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

As of and for the year ended December 31, 2022

April 28, 2023

Contents

Building a better working world

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

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

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 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 at December 31, 2022, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 the Group as at December 31, 2022, 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 Group in accordance with the International Code of Ethics for Professional Accountants including International Independence Standards, issued by International Ethics Standard Boards of Accounts (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 as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated 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 consolidated 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 consolidated financial statements.

1. Revenue Recognition

Risk identified

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's. 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.

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.

Our answer

Our audit procedures over revenue included, among others:

- We assessed the overall IT control environment and the IT controls in place, assisted by our information technology specialists.

- 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 whether changes to the system were appropriately authorized developed and implemented including those over: set-up of customer accounts, pricing data, segregation of duties and the linkage to usage data that drives revenue recognition.

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

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

- We 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. Impairment Testing of Gooodwill

Risk identified

Under IFRS, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of PYG 1.188.243 million as of December 31, 2022, is material to the consolidated financial statements. In addition, the Group's assessment process includes significant judgements and is based on assumptions derived from the Group's business plans, which are affected by expected future market or economic conditions. The impairment testing involved complex auditor judgment due to the significant assumptions used to determine the recoverable values of each of the Group's cash-generating units.

Our answer

Our audit procedures included, among others:

- We obtained an understanding of and evaluated the design and testing the operating effectiveness of the Group's controls over its impairment testing

- We tested controls over management's evaluation of the significant assumptions used in the discounted cash flows to develop the recoverable values of each of the Group's cash-generating units.

- We inspected the business plans and evaluated the methodology used.

- We involved our valuation specialists to assist with our audit procedures to test the discounted cash flows and management's valuation methodologies and assumptions discussed above which were used to determine the recoverable values of the Group's cash-generating units.

- We asked our valuation specialists to assist us in assessing whether the underlying assumptions used by management were consistent with publicly available information and external market data.

- We assessed the completeness and accuracy of the underlying data through our inspection of and comparison to historical information.

- We evaluated the adequacy of the Group's disclosures included in Note E.1.1 in relation to goodwill.

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 Group'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 Group'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 Group 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, actions taken to eliminate threats or safeguards applied.

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

Firmado digitalmente por LUIS ALBERTO AYALA ALBERTINI ACOSTA
DN: cn=LUIS ALBERTO AYALA ALBERTINI ACOSTA, c=PY, o=CERTIFICADO CUALIFICADO DE FIRMA ELECTRONICA, ou=F2, email=LUIS.AYALA@PY.EY.COM
Fecha: 2023.04.28 22:10:37 -04'00'

____

Luis Alberto Ayala Albertini Acosta
Partner
Ernst & Young Paraguay
Auditores y Asesores de Negocios S.R.L.
Av. Mcal López 3794 esq. Cruz del Chaco
Asunción, Paraguay
April 28, 2023

Consolidated statement of comprehensive income

for the year ended December 31, 2022

PYG millions	Notes	2022	2021
Revenue	B.1.	3,885,363	3,767,473
Cost of sales	B.2.	(959,813)	(955,184)
Gross profit		**2,925,550**	**2,812,289**
Operating expenses *(i)*	B.2.	(1,454,221)	(1,407,279)
Depreciation	E.2.2. , E.2.4.	(617,939)	(596,607)
Amortization	E.1.3.	(339,207)	(337,249)
Other operating income (expenses), net		39,204	24,822
Operating profit		**553,387**	**495,976**
Interest expense	C.3.3.	(417,274)	(330,518)
Interest and other financial income		31,481	2,258
Exchange gain/(loss), net		(238,734)	18,748
Profit (Loss) before taxes		**(71,140)**	**186,464**
Charge for taxes, net	B.5.1.	(19,393)	(37,019)
Total comprehensive income (loss) for the year		**(90,533)**	**149,445**
Attributable to:			
Equity holders of the company		**(91,054)**	**148,680**
Non-Controlling Interest (ii)		521	765

(i) Operating expenses includes recharges of VCF (Value-creating fees) for the support services provided by Millicom to the Group for PYG 255,097 million in 2022 (2021: PYG 253,226 million).

(ii) 2021 Restated as a result of the disclosure of Non-controlling interest

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

Consolidated statement of financial position

at December 31, 2022

PYG millions	Notes	December 31, 2022	December 31, 2021
ASSETS			
NON-CURRENT ASSETS			
Intangible assets, net	E.1.3.	3,242,412	3,443,561
Property, plant and equipment, net	E.2.2.	2,432,874	2,388,592
Right of use assets	E.2.4.	632,959	439,710
Contract costs, net	F.6.	114	38
Other non-current assets		46,599	53,709
TOTAL NON-CURRENT ASSETS		**6,354,958**	**6,325,610**
CURRENT ASSETS			
Inventories, net	F.2.	28,094	31,206
Trade receivables, net	F.1.	308,799	274,638
Contract assets, net	F.6.	35,956	48,541
Amounts due from related parties	G.4.	13,934	17,920
Prepayments and accrued income	F.4.	126,398	140,469
Supplier advances for capital expenditure		34,850	25,290
Other current assets		122,533	86,477
Restricted cash	C.4.2.	176,757	153,778
Cash and cash equivalents	C.4.1.	539,636	1,051,928
TOTAL CURRENT ASSETS		**1,386,957**	**1,830,247**
TOTAL ASSETS		**7,741,915**	**8,155,857**

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

Consolidated statement of financial position

at December 31, 2022

PYG millions	Notes	December 31, 2022	December 31, 2021
EQUITY AND LIABILITIES			
EQUITY			
Share capital and premium	C.1.	327,245	327,245
Legal reserve	C.1.1.	50,110	50,110
Other reserves	C.1.2.	81,122	74,997
Retained profits		171,405	103,281
Profit (Loss) for the year attributable to equity holders		(90,533)	149,445
Equity attributable to owners of the Company		**539,349**	**705,078**
Non-controlling interests (i)		1,335	2,033
TOTAL EQUITY		**540,684**	**707,111**
LIABILITIES			
Non-current liabilities			
Debt and financing	C.3.	4,700,109	5,081,346
Lease liabilities	C.3.4.	634,482	453,864
Provisions and other non-current liabilities	F.5.2.	268,809	316,893
Deferred tax liabilities	B.5.3	56,714	63,909
Total non-current liabilities		**5,660,114**	**5,916,012**
Current liabilities			
Debt and financing	C.3.	283,858	92,467
Payables and accruals for capital expenditure		344,929	451,785
Lease liabilities	C.3.4.	153,044	125,752
Other trade payables		125,495	121,104
Amounts due to related parties	G.4.	32,552	72,082
Accrued interest and other expenses		212,477	223,229
Current income tax liabilities		7,706	26,679
Contract liabilities	F.6.	60,502	62,054
Provisions and other current liabilities	F.5.1.	320,554	357,582
Total current liabilities		**1,541,117**	**1,532,734**
TOTAL LIABILITIES		**7,201,231**	**7,448,746**
TOTAL EQUITY AND LIABILITIES		**7,741,915**	**8,155,857**

