Average CAPEX intensity (%) (i) | | Perpetual growth rate (%) | | WACC rate after tax (%) | |
|---|---|---|---|---|---|---|---|---|
| CGU | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Paraguay | 44.30 | 46.90 | 15.60 | 16.00 | 1.00 | 1.60 | 8.40 | 9.00 |

*(i) Average is computed over the period covered by the plan.*

## E. Long-term assets (Continued)

### Sensitivity analysis to changes in assumptions

- Management performed a sensitivity analysis on key assumptions within the test. The following maximum increases or decreases, expressed in percentage points, were considered for all CGUs:

| Reasonable changes in key assumptions (%) | |
|---|---|
| **Financial variables** | |
| WACC rates | +/-1 |
| Perpetual growth rates | +/-1 |
| **Operating variables** | |
| EBITDA margin. | +/-2 |
| CAPEX intensity | +/-1 |

- The sensitivity analysis shows a comfortable headroom between the recoverable amounts and the carrying values for all CGUs at December 31, 2020.

### 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.

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.

## E. Long-term assets (Continued)

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
- 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.

An IRU of network infrastructure (cables or fiber) is accounted for as a right of use asset (see E.2.5.), while capacity IRU (wavelength) is accounted for as an intangible asset.

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

## E. Long-term assets (Continued)

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.

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 2020**

| PYG millions | Goodwill | Licenses | Content | Customer lists | Other (i) | Total |
|---|---|---|---|---|---|---|
| **Opening balance, net** | **293,019** | **431,000** | **19,931** | **8** | **264,229** | **1,008,187** |
| Change in scope *(ii)* | 2,318,397 | 12,377 | 1,926 | 55,375 | 30,069 | 2,418,144 |
| Additions | - | 12,976 | - | - | 129,962 | 142,938 |
| Impairments and net disposals | - | (3) | - | - | (500) | (503) |
| Amortization charge | - | (113,315) | (19,754) | (6,064) | (99,399) | (238,532) |
| Transfers | - | 3,352 | 1,552 | 6 | 3,757 | 8,667 |
| **Closing balance, net** | **2,611,416** | **346,387** | **3,655** | **49,325** | **328,118** | **3,338,901** |
| Cost | 2,611,416 | 840,463 | 331,728 | 228,142 | 736,129 | 4,747,878 |
| Accumulated amortization | - | (494,076) | (328,073) | (178,817) | (408,011) | (1,408,977) |
| **Net** | **2,611,416** | **346,387** | **3,655** | **49,325** | **328,118** | **3,338,901** |

**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 | - | (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** |

*(i) The caption "Other" includes mainly software cost.*
*(ii) See Note A.1.2*

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

**Cash used for intangible asset additions**

| PYG millions | 2020 | 2019 |
|---|---|---|
| Additions | (142,938) | (137,476) |
| Change in advances to suppliers | (7,916) | 7,295 |
| Change in accruals and payables for intangibles | (99,253) | (99,450) |
| **Cash used from continuing operations for additions** | **(250,107)** | **(229,631)** |

### 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 (Continued)

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 2020**

| PYG millions | Network equipment | Land and Buildings | Construction in Progress | Other (i) | Total |
|---|---|---|---|---|---|
| **Opening balance, net** | **1,104,919** | **68,645** | **297,002** | **59,225** | **1,529,791** |
| Change in scope *(ii)* | 567,383 | 3,666 | 227,207 | 13,353 | 811,609 |
| Additions | 3,057 | - | 312,474 | 1,784 | 317,315 |
| Impairments and net disposals | (24,767) | (951) | - | (487) | (26,205) |
| Depreciation charge | (352,245) | (1,361) | - | (30,777) | (384,383) |
| Asset retirement obligations | 14,466 | 211 | - | - | 14,677 |
| Transfers | 340,943 | 240 | (410,860) | 61,010 | (8,667) |
| **Closing balance at December 31, 2020** | **1,653,756** | **70,450** | **425,823** | **104,108** | **2,254,137** |
| Cost | 5,277,911 | 85,298 | 425,823 | 378,098 | 6,167,130 |
| Accumulated depreciation | (3,624,155) | (14,848) | - | (273,990) | (3,912,993) |
| **Net** | **1,653,756** | **70,450** | **425,823** | **104,108** | **2,254,137** |

## E. Long-term assets (Continued)

**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 | 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** |

*(i) The caption "Other" includes mainly office equipment and motor vehicles.*
*(ii) See Note A.1.2*

Borrowing costs capitalized for the years ended December 31, 2020 and 2019 were not significant.

