

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019 AND AS OF DECEMBER 31, 2018

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Consolidated balance sheet

This section includes the sub-items that make up the balance of codes 1D0103, 1D0201, 1D0317, 1D0403, 1D0205, 1D0309 and 1D0401 of the consolidated statement of financial position and its respective reference to the notes to the consolidated financial statements.

- Code 1D0103 Short-term "Trade accounts receivable", includes:

	As of 30 September of 2019	As of 31 December of 2018
	<u>S/000</u>	<u>S/000</u>
Trade accounts receivable, net (note 7)	1,767,460	1,524,319
Contractual assets (note 9)	175,613	267,299
	<u>1,943,073</u>	<u>1,791,618</u>

- Code 1D0201, long-term "Trade accounts receivable", includes:

	As of 30 September of 2019	As of 31 December of 2018
	<u>S/000</u>	<u>S/000</u>
Trade accounts receivable, net (note 7)	15,333	38,084
Contractual assets (note 9)	24,095	17,867
	<u>39,428</u>	<u>55,951</u>

- Code 1D0317 short-term "Deferred income" includes:

	As of 30 September of 2019	As of 31 December of 2018
	<u>S/000</u>	<u>S/000</u>
Deferred income (note 23)	36,031	52,649
Contractual liabilities (note 9)	154,966	162,252
	<u>190,997</u>	<u>214,901</u>

- Code 1D0403 long-term "Deferred income" includes:

	As of 30 September of 2019	As of 31 December of 2018
	<u>S/000</u>	<u>S/000</u>
Deferred income (note 23)	110,923	125,321
Contractual liabilities (note 9)	85,797	61,205
	<u>196,720</u>	<u>186,526</u>

- Code 1D0205, "Properties, plant and equipment", includes:

	As of 30 September of 2019	As of 31 December of 2018
	<u>S/000</u>	<u>S/000</u>
Property, plant and equipment (note 14)	6,189,661	6,729,637
Right-of-use assets (note 16)	1,025,448	-
	<u>7,215,109</u>	<u>6,729,637</u>

- Code 1D0309, "Other financial liabilities", in the short term includes:

	As of 30 September of 2019	As of 31 December of 2018
	S/000	S/000
Financial obligations (note 18)	584,569	459,730
Financial leasing liabilities (note 19)	222,949	-
	<u>807,518</u>	<u>459,730</u>

- Code 1D0401, "Other financial liabilities", in the long term includes:

	As of 30 September of 2019	As of 31 December of 2018
	S/000	S/000
Financial obligations (note 18)	3,051,665	1,689,598
Financial leasing liabilities (note 19)	872,051	-
	<u>3,923,716</u>	<u>1,689,598</u>

Consolidated income statement

This section includes the sub-items that make up the balance of codes 2D01ST, 2D0301 and 2D0302 of the consolidated income statement and their respective reference to the notes to the consolidated financial statements.

- Code 2D01ST, "Income from ordinary activities", includes:

	As of September 30, 2019	As of September 30, 2018
	S/000	S/000
Fixed business income (note 27)	3,112,138	3,001,685
Mobile business income (note 28)	2,889,307	3,060,529
Total	<u>6,001,445</u>	<u>6,062,214</u>

- Codes 2D0301 and 2D0302, "Administration expenses" and "Sales and distribution expenses", include:

	As of September 30, 2019	As of September 30, 2018
	S/000	S/000
General and administrative expenses (note 29)	3,375,848	3,540,712
Inventories (note 10 (b))	1,011,233	988,068
Depreciation (note 14)	747,836	814,432
Personnel expenses (note 30)	879,817	581,388
Amortization (note 15)	265,254	256,578
Amortization of rights of use (note 16)	132,708	-
Total	<u>6,412,696</u>	<u>6,181,178</u>

	As of September 30, 2019	As of September 30, 2018
	S/000	S/000
Administration expenses (2D0301)	6,308,978	6,042,221
Sales and distribution expenses (2D0302)	103,718	138,957
Total	<u>6,412,696</u>	<u>6,181,178</u>

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARY

NOTES ON CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2019 AND AS OF DECEMBER 31, 2018

1 OVERVIEW

1.1 Constitution and economic activity -

Telefónica del Perú S.A.A. (hereinafter "the Company"), incorporated in Peru, is a telecommunications company subsidiary of Telefónica Latinoamérica Holding S.L. (a company incorporated in Spain) and belongs to the Telefónica de España Group (Telefónica S.A. is an entity registered with the Security and Exchange Commission of the United States of America), which provides mobile telephony, internet, fixed telephony, data transmission and information technology services, national and international long distance carrier services, mobile satellite services and paid television services, among others throughout Peru. The Company is one of the main telecommunications operators in Peru and its activities are supervised by the Supervisory Agency of Private Investment in Telecommunications - OSIPTEL and by the Ministry of Transport and Communications - MTC. The registered fiscal address of the Company is Calle Dean Valdivia No. 148, San Isidro, Lima, Peru.

The subsidiary included in the consolidated financial statements as of September 30, 2019 is as follows:

- Global Services of Telecommunications S.A.C., dedicated to the commercialization of services of public telephony to businesses, convenience stores and similar establishments. The Company has a 99.90 percent market share in such services.

The consolidated financial statements of Telefónica del Perú S.A.A. and its subsidiary (hereinafter the Group), include the following balances:

	Servicios Globales de Telecomunicaciones S.A.C.	
	As of September 30, 2019	As of December 31, 2018
	S/000	S/000
Assets	19,600	12,119
Liabilities	14,190	7,655
Equity	5,410	4,464
Net earnings	946	2,715

1.2 Approval of consolidated financial statements -

The consolidated financial statements, as of December 31, 2018, were approved by the General Shareholders' Meeting held on March 15, 2019.

1.3 Corporate reorganization -

a) Simple reorganization of Internet Para Todos S.A.C. (IPT)

On April 30, 2019, the Company purchased 100 percent of the shares of IPT (a company in pre-operational stage), for S/ 42,000, on the same date and after the purchase, the Company's General Shareholders' Meeting approved the simple reorganization of IPT, effective 1 May 2019, thereby contributing to the rural mobile infrastructure assets and liabilities required for IPT to operate. The equity block contributed on May 1, 2019, was as follows:

	May 1, 2019 S/000
Assets	
Accounts receivable from employees	2
Inventory	678
Rights of use	11,533
Net fixed assets	252,538
Deferred Tax	12,273
Total Assets	277,024
Liabilities	
Accounts payable to personnel	182
Liabilities for rights of use	8,118
Provision for asset withdrawal	3,104
Total liabilities	11,404
Equity Block	265,620

Additionally, in the same agreement it was decided to make a complementary non-monetary contribution of S/ 1,022,000, based on an appraisal and independent report, see notes 12(c) and 17 (c).

b) Merger with Subsidiaries Telefónica Multimedia S.A.C. and Star Global Com S.A.C.–

On February 1, 2018, the Company merged with two of its Subsidiaries in order to meet the demands of a highly competitive and dynamic market. The aforementioned mergers were made between companies under common control and have not meant an effective change in the control of the Subsidiaries, and have not had any effect on the presentation of the consolidated financial statements.

1.4 Concession contracts and rates -

a) Concession contracts

The Company, with the Peruvian Government represented by the Ministry of Transportation and Communications (MTC), has entered into Concession Contracts for the provision of the following services: (i) Local carrier and telephone services in the department of Lima and the Constitutional Province of Callao and (ii) national and international local and long distance carrier and telephone services in the Republic of Peru. These contracts, of the Contracts-Law type, were approved by Supreme Decree No. 11-94-TCC on May 13, 1994, subsequently amended by Supreme Decree No. 21-98-MTC on August 4, 1998 and by the Ministerial Resolutions No. 272-99-MTC/15.03, No. 157-2001-MTC/15.03, No.140-2009-MTC/03 and No.527-2009-MTC/03. The latter was modified by Ministerial Resolution No. 724-2009-MTC/03.

As of September 30, 2019 and December 31, 2018, the following concession contracts are maintained:

Services	Location	Ministerial Resolution	Term	Start	Expiration
Fixed and LD	Lima, Callao and Provinces	272-99-MTC/15.03	20 years + renewed term	1994	2027
Mobile phones	Lima and Callao	373-91-TC/15.17	20 years + renewed term	1991	2030
Mobile phones	Provinces	055-92-TC/15.17	20 years + renewed term	1992	2030
Mobile phones	Lima and Callao	440-91-TC/15.17	20 years + renewed term	1991	2030
Mobile phones	Provinces	250-98-MTC/15.03	20 years	1998	2018 (*)
4G LTE	Lima and Provinces	616-2013-MTC/03	20 years	2013	2033
700 band	Lima and Provinces	529-2016-MTC/01.03	20 years	2016	2036

(*) In process of renewal before the MTC.

As a guarantee of faithful compliance with the obligations established in some of the concession agreements, the Company has extended guarantees for US \$65,470,000 up to a term of approximately 10 years by means of current guarantee letters with various banking entities. These guarantee letters must be kept current for the period of the concession contract.

As of the date of this report, the Company's Management estimates that the investment projects undertaken to meet the commitments assumed are being executed as scheduled.

b) Rates

The rates for the local and long-distance fixed telephony services are adjusted quarterly on the basis of service baskets according to a formula of ceiling rate (price caps), established on the basis of the combination of inflation and a factor of productivity. According to the Concession Contracts, the value of the productivity factor should be reviewed every three years.

In July 2016, OSIPTEL set the productivity factor to be applied in the period from September 2016 to August 2019, specifying that it would be implemented in four rate adjustment procedures each year. For three of these procedures it was determined that the Productivity Factor will be inflation (no rate adjustments will be made). For the remaining procedure, it was determined that a verification procedure should be carried out, taking as reference an annual Productivity Factor of -3.40 percent. If inflation was to be in the range of between -2.40 percent and - 4.40 percent, the Company shall not make rate adjustments. If inflation is outside of that range, the Company will make the respective rate adjustments.

As of September 4, 2010, with the entry into force of the Virtual Mobile Area (a single national cell area), all domestic long-distance calls with a mobile destination, including those originating from public telephones, have been eliminated and for which only local rates apply.

Furthermore, Resolution No. 021-2015-CD/OSIPTEL approved the value of the ceiling rate applicable to calls from public telephones belonging to the Company to personal communications and trunked mobile telephony networks. It was established that said rate is to be reviewed after four years; thereby annulling adjustments, both periodic (annual adjustment mechanism) and non-periodic (when there are changes in the values of any of the interconnection charges that comprise said rate), which until now are applicable to this rate.

The rate in force since March 2015 is S/ 0.20 for 29 seconds, including the General Sales Tax, in accordance with the provisions of Resolution 021-2015-CD/OSIPTEL issued on March 12, 2015.

Furthermore, by means of Resolution No. 044-2011-CD/OSIPTEL, OSIPTEL approved a new rate system, the establishment of the rates for local landline-mobile calls corresponding to the concessionary companies of the Landline Telephony Service. By means of Resolution No. 160-2011-CD/OSIPTEL, an adjustment of the fixed-mobile rate is made every time adjustments are made to any of the charges that constitute that rate. The rate is as follows, not including general sales tax:

The rates have been adjusted as follows, without including general sales tax:

<u>Date</u>	<u>Resolution</u>	<u>Rate/seconds</u>
06/22/2017	075-2017-CD/OSIPTEL	S/0.0017 x sec.
03/14/2018	065-2018-CD/OSIPTEL	S/ 0.0009 x sec.
02/09/2019	008-2019-CD/OSIPTEL	S/ 0.0006 x sec.

2 **DETAIL OF MAIN ACCOUNTING POLICIES**

The most important accounting principles and practices that have been applied in the recording of operations and the preparation of the accompanying consolidated financial statements are the following:

2.1 Basis of preparation -

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (hereinafter "IASB") and respectively effective as of September 30, 2019 and as of December 31, 2018.