(i) 2021 Restated as a result of the disclosure of Non-controlling interest

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

Consolidated statement of Cash flows

for the year ended December 31, 2022

PYG millions	Notes	2022	2021
Cash flows from operating activities			
Profit/(loss) before taxes from continuing operations		(71,140)	186,464
Adjustments to reconcile to net cash:			
Interest expense	C.3.3.	417,274	330,518
Interest and other financial income		(31,481)	(2,258)
Exchange (gain)/loss on foreign exchange		238,734	(18,748)
Adjustments for non-cash items:			
Depreciation and amortization	E.1.3., E.2.2., E.2.4.	957,146	933,857
Loss/(gain) on disposal and impairment of assets, net		(39,204)	(9,934)
Share based compensation		6,125	5,477
Changes in working capital:			
Decrease / (Increase) in trade receivables, prepayments and other current assets, net		(10,845)	12,015
(Increase) / Decrease in inventories		7,165	7,796
(Decrease) / Increase in trade and other payables		(102,393)	(24,049)
Changes in contract assets, liabilities and costs, net		3,678	(6,234)
Total changes in working capital		**(102,395)**	**(10,472)**
Interest paid		(412,402)	(386,328)
Interest received		34,070	1,563
Taxes paid		(81,015)	(63,054)
Net cash provided by operating activities		**915,712**	**967,085**
Cash flows from investing activities:			
Purchase of intangible assets and licenses	E.1.4.	(298,551)	(184,161)
Purchase of property, plant and equipment	E.2.3.	(639,599)	(594,536)
Proceeds from sale of property, plant and equipment	.	79,567	—
Net cash used in investing activities		**(858,583)**	**(778,697)**
Cash flows from financing activities:			
Repayment of debt and financing	C.5.	(432,025)	(341,158)
Proceeds from issuance of debt and other financing	C.5.	—	450,000
Repayment of Leases		(63,601)	(58,802)
Payment of dividends to equity holders		(82,019)	—
Net cash from (used) by financing activities		**(577,645)**	**50,040**
Exchange impact on cash and cash equivalents, net		8,224	(4,282)
Net increase (decrease) in cash and cash equivalents		**(512,292)**	**234,146**
Cash and cash equivalents at the beginning of the year		**1,051,928**	817,782
Cash and cash equivalents at the end of the year		**539,636**	**1,051,928**

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

Consolidated statement of changes in equity

for the year ended December 31, 2022

PYG millions	Number of shares	Share Capital and premium	Retained profits	Legal reserves	Other Reserves	Non-controlling interest (i)	Total equity
Balance as of December 31, 2020	**10,272**	**327,245**	**104,046**	**50,110**	**69,520**	**1,268**	**552,189**
Total comprehensive income for the year	—	—	148,680	—	—	765	149,445
Share based compensation (see Note B.4.)	—	—	—	—	5,477		5,477
Balance as of Balance as of December 31, 2021	**10,272**	**327,245**	**252,726**	**50,110**	**74,997**	**2,033**	**707,111**
Total comprehensive income for the year	—	—	(91,054)	—	—	521	(90,533)
Dividends declared	—	—	(80,800)	—	—	(1,219)	(82,019)
Share based compensation (see Note B.4.)	—	—	—	—	6,125	—	6,125
Balance as of December 31, 2022	**10,272**	**327,245**	**80,872**	**50,110**	**81,122**	**1,335**	**540,684**

(i) 2021 Restated as a result of the disclosure of Non-controlling interest

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 Group 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. Avda. Zavalas Cué esq. Artillería, 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 28, 2023.

Business activities

Telecel is the leading provider of telecommunications services in Paraguay. The group provides a wide range of mobile communications, cable TV and broadband services, direct to home satellite services as well as other related products such as digital and mobile financial services, to residential, business and wholesale customers.

Current macroeconomic environment

Inflation in many countries globally has been rising for the past several months due to a variety of factors, including significant disruptions to the global production and distribution of energy and food commodities caused by Russia's invasion of Ukraine as well as the global response to that invasion, in the case of Paraguay, the inflation moved from 6.8% at the end of 2021 to 8.1% in 2022. As a result, global economic prospects have been severely affected, including the Latin America markets. During the last semester of 2022, the Group took meaningful steps to mitigate the impact of rising inflation, including the implementation of numerous price increase and establishing cost savings initiative programs, which will position it to sustain healthy service revenue growth and margins going forward.

Although the macro-economic backdrop has become more challenging, business and financial performance through 2022 is broadly in line with our plans.

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

When it comes to COVID-19, as of December 31, 2022, and for the year ended December 31, 2022, management did not identify any significant adverse accounting effects as a result of the pandemic.

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, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board (IASB).

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 December, 31 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 each 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.

		2022	2021	Change	2022	2021	Change
Exchange rates to the US dollar	Functional currency (for all companies)	Year-end rate	Year-end rate	%	Average rate	Average rate	%
Paraguay	Guaraní PYG	7,346	6,886	6,7%	7,008	6,790	3,2%

New and amended IFRS accounting standards

The following changes to standards have been adopted by the Group and did not have any significant impact on the Group's accounting policies or disclosures and did not require retrospective adjustments:

- 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.

Amendments effective for annual periods starting on or after January 1, 2023 that are not expected to have a significant impact on the Group consolidated financial statements:

- Amendments to IAS 1, 'Disclosure of Accounting Policies' that are intended to help preparers in deciding which accounting policies to disclose in their financial statements.
- IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' - Definition of accounting estimates.
- Amendments to IAS 12, 'Income Taxes: Deferred tax related to Assets and liabilities arising from a Single Transaction'

These amendments clarify that the initial recognition exception does not apply to the initial recognition of leases and decommissioning obligations. These amendments apply prospectively to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, an entity should apply the amendments for the first time by recognizing deferred tax for all temporary differences related to leases and decommissioning obligations at the beginning of the earliest comparative period presented. The Group has been applying the so-called "Linked transaction approach" in the calculation of deferred taxes related to leases and asset retirement obligation (ARO) since the adoption of IFRS 16 (in compliance with these amendments). Therefore, the adoption of these amendments will not have an impact for the Group.