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

**Cash used for tangible asset additions**

| PYG millions | 2020 | 2019 |
|---|---|---|
| Additions | (317,312) | (210,236) |
| Change in advances to suppliers | (2,014) | 22,301 |
| Change in accruals and payables for tangibles | 76,093 | (20,611) |
| **Cash used for additions** | **(243,233)** | **(208,546)** |

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

**Proceeds from sale of property, plant and equipment**

| PYG millions | 2020 | 2019 |
|---|---|---|
| Tower sale, net of taxes | - | 68,314 |
| Other | 19,682 | - |
| **Total** | **19,682** | **68,314** |

### 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.3.4. for further details on lease accounting policies.

### E. Long-term assets (Continued)

| Right-of-use | Land and buildings | Sites rental | Tower rental | Tower under finance lease | Other network equipment | Other | Total |
|---|---|---|---|---|---|---|---|
| | | | | PYG millions | | | |
| **Opening balance, net** | **33,659** | **6,107** | **208,063** | **155,903** | **9,469** | **364** | **413,565** |
| Change in scope *(ii)* | 7 | - | 111,748 | - | - | - | 111,755 |
| Additions | 8,503 | 4,550 | 3,123 | - | - | 1,061 | 17,237 |
| Modifications | 5,718 | 84 | (19,233) | - | 33 | (342) | (13,740) |
| Disposals | (9,546) | (833) | (1,729) | - | (2,501) | (195) | (14,804) |
| Depreciation | (11,581) | (1,661) | (25,161) | (15,935) | (1,445) | (879) | (56,662) |
| **Closing balance, net** | **26,760** | **8,247** | **276,811** | **139,968** | **5,556** | **9** | **457,351** |
| Cost | 41,604 | 10,551 | 317,988 | 191,121 | 7,884 | 865 | 570,013 |
| Accumulated amortization | (14,844) | (2,304) | (41,177) | (51,153) | (2,328) | (856) | (112,662) |
| **Net at December 31, 2020** | **26,760** | **8,247** | **276,811** | **139,968** | **5,556** | **9** | **457,351** |

| 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*
*(ii)* *See Note A.1.2*

### 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 | 2020 | 2019 |
|---|---|---|
| Gross trade receivables | 567,520 | 556,564 |
| Less: provisions for impairment of receivables | (271,851) | (228,057) |
| **Trade receivables, net** | **295,669** | **328,507** |

### F. Other assets and liabilities (Continued)

| Aging of trade receivables<br>PYG millions | Neither past due nor impaired | Past due (net of impairments) | | | Total |
|---|---|---|---|---|---|
| | | < 30 days | 30-90 days | >90 days | |
| **2020** | | | | | |
| Telecom operators | 2,563 | 436 | 249 | 2,352 | 5,600 |
| Own customers | 195,840 | 23,154 | 16,410 | 17,902 | 253,306 |
| Others | 22,692 | 7,373 | 4,338 | 2,360 | 36,763 |
| **Total** | **221,095** | **30,963** | **20,997** | **22,614** | **295,669** |
| **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** |

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<br>PYG millions | 2020 | 2019 |
|---|---|---|
| Telephone and equipment | 26,780 | 28,760 |
| SIM cards | 47 | 806 |
| Other | 12,174 | 15,885 |
| **Total Inventory** | **39,001** | **45,451** |

### 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 | 2020 | 2019 |
|---|---|---|
| Accrued income from rendered services | 158,776 | 145,325 |
| Prepayments | 27,142 | 34,659 |
| **Total Prepayment and accrued income** | **185,918** | **179,984** |

### 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 (Continued)

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 | 2020 | 2019 |
|---|---|---|
| Customer deposits | 236,757 | 33,893 |
| Current legal provisions | 7,359 | 8,218 |
| Other tax payables | 20,109 | 8,690 |
| Prepayment card | 18,820 | 15,908 |
| Deferred income on tower deals (See note C.3.4) | 14,899 | 14,899 |
| Advanced payments | 5,792 | 2,263 |
| Tax Risk Provision | - | 8,320 |
| Other | 172,687 | 103,565 |
| **Total** | **476,423** | **195,756** |

### F.5.2. Non-current provisions and other liabilities

**Non-current**

| PYG millions | 2020 | 2019 |
|---|---|---|
| Deferred income on tower deals (See note C.3.4) | 133,763 | 136,660 |
| Long-term portion of asset retirement obligations | 131,325 | 106,891 |
| Acc. payable and accruals for the purchase of license and spectrum (non-current) | 82,104 | 86,499 |
| Other | 7,255 | 31,148 |
| **Total** | **354,447** | **361,198** |

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

**Contract assets, net**

| PYG millions | 2020 | 2019 |
|---|---|---|
| Long-term | 10,164 | 8,402 |
| Short-term | 40,671 | 62,528 |
| Less: provisions for expected credit | (5,045) | - |
| **Total** | **45,790** | **70,930** |