The information contained in these consolidated financial statements is the responsibility of the Company Management, which expressly states that the principles and criteria included in the International Financial Reporting Standards (IFRS) issued by the IASB have been applied and that the same were in force on the dates of the consolidated financial statements.

These consolidated financial statements have been prepared on the basis of historical cost, based on the accounting records maintained by the Group, except for derivative financial instruments measured at fair value. The accompanying consolidated financial statements are presented in Soles (PEN) (functional and presentation currency), and all values have been rounded up to thousands, except when otherwise indicated.

The preparation of the consolidated financial statements, in accordance with IFRS, requires the use of certain critical accounting estimates. The preparation also requires Management to exercise its critical judgment in the process of applying the Company's accounting policies. The areas that involve a greater degree of judgment or complexity, or those in which the assumptions and estimates are significant for the consolidated financial statements, are described in note 4.

2.2 Consolidation -

The consolidated financial statements are comprised of the Group's financial statements as of September 30, 2019 and December 31, 2018.

a) Subsidiaries

A subsidiary is an entity (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has the rights, to the variable returns from its involvement in the investee company, and has the ability to influence those returns through its power over it. Subsidiaries are consolidated from the date on which their control is transferred to the Group, and they cease to consolidate from the date on which the control ceases.

Transactions, balances and unrealized profits between Group companies have been eliminated. Profits or losses resulting from transactions between related parties that are recognized in any asset item have also been eliminated. The accounting policies of the subsidiary, if necessary, have been modified to ensure uniformity with the policies adopted by the Group.

2.3 New standards, modifications and interpretations -

a) New standards and modifications to standards and interpretations adopted by the Group

The accounting policies adopted are consistent with those applied in previous years, except that the Group has adopted the new IFRS and revised IAS that are mandatory for periods beginning on or after January 1, 2019. The adoption of these standards has had a moderate effect on its financial position and results; however, it has not been necessary to modify the Group's consolidated financial statements.

The nature and impact of these standards and interpretations are described below:

- **IFRS 16: Leases -**

The IFRS 16 will mainly affect the accounting of lessees and will result in the recognition of almost all leases in the separate statement of financial position. The standard eliminates the current difference between operating and financial leases and requires the recognition of an asset (the right to use the leased asset) and a financial liability to pay rents for virtually all leases. There is an optional exception for short-term and low-value leases.

The consolidated income statement will also be affected because the total expense is usually higher in the first years of a lease, and lower in subsequent years. In addition, operating expenses will be replaced by interest and depreciation. As such, key metrics such as EBITDA will change.

The operating cash flows will be higher, since the cash payments for the main portion of the lease liability are classified within the financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounts of the lessors will not change significantly. The Group applied the standard using a modified retroactive approach.

The impact of implementing this standard is described in note 2.30.

This variation in lease liabilities and therefore in the financial indicators did not impact on the fulfilment of the contractual commitments (covenants) currently held by the Group.

- Other effective modifications that are mandatory and that are not relevant to the Company's activities -
 - IFRIC 23, "Uncertainty about Income Tax Treatments".
 - Amendments to IAS 28 "Investments in associates and joint ventures".
 - Modification to IFRS 9, "Financial instruments" for instruments that provide the possibility of early payment.
 - Annual improvements to IFRS, Cycle 2015 - 2017 - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.
 - IAS 19, "Employee Benefits", modification, reduction and liquidation of a plan.

These amendments are effective for periods beginning on or after January 1, 2019; however, the standard has not had an impact on the consolidated financial statements.

b) New standards and interpretations that have not been adopted in advance

The Company has decided not to adopt in advance the following standards and interpretations that were issued by the IASB, but that are not effective as of June 30, 2019:

- IFRS 17, "Insurance contracts".
- Modifications to the Conceptual Framework.

These amendments are effective for periods beginning on January 1, 2020 and IFRS 17, effective as of January 1, 2021.

2.4 Operating segments -

An operating segment is a group of assets and operations that provide goods or services, and that is subject to significant risks and returns different to the risks and returns of other business segments. A geographical segment is characterized by providing goods or services within a particular economic environment that is subject to risks and returns different to those segments that operate in other economic environments. The Group is organized into a single operational segment for the provision of telecommunications services located in a single geographic segment (Peru) as the Group makes strategic commercial, financial, purchasing and investment decisions oriented towards the customer, and which are furthermore focused on a convergent offer (several aggregated telecommunications services). Therefore, it is not applicable to present information on a Segment basis.

2.5 Translation of foreign currency -

The Group has determined that its functional and presentation currency is the Sol (PEN). Transactions in foreign currency are considered to be those made in a currency other than the functional currency. Transactions in foreign currency are initially recorded in the functional currency using the exchange rates in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are subsequently adjusted to the functional currency using the exchange rate in effect on the date of the consolidated statement of financial position.

Profits or losses from exchange differences resulting from the settlement of such transactions and from the conversion of monetary assets and liabilities into foreign currency at the exchange rates on the date of the consolidated statement of financial position are recognized in the section "Net exchange difference Profit/(Loss)" in the consolidated income statement. The exception to the foregoing is exchange differences in foreign currency transactions with cash flow hedges, which are directly recorded in the equity up to the disposal of the same, at which time they are recognized in the consolidated income statement. Non-monetary assets and liabilities determined in foreign currency are converted to the functional currency at the prevailing exchange rate on the date of the transaction.

2.6 Business combinations between entities under common control -

Business combinations between entities under common control in which the existence of economic substance cannot be demonstrated are registered by the pooling of interest method.

In accordance with the pooling of interest method, the items in the financial statements of the merging companies, both for the period in which the merger occurs and for the other periods presented in comparative form, are included in the Group's consolidated financial statements as if they had been merged since the beginning of the oldest period that is presented.

As the pooling of interests produces a single merged entity, it must adopt uniform accounting policies. Therefore, the merged entity recognizes the assets, liabilities and assets of the merging companies at their book values, adjusted to the concepts required to standardize the accounting policies and apply them to all the periods presented. No capital gains are recognized in this process. Likewise, the effects of all transactions between merging companies are eliminated when preparing the consolidated financial statements of the merged entity.

2.7 Cash and cash equivalent -

For purposes of the consolidated statement of cash flows, cash and cash equivalents correspond to cash, current accounts and deposits with less than three months from the date of opening, all of which are recorded in the consolidated statement of financial position. These accounts are not subject to a significant risk of change in their value.

For purposes of the consolidated statement of cash flows, cash and cash equivalents include the items described in the previous paragraph, net of bank overdrafts.

2.8 Financial assets -

(i) Classification

The Group classifies its financial assets in the following categories:

- Measured at fair value (whether through results or other comprehensive income), and
- Measured at amortized cost.

The classification depends on the business model that the entity uses to manage its financial assets and the contractual terms that impact the cash flows.

For assets measured at fair value, profits and losses will be recorded in profit and loss or other comprehensive income. For investments in equity instruments that are not held for trading, their measurement will depend on whether the Group irrevocably chooses, at the time of initial recognition, to recognize these equity instruments at fair value through other comprehensive income.

The Group undertakes reclassifications of its debt instruments if its business model for the management of these assets changes.

(ii) Recognition and derecognition

Purchases and sales of financial assets are recognized on the trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments expire or are transferred and the Company has materially transferred all the risks and benefits derived from their ownership.

(iii) Measurement

Upon initial recognition, the Group measures a financial asset at its fair value plus, in the case of financial assets that are not carried at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset. The transaction costs of financial assets carried at fair value through results are recognized in profit and loss.

Financial assets that incorporate embedded derivatives are evaluated comprehensively for purposes of determining if their cash flows only represent payment of principal and interest.

Debt instruments -

The subsequent measurement of debt instruments depends on the business model that the Group has established for asset management, as well as the characteristics of asset flows derived from the asset. There are three possible categories in which to classify debt instruments, these are:

- Amortized cost: Applicable to assets whose business model is to collect contractual cash flows, provided that these cash flows only represent capital and interest payments. The interest generated by these financial assets is recognized as financial income using the effective interest method. Any profit or loss arising from the derecognition of this type of financial asset is recognized in profit or loss. Impairment losses are presented in a separate line item in the consolidated income statement.
- Fair value through other comprehensive income (FVOCI): Applicable to assets whose business model is mixed; that is, they are maintained both to collect their contractual flows and to obtain cash flows from their sale, provided that the asset cash flows only represent capital and interest payments. Changes in the book value of these financial assets are recognized in other comprehensive income (OCI), except for losses (or reversal of losses) due to impairment, interest and profit or loss due to exchange differences, which are recognized in profit or loss. When the financial asset is derecognized, the accumulated profit or loss recognized in other comprehensive income is reclassified from equity to profit or loss and presented under the item "other income (expenses)". The interest generated by these financial assets is recognized as financial income using the effective interest method. Profits or losses from exchange differences are recognized in income under the heading 'Net exchange differences profit/(loss)' and impairment losses are also recognized in profit or loss and presented in a separate line item in the consolidated income statement.

- Fair Value Through Profit and Loss (FVTPL): Assets that do not meet the conditions to use amortized cost or FVOCI are measured at fair value through profit or loss. Changes in the fair value of debt instruments in this category are recognized as profit or loss in results and presented net in the item "Other expenses (income)" in the period in which the change occurs.

Equity instruments -

After initial recognition, the Group measures the equity instruments at their fair value. Changes (profits or losses) in the fair value of equity instruments held for the purpose of trading are recognized in FVTPL. For other equity instruments, the Group has an irrevocable option to designate them on initial recognition in the FVTPL category or present changes in fair value as part of the OCI.

If the Company opts for the designation of FVTPL, when the asset is derecognized, it is not possible to reclassify to profit or loss any profits or losses accumulated in OCI. Dividends generated by these investments are recognized in profit or loss since the Group has the contractual right to receive them, and they are presented under "Other income (expenses)". Losses (or reversals of losses) due to impairment of equity instruments measured at FVTPL are not presented separately from the other changes at fair value.

(iv) Impairment

With a view to the future, the Group evaluates the expected credit losses associated with debt instruments measured at amortized cost and at FVTPL. The methodology applied to determine the impairment depends on whether the credit risk of an asset has significantly increased.

For commercial accounts receivable, the Group applies the simplified approach permitted by IFRS 9, which requires estimating the credit loss of the account for the full duration of the instrument and recognizing it from its initial recording.

2.9 Derivative financial instruments and hedge accounting -

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each period of the consolidated financial statements. The accounting for subsequent changes at fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives such as:

- hedges of the fair value of recognized assets or liabilities, or a firm commitment (fair value hedges),
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities, and highly probable forecasted transactions (cash flow hedges).

At the beginning of the hedge relationship, the Group documents the economic relationship between the hedging instruments and the hedged items, even if it is expected that the changes in the cash flows of the hedging instruments will offset the changes in the cash flows of the hedged items. The Group documents its objective and risk management strategy to carry out its hedging operations.

The fair values of the derivative financial instruments designated in the hedging relationships are disclosed in note 8 (g). The total fair value of a hedging derivative is classified as a non-current asset or liability if the time remaining to maturity of the hedged item is more than 12 months, and as a current asset or liability if the time remaining to maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The Group uses derivative financial instruments (exchange rate forwards and currency swaps) to manage its exposure to the risk associated with foreign currency fluctuations. In order to manage the aforementioned particular risk, the Group applies hedge accounting for transactions that meet the requirements for this. Derivative financial instruments are recognized at fair market value on the date on which they are signed and subsequently adjusted, and are recorded as assets when their value is positive, and as a liability when the value is negative.

(i) Cash flow hedges that qualify for hedge accounting:

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in the reserve account for hedges in equity. The profit or loss relating to the ineffective portion is recognized immediately in the consolidated income statement.