The following changes to standards are effective for annual periods starting on January 1, 2024 and their potential impact on the Group consolidated financial statements is currently being assessed by Management:

- Amendments to IFRS 16 'Leases: Lease Liability in a Sale and Leaseback' - The amendment specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains.

- Amendments to IAS 1, 'Presentation of Financial Statements': These amendments aim to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period.

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:

- **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 E.2.4. and G.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 (see note B.1).

Estimates

Estimates are based on historical experience and other factors, including reasonable expectations of future events, such as current macro-economic challenges. 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.).
- Tax liabilities, in particular in respect of uncertainty over income tax treatments (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.)
- For leases, estimates in determining the incremental borrowing rate for discounting the lease payments in case interest rate implicit in the lease cannot be determined (see note E.2.4.)
- Accounting for share-based compensation in particular estimates of forfeitures and future performance criteria (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. The changes in presentation has no impact on Group Financial Statements.

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 (hereinafter Telecel). 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. (100% owned) as at December 31 each year. The subsidiaries applied consistent accounting policies as the Company for the same reporting year.

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

Scope changes 2022 and 2021

There were no material acquisitions.

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

For the years ended December 31, 2022 and 2021, 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.

B. Performance (Continued)

Revenue from continuing operations by category

PYG millions	Timing of revenue recognition	2022	2021
Mobile	Over time	1,871,924	1,797,178
Home	Over time	1,017,387	1,036,667
Corporate	Over time	567,556	490,854
Content	Over time	47,955	44,957
Mobile Financial Services	Over time	183,941	180,378
Other revenue	Point in time	16,902	17,411
Service		**3,705,665**	**3,567,445**
Telephone and equipment and other	Point in time	179,698	200,028
Total		**3,885,363**	**3,767,473**

B.1.1. Accounting for revenue

Revenue recognition

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

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

- No adjustment to the transaction price for the means of a financing component whenever the period between the transfer of a promised good or service to a customer and the associated payment is one year or less; when the period is more than one year the financing component is adjusted, if material.
- Disclosure in the Group Financial Statements the transaction price allocated to unsatisfied performance obligations only for contracts that have an original expected duration of more than one year (e.g. unsatisfied performance obligations for contracts that have an original duration of one year or less are not disclosed).
- Application of the practical expedient not to disclose the price allocated to unsatisfied performance obligations, if the consideration from a customer corresponds to the value of the entity's performance obligation to the customer (i.e, if billing corresponds to accounting revenue).
- Application of the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that otherwise would have been recognized is one year or less.

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

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

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

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

B. Performance (Continued)

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.

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	2022	2021
Direct costs of services sold	(701,795)	(669,867)
Cost of telephone, equipment and other accessories	(187,296)	(217,589)
Bad debt and obsolescence costs	(70,722)	(67,728)
Cost of sales	**(959,813)**	**(955,184)**

B. Performance (Continued)

Operating expenses **PYG millions**	**2022**	**2021**
Marketing expenses	(323,766)	(298,672)
Network maintenance costs	(112,572)	(94,649)
Employee related costs	(498,958)	(515,876)
External and other services	(100,303)	(85,629)
Rentals and leases	(18,929)	(17,127)
Billing and payments	(50,508)	(50,655)
Corporate Fees	(255,097)	(253,226)
Other operating expenses	(94,088)	(91,445)
Operating expenses, net	**(1,454,221)**	**(1,407,279)**

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.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 (average)	**2022**	**2021**
Continuing operations *(i)*	4,718	5,058
Total	**4,718**	**5,058**

B. Performance (Continued)

PYG millions	2022	2021
Wages and salaries	(361,280)	(369,678)
Social security	(52,949)	(54,599)
Share based compensation	(6,018)	(5,730)
Other employee related costs (ii)	(78,711)	(85,869)
Total	**(498,958)**	**(515,876)**

(i) The decrease in the number of employees is explained by prior call center employees now being outsourced.
(ii) Other employee related costs mainly comprise severance, vacation costs, personnel insurance, recruitment and relocation costs and other allowances.

B.4.1. Share based compensation

1. Equity-settled

Share awards are granted to management and key employees of the Company. Awards are settled in shares of Millicom International Cellular S.A.

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.

Cost of share based compensation

PYG millions	2022	2021
2019 incentive plans	—	(524)
2020 incentive plans	(642)	(1,076)
2021 incentive plans	(2,086)	(4,130)
2022 incentive plans	(3,290)	—
Total	**(6,018)**	**(5,730)**

B. Performance (Continued)

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.

Performance share plan (for plans issued from 2021)

Shares granted under this performance share plan generally follow the same rules as for previous performance share plans. However, for LTI 2021 plan, Millicom had added a time vesting Restricted Stock Units ("RSU's") representing 35% of the total award. The RSU's will be vesting at the end of three years depending on satisfactory service condition. RSU's have been removed from the plan rules from 2022. The Relative TSR, which account for 20% of the award, will be measured over the 10 trading days before / after December 31 of the last year of the corresponding three-year measurement period. The Service Revenue (LTI 2022: 30%; LTI 2021: 15%) and Operating Cash Flow after Leases ("OCFaL") (LTI 2022: 50%; LTI 2021: 30%) performance conditions will not be measured based on a CAGR anymore but on the actual cumulative achievement against the 3-year cumulative targets to better reflect the performance over the three-year period rather than simply the end point as is the case with a CAGR target.

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.

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 2022 (Relative TSR)	2.01	0.00	47.94	2.80	213,913
Performance share plan 2021 (Relative TSR)	0.29	1.28	46.28	2.82	389,261
Performance share plan 2020 (Relative TSR)	0.61	1.47	24.54	2.93	408,874
Performance share plan 2019 (Relative TSR)	-0.24	3.01	26.58	2.93	365,754

(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.