**Contract liabilities**

| PYG millions | 2020 | 2019 |
|---|---|---|
| Long-term | 4,547 | 3,236 |
| Short-term | 60,256 | 75,709 |
| **Total** | **64,803** | **78,945** |

The Group recognized revenue for PYG 29,152 million in 2020 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, 2020 is PYG 335,335 million (expected to be recognized as revenue in the 2021 financial year) *(i).*

### F. Other assets and liabilities (Continued)

*(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 | 2020 | 2019 |
|---|---|---|
| Net at January 1 | 597 | 844 |
| Contract costs | 64 | 867 |
| Amortization of contract | (608) | (1,114) |
| **Net at December 31** | **53** | **597** |

*(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 2020 the Group had fixed commitments to purchase network equipment, land and buildings, other fixed assets and intangible assets of PYG 531,603 million (December 31, 2019: PYG 345,496 million). The increase was primarily due to the effect of Servicios y Productos Multimedios's consolidation.

#### 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, 2020 the total amount of provisions related to claims against the Group's operations was PYG 7,359 million (December 31, 2019: PYG 8,218 million), and a contingent liability of PYG 42,781 million as a result of a case against Teledeportes (refer to Note H. Subsequent events for details). 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.

## G. Additional disclosure items (Continued)

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 | 2020 | 2019 |
|---|---|---|
| **Investing Activities** | | |
| Financing / (Acquisition) of property, plant and equipment | 72,886 | 1,690 |
| Financing / (Acquisition) of intangibles | (107,259) | (92,155) |
| Asset retirement obligations | 14,678 | 4,630 |
| **Financing Activities** | | |
| Effect of forex exchange on financial debt | 229,240 | 200,667 |

### 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 | 2020 | 2019 |
|---|---|---|
| Millicom – Other Paraguayan operations | 131,023 | 260,803 |
| Millicom - Non-Paraguayan companies | 218,443 | 917 |
| **Total** | **349,466** | **261,720** |

**Income and gains from transactions with related parties**

| PYG millions | 2020 | 2019 |
|---|---|---|
| Millicom – Other Paraguayan operations | 16,604 | 20,946 |
| Millicom - Non-Paraguayan companies | 49,677 | 58,155 |
| **Total** | **66,281** | **79,101** |

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

| PYG millions | 2020 | 2019 |
|---|---|---|
| **Receivables - Short Term** | | |
| Millicom – Other Paraguayan operations | 31 | 334,719 |
| Millicom – Non-Paraguayan companies | 12,563 | 1,542,149 |
| **Total** | **12,594** | **1,876,868** |

| PYG millions | 2020 | 2019 |
|---|---|---|
| **Receivables - Long Term** | | |
| Millicom – Other Paraguayan operations | - | 80,242 |
| **Total** | **-** | **80,242** |

| PYG millions | 2020 | 2019 |
|---|---|---|
| **Payables** | | |
| Millicom – Other Paraguayan operations | - | 227,860 |
| Millicom – Non-Paraguayan companies | 155,827 | 22,033 |
| **Total** | **155,827** | **249,893** |

## G. Additional disclosure items (Continued)

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

### Commitments

In January 2021, Telecel has processed early capital repayments (maturity in 2021 - 2023) on loans with BBVA (in the process of merger with GNB) and Itau Bank, for PYG 92.772.000.000 and PYG 106.200.000.000, respectively.

With these transactions, combined with the new loan agreement with Continental Bank signed in December 2020 for PYG 200,000 million, Telecel has extended the repayment terms of its loans and achieved interest savings.

### Regulatory

In January 2021, Telecel has received a communication from the regulatory entity (CONATEL) stating that they had decided (on the December 16, 2020) to request a payment of USD 440,193 and PYG 88,481,054 for the extension of the AWS band license given to us by CONATEL. The Group has made a formal objection on the decision but would need to pay if the latter is rejected.

In January 2021, considering the communication previously received by the regulatory entity (CONATEL), Telecel has shut down all UHF connections. The remaining clients on that technology will be offered to migrate to DTH/HFC connections.

In February 2021, Telecel received the approval of the extension of the CATV licenses of SPM for the Central department (47 cities) and 11 additional cities. The Group also regularized 121 HFC Nodes.

### Legal

In April 2021, the Group received a notification by the CONACOM (local antitrust regulatory entity) for the opening of a case against Teledeportes for its refusal to share exclusive content (football rights) with its competitors, as informed by them. The Investigation Head is requesting, apart from the disciplinary measures, a fine of USD 6.2 million (PYG 42,781 million). Based on the arguments provided, the preliminary feedback of our lawyers is that the probability could be considered as “possible” and therefore no provision is considered at this stage yet.