In the event that forward contracts are used to hedge expected future transactions, the Company only generally designates the changes in the fair value of the contract related to the spot component as the hedging instrument. Profits and losses related to the effective portion of changes in the spot component of forward contracts are recognized in the reserve account for hedges in equity. The changes in the item of the forward contract that relates to the hedged item ('aligned forward item') is recognized as part of other comprehensive income as reserve costs for hedges in equity. In certain cases, the Company may designate the entire change in the fair value of the forward contract (including forward points) as a hedging instrument. In such cases, the profits or losses related to the effective portion of the change in the fair value of the entire forward contract are recognized in the reserve account for hedges in equity.

The amounts accumulated in the equity are reclassified to results in the periods in which the hedged items affect results, as follows:

- If the hedged item subsequently results in the recognition of a non-financial asset (for example, inventories), both the deferred hedged profits and losses and the deferred time value of option contracts or forward contracts, if any, are included as part of the initial cost of assets. Deferred amounts are ultimately recognized in income as the hedged item also affects the results (for example, on the sale of inventories).
- Profits or losses related to the effective portion of interest rate swap *contracts* that cover variable rate loans are recognized in income under "Financial expenses" at the same time as the interest on hedged loan is recognized.

However, if a projected hedged transaction results in the recognition of a non-financial asset (for example, inventories or property, plant and equipment), any previously deferred equity profits or losses are transferred from equity and included in the initial measurement of the cost of the non-financial asset. Deferred amounts are finally recognized in profit or loss through the cost of sale in the case of inventories, or depreciation, in the case of property, plant and equipment.

When a hedging instrument expires, is sold, terminated or when a hedge fails to meet the criteria for applying hedge accounting, any accumulated equity profit or loss or any deferred hedge cost on equity until that time shall remain in equity until the expected transaction occurs, which will result in the recognition of a non-financial asset, such as inventories. When a forecasted transaction is not expected to occur, the accumulated profit or loss and any deferred hedging costs that were reported in equity are immediately transferred to profit or loss.

(ii) Derivatives that do not qualify for hedge accounting:

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the consolidated income statement.

As of September 30, 2019 and December 31, 2018, the Group had contracted forwards operations to hedge the exchange rate risk in the CAPEX associated with the disbursement for the awarding of 700 band and other projects. See greater detail in note 15(b).

2.10 Inventories -

Inventories are presented at cost or net realizable value, whichever is lowest, and are presented net of the impairment estimate.

Inventories correspond mainly to terminal equipment and are valued at average cost. The cost includes the reclassification of the equity of any profit or loss in the hedges of qualified cash flows related to the purchases of raw material, but excludes the costs of loans. In case there is a subsidy on the sale price of the terminals, the subsidy will not be included in the cost of the inventories given that it pertains to cost of commercialization as it is always associated with the customer's sign-up or with the renewal of the client contract period. As such, terminal equipment is recorded in the profit or loss when they are delivered for sale to the final customers (signal activation). See section 2.24. Inventories in transit are presented at the specific cost of acquisition.

The estimate for impairment is determined based on an analysis performed on the conditions and the turnover of terminal equipment, materials and supplies. In the case of damaged equipment and those that have had no movement over the last year, the estimate is equivalent to their book balance. The estimate is recorded charging the yearly profit or loss, in which the need for same is determined

2.11 Property, plant and equipment -

Property, plant and equipment are presented at cost, net of accumulated depreciation and accumulated loss due to impairment of the value of these assets. See section 2.14. The initial cost of the property, plant and equipment includes its acquisition price, including non-refundable import duties and purchase taxes, and any directly attributable cost to place and leave the asset in working condition.

The cost of the asset also includes the present value of the disbursements that are expected to be required to pay any cost of decommissioning and removal of equipment or rehabilitation of the physical site where it is established. The foregoing is applied when the disbursements constitute obligations incurred under certain conditions (see note 2.20). The cost may also include equity transfers of any profit or loss in the hedges of cash flows qualified as purchases of property, plant and equipment in foreign currency. Note 2.20 includes additional information on the recorded decommissioning provision. For significant components of property, plant and equipment that must be periodically replaced, the Group recognizes such components as separate individual assets, with their specific useful lives and respective depreciations. In the same way, when a large inspection or repair is carried out, the cost is recognized as a replacement in the carrying amount for property, plant and equipment, if the criteria for recognition are met.

Depreciation is calculated using the straight-line method, using the following estimated useful lives:

<u>Description</u>	<u>Years</u>
Buildings and other constructions	13, 15, 33 and 40
Plant (Platform and telecommunications networks)	3 to 20
Equipment and other	3 to 10
Furniture and Fixtures	5 and 10

Land does not depreciate. The residual values, the useful life and the depreciation method are reviewed every year to ensure that they are consistent with the expected pattern of economic benefits of the items of property, plant and equipment. The telecommunications sector in which the Group operates is very dynamic. Likewise, the constant overall progress of the sector due to the development of new technologies forces the Group to continually update and renovate its plant in order to be competitive in the market. This technological advance based on historical information has determined that the value of fixed assets at the end of their useful life is not significant and therefore the Group estimates that these have no residual values. The assets thus depreciate their total cost over their useful life.

A component of property, plant and equipment or any significant part of it initially recognized is derecognized at the time of its sale or when it is not expected to obtain future economic benefits by means of its use or sale. Any profit or loss at the time of asset derecognition (calculated as the difference between the net income from the sale of the asset and its carrying amount) is included in the consolidated statement of income when the asset is derecognized.

Disbursements incurred after a fixed asset has been put into use are capitalized as an additional cost of this asset when it is likely that such disbursements will result in future economic benefits higher than the normal yield originally evaluated for said asset. Disbursements for maintenance and repairs are recognized as an expense for the year in which they are incurred.

Employee benefit costs that are directly related to the construction of the plant are capitalized as part of the cost of the assets by means of the recording of a lower expense in the consolidated statement of income in the item "Personnel expenses".

Works in progress are recorded at cost, which includes the cost of construction, plant and equipment and other direct costs as well as the cost of important materials directly identifiable with specific assets. Works in progress do not depreciate until the respective assets are finished and are ready for use.

2.12 Intangible assets and administrative concessions -

Intangible assets are initially recorded at cost. An asset is recognized as intangible if the attributable future economic benefits that it generates are likely to flow to the Group, and its cost can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment loss. See section 2.14.

Intangible assets generated internally, which are directly attributable to the design and testing of identifiable and unique software that the Group controls, are recognized as intangible assets when they meet the following criteria:

- It is technically possible to complete the software so that it can be used,
- Management intends to finish the software and use or sell it,
- There is the opportunity to use or sell the software,
- It can be shown that the program will generate future economic benefits,

- The required technical, financial and other resources are available to complete the development of the software, thus permitting its use or sale.

During the initial recognition, the Group evaluates whether the useful life of the intangible assets is defined or undefined.

Intangible assets are amortized as per the straight-line method, based on the following estimated useful lives, when they are ready for use:

<u>Description</u>	<u>Years</u>
	According to the term of the concessions (note
Administrative concessions	1.4 (a))
Software	3 to 5

The period and the amortization method are reviewed periodically. Depreciation begins when the asset is available for use. Changes in the expected useful life or in the expected consumption pattern of the future economic benefits derived from the asset are taken into consideration in order to change the amortization period or method, if applicable, and are treated as a change in accounting estimation.

The loss or derecognition of an intangible asset is determined as the difference between the net amount obtained from its disposal and the book value of the asset, and is recognized in the consolidated income statement when the asset is derecognized.

2.13 Capital gain -

Represents the excess of the cost of acquisition of companies over the Group's share in the fair value of the respective net assets acquired. Capital gain is presented at cost less accumulated impairment losses on its value. See section 2.14. The Group calculates the losses on the basis of impairment tests carried out during the last quarter of each year in order to determine whether the book value is fully recoverable.

2.14 Impairment of long-lived assets -

The net book value of the property, plant and equipment and intangible assets of finite life are reviewed to determine if there is no impairment. Each year, the Group assesses the existence of signs of possible impairment of non-current assets. If there are any such indications, the Group estimates the recoverable value of the asset, which is the higher of fair value (less costs to sell) or of the value in use. Said value in use is determined by discounting the estimated future cash flows. When the recoverable value of an asset is below its net book value, it is considered that there is a impairment in value.

The assessment on capital gain impairment is made during the last quarter of the year. The Cash Generating Unit (CGU) is aligned with the definition of the business segment. See section 2.4. Impairment is determined by evaluating the recoverable value. When said value is less than its book value, an impairment loss is recognized. Impairment losses related to capital gain cannot be reversed in future periods.

The recoverable value of an asset is defined as the highest amount between the net sale price and its value in use. The "net sale price" is the amount that can be obtained selling an asset in a free market, while the "value in use" is the present value of the net future cash flows. Value in use is estimated from the continuous use of an asset and its disposal at the end of its useful life. In determining the "value in use", future net cash flows are discounted to their present value using a pre-tax discount rate that reflects the assessment of current market conditions, the value of money over time, and the specific risks of the asset. The discount rates are adjusted for the country risk and corresponding business risk. As of September 30, 2019 and December 31, 2018, the pre-tax rate used was 13.46 percent (equivalent to after-tax rates of 9.49 percent).

When new events or changes in existing circumstances take place and that demonstrate an impairment loss recorded in an earlier period that may have disappeared or been reduced, the Group undertakes a new estimate of the profitability for the corresponding asset. This evaluation is performed each financial year. Previously recognized impairment losses are reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset from the date on which the impairment loss was last recognized. If this is the case, the book value of the asset is increased to its recoverable amount. This increased amount cannot exceed the book value that would have been determined, net of depreciation, if an impairment loss had not been recognized for the asset in previous years. This reversal is recognized in profit or loss for the year. After the reversal, the depreciation charge is adjusted in future periods by distributing the book value of the asset over its remaining useful life. See note 17 for more information.

2.15 Investments accounted for under the equity method

An associate is an entity over which the investor has significant influence. An entity is presumed to exercise significant influence if it, directly or indirectly, owns 25 percent or more of the voting power of the investee, unless it can be clearly demonstrated that such influence does not exist. Conversely, it is presumed that the entity does not exercise significant influence if it directly or indirectly holds less than 25 percent of the voting power of the investee, unless it can be clearly demonstrated that such influence exists. Substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

Significant influence is manifested through one or more of the following manners:

- i) Representation on the board of directors or equivalent governing body of the investee;
- ii) participation in policy-setting processes, including participation in decisions on dividends and other distributions;
- iii) relatively significant transactions between the entity and its investee;
- iv) exchange of managerial personnel; or
- v) provision of essential technical information.

The investment in associates is consolidated using the equity method (equity share). According to this method, the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share in the net assets of its associates from the date of acquisition.

2.16 Commercial accounts payable and other accounts payable -

These amounts represent liabilities for unpaid goods and services provided to the Group at the close of the consolidated statement of financial position. The amounts are not guaranteed and are generally paid within 60 days after the recognition. Commercial accounts and other accounts payable are presented as current and non-current liabilities. They are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method.

2.17 Financial obligations -

Financial obligations are initially recognized at their fair value, net of transaction costs incurred. Financial obligations are subsequently measured at amortized cost. Any difference between income (net of transaction costs) and the amount of reimbursement is recognized in the consolidated income statement during the period of financial obligations using the effective interest method. Paid rates are recognized as transaction costs of financial obligations insofar as it is likely that part or all of the facility will be withdrawn. In this case, the rate is postponed until the withdrawal occurs. To the extent that there is no evidence that part or all of the facility is likely to be withdrawn, the rate is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Financial obligations are eliminated from the consolidated statement of financial position when the obligation specified in the contract is derecognized, cancelled or expires. The difference between the book value of a financial liability that has been extinguished or transferred to another party and the consideration paid, including the non-transferred assets or assumed liabilities, is recognized in the consolidated income statement as other financial income or expenses.

Financial obligations are classified as current and non-current liabilities.

2.18 Financing costs -

The financing costs directly attributable to the acquisition, construction or production of an eligible asset that necessarily presents a considerable period of preparation to be available for use or sale are capitalized as part of the cost of the respective asset. All additional financing costs are recognized as an expense in the period in which they occur. The financing costs are constituted by interest and other costs that the entity incurs in connection with the financed funds.