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 (such as the Relative TSR). These are treated as vested, regardless of whether or not the market conditions are satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

B. Performance (Continued)

Shares expected to vest

Deferred Plan	2022 plans	2021 plans	2020 plans	2019 plans
Initial shares granted	44,725	28,376	14,795	19,646
Revision for forfeitures	(1,834)	(896)	(124)	(2,031)
Total before issuances	42,891	27,480	14,671	17,615
Shares issued in 2020	—	—	—	5,570
Shares issued in 2021	—	—	4,030	5,105
Shares issued in 2022	—	7,211	4,027	6,940
Shares still expected to vest	42,891	20,269	6,614	—
Estimated cost over the vesting period (PYG millions)	7,626	6,961	4,472	7,764

2. Cash-settled

In 2021, and in the light of the impact on future LTI awards as a consequence of the impact of COVID-19 on our business, the Board awarded a one-time Retention Plan to a selected group of executives, including the CEO and CFO. The plan is based on Market Stock Units ("MSU") and is a performance-based scheme where the outcome is dependent on the share price at the time of vesting. The number of MSUs granted to each participant was determined on the basis of a share price at inception of $33.83 for Tranche 2022 and $36.90 for Tranche 2023 (targets consider that Millicom share price at grant date - $30.75 - will appreciate 10% for Tranche 2022 and 20% for tranche 2023 from the grant price). The aforementioned share prices and number of units granted have been amended as a result of the effect of the right offering. At the vesting date, the value of the MSU will be determined by the 30- trading day average share price ending on June 30, 2022 for Tranche 2022, and the 30-trading day average share price ending on June 30, 2023 for Tranche 2023. For each Tranche, the payment will be made in cash 12 months after those dates, provided the participant is still employed (subject to limited allowances for good leavers). For every participant, payment is capped at 150% of their Target MSU Award Value set up for each Tranche. Participants of the Retention Plan were required to forfeit their awards under the LTI plans 2019 and 2020 in respect of the Financial targets (Service Revenue and Operating Cash flow growths), provided that the TSR component will continue to be active for these schemes.

The MSU is a cash-settled share-based payment plan and Millicom will measure the services acquired over the relevant service period and the liability incurred at the fair value of the liability. Until the liability is settled, Millicom is required to remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in value recognised the statement of income.

As of December 31, 2022 and 2021, the fair value of the liability amounts was determined by using Millicom's share price (using a Black-Scholes model would not result in material differences). The related cost for the years ended December 31, 2022 and 2021 amounts to PYG 107 million and PYG 253 million respectively.

B.4.2. Directors and executive management

Compensation for the Board of Directors for the year ended December 31, 2022 and 2021 was as follows:

PYG millions	2022	2021
Fees	1,088	1,196
Other benefits	163	139
Total	**1,251**	**1,335**

B. Performance (Continued)

Remuneration charge for the Executive Team for the year ended December 31, 2022 and 2021 was as follows:

PYG millions	2022	2021
Base salary	11,723	10,123
Bonus	6,823	4,043
Pension	607	592
Other benefits	3,500	6,074
Total before share based compensation	**22,653**	**20,832**
Share based compensation in respect of LTIP	6,018	5,730
Total	**28,671**	**26,562**

B.5. Taxation

B.5.1. Income tax expense

The Company's effective tax rate is 2022: 27.26%, 2021: 19.85%.

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

In %	2022	2021
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)*	30.36	5.08
Non deductible bonuses	4.87	0.18
Other taxes	(13.82)	(9.77)
Other *(iii)*	15.85	14.36
Effective tax rate	**27.26**	**19.85**

(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 withholding 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) *Include other expenses that do not meet fiscal requirements for deductibility.*

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	2022	2021
Current income tax charge	(26,588)	(54,647)
Net deferred income tax benefit	7,195	17,628
Income tax expense	**(19,393)**	**(37,019)**

B. Performance (Continued)

The tax effect of significant items comprising the Group's net deferred tax assets as of December 31, 2022 and 2021 are as follows:

	Balance Sheet At December 31, 2022		Income statements Year ended December 31, 2021	
PYG millions	**2022**	**2021**	**2022**	**2021**
Provision for doubtful debtors	26,403	26,865	(462)	(320)
Temporary differences between book and tax basis of intangible assets and property, plant and equipment	(130,907)	(142,478)	11,569	28,455
Deferred tax assets related to fiscal losses	239	—	239	—
Temporary differences by IFRS 16	14,685	6,528	8,157	1,773
Temporary differences for tower sales; License, social and other obligation	36,139	50,108	(13,968)	(16,995)
Other temporary differences	(3,273)	(4,932)	1,660	4,715
Deferred tax liabilities	**(56,714)**	**(63,909)**	**7,195**	**17,628**

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 December 31, 2022, 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 December 31, 2021, 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.

	2022	2021
Authorized and registered share capital (number of shares) (i)	10,333	10,333
Subscribed and fully paid up share capital (number of shares)	10,272	10,272
Par value per share (PYG millions)	16.4	16.4
Share premium (PYG millions)	158,776	158,776
Share capital (PYG millions)	168,469	168,469
Total	**327,245**	**327,245**

(i) During 2020, 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 December 31, 2022 and 2021 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, 2022, the Group has recognized an equity contribution for PYG 50,922 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 S.A.. that took place in May 2020, and the remaining amount of PYG 30,200 million corresponds to share based compensation.

C.2. Dividend distributions

On May 27, 2022, a dividend distribution of PYG 80,800 million from Telecel's retained profits at December 31, 2021, was approved by the shareholders at the AGM and paid in November 2022.

On May 28, 2021, Telecel's shareholders decided not to proceed to the payment of dividends related to 2020.

C.3. Debt and financing

Debt and financing by type PYG millions	2022	2021
Debt and financing due after more than one year:		
Bank financing (C.3.2)	273,425	554,446
Bond financing (C.3.1)	4,426,684	4,526,900
Total debt and financing due after more than one year	**4,700,109**	**5,081,346**
Portion of current debt payable within one year (i) (C.3.2)	283,858	92,467
Total debt and financing	**4,983,967**	**5,173,813**

C. Capital structure and financing (Continued)

(i) Loan that went from long term to short term

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 2,203,779 million, using December 31, 2022 exchange rate) 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 1,836,483 million, using December 31, 2022 exchange rate) 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.

On November 4, 2022, Telecel announced a tender offer (early tender consideration for US$ 927.5 (PYG 6,813,350, using December 31, 2022 exchange rate) for each US$ 1,000 (PYG 7,345,930 million, using December 31, 2022 exchange rate) principal amount of notes) to purchase for cash up to US$ 55 million (PYG 404,026 million, using December 31, 2022 exchange rate) in aggregate principal amount of the Senior Notes. On November 20, 2022, Telecel announced that approximately US$ 47 million (PYG 345,398 million, using December 31, 2022 exchange rate) in principal amount of the mentioned Notes, have been accepted and settled on November 21, 2022. Late tender expired on December 6, 2022 with no further tendered Notes. Total consideration amounted to approximately US$ 44 million (PYG 320,357 million, using December 31, 2022 exchange rate) with a net financial income impact of US$ 3 million (PYG 25,041 million, using December 31, 2022 exchange rate) given the Notes were repurchased below their par value.