According to the Group's policy, the assets qualifying for the purpose of capitalizing financing costs are those whose preparation period exceeds eighteen months.

As of September 30, 2019 and December 31, 2018, the Group does not have assets in progress qualifying for the purpose of capitalizing financing costs.

2.19 Employee benefits -

The Group has short-term obligations for employee benefits that include salaries, social contributions, gratuities, performance bonuses and profit sharing (corresponding to 10 percent of taxable income). These obligations are recorded monthly in the consolidated income statement as they accrue.

Bonuses

The Group recognizes a liability and an expense for gratuities paid to workers as per the legal provisions in force in Peru. The gratuities correspond to two (2) annual remunerations paid in July and December of each year.

Compensation for time of service

The compensation for time of service of the Group's personnel corresponds to their compensation rights calculated in accordance with the legislation in force, which must be deposited in the bank accounts designated by the workers in the months of May and November of each year. The compensation for time of service is equivalent to half the monthly remuneration in force on the date of deposit. The Group has no additional payment obligations once it makes the annual deposits of the funds to which the worker is entitled.

Vacations

Staff annual vacations and other paid absences are recognized on an accrual basis. The provision for the estimated annual vacations obligation for personnel, which is calculated on the basis of a monthly salary for every twelve (12) months of services rendered by the employees, is recognized on the date of the consolidated statement of financial position.

The Group does not provide benefits after the employment relationship.

2.20 Provisions -

General

A provision is recognized only when the Group has a current obligation (legal or implicit) as a result of a past event, it is likely that resources will be required to meet the obligation, and its amount can be reasonably estimated. Provisions are reviewed during each period and adjusted to reflect the best estimate on the date of the statement of financial position. When the effect of the money value over time is significant, the amount of the provision is discounted using a pre-tax interest rate that reflects, when appropriate, the specific risks of the liability. When discounted, the increase in the provision due to the passage of time is recorded as a financial cost.

The amount recorded as a provision is the best estimate, at the closing date, of the disbursement necessary to meet the present obligation. This best estimate will be the amount, valued in a rational manner, that the Group will have to pay to meet the obligation on the date of the consolidated statement of financial position, or to transfer it to a third party on the same date.

The estimates for every single outcome and financial effect are determined by the Group's judgement, and supplemented by experience gained in similar transactions and, in some cases, reports from experts. The evidence to be considered includes any additional data provided by events after the closing of the consolidated statement of financial position.

When the Group expects a part of or the total provision to be recovered, said recoveries are recognized as assets, provided that recovery is certain. The provisioned amount is presented in the consolidated income statement, net of recoveries.

Decommissioning

The Group records the present value of the estimated costs of the legal and implicit obligations required to pay the costs of decommissioning and removal of equipment or the rehabilitation of the physical site where it is established in the period in which the obligation is incurred. Decommissioning costs are presented at the present value of the expected costs to settle the obligation, using estimated cash flows, and are recognized as a constituent part of asset costs (see note 2.11). Cash flows are discounted at the pre-tax risk-free market rate that reflects the specific risks of the decommissioning liability. The accrual of the discount is recorded as an expense as it is incurred and is recognized in the consolidated income statement as a financial cost. The estimated future decommissioning costs are reviewed annually and adjusted, as appropriate, on an annual basis. Changes in estimated future costs or in the applied discount rate are added to or deducted from the cost of the related asset.

Contingencies

Possible contingencies are not recognized in the consolidated financial statements. These are disclosed in notes on the consolidated financial statements, except if the possibility of disbursing an economic flow is remote.

Restructuring

An implicit obligation is recognized as a consequence of restructuring, only when a formal and detailed plan exists to proceed with it. This plan must at a minimum identify the business activities, or the part of those involved; the main locations affected; the location, function and approximate number of employees that will be compensated; the disbursements that will be carried out; and the dates on which the plan will be implemented. In addition to that detailed in the plan, there must be a valid prospect produced among those affected, either by having begun to implement the plan or by announcing its main features to them.

2.21 Income tax -

Current Income tax -

Current assets and liabilities for the period's income tax are measured by the amounts that are expected to be recovered from or paid to the tax authority. The tax rates and tax regulations used to compute these amounts are those that are approved, at the closing date of the period in Peru, where the Group operates and generates taxable income.

The current income tax that is related to items that are directly recognized in net equity is also recognized in net equity and not in the consolidated income statement. Management periodically evaluates the positions taken in the tax returns regarding situations in which the applicable tax regulations are subject to interpretation, and constitutes provisions when deemed appropriate.

Deferred income tax -

Deferred income tax is recognized using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts at the closing date of the reporting period.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability stems from the initial recognition of a commercial fund or an asset or liability in a transaction other than a business combination and, at the time of the transaction, it affects neither the accounting result nor the tax result.
- Regarding taxable temporary differences related to investments in subsidiaries, associates and joint ventures, when the time of reversal of the temporary difference can be controlled and it is likely that this difference will not be reversed in the foreseeable future.

The deferred tax asset is recognized for deductible temporary differences, unused tax losses, and unused tax credits, to the extent that it is likely that taxable income will be available against which deductible temporary differences may be used, with the following exceptions: (a) the deferred tax asset stemming from the initial recognition of an asset/liability, is different, when in a business combination, the time of the transaction, does not affect the accounting profit or the utility subject to taxes; and (b) deferred tax assets arising from temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures are recognized only to the extent that it is likely that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which to use the difference.

The Group evaluates a deferred tax asset in combination with other deferred tax assets and liabilities. When tax legislation restricts the use of tax losses, the Group will value a deferred tax asset in combination with other deferred tax assets and liabilities of the same type.

The carrying amount of deferred income tax assets is reviewed on each closing date of the reporting period and reduced to the extent that the existence of future taxable profits is no longer likely to allow the deferred income tax assets to be used, either in whole or in part. Unrecognized deferred tax assets are revalued at each closing date of the reporting period and are recognized to the extent that the existence of future available taxable income that makes it possible to recover the same deferred tax assets that were previously unrecognized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the year in which the asset is realized or the liability is paid, based on the tax rates and tax rules that were approved and current on the date of the close of the reporting period.

Deferred income tax related to items outside the profit or loss is also recognized outside of this. These items are recognized in correlation with the underlying transactions to which they are related, either in other comprehensive income or directly in net equity.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax assets and liabilities, and if the deferred taxes relate to the same tax authority and the same tax jurisdiction.

2.22 Government grants -

Government grants are non-reimbursable financing from the public sector in the form of transfers of resources, in exchange for future or past compliance with certain conditions related to operating activities with social impact.

Government grants are recognized when there is reasonable assurance that the Group will meet the conditions for their use and will receive the grants. These grants are recorded as income from the periods required to systematically relate them to the costs to which they are allocated. The amount to be charged to results is maintained as a liability in the item "Deferred income" until it is charged to income. In the case of assets acquired as part of the respective project, these are part of the Group's fixed assets and depreciate in a manner consistent with the policy established for other similar assets. The income related to the grant is recognized in the consolidated income statement, as per the depreciation of the assets.

2.23 Issued capital -

Common shares are classified in equity.

2.24 Recognition of income, costs and expenses -

The Group's revenues come mainly from the provision of the following telecommunication services: traffic, connection and installation fees, periodic fees for the use of the network, interconnection and rental of networks and equipment, as well as for the provision of internet and paid television services. The products and services can be sold separately or jointly in commercial packages.

Traffic

Traffic revenues are based on the initial call set-up fee, plus per-call rates, which vary according to the time consumed by the user, the distance of the call, and the type of service. Traffic is recorded as income as it is consumed. In the case of prepaid, the amount corresponding to the traffic paid pending consumption generates a contractual liability.

Prepaid traffic tends to have expiration periods of up to twelve months, and any contractual liability associated with prepaid traffic not consumed is charged directly to profit or loss when it expires, as from that moment the Company has no obligation to provide the service.

Periodic fees for network use

In the case of traffic sales, as well as other services, via a fixed rate for a certain period of time (flat rate), income is recognized on a straight-line basis in the period of time covered by the rate paid by the customer.

Connection fees

Revenue from connection fees resulting from when customers connect to the Company's network are deferred and allocated to the income statement over the estimated average period of the relationship with the customer, which varies depending on the type of service in question. The related costs, except those related to the network expansion, are recognized in the consolidated income statement in the estimated average life of the relationship with the customer.

Leases of equipment and other services are recognized in the consolidated income statement as they are consumed.

Revenues from interconnection

Interconnection revenues derived from customer calls from other operators, as well as from other services used by customers, are recognized in the period in which they make such calls.

Sale of equipment

Revenue from the sale of goods (terminal equipment) is recognized when the signal from the equipment is activated and transferred to the final customer.

Bundled services

In the case of revenues from the sale of multi-elements, equipment plus telephony services, internet and paid television, the revenues are allocated based on the fair value of the components delivered. The offers of bundled packages that combine different elements, are analyzed periodically to determine the necessity to separate the different identified elements, applying in each case the criterion of appropriate income recognition.

Revenue from the sale of modems and decoders, being essential elements for service provision, is respectively recognized as an Internet and television service throughout the duration of the contract. While revenues from the sale of landlines, being elements that can be used independently of contracting the service, are recognized when the equipment is transferred to the final customer and the signal is activated. Fixed telephony, internet and television services are recognized on a straight-line basis for the duration of the contract.

To the extent that the packages are sold at a discount-rate for sets (mainly in mobile telephony), applying the new criteria implies an increase in revenue recognized by set sales, which will generally be recognized at the time of delivery to the customer to the detriment of the periodic income for the provision of services in subsequent periods. The income is assigned proportionally to each element according to the independent sale prices of each individual component, always maintaining the total income value. The difference between the revenue from sales of equipment and terminals and the amount received from the customer at the start of the contract is shown as a contractual asset in the consolidated statement of financial position, which will be recovered over the term of the contract with the customer.

The costs that are finally activated, will be amortized in a systematic and consistent manner with the transfer to the client of the goods or services to which the associated asset is related. Said asset may be amortized over the duration of the contract or average life of the client.

Other income, costs and expenses

Other income, costs and expenses are recognized as they accrue, regardless of when they occur, and are recorded in the periods to which they are related.

2.25 Leases -

The determination of whether a contract is or contains a lease is based on the substance of the contract; that is, whether the fulfillment of the contract depends on the use of a specific asset or whether the contract grants a right to use the asset, even if that right is not explicitly stated in the contract.

The Group as lessee -

As of January 1, 2019, the standard requires the lessor to recognize all leases in a separate statement of financial position, thus reflecting the right to use the asset for a period of time, as well as the liabilities associated with contractual payments.

At the beginning of a contract, the Group will evaluate whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

On the date of start, the Group recognizes an asset for right of use and a lease liability.

On the date of start, the Group will measure an asset for the right of use at cost.

On the date of commencement, the Group will measure the lease liability at present value of the lease payments that have not been paid at that date. Lease payments will be discounted using the interest rate implicit in the lease.

i) Until December 31, 2018, the Group classified its leases:

A lease is classified on the date of start as a finance lease or an operating lease. The leases, which effectively and substantially transfer all the risks and benefits inherent to the ownership of the leased assets to the Group and/or whose term covers most of the economic life of the asset, are classified as financial leases and are accounted for in a similar manner to the acquisition of a fixed asset. The Group recognizes at the beginning of the respective contracts, and records the corresponding assets and liabilities for an amount equal to the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Initial direct costs are considered as part of the asset.

The Group maintained leases corresponding mainly to rentals of infrastructure, spaces and circuits.

The lease payments are distributed between the financial charges and the reduction of the liability, in such a way that a constant interest rate can be obtained for the remaining balance of the liability. The financial burden is distributed over the periods of validity of the lease agreements. Capitalized leased assets are depreciated over the period of the useful life of the asset, as explained in section 2.11. However, if there is no reasonable certainty that the Group will obtain ownership at the end of the lease period, the asset is amortized over the shorter period between the useful life of the leased asset and the lease term.

Payments for operating leases are recorded lineally as expenses in the consolidated income statement over the period of the lease.

The profit, if any, from the financial transactions of a leaseback contract is deferred and is applied to results, in the periods of validity of the contracts.

The Group as lessor -

Leases in which the Group substantially retains all the risks and benefits inherent to the ownership of the leased assets are classified as operating leases. The initial direct costs incurred in negotiating and contracting the operating lease are added to the book value of the leased asset and are recorded throughout the lease period whilst applying the same criteria as for rental income. Contingent rents are recorded as income in the period in which they are obtained.

2.26 Stock-based payment transactions -

Group employees receive part of their compensation as per share-based payment plans, and according to which, said employees provide services and receive equity instruments as consideration. In situations in which equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or that will be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable good or service received on the concession date. This amount is then capitalized or charged to expenses, as appropriate.

2.27 Distribution of Dividends -

The distribution of dividends to the Group's shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Group's shareholders.

2.28 Earnings per share -

Basic and diluted earnings per share have been calculated on the basis of the weighted average of the common shares outstanding as of the date of the consolidated statement of financial position. As of September 30, 2019 and December 31, 2018, the Group did not possess financial instruments producing dilutive effects, so the basic and diluted earnings per share are the same.

2.29 Fair value measurements -

The Group measures some of its financial instruments, such as accounts receivable from related entities, investments and other financial liabilities, at fair value on each date of the consolidated financial position statement. Likewise, the fair value of financial instruments measured at amortized cost is disclosed in note 3.3.

Fair value is the price that would be received for selling an asset or that would be paid when transferring a liability in an orderly transaction between participants in a market on the measurement date. The measurement at fair value is based on the assumption that the transaction to sell the asset or transfer the liability takes place, either:

- In the main market for the asset or liability, or
- In the absence of a main market, in the most advantageous market for the asset or liability.

The main or the most advantageous market must be accessible by the Group. Also, the fair value of a liability reflects its risk of default.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is considered active if the transactions for the asset or liability are carried out frequently and sufficient volume to provide price information on an ongoing basis.

All assets and liabilities for which fair values are determined or disclosed in the consolidated financial statements are classified within the fair value hierarchy described below, based on the lowest level of the data used that are significant for the measurement at fair value as a whole:

- Level 1: quoted prices (unadjusted) quoted prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques via which the lowest level of information that is significant for fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques via which the lowest level of information that is significant for fair value measurement is not observable.

For assets and liabilities that are recognized at fair value in the consolidated financial statements on a recurring basis, the Group determines whether there have been transfers between the different levels within the hierarchy by reviewing the categorization at the end of each reporting period.

Group Management determines policies and procedures for recurring and non-recurring fair value measurements. At each reporting date, Management analyzes the movements in the values of the assets and liabilities that must be valued in accordance with the Group's accounting policies.

For purposes of fair value disclosures, the Group has determined the classes of assets and liabilities based on their nature, characteristics and risks, and the hierarchy level of fair value, as explained above.

2.30 Changes in accounting policies -

Implementation of the International Financial Reporting Standard 16:

As explained in note 2.3, IFRS 16 has entered into force this year. The Group applied the standard in a modified retrospective manner. The initial application date was January 1, 2019. The Group has recognized a right-of-use asset and a significant financial liability arising from operating leases that under the previous accounting rules were recognized as operating expenses over the term of the contract.

	<u>Note</u>	<u>First impact IFRS 16 application S/000</u>
Rights of use	16	
Rights to use land and natural assets		411,937
Construction use rights		473,766
Rights of use of technical facilities and machinery		106,630
Other use rights		37,444
		<u>1,029,777</u>
Less:		
Tangible fixed assets - Financial lease under IAS 17	14	(28,234)
Advance payments of lease agreements in force	11	(110,838)
Asset impact		<u>890,705</u>
Lease debt	19	
Non-current lease debts		663,707
Current lease debts		242,053
		<u>905,760</u>
Less:		
Financial lease liability under IAS17		(531)
Impact on liabilities		<u>905,229</u>
Net impact on reserves by first application		<u>(14,524)</u>

IFRS 16 establishes that companies that act as lessees must recognize in the statement of financial position the assets and liabilities derived from all the lease agreements (with the exception of short-term lease agreements and those for assets of low value).

The Group maintains a significant volume of lease agreements as the lessee of various assets, mainly: towers, office and store buildings, and land where own towers are located. Pursuant to IAS 17, a significant portion of these contracts was classified as operating leases, with the corresponding payments generally recorded on a straight-line basis over the term of the contract.

The Group implemented IFRS 16, which is highly complex due to factors such as the high number of contracts affected, and the diversity of data source systems, as well as the need to make certain estimates. These include the estimation of the term of the lease, based on the non-cancelable period, and the periods covered by the renewal options whose exercise is discretionary for the Group and is considered reasonably true. The foregoing will depend to a large extent on the facts and specific circumstances corresponding to asset class in the telecommunications sector (technology, regulation, competition, business model, among others). Likewise, hypotheses are used to calculate the discount rate, which will depend mainly on the incremental financing rate for the estimated terms. Additionally, the Group opted not to separately record the non-lease components from those that are leased for asset classes in which the relative importance of the non-leases is not significant insofar as the total lease value.

The Group adopted the transition method, so as to recognize the cumulative effect of the initial application of the new criteria as an adjustment to reserves in the first year of the adoption of IFRS 16.

16. Furthermore, the Group opted for a practical solution that allows it not to again evaluate whether a contract is, or contains, a lease on the initial adoption date of IFRS 16, but to directly apply the new requirements to all those contracts that under the standard previous were identified as a lease. Moreover, the new standard allows for certain practical solutions at the time of first application, relating to the valuation of the asset, discount rate, impairment, leases that end within the following twelve months after the first application, initial direct costs, and the duration of the lease. In this regard, the Group has chosen to apply the following practical solutions in the transition to the new criteria:

- Valuation of assets by means of right of use: for the vast majority of contracts, the Group opted to value the right-of-use asset for an amount equivalent to the lease liability on the transition date, adjusted for any advance payments recognized in the separate statement of financial position at the moment immediately prior to the first application.
- Discount rate: The Group will use common discount rates for groups of contracts with similar characteristics insofar as term, contract asset, currency and economic environment.
- Contracts that expire in 2019: The Group will choose to apply a practical solution that allows it not to adopt the new criteria for contracts that expire during the first 12 months of application of the new standard.
- Initial direct costs: The Group will exclude any initial direct costs of the initial asset valuation by means of right of use on the date of first application.

Furthermore, as of the entry into force of the new criteria, the amortization of the right-to-use assets and the recognition of interest on the lease obligation will replace a significant part of the amount recognized in the profit or loss statement as operating lease expense, as per IAS 17. Likewise, the classification of lease payments in the consolidated cash flow statement will be affected by the entry into force of IFRS 16.

Regarding the payments assigned for rentals reflected in the consolidated financial statements (note 34 (a)), the Company estimates that the main differences insofar as the valuation of the new lease liability will refer, among others, to:

- Differences in the considered contract population: the lease liability does not include short-term leases or those that have low-value assets or intangibles, which are included in the expected payment schedule. Additionally, payments related to cancelable contracts without cancellation cost do not count towards the amount of payments committed for rentals, but they are included in the lease liability.
- Differences in lease terms: the extension options that are considered reasonably certain are part of the valuation of the lease liability, but are not taken into account in the expected schedule of payments for operating leases.
- Differences in the discount rate: to the extent that there are differences in terms, the discount rates used are different as a consequence of said differences.

The estimated adoption impacts were based on the evaluations carried out until June 30, 2019, due to the high number of contracts affected and the complexity of the estimates required, with multiple alternatives available. The Company has finished evaluating the new calculation procedures and the new accounting policies of IFRS 16.

3 ADMINISTRATION OF FINANCIAL RISKS

3.1 Financial risk factors -

The Group's main financial liabilities, other than derivatives, include commercial and miscellaneous accounts payable, lease liabilities, accounts payable to related parties, and financial obligations. The main purpose of these financial obligations is to finance the Group's operations. The Group has cash and short-term deposits, commercial and miscellaneous receivables and accounts receivable from any related arising directly from its operations. The Group also has available-for-sale financial investments and cash flow hedging instruments.

Due to the nature of its activities, the Group is exposed to credit, exchange rate, interest rate and liquidity risks, which are managed through a process of identification, measurement and continuous monitoring, subject to risk limits and other controls.

This process of risk management is critical for the Group's ongoing profitability and each person within the Group is responsible for the risk exposures related to their responsibilities.

The independent process of risk control does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

(a) Risk management structure -

The risk management structure is based on the Board of Directors and the Group Management, which are responsible for identifying and controlling risks in coordination with other areas as explained below:

i) Directors -

The Board is responsible for the overall approach to risk management. The Board of Directors provides the principles for risk management, as well as the policies prepared for specific areas, such as exchange rate risk, interest rate risk, credit risk, and the use of derivative financial instruments.

ii) Finance -

The Finance area is responsible for managing the flow of Group funds, taking into account the policies, procedures and limits established by both the Board of Directors and Group Management, including the follow-up of said procedures to improve the Group's risk management.

iii) Internal Auditing -

The Internal Auditing area of the Group is responsible for supervising the operation and reliability of the internal control systems and the administrative and accounting information. Likewise, Internal Auditing is responsible for supervising the financial information and significant events presented by the Group.

The risk management processes in the Group are monitored by Internal Auditing, which analyzes both the adequacy of the procedures and compliance with them. Internal Auditing discusses the results of its evaluations with General Management, and reports its findings and recommendations to the Group's Board of Directors.

(b) Risk mitigation -

As part of the total risk management, the Group constantly evaluates the different scenarios and identifies different strategies to manage exposures resulting from changes in interest rates, foreign currency, capital risk and credit risks.

The Group's risk management is controlled by Corporate Finance, as per the policies approved by Management. The Group's Finance area identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board of Directors provides the principles for overall risk management, as well as policies that hedge specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, financial instruments, and the investment of excess liquidity.

Credit risk -

Credit risk is the risk that a counterparty does not comply with its obligations stipulated in a financial instrument or contract, thus causing a loss. The Group is exposed to credit risk due to its operating activities, mainly in terms of its accounts receivable and financial activities, including its deposits in banks, and transactions with derivatives and other financial instruments. Credit risk arises from cash and cash equivalents, contractual cash flows from equity investments accounted for at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss, favorable derivative financial instruments and deposits in banks and financial institutions, as well as credit exposures to wholesale and retail customers, including any outstanding accounts receivable.

The Group maintains exposure limits for its placements in different banks and financial institutions, according to the institutions' individual risk category. Credit risk is managed as a group. For banks and financial institutions, we only accept entities independently qualified with a minimum grade of "A".

Credit risk is controlled through the evaluation and analysis of individual transactions, for which an evaluation is made based on the aging of accounts receivable. If the wholesale customers have an independent rating, these ratings are used. Otherwise, if there is no independent rating, the monitoring of the credit risk will assess client credit quality, with its financial position, past experience and other factors being taken into account. The individual risk limits are established based on internal or external ratings in accordance with the limits established by Management. Line management regularly supervises wholesale customer compliance with credit limits, thereby determining the estimate required for uncollectibility. Additionally, partial and total service suspensions are undertaken for users who have accounts receivable due in accordance with the policy described in note 2.8; and Management defines the delinquency objectives.