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 million (approximately US$ 40.8 million, using December 31, 2022 exchange rate) 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 million (US$ 31.3 million, using December 31, 2022 exchange rate). They were registered and issued as follows: (i) PYG 115,000 million (US$ 15.7 million, using December 31, 2022 exchange rate) at an 8.75% rate, due June 3rd, 2024; (ii) PYG 50,000 million (US$ 6.8 million, using December 31, 2022 exchange rate) at a 9.25% rate, due May 29th, 2026; and (iii) PYG 65,000 million (US$ 8.8 million, using December 31, 2022 exchange rate) at a 10% rate, due May 31st, 2029. In December 2019, Telecel issued two additional series for PYG 35,000 million (US$ 4.8 million, using December 31, 2022 exchange rate) as follows: (iv) PYG 10,000 million (US$ 1.4 million, using December 31, 2022 exchange rate) at a 9.25% rate, due December 30th, 2026; and (v) PYG 25,000 million (US$ 3.4 million, using December 31, 2022 exchange rate) 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 million (US$ 2.0 million, using December 31, 2022 exchange rate) at a 9.25% rate, due by January 29th, 2027; and (vii) PYG 20,000 million (US$ 2.7 million, using December 31, 2022 exchange rate) at a 10% rate, due by January 31st, 2030.

C. Capital structure and financing (Continued)

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.

In September 2021, still on the local market, Telecel registered a second bond program for PYG 1,040,700 million (US$ 141.7 million) that has been issued partially on October 1, 2021 for the total amount of PYG 400,000 million bond (approximately US$ 54.5, using December 31, 2022 exchange rate) in three series with fixed interest rates between 6% to 7.5% and a repayment period from 5 to 10 years. The first of three series were launched for PYG 98,000 million (US$ 13.3 million, using December 31, 2022 exchange rate) at a 6.00% interest rate, due September 25, 2026; second emission for PYG 142,000 million (US$ 19.3 million, using December 31, 2022 exchange rate) at a 6.70% interest rate, due September 29, 2028; and the last of three series for PYG 160,000 million (US$ 21.8 million, using December 31, 2022 exchange rate) at a 7.50% interest rate, due September 30, 2031.

Other than the items disclosed below, the fair values of financial assets and financial liabilities approximate their carrying values as at December 31, 2022:

PYG Million	Carrying Value	Fair Value (i)
	As at December 2022	As at December 2022
Debt and financing	4,983,967	4,595,880

(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	Interest rate	As at December 31, 2022	As at December 31, 2021
Banco Regional S.A.E.C.A.	PYG	07/2018	06/2025	Fixed	67,646	90,096
Banco GNB En Proceso de Fusión	PYG	01/2019	11/2025	Fixed	65,205	63,266
Banco Continental S.A.E.C.A.	PYG	09/2019	09/2026	Fixed	211,207	263,900
Banco Continental S.A.E.C.A.	PYG	12/2020	12/2023	Fixed	179,892	179,651
Banco GNB En Proceso de Fusión	PYG	12/2021	11/2024	Fixed	33,333	50,000
Bank and other external financing					**557,283**	**646,913**

C.3.3. Interest expense

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

PYG millions	2022	2021
Interest expense on bonds and bank financing	(341,136)	(319,770)
Interest expense on leases	(75,329)	(9,800)
Others	(809)	(948)
Total Interest Expense	**(417,274)**	**(330,518)**

C. Capital structure and financing (Continued)

C.3.4. Lease liabilities

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

PYG millions	2022	2021
Current	153,044	125,752
Non-current	634,482	453,864
Total Lease liabilities	**787,526**	**579,616**

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	2022	2021
Expense relating to short-term leases (included in operating expenses)	**18,929**	**17,127**

At December 31, 2022, 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.

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

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

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

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

C. Capital structure and financing (Continued)

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 analyzed 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)

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 December 31, 2022, there were no breaches in financial covenants.

C.4. Cash and deposits

C.4.1. Cash and cash equivalents

PYG millions	2022	2021
Cash and cash equivalents in USD	289,723	838,183
Cash and cash equivalents in PYG	248,376	211,182
Restricted cash	1,537	2,563
Total cash and cash equivalents	**539,636**	**1,051,928**

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

C. Capital structure and financing (Continued)

C.4.2. Restricted Cash

PYG millions	2022	2021
Mobile Financial Services	176,757	153,778
Total Restricted Cash	**176,757**	**153,778**

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	2022	2021
Total debt and financing (See Note C.3.)	4,983,967	5,173,813
Lease Liabilities (See Note C.3.4.)	787,526	579,616
Gross financial obligations	**5,771,493**	**5,753,429**
Less:		
Cash and Cash equivalents (See Note C.4.1.)	(539,636)	(1,051,928)
Net financial obligations at the end of the year	**5,231,857**	**4,701,501**

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, 2021	**1,051,928**	**5,173,813**	**579,616**	**4,701,501**
Cash Flow	(520,516)	(432,025)	(135,657)	**(47,166)**
Recognition / Remeasurement	—	—	255,155	**255,155**
Interest accretion	—	—	87,532	**87,532**
Foreign exchange movements.	8,224	250,922	880	**243,578**
Other non-cash movements	—	(8,743)	—	**(8,743)**
Net financial obligations as at December 31, 2022	**539,636**	**4,983,967**	**787,526**	**5,231,857**

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, 2020	**817,782**	**5,091,430**	**594,258**	**4,867,906**
Cash Flow	238,428	108,842	(125,432)	**(255,018)**
Recognition / Remeasurement	—	—	31,341	**31,341**
Interest accretion	—	—	79,523	**79,523**
Foreign exchange movements.	(4,282)	(8,097)	(74)	**(3,889)**
Other non-cash movements	—	(18,362)	—	**(18,362)**
Net financial obligations as at December 31, 2021	**1,051,928**	**5,173,813**	**579,616**	**4,701,501**

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 December 31, 2022, the total of the Group's borrowings are at a fixed rate of interest.