According to the analysis made by the Group's Management, an account receivable is considered as impaired when it has been classified as an uncollectible account (see note 2.8). In addition, management estimates a provision for expected losses on non-impaired accounts. As of the date of the consolidated financial position statement, the aging and qualification of the commercial accounts receivable balance is as follows:

	<u>Not impaired</u> <u>S/000</u>	<u>Impaired</u> <u>S/000</u>	<u>Total</u> <u>S/000</u>
As of September 30, 2019			
Unexpired	1,023,358	75,395	1,098,753
Expired			
Up to 1 month	393,108	106,312	499,420
1-3 months	231,691	121,307	352,998
3-6 months	79,266	143,661	222,927
6-12 months	55,370	249,882	305,252
More than 12 months	-	3,762,987	3,762,987
Total	<u>1,782,793</u>	<u>4,459,544</u>	<u>6,242,337</u>
As of December 31, 2018			
Unexpired	933,222	22,626	955,848
Expired:			
- Up to 1 month	307,659	52,969	360,628
- From 1 to 3 months	204,587	63,235	267,822
- From 3 to 6 Months	78,972	84,639	163,611
- From 6 to 12 months	37,963	227,746	265,709
- More than 12 Months	-	3,527,524	3,527,524
Total	<u>1,562,403</u>	<u>3,978,739</u>	<u>5,541,142</u>

Consequently, in the opinion of Management, there are no significant concentrations of credit risk as of September 30, 2019 and December 31, 2018.

As of September 30, 2019, the Group's Management has estimated that the maximum net amount of credit risk to which the Group is exposed amounts to approximately S/ 2,138,758,000 (S/ 2,131,901,000 as of December 31, 2018), which represents the net book value of accounts receivable and other financial assets.

Market risk -

Market risk is the risk of losses in balance sheet positions, mainly derived from movements in the exchange rate and interest rates.

The sensitivity analyzes in the following sections refer to positions for the nine-month periods ended September 30, 2019 and 2018. Likewise, they are based on the fact that the net amount of debt, the ratio of fixed interest rates, and the position of instruments in foreign currency remain constant. The sensitivities in the consolidated profit or loss statement is the effect of the changes assumed in the respective market risk. This is based on financial assets and liabilities held as of September 30, 2019 and December 31, 2018, including the effect of hedge derivatives.

i) Exchange rate risk -

The exchange rate risk is the risk that the fair value of the future cash flows of a financial instrument fluctuates due to variations in the exchange rates. The Finance Management is responsible for identifying, measuring, controlling and reporting the exposure to the Group's global exchange risk. The exchange risk arises when the Group presents mismatches between its active and passive positions in the different currencies in which it operates, which are mainly soles (functional currency) and US dollars. Management monitors this risk through the analysis of the country's macro-economic variables.

Transactions in foreign currency are carried out at the free market exchange rates published by the Superintendence of Banking, Insurance and Private Pension Fund Administrators. As of September 30, 2019, the weighted average free market exchange rates for transactions in US dollars were S/ 3,382 per US \$1 purchasing and S/ 3,385 for US \$1 selling (S/ 3,369 per US \$1 purchasing and S/ 3,379 for US \$1 selling at December 31, 2018) and for transactions in Euros, the rates were S/ 3,484 for €1 purchasing and S/ 3,841 for €1 selling (S/ 3,695 for €1 purchasing and S/ 4,150 for €1 selling as of December 31, 2018), respectively.

The result of maintaining balances in foreign currency for the Group for the nine-month periods ended September 30, 2019 and 2018, was a net (loss)/profit of approximately S/ 2,288,000 and S/ 5,140,000, respectively. These figures were presented in the section "Net exchange differences" in the consolidated profit or loss statement. See note 32.

As of September 30, 2019 and December 31, 2018, the Group presented the following assets and liabilities in foreign currency:

	As of September 30 2019		As of December 31, 2018	
	US\$000	Euros000	US\$000	Euros000
Assets -				
Cash and cash equivalents	-	967	-	3,594
Trade Accounts receivable, net	100,320	4,553	92,662	1,615
Other accounts receivable, net	32,487	-	36,486	-
Accounts Receivable from related companies	144,937	-	-	-
	<u>277,744</u>	<u>5,520</u>	<u>129,148</u>	<u>5,209</u>
Liabilities -				
Bank overdraft	(11,317)	-	(6,372)	-
Other financial liabilities	-	-	(865)	-
Financial lease liability	(86,583)	-	-	-
Trade Accounts Payable	(201,989)	(12,176)	(322,750)	(23,810)
Other accounts payable	(37,588)	-	(38,008)	-
	<u>(337,477)</u>	<u>(12,176)</u>	<u>(367,995)</u>	<u>(23,810)</u>
Purchase position of derivatives (reference value)	50,919	10,000	233,301	21,507
Monetary position, net	<u>(8,814)</u>	<u>(3,344)</u>	<u>(5,546)</u>	<u>(2,906)</u>

The Group hedges its exposure to the conversion to Soles of financial obligations and OPEX operations (denominated in US dollars and euros), through the use of hedge cash flow and swaps contracts.

The following table shows the sensitivity analysis of US dollars (the main currency other than the functional currency in which the Group has a significant exposure), in its monetary assets and liabilities, and its estimated cash flows, and in euros. The analysis determines the effect of a reasonably-possible change in the exchange rate of the US dollar and the euro, while keeping the other variables constant in the consolidated income statement, before income tax. A negative amount shows a potential net loss in the consolidated income statement, while a positive amount reflects a potential net gain.

<u>Sensitivity analysis</u>	<u>Change in Exchange rates</u>	<u>Effect on results before consolidated taxes</u>	
		<u>As of September 30, 2019</u>	<u>As of September 30, 2018</u>
	%		
Devaluation -			
Dollars	5	(1,492)	474
Dollars	10	(2,984)	947
Revaluation -			
Dollars	5	1,492	(474)
Dollars	10	2,984	(947)
Devaluation -			
euros	5	(583)	(642)
euros	10	(1,165)	(1,284)
Revaluation -			
euros	5	583	642
euros	10	1,165	1,284

The exchange rate sensitivities shown in the previous table are illustrative only and are based on simplified scenarios. However, this effect does not include the actions that would be taken by Management to mitigate the impact of this risk.

ii) Interest rate risk -

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in market interest rates. The Group manages its interest rate risk based on the experience of Management, balancing the asset and liability interest rates.

Management believes that future fluctuations in interest rates will not significantly affect the results of the Group's future operations.

The information related to financial instruments with fixed and variable interest rates are shown as follows:

	<u>Variable rate (*) S/000</u>	<u>Fixed rate S/000</u>	<u>Without interest S/000</u>	<u>Total S/000</u>	<u>Interest Rate average %</u>
As of September 30, 2019					
Financial assets					
Cash and cash equivalents	451,555	-	-	451,555	2.78
Trade Accounts receivable, net	-	759,435	1,023,358	1,782,793	2.38
Contractual assets:	-	-	199,708	199,708	-
Accounts receivable from related entities	-	490,177	62,862	553,039	2.55
Other accounts receivable, net	-	-	167,469	167,469	-
Financial liabilities					
Other financial liabilities	901,729	2,710,179	24,326	3,636,234	6.14
Financial lease liability	-	1,095,000	-	1,095,000	3.53
Trade Accounts Payable	-	-	1,703,714	1,703,714	-
Accounts payable to related entities	-	-	4,146	4,146	-
Other accounts payable	-	-	98,608	98,608	-
As of December 31, 2018					
Financial assets					
Cash and cash equivalents	88,724	-	-	88,724	2.90
Trade Accounts receivable, net	-	629,181	933,222	1,562,403	2.47
Contractual assets:	-	-	285,166	285,166	-
Other accounts receivable from related entities	-	-	959	959	-
Other accounts receivable, net	-	-	155,133	155,133	-
Financial liabilities					
Other financial liabilities	441,136	1,708,306	-	2,149,442	4.94
Trade Accounts Payable	-	-	2,353,754	2,353,754	-
Accounts payable to related entities	-	-	3,774	3,774	-
Other accounts payable	-	-	159,945	159,945	-

(*) Variables are considered as assets and obligations at a variable-based rate, as well as fixed-rate assets and obligations for terms of less than 12 months.

Shown below is the consolidated profit or loss income statement's sensitivity, which is due to the possible effect of changes in the interest rate on financial expenses for the period, before income tax, assuming that the financial liabilities at September 30, 2019 and 2018 will be renewed at the end, and will be maintained for the remainder of the following year:

Changes in main points	Effect on profit or loss consolidated before tax	
	As of	As of
	September 30, 2019	September 30, 2018
	<u>S/000</u>	<u>S/000</u>
+(-) 50	(-) +1,688	(-) + 4,240
+(-) 100	(-) +3,376	(-) + 8,481
+(-) 200	(-) +6,753	(-) +16,962

The exchange rate sensitivities shown in the previous table are illustrative only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in the net financial expense based on the projected scenarios of the yield curve and the interest rate risk profile that the Group currently has. However, this effect does not include the actions that would be taken by Management to mitigate the impact of this risk.

Liquidity risk -

The liquidity risk is the risk that the Group cannot meet its payment obligations related to financial liabilities at maturity and replace the funds when they are withdrawn. The consequence would be the failure to pay the company's obligations to third parties.

Liquidity is controlled by matching the maturities of its assets and liabilities, obtaining lines of credit and/or maintaining surplus liquidity as investments, which allows the Group to carry out its activities normally.

The management of liquidity risk involves maintaining sufficient cash and finance availability, through an adequate amount of assigned credit sources and the ability to settle transactions, mainly of indebtedness. In this regard, the Group's Management focuses its efforts on maintaining sources of financing through the availability of lines of credit and the registration of corporate bond programs and commercial papers.

The Group maintains a negative working capital generated mainly by short-term classified contingency provisions, of which, its execution depends on the resolution of various instances, see note 34 (b). In addition, the Group recorded a net loss in 2019 and 2018, due to the high competition in the sector. Nonetheless, the Group considers reversing this position through the launch of new services such as the convergent offer of fixed and mobile services, considering that it has a solid share in fixed services.

The following table shows the maturity of the Company's obligations and those of its Subsidiaries as of the date of the consolidated statement of financial position and the amounts to be disbursed at maturity, based on undiscounted payments that will be made:

	Less than 3 months S/000	From 3 to 12 months S/000	From 1 to 5 years S/000	More than 5 years S/000	Total S/000
As of September 30, 2019					
Other financial liabilities					
Amortization of capital	141,433	330,000	723,647	2,335,048	3,530,128
Cash flows from interest payments	94,565	137,120	733,112	319,307	1,284,104
Financial lease liability	46,090	176,859	590,627	281,424	1,095,000
Trade Accounts Payable	1,703,714	-	-	-	1,703,714
Accounts payable to related related	2,475	-	1,671	-	4,146
Other accounts payable	98,608	-	-	-	98,608
Total cash flows from liabilities	<u>2,086,885</u>	<u>643,979</u>	<u>2,049,057</u>	<u>2,935,779</u>	<u>7,715,700</u>
	Less than 3 months S/000	From 3 to 12 months S/000	From 1 to 5 years S/000	More than 5 years S/000	Total S/000
As of December 31, 2018					
Other financial liabilities					
Amortization of capital	150,081	284,505	934,086	756,673	2,125,345
Cash flows from interest payments	12,905	80,035	286,099	89,977	469,016
Trade Accounts Payable	2,353,754	-	-	-	2,353,754
Accounts payable to related entities	384	-	3,390	-	3,774
Other accounts payable	159,945	-	-	-	159,945
Total cash flows from liabilities	<u>2,677,069</u>	<u>364,540</u>	<u>1,223,575</u>	<u>846,650</u>	<u>5,111,834</u>

The table above does not include any contingency provisions as their execution is subject to the resolution of various instances, as per that described in note 34(b). Likewise, the table does not include hedging financial derivatives because Management considers that such contracts are effectively settled on a net basis. Consequently, the flow of the hedge derivatives and the reconciliation of the amounts equivalent to the accounting values of the discounted net flow generated by these instruments are presented below:

	Less than 3 months S/000	From 3 to 12 months S/000	From 1 to 5 yrs S/000	More than 5 yrs S/000	Total S/000
As of September 30, 2019					
Income	285,085	13,540	-	-	298,625
Expenses	(167,691)	(13,582)	-	-	(181,273)
Net flow	<u>117,394</u>	<u>(42)</u>	<u>-</u>	<u>-</u>	<u>117,352</u>
Discounted net cash flow	<u>2,073</u>	<u>(30)</u>	<u>-</u>	<u>-</u>	<u>2,043</u>
	Less than 3 months S/000	From 3 to 12 months S/000	From 1 to 5 yrs S/000	More than 5 yrs S/000	Total S/000
As of December 31, 2018					
Income	1,089,197	2,440	-	-	1,091,637
Expenses	(870,738)	(2,334)	-	-	(873,072)
Net flow	<u>218,459</u>	<u>106</u>	<u>-</u>	<u>-</u>	<u>218,565</u>
Discounted net cash flow	<u>8,180</u>	<u>114</u>	<u>-</u>	<u>-</u>	<u>8,294</u>

3.2 Capital risk management -

The Group actively manages a capital base to hedge the risks inherent to its activities. The capital adequacy of the Group is monitored using, among other measures, the ratios established by the Management.