D.1.1. Fixed and floating rate debt

Financing at December 31, 2022 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	283,858	242,867	92,751	210,807	3,744,573	409,111	**4,983,967**
Weighted average nominal interest rate	6.31%	6.32%	6.21%	6.16%	6.09%	7.88%	**6.25%**

Financing at December 31, 2021 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	92,466	283,617	242,867	90,262	210,701	4,253,900	**5,173,813**
Weighted average nominal interest rate	6.34%	6.30%	6.31%	6.20%	6.16%	6.08%	**6.24%**

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

	2022		2021	
PYG millions/USD MILLIONS	USD	PYG	USD	PYG
Debt denominated in USD	508	3,729,572	556	3,830,142
Debt denominated in PYG	—	1,254,395	—	1,343,671

D. Financial risk management (Continued)

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 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 10% of its gross financing (2021: 11%), bonds 77% (2021: 79%) and leases 14% (2021: 10%)

Maturity Profile of Net Financial Liabilities at December 31, 2022

PYG Million	Less than 1 year	1 to 5 years	> 5 years	Total
Total debt and financing	(283,858)	(4,290,998)	(409,111)	(4,983,967)
Lease Liability	(67,448)	(298,500)	(421,578)	(787,526)
Cash and cash equivalents	539,636	—	—	539,636
Net cash (debt) including derivatives related to debt	**188,330**	**(4,589,498)**	**(830,689)**	**(5,231,857)**
Future interest commitments related to debt and financing	(314,629)	(1,095,460)	(32,252)	(1,442,341)
Future interest commitments related to leases	(85,784)	(304,874)	(170,897)	(561,555)
Trade payables (excluding accruals)	(284,453)	—	—	(284,453)
Other financial liabilities (including accruals)	(804,717)	(267,890)	(15,818)	(1,088,425)
Trade receivables	322,733	—	—	322,733
Other financial assets	283,781	46,599	—	330,380
Net financial liabilities	**(694,739)**	**(6,211,123)**	**(1,049,656)**	**(7,955,518)**

D. Financial risk management (Continued)

Maturity Profile of Net Financial Liabilities at December 31, 2021

PYG Million	Less than 1 year	1 to 5 years	> 5 years	Total
Total debt and financing	(92,467)	(827,447)	(4,253,899)	(5,173,813)
Lease Liability	(58,843)	(221,418)	(299,355)	(579,616)
Cash and cash equivalents	1,051,928	—	—	1,051,928
Net cash (debt) including derivatives related to debt	**900,618**	**(1,048,865)**	**(4,553,254)**	**(4,701,501)**
Future interest commitments related to debt and financing	(327,975)	(1,180,225)	(258,627)	(1,766,827)
Future interest commitments related to leases	(74,553)	(268,393)	(59,001)	(401,947)
Trade payables (excluding accruals)	(342,290)	—	—	(342,290)
Other financial liabilities (including accruals)	(972,225)	(281,594)	(35,299)	(1,289,118)
Trade receivables	292,558	—	—	292,558
Other financial assets	252,236	53,709	—	305,945
Net financial liabilities	**(271,631)**	**(2,725,368)**	**(4,906,181)**	**(7,903,180)**

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.

PYG millions	Note	2022	2021
Net financial obligations	C.5.	5,231,857	4,701,501
Equity		540,684	707,111
Net financial obligations and Equity		**5,772,541**	**5,408,612**
Gearing ratio		**91%**	**87%**

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.

E. Long-term assets (Continued)

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 the CGU 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 the Group's cash generating unit (CGU) or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the

Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

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

Impairment is determined by assessing the recoverable amount (value in use) and, if appropriate, the fair value less costs to sell of the CGU, to which the goodwill relates.

Impairment testing at December 31, 2022

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 CGU, management determines the recoverable amount by using the fair value less cost of disposal (FVLCD) of the CGU. FVLCD is usually determined by using recent offers received from third parties (Level 1).

For the year ended December 31, 2022, management concluded that no impairment should be recorded in the Group consolidated financial statements.

E. Long-term assets (Continued)

Impairment testing at December 31, 2021

For the year ended December 31, 2021, 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 the CGU, analyzing the macroeconomic, competitive, regulatory and technological environments, as well as the growth opportunities of the CGU. Therefore, a growth target is defined for the 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 the CGU. 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 the CGU 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 2022 and 2021 impairment test are shown below:

	Average EBITDA margin (%) (i)		Average CAPEX intensity (%) (i)		Perpetual growth rate (%)		WACC rate after tax (%)	
CGU	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Paraguay	44.5	42.6	14.9	15.4	1.0	1.0	10.0	8.3

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

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 the CGU:

Reasonable changes in key assumptions (%)		
Financial variables	**2022**	**2021**
WACC rates	+/-2	+/-1
Perpetual growth rates...	+/-1	+/-1
Operating variables		
EBITDA margin.	+/-2	+/-2
CAPEX intensity	+/-1	+/-1

- The sensitivity analysis shows a comfortable headroom between the recoverable amounts and the carrying values for the CGU at December 31, 2022.

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 fulfillment of terms and conditions related to the licenses such as service or coverage obligations, and may include up-front and deferred payments.

E. Long-term assets (Continued)

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 30**

Programming and content rights

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

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

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

Indefeasible rights of use

There is no universally-accepted definition of an indefeasible rights of use ("IRU"). These agreements come in many forms.

However, the key characteristics of a typical arrangement include:

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

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

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

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

E. Long-term assets (Continued)

An IRU of network infrastructure (cables or fiber) is accounted for as a right of use asset (see E.2.4.), 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 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 2022

PYG millions	Goodwill	Licenses	Content	Customer lists	Other (i)	Total
Opening balance, net	**1,188,243**	**320,257**	**3,914**	**1,495,722**	**435,425**	**3,443,561**
Additions	—	49,516	—	—	128,353	177,869
Impairments and net disposals	—	(67)	—	—	(14,534)	(14,601)
Amortization charge	—	(122,506)	(478)	(86,835)	(129,388)	(339,207)
Transfers	—	1,813	(1,414)	—	(25,609)	(25,210)
Closing balance, net	**1,188,243**	**249,013**	**2,022**	**1,408,887**	**394,247**	**3,242,412**
Cost	1,188,243	973,134	331,097	1,806,211	1,092,872	5,391,557
Accumulated amortization	—	(724,121)	(329,075)	(397,324)	(698,625)	(2,149,145)
Net	**1,188,243**	**249,013**	**2,022**	**1,408,887**	**394,247**	**3,242,412**

E. Long-term assets (Continued)

Movements in intangible assets 2021

PYG millions	Goodwill	Licenses	Content	Customer lists	Other (i)	Total
Opening balance, net	**1,188,243**	**346,387**	**3,655**	**1,584,984**	**328,118**	**3,451,387**
Additions	—	99,406	—	—	173,930	273,336
Impairments and net disposals	—	(7,563)	—	—	(6,986)	(14,549)
Amortization charge	—	(118,575)	(605)	(89,402)	(128,667)	(337,249)
Transfers	—	602	864	140	69,030	70,636
Closing balance, net	**1,188,243**	**320,257**	**3,914**	**1,495,722**	**435,425**	**3,443,561**
Cost	1,188,243	921,946	332,592	1,806,212	986,841	5,235,834
Accumulated amortization	—	(601,689)	(328,678)	(310,490)	(551,416)	(1,792,273)
Net	**1,188,243**	**320,257**	**3,914**	**1,495,722**	**435,425**	**3,443,561**

(i) The caption “Other” includes mainly software cost.