The Group's objectives when managing its capital correspond to a broader concept than the "Equity" that is shown in the consolidated statement of financial position and mainly includes: (i) safeguarding the Group's ability to continue operating in a manner that continues to provide returns to the shareholders and benefits to the other participants; and (ii) maintain a strong capital base to support the development of its activities.

The Group monitors its capital based on the leverage ratio, which is calculated by dividing the net debt by total capital. Net debt corresponds to total indebtedness (including commercial accounts payable, accounts payable to related entities and other accounts payable) minus cash and cash equivalents. The total capital corresponds to the equity as it is shown in the consolidated statement of financial position plus the net debt.

As of September 30, 2019 and December 31, 2018, the consolidated leverage ratio was as follows:

	As of September 30, 2019	As of December 31, 2018
	S/000	S/000
Total indebtedness	7,082,086	4,903,140
Less: Cash and cash equivalent	(451,555)	(88,724)
Net debt (A)	6,630,531	4,814,416
Total Equity (B)	4,902,586	5,896,628
Leverage ratio (A/B)	1.35	0.82

As of September 30, 2019 and December 31, 2018, there were no changes in the activities and policies of capital management in the Group.

3.3 Fair Value Estimation -

(a) Instruments recorded at fair value according to their hierarchy -

The following table shows an analysis of financial instruments that are carried at fair value according to level of the fair value hierarchy:

	Value of quotation in markets assets Level 1 S/000	Variables significant observable Level 2 S/000	Variables significant non-observable Level 3 S/000	Total S/000
As of September 30, 2019				
Financial assets -				
Derivative financial instruments:				
Foreign currency forward	-	2,043	-	2,043
Total financial assets	-	2,043	-	2,043
As of December 31, 2018				
Financial assets -				
Derivative financial instruments:				
Foreign currency forward	-	8,294	-	8,294
Total financial assets	-	8,294	-	8,294

Level 1 -

The financial assets included in the Level 1 category are those that are measured based on quotes obtained from an active market. A financial instrument is considered as being quoted in an active market if prices are easily and regularly available from a centralized trading mechanism, agent, broker, industry group, price providers or regulatory entities; and said prices come regularly from transactions in the market.

Level 2 -

The financial instruments included in the Level 2 category are measured based on market factors. This category includes instruments valued using market prices of similar instruments, whether active or not, and other valuation techniques (models) in which all significant data are directly or indirectly observable in the market. The following is a description of how the fair value of the Group's main financial instruments included in this category is determined:

- Derivative financial instruments -

Derivatives designated as hedging instruments reflect the variation in the fair value of foreign currency futures contracts, designated as cash flow hedges to cover highly probable future purchases.

The fair values of swaps and forwards are measured using valuation techniques based on market data. Applied valuation techniques include swap valuation models, using present value calculations. These models take into account various factors, including the credit quality of the counterparties, currencies, forward rates and interest rate curves.

The adjustment for credit valuation is applied to "over-the-counter" derivative exposures to take into account the risk of default of the counterparty when measuring the fair value of the derivative. A credit valuation adjustment is the cost of protection at the market price required to hedge the credit risk of the counterparty in this type of derivative portfolio. The credit valuation adjustment is calculated by multiplying the probability of default, the default value of loss, and the exposure expected at the time of default.

- Debt instruments available for sale -

The valuation of corporate bonds, lease bonds and public treasury bonds are measured by calculating the Net Present Value ("NPV") through discounted cash flows, zero coupon curves, and considering current and observable market transactions. Other debt instruments are measured using valuation techniques based on assumptions supported by observable prices in current market transactions, obtained through price suppliers. However, when prices have not been determined in an active market, fair value is based on quotes from brokers and on assets that are valued using models where most of the assumptions are observable in the market.

Level 3 -

The financial assets included in level 3 are measured using a valuation technique (internal model), based on assumptions that are neither supported by prices of observable transactions in the current market for the same instrument, nor based on available market data. The Group does not have any level 3 instruments as of September 30, 2019 and December 31, 2018.

(b) Instruments recorded at amortized cost -

In addition to the instruments recorded at fair value, the following is the disclosure of the comparison between the book values and the fair values of the Group's financial instruments that are recorded at amortized cost in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and liabilities:

	Quotation		Non-observable		
	Value in	Observable	significant		
	active	variables	Variables	Fair	Carrying
	markets	(Level 2)	(Level 3)	value	Value
	(Level 1)	(Level 2)	(Level 3)		
	S/000	S/000	S/000	S/000	S/000
As of September 30, 2019					
Financial assets -					
Accounts Receivable from related entities	-	553,039	-	553,039	553,039
Asset as per derivative financial Instruments	-	2,043	-	2,043	2,043
Total financial assets	<u>-</u>	<u>555,082</u>	<u>-</u>	<u>555,082</u>	<u>555,082</u>
Financial Liabilities -					
Instrument liability	-	-	-	-	-
financial Instruments	-	-	-	-	-
Bonds issued and debts and loans that accrue interests	-	3,636,234	-	3,636,234	3,636,234
Financial lease liability	-	1,095,000	-	1,095,000	1,095,000
Accounts payable to related entities	-	4,146	-	4,146	4,146
Total financial liabilities	<u>-</u>	<u>4,735,380</u>	<u>-</u>	<u>4,735,380</u>	<u>4,735,380</u>

	Quotation	Observable	Non-observable		
	Value in	significant	Significant		
	Active	Variables	variables	Fair	Carrying
	markets	(Level 2)	(Level 3)	Value	value
	(Level 1)	(Level 2)	(Level 3)		
	S/000	S/000	S/000	S/000	S/000
As of December 31, 2018					
Financial assets -					
Accounts Receivable from related entities	-	959	-	959	959
Asset as per derivative financial Instruments	-	8,294	-	8,294	8,294
Total financial assets	<u>-</u>	<u>9,253</u>	<u>-</u>	<u>9,253</u>	<u>9,253</u>
Financial Liabilities -					
Instrument liability	-	-	-	-	-
financial Instruments	-	-	-	-	-
Bonds issued and debts and loans that accrue interests	-	2,149,442	-	2,149,442	2,149,442
Accounts payable to related entities	-	3,774	-	3,774	3,774
Total financial liabilities	<u>-</u>	<u>2,153,216</u>	<u>-</u>	<u>2,153,216</u>	<u>2,153,216</u>

The methodologies and assumptions used by the Group to determine the estimated market values depend on the terms and risk characteristics of the various financial instruments that are recorded at amortized cost and include the following:

- i) Assets whose fair value is similar to their carrying value -

For financial assets and liabilities that are liquid or have short-term maturities (less than three months), the book value is considered to be similar to its fair value. This assumption also applies to term deposits, savings accounts without a specific maturity and floating-rate financial instruments.

- ii) Fixed rate financial instruments -

The fair value of financial assets and liabilities that are at a fixed rate and amortized cost is determined by comparing the market interest rates at the time of initial recognition with the current market rates related to similar financial instruments.

The estimated fair value of interest accruing deposits is determined by discounted cash flows using market interest rates for financial instruments with similar maturities and credit risks. For the issued quoted debt, fair value is determined based on quoted market prices. When market prices are not available, the discounted cash flow model based on the yield curve of the interest rate is used for the remaining term.

4 ESTIMATES AND CRITICAL ACCOUNTING CRITERIA

The preparation of the consolidated financial statements in accordance with IFRS requires Management to make significant judgments, estimates and assumptions to determine the reported figures of assets and liabilities, the exposure of contingent assets and liabilities on the date of the consolidated financial statements, as well as the reported figures of income and expenses for the nine-month periods ending September 30, 2019 and 2018.

In Management's opinion, these estimates were made on the basis of their best knowledge of the relevant facts and circumstances at the date of preparation of the consolidated financial statements. However, the final results may differ from the estimates included in the consolidated financial statements. Company management does not expect that the variations, if any, will have a significant effect on the consolidated financial statements.

In relation to the consolidated financial statements, Management considers the most significant estimates to essentially refer to:

- Estimation for doubtful accounts. See note 2.8 and notes 3, 7 and 8.
- Estimation for inventory devaluation. See note 2.10 and note 10.
- The residual value, useful life and depreciation of property, plant and equipment. See note 2.11 and note 14.
- Estimation for impairment of long-lived assets. See note 2.14, notes 14, 15 and 17.
- Assets and liabilities for deferred taxes. See notes 2.21 and 25.
- Estimated accrued income. See note 2.24.
- Provision for decommissioning. See notes 2.11 and 2.20.
- Provision for contingencies. See notes 2.20 and 34(b).
- Cash flow hedge. See note 2.9.
- Provision for restructuring. See note 2.20 and notes 21 and 30.

Any difference in the estimates in the subsequent real results is recorded in the results of the year in which it occurs.

5→ FINANCIAL INSTRUMENTS

(a) Financial instruments by category

The classification of financial instruments by category is as follows:

	As of September 30, 2019	As of December 31, 2018
	S/000	S/000
Assets according to separate statement of financial position		
Financial assets at amortized cost:		
- Cash and cash equivalents	451,555	88,724
- Trade accounts receivable and Other accounts receivable (*)	1,950,262	1,709,356
- Accounts receivable from related companies	553,039	959
- Financial derivative instruments		
Used for hedge	2,043	8,294
	<u>2,956,899</u>	<u>1,807,333</u>
Liabilities according to the separate statement of financial position		
Financial liabilities at amortized cost:		
- Financial commitments	3,636,234	2,149,442
- Financial lease liability	1,095,000	-
- Commercial accounts payable and Other accounts payable (*)	1,802,322	2,513,813
- Accounts payable to related entities	4,146	3,774
- Financial derivative instruments		
Used for hedge	-	-
	<u>6,537,702</u>	<u>4,667,029</u>

(*) Does not include advances or taxes.

The maximum exposure to credit risk at the end of the reporting period is the book value of each class of financial assets mentioned above.

6 CASH AND CASH EQUIVALENTS

(a) The table below presents the breakdown of the item:

	As of September 30, 2019	As of December 31, 2018
	S/000	S/000
Fixed funds	347	414
Current and Savings Accounts (b)	25,663	62,502
Time Deposits (c)	298,000	6,000
Time deposits of the trust fund (c) and (d)	116,900	9,148
Trust Fund (d)	10,645	10,660
	<u>451,555</u>	<u>88,724</u>

- (b) Current and savings accounts are held in local and foreign banks and are denominated in soles, US dollars and euros. This balance includes current accounts held in the financial institution of Telfisa Global B.V. Group. See note 24(h). Savings accounts are remunerated at current rates in the respective market.
- (c) Timedeposits have original maturities of less than 90 days and may be renewed upon maturity. As of September 30, 2019 and December 31, 2018, the term deposits include deposits in national currency and US dollars in several national banks. These term deposits are remunerated at current rates in the market.
- (d) The funds of the trust fund administered by La Fiduciaria S.A. (with the involvement of the Banco de Crédito del Peru and Banco Santander) are included, which consolidates the collection rights and the cash flows in such a way that the Company can better manage and give greater attention to direct payments that are required for the normal operation of their businesses. The funds that make up the trust fund come from the accounts held at the Banco de Crédito del Peru and Banco Santander denominated: (i) BCP disbursements, where the financing from the Banco de Crédito del Peru is received, (ii) collectors - validation, where payments are received from clients assigned to the trust fund, (iii) payment accounts, where payments are made to suppliers, and (iv) Santander payment accounts where the Group's own transfers are received. Paid-account funds can also be used to purchase eligible investments (financial instruments, derivative or exchange transactions) or can be held in cash. As of September 30, 2019 and December 31, 2018, the trust includes only cash.
- (e) There are no restrictions on the balances of cash and cash equivalents as of September 30, 2019 and December 31, 2018.