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

Cash used for intangible asset additions

PYG millions	2022	2021
Additions	(177,869)	(273,336)
Change in advances to suppliers	7,877	(8,109)
Change in accruals and payables for intangibles	(128,559)	97,284
Cash used from continuing operations for additions	**(298,551)**	**(184,161)**

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 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 derecognised.

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.

E. Long-term assets (Continued)

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 2022

PYG millions	Network equipment	Land and Buildings	Construction in Progress	Other (i)	Total
Opening balance, net	**1,759,833**	**76,220**	**434,025**	**118,514**	**2,388,592**
Additions	—	—	611,517	18,808	630,325
Impairments and net disposals	(13,332)	(37,543)	(940)	(682)	(52,497)
Depreciation charge	(502,023)	(3,605)	—	(43,648)	(549,276)
Asset retirement obligations	(15,670)	6,190	—	—	(9,480)
Transfers	656,727	8,041	(661,768)	22,210	25,210
Closing balance at December 31, 2022	**1,885,535**	**49,303**	**382,834**	**115,202**	**2,432,874**
Cost	6,342,984	67,011	382,834	440,655	7,233,484
Accumulated depreciation	(4,457,449)	(17,708)	—	(325,453)	(4,800,610)
Net	**1,885,535**	**49,303**	**382,834**	**115,202**	**2,432,874**

Movements in tangible assets 2021

PYG millions	Network equipment	Land and Buildings	Construction in Progress	Other (i)	Total
Opening balance, net	**1,779,544**	**72,192**	**421,103**	**111,307**	**2,384,146**
Additions	30,645	—	523,567	48,105	602,317
Impairments and net disposals	(6,319)	—	(1,099)	(5,018)	(12,436)
Depreciation charge	(496,918)	(1,085)	—	(37,026)	(535,029)
Asset retirement obligations	19,116	1,114	—	—	20,230
Transfers	433,765	3,999	(509,546)	1,146	(70,636)
Closing balance at December 31, 2020	**1,759,833**	**76,220**	**434,025**	**118,514**	**2,388,592**
Cost	5,875,797	92,198	434,025	422,234	6,824,254
Accumulated depreciation	(4,115,964)	(15,978)	—	(303,720)	(4,435,662)
Net	**1,759,833**	**76,220**	**434,025**	**118,514**	**2,388,592**

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

Borrowing costs capitalized for the years ended December 31, 2022 and 2021 were not significant.

E. Long-term assets (Continued)

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

Cash used for tangible asset additions

PYG millions	2022	2021
Additions	(630,325)	(602,317)
Change in advances to suppliers	(16,500)	19,808
Change in accruals and payables for tangibles	7,226	(12,027)
Cash used for additions	**(639,599)**	**(594,536)**

E.2.4. 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.

Right-of-use	Land and buildings	Sites rental	Tower rental	Other network equipment PYG millions	Other	Total
Opening balance, net	**28,276**	**10,018**	**396,847**	**4,073**	**496**	**439,710**
Additions	1,295	19,125	100,594	—	—	121,014
Modifications	3,628	1,012	152,486	568	—	157,694
Disposals	(603)	(1,374)	(14,722)	(20)	(77)	(16,796)
Depreciation	(9,601)	(3,239)	(52,864)	(2,600)	(359)	(68,663)
Transfer			—		—	—
Closing balance, net	**22,995**	**25,542**	**582,341**	**2,021**	**60**	**632,959**
Cost	48,522	32,274	762,841	7,264	741	851,642
Accumulated amortization	(25,527)	(6,732)	(180,500)	(5,243)	(681)	(218,683)
Net at Net at December 31, 2022	**22,995**	**25,542**	**582,341**	**2,021**	**60**	**632,959**

Right-of-use	Land and buildings	Sites rental	Tower rental	Other network equipment PYG millions	Other	Total
Opening balance, net	**26,760**	**8,247**	**416,779**	**5,556**	**9**	**457,351**
Additions	3,721	3,912	21,666	117	740	30,156
Modifications	10,527	499	6,518	(20)	929	18,453
Disposals	(2,008)	(372)	(1,302)	(358)	(632)	(4,672)
Depreciation	(10,724)	(2,268)	(46,814)	(1,222)	(550)	(61,578)
Transfer	**—**	**—**	**—**	**—**	**—**	**—**
Closing balance, net	**28,276**	**10,018**	**396,847**	**4,073**	**496**	**439,710**
Cost	50,816	14,357	534,256	6,874	818	607,121
Accumulated amortization	(22,540)	(4,339)	(137,409)	(2,801)	(322)	(167,411)
Net at December 31, 2021	**28,276**	**10,018**	**396,847**	**4,073**	**496**	**439,710**

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	2022	2021
Gross trade receivables	572,828	543,290
Less: provisions for impairment of receivables	(264,029)	(268,652)
Trade receivables, net	**308,799**	**274,638**

Aging of trade receivables PYG millions	Neither past due nor impaired	Past due (net of impairments) < 30 days	Past due (net of impairments) 30-90 days	Past due (net of impairments) >90 days	Total
2022					
Telecom operators	687	470	523	1,683	3,363
Own customers	137,961	86,100	20,122	21,949	266,132
Others	24,674	4,562	5,479	4,589	39,304
Total	**163,322**	**91,132**	**26,124**	**28,221**	**308,799**
2021					
Telecom operators	312	398	319	160	1,189
Own customers	168,642	34,776	18,921	20,718	243,057
Others	19,751	2,271	5,459	2,911	30,392
Total	**188,705**	**37,445**	**24,699**	**23,789**	**274,638**

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

F.2. Inventories

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

Inventories PYG millions	2022	2021
Telephone and equipment	19,344	22,152
SIM cards	1,603	3,547
Other	7,147	5,507
Total Inventory	**28,094**	**31,206**

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. Other assets and liabilities (Continued)

F.4. Prepayment and accrued income

PYG millions	2022	2021
Accrued income from rendered services	105,606	107,435
Prepayments	20,792	33,034
Total Prepayment and accrued income	**126,398**	**140,469**

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.

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	2022	2021
Customer deposits	197,965	184,223
Current legal provisions	7,734	12,027
Other tax payables	13,052	21,296
Prepayment card	17,095	17,318
Deferred income on tower deals	14,899	14,899
Advanced payments	14,612	9,584
Other	55,197	98,235
Total	**320,554**	**357,582**

F.5.2. Non-current provisions and other liabilities

Non-current PYG millions	2022	2021
Deferred income on tower deals	103,966	118,864
Long-term portion of asset retirement obligations	77,880	118,176
Acc. payable and accruals for the purchase of license and spectrum (non-current)	85,956	78,416
Other	1,007	1,437
Total	**268,809**	**316,893**

F. Other assets and liabilities (Continued)

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

Contract assets, net

PYG millions	2022	2021
Long-term	9,267	12,452
Short-term	30,644	39,185
Less: provisions for expected credit	(3,955)	(3,096)
Total	**35,956**	**48,541**

Contract liabilities

PYG millions	2022	2021
Long-term	5,256	6,638
Short-term	55,246	55,416
Total	**60,502**	**62,054**

The Group recognized revenue for PYG 27,746 million in 2022 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, 2022 is PYG 228.531 million (expected to be recognized as revenue in the 2023 financial year) *(i)*.

(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	2022	2021
Net at 1 January	38	53
Contract costs	205	51
Amortization of contract	(129)	(66)
Net at December 31, 2022	**114**	**38**

(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 December 31, 2022, the Group had commitments to purchase mobile and fixed network equipment, land and buildings, other fixed assets and intangible assets of PYG 854,584 million (December 31, 2021: PYG 994,305 million). The decrease was mainly due to high execution on mobile network projects.

G. Additional disclosure items (Continued)

G.2. Contingent liabilities

G.2.1. Litigation and legal risks

The Company and its subsidiaries are contingently liable with respect to lawsuits, legal, regulatory, commercial and other legal risks that arise in the normal course of business. As of December 31, 2022, the total amount of claims brought against Telecel and its subsidiaries is PYG 40,566 million (December 31, 2021: PYG 68,850 million).

As of December 31, 2022 the total amount of provisions related to claims against Telecel and its subsidiaries was PYG 7.734 million (December 31, 2021: PYG 12,027 million). While it is not possible to ascertain the ultimate legal and financial liability with respect to these claims and risks, the ultimate outcome 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 Group operates in a developing market where the tax system, regulations and enforcement processes have varying stages of development creating uncertainty regarding the application of the tax law and interpretation of tax treatments. The Group is also subject to regular tax audits. When there is uncertainty over whether the taxation authority will accept a specific tax treatment under the local tax law, that tax treatment is therefore uncertain. The resolution of tax positions taken by the Group, through negotiations with relevant tax authorities or through litigation, can take several years to complete and, in some cases, it is difficult to predict the ultimate outcome. Therefore, judgment is required to determine liabilities for taxes.

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, the Group assumes that a taxation authority with the right to examine amounts reported to it will examine those amounts and have full knowledge of all relevant information when making those examinations.

The Group has a process in place, and applies significant judgment, in identifying uncertainties over income tax treatments.

Management considers whether or not it is probable that a taxation authority will accept an uncertain tax treatment. On that basis, the identified risks are split into three categories (i) remote risks (risk of outflow of tax payments are up to 20%), (ii) possible risks (risk of outflow of tax payments assessed from 21% to 49%) and probable risks (risk of outflow is more than 50%). The process is repeated every quarter by the Group.

If the Group concludes that it is probable or certain that the taxation authority will accept the tax treatment, the risks are categorized either as possible or remote, and it determines the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. The risks considered as possible are not provisioned but disclosed as tax contingencies in the Group consolidated financial statements while remote risks are neither provisioned nor disclosed.

If the Group concludes that it is probable that the taxation authority will not accept the Group's interpretation of the uncertain tax treatment, the risks are categorized as probable, and are presented to reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates by generally using the most likely amount method – the single most likely amount in a range of possible outcomes.

If an uncertain tax treatment affects both deferred tax and current tax, the Group makes consistent estimates and judgments for both. For example, an uncertain tax treatment may affect both taxable profits used to determine the current tax and tax bases used to determine deferred tax.

If facts and circumstances change, the Group reassesses the judgments and estimates regarding the uncertain tax position taken.

At December 31, 2022, the tax risks exposure of the Company is estimated at PYG 1,261,201 million, for which provisions of PYG 8,320 million have been recorded in tax liabilities; representing the probable amount of eventual claims and required payments related to those risks (2021: PYG 1,291,698 million of which provisions of PYG 8,320 million were recorded).

G. Additional disclosure items (Continued)

G.3. Non-cash investing and financing activities

Non-cash investing and financing activities from continuing operations

PYG millions	2022	2021
Investing Activities		
Financing / (Acquisition) of property, plant and equipment	(9,274)	53,060
Financing / (Acquisition) of intangibles	(137,400)	97,966
Asset retirement obligations	(9,480)	20,230
Financing Activities		
Effect of forex exchange on financial debt	250,922	(8,097)

G.4. Related party balances and transaction

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	2022	2021
Millicom - Non-Paraguayan companies (i)	261,447	270,536
Total	**261,447**	**270,536**

(i) *Millicom - Non-Paraguayan companies expenses include recharges of VCF (Value-Creating Fees) for the support services provided by Millicom to the Group for PYG 255,097 million in 2022 (2021 PYG 253,226 million).*

Income and gains from transactions with related parties

PYG millions	2022	2021
Millicom – Other Paraguayan operations (i)	204	123
Millicom - Non-Paraguayan companies (ii)	13,710	15,613
Total	**13,914**	**15,736**

(i) *Millicom - Other Paraguayan operations income includes transactions with Transcom S.A.*
(ii) *Mainly from MIC S.A. due to DTH Teleport services, and Bolivia Celular S.A., Navega.com, Cable Costa Rica by wholesale services.*

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

PYG millions	2022	2021
Receivables - Short Term		
Millicom – Other Paraguayan operations (i)	398	—
Millicom – Non-Paraguayan companies (ii)	13,536	17,920
Total	**13,934**	**17,920**

PYG millions	2022	2021
Payables		
Millicom – Other Paraguayan operations (i)	4,173	—
Millicom – Non-Paraguayan companies (iii)	28,379	72,082
Total	**32,552**	**72,082**

(i) *Millicom - Other Paraguayan operations includes transactions with Transcom S.A.*
(ii) *Mainly from MIC SA due to DTH Teleport services, and with Navega.com, Bolivia Celular S.A., Cable Costa Rica, El Salvador by wholesale services.*
(iii) *Mainly recharges of VCF (Value-creating fees) for the support services provided by Millicom to the Group.*

H. Subsequent events

Potential acquisition

On January 25, 2023, Millicom confirmed that a potential acquisition of all outstanding shares in Millicom is being discussed with Apollo Global Management and Claure Group. There is no certainty that a transaction will materialize nor as to the terms, timing or form of any potential transaction.