7 TRADE ACCOUNTS RECEIVABLE, NET

- (a) The table below presents the breakdown of the item:

	<u>As of September 30, 2019</u> S/000	<u>As of December 31, 2018</u> S/000
Landline business subscribers	2,753,849	2,651,545
Mobile business subscribers	1,912,805	1,370,511
Data and information technology	663,085	654,673
Distributors, agencies and Large retail outlets	451,169	369,105
Wholesaler - Interconnection and Correspondents	266,142	296,006
Related, note 24(d)	115,047	133,582
Other	80,240	65,720
	<u>6,242,337</u>	<u>5,541,142</u>
Less - Estimate for accounts of doubtful collection (d)	(4,459,544)	(3,978,739)
	1,782,793	1,562,403
Less - non-current portion (c)	(15,333)	(38,084)
Current portion	<u>1,767,460</u>	<u>1,524,319</u>

- (b) Commercial accounts receivable (net) generate interest after maturity. The items of internet, landline and public telephony, paid television, mobile phone subscribers, distributors, agencies and large retail outlets are mainly billed in Soles, while accounts receivable for data and information technology, interconnection and correspondents are mainly are billed in US dollars.

As of September 30, 2019, commercial accounts receivable includes estimates for services rendered but not billed for approximately S/ 48,692,000 (S/ 108,620,000 as of December 31, 2018). The Group Management estimates that these items will be invoiced in full in 2019.

As of September 30, 2019, the Group has approximately 2,359,000 Landline and public telephony lines in service, 4,594,000 postpaid mobile telephony lines, 2,062,000 broadband service connections, and approximately 1,575,000 paid television accesses (2,426,000; 4,631,000; 1,954,000 and 1,535,000; respectively as of December 31, 2018).

- (c) (c) As of September 30, 2019 and December 31, 2018, mainly corresponds to accounts receivable for sales of equipment related to internet, central and pay television services, which have maturities of up to 24 months. Contractually these accounts do not generate interest, but for accounting purposes, an implicit interest is estimated, which is deferred at the time of the sale and is recognized as revenue, depending on the duration of the contract.

It also includes accounts receivable for sales financed from mobile terminals, which have maturities of up to 18 months as of September 30, 2019 and December 31, 2018. Contractually these accounts do not generate interest, but for accounting purposes, an implicit interest is estimated, which is deferred at the time of the sale and is recognized as revenue, depending on the duration of the contract.

The amount recognized for these concepts for the nine months ended September 30, 2019, amounts to S/ 4,185,000 (S/ 11,988,000 for the nine-month period ended September 30, 2018) and is presented in the "income financial statements" of the consolidated statement of income.

- (d) The movement of the estimate for doubtful accounts at September 30, 2019 and at December 31, 2018, is as follows:

	As of September 30, 2019	As of December 31, 2018
	S/000	S/000
Initial balance	3,978,739	3,586,569
Provision for doubtful accounts, note 29(a)	478,959	373,240
Net exchange differences	1,846	19,294
Other	-	(364)
Final balance	<u>4,459,544</u>	<u>3,978,739</u>

In Management's opinion, the estimation of provision for doubtful accounts is sufficient to cover the credit risk of these accounts at the date of the consolidated statement of financial position, in accordance with the Group's accounting practice described in note 3.1.

- (e) In the first half of 2019, the assignment of collection rights to the Company's client with the Continental Bank Trust (BBVA) was made for the amount of S/ 78,998,000, retaining risks for S/ 2,370,000. This portion is presented as "Other financial liabilities" (see note 18.3), generating a loss on sale (discount) of S/ 2,134,000. Furthermore, the bank tasked the Company with the collection of the conferred rights. See note 21(c).

In the last quarter of 2018, transfers of collection rights to the Company's client were made with the Continental Bank Trust (BBVA) for the amount of S/ 175,457,000, whilst retaining risks of S/ 5,264,000. This portion is presented as "Other financial liabilities" (see note 18.3), and generating a loss on sale (discount) of S/ 4,774,000; Likewise, the Bank commissioned the Company to collect the conferred rights. See note 21(c).

- (f) Fair values of accounts receivable: due to the short and long-term nature of the other accounts receivable as of September 30, 2019 and December 31, 2018, their book value is considered equal to that of their value reasonable.

8 OTHER ACCOUNTS RECEIVABLE, NET

- (a) The table below presents the breakdown of the item:

	As of September 30, 2019	As of December 31, 2018
	S/000	S/000
Collection rights for coercive executions (c)	141,334	140,682
Collection rights (b)	110,062	224,809
Subsidies receivable (d)	104,696	104,294
Loans to staff, note 24(f)	32,045	30,942
Tax credit for general sales tax, net	-	25,577
Derivative financial instruments, note (g)	2,043	8,180
Other	60,730	42,659
	<u>450,910</u>	<u>577,143</u>
Less - provision for doubtful accounts (f)	(157,912)	(157,575)
	<u>292,998</u>	<u>419,568</u>
Less - Non-current portion	(178,507)	(287,383)
Current portion	<u>114,491</u>	<u>132,185</u>
 Financial assets classified as Other accounts receivable	 167,469	 155,133
Non-financial assets classified as Other accounts receivable	 125,529	 264,435
	<u>292,998</u>	<u>419,568</u>

- (b) As of September 30, 2019 and December 31, 2018, these correspond mainly to collection rights to the Tax Administration, for payment of tax assessments (see note 34 (b)) that in the opinion of Management and legal advisors will be recovered when certain appeals filed in relation to the assessments received for income tax from previous years are resolved, as permitted by IAS 12 - "Income Tax". On July 11, 2019, the Company was notified of the Supreme Court ruling on the Telefónica Móviles court case relating to the 2000 period "ACA7"; which meant, after the evaluation carried out by the Company, a penalty of S/ 87,701,000 as of September 30, 2019. See note 34(b). Group Management expects to recover this item in the long term.
- (c) The collection rights for coercive executions mainly correspond to the seizures of Group assets without a court ruling made by several municipalities at a national level. The Municipalities demand the payment of licenses and fines for the installation of an external plant without municipal authorization. Management is continuing with the filing of the legal actions and estimates that the seizures undertaken will be declared illegal. Likewise, based on a collectability study carried out, the respective doubtful collection estimates have been established.
- (d) The foregoing corresponds mainly to the Lambayeque Project, a contract signed on May 27, 2015, between the Group and the Peruvian State (represented by the Telecommunications Investment Fund - FITEL), for the non-reimbursable financing of the "Comprehensive Broadband connectivity for the social development of the northern part of the Country", which has been charged according to the established schedule.

In accordance with the Group's accounting practice, described in Note 2.22, both the disbursement received and receivables are presented under "Deferred income" in the consolidated statement of financial position. See note 23.

- (e) The other accounts receivable is denominated in national and foreign currency and do not generate interest.
- (f) The other accounts receivable was collectively evaluated to determine if there was objective evidence of impairment. However, the Group determined that the estimate of doubtful collection at the end of the period is sufficient, in accordance with the Group's accounting practice, as described in note 3.1.
- (g) As of September 30, 2019, the Company had cash flow hedging contracts to reduce the exchange rate risk of the disbursements of certain OPEX and CAPEX operations, for a nominal value of US\$ 13,500,000 that has maturity dates during the year 2019. As of December 31, 2018, the hedge contracts were for US \$1,000,000. The cash flow hedge of the expected future payments was evaluated as being highly effective. It is expected that the amounts retained in the separate statement of other comprehensive income will affect the separate profit or loss statement in each of the future periods until their maturity dates.
- (h) Fair values of accounts receivable: due to the short and long-term nature of the other accounts receivable as of September 30, 2019 and December 31, 2018, their book value is considered equal to that of their fair value.

9 ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The Company has recognized the following assets and liabilities related to contracts with customers.

(a) Contractual assets:

	<u>As of September 30, 2019</u> S/000	<u>As of December 31, 2018</u> S/000
Sale of terminals. See note 2.24	199,708	285,166
Less - Non-current portion	(24,095)	(17,867)
Current portion	<u>175,613</u>	<u>267,299</u>

(b) Contractual liabilities:

	<u>As of September 30, 2019</u> S/000	<u>As of December 31, 2018</u> S/000
Landline and mobile telephony services, note 2.24	104,828	131,188
Deferred installation fee, note 2.24	50,361	41,333
Project companies	17,559	16,923
"IRU" access rights (c)	<u>68,015</u>	<u>34,013</u>
	240,763	223,457
Less - Non-current portion	(85,797)	(61,205)
Current portion	<u>154,966</u>	<u>162,252</u>

- (c) Correspond to the irrevocable rights of the unrestricted use of certain Company assets granted to third parties for a period of up to 20 years.

10 INVENTORIES

(a) The table below presents the breakdown of the item:

	<u>As of September 30, 2019</u> S/000	<u>As of December 31, 2018</u> S/000
Merchandise and supplies	302,153	289,077
Stock to be received	<u>106,970</u>	<u>50,913</u>
	409,123	339,990
Less - Inventory devaluation estimate (c)	(<u>26,733</u>)	(<u>27,808</u>)
	<u><u>382,390</u></u>	<u><u>312,182</u></u>

(b) The cost of inventories sold for the nine-month period ended September 30, 2019, was approximately S/ 1,011,233,000 (S/ 988,068,000 for the nine-month period ended September 30, 2018) and is presented in the "Cost of equipment sales" in the consolidated statement of income.

(c) The movement of the inventory devaluation estimate as of September 30, 2019 and at December 31, 2018, is as follows:

	<u>As of September 30, 2019</u> S/000	<u>As of December 31, 2018</u> S/000
Initial balance	27,808	33,131
IPT equity block transfer	(1,014)	-
Provision/(recovery) of devaluation of inventories, net, note 29	198	(5,323)
Other	(<u>259</u>)	-
Final balance	<u><u>26,733</u></u>	<u><u>27,808</u></u>

In Management's opinion, the estimate for inventory devaluation adequately hedges the estimated risk of loss on the dates of the consolidated statement of financial position.

11 OTHER NON-FINANCIAL ASSETS

(a) The table below presents the breakdown of the item:

	As of September 30, 2019	As of December 31, 2018
	S/000	S/000
Deferred costs of compliance obligation (f)	396,996	266,626
Customer acquisition expense (d)	116,090	81,476
Maintenance of licenses and IT equipment	26,404	19,915
Annual Royalty (e)	25,031	-
Insurance paid in advance	9,063	5,791
Advance payments to suppliers	9,045	6,404
Pending terminal equipment activation costs, net (c)	4,445	46,487
Advance payments for right of access (b)	4,322	89,605
Prepaid advertising	2,188	4,664
Rentals paid in advance, note 2.30	-	36,023
Other	95,041	24,840
	<u>688,625</u>	<u>581,831</u>
Less - Non-current portion	(293,590)	(279,273)
Current portion	<u>395,035</u>	<u>302,558</u>

- (b) As of September 30, 2019, includes access rights not classified as a lease under the application of IFRS 16. See note 2.30. As of December 31, 2018, includes the rights of the Company to international submarine transmission access, rental of circuits for long-distance transmission, and the right of usufruct of fiber optic cable, which were paid in advance and have maturities until the year 2041.
- (c) The cost of terminal equipment pending activation corresponds to the cost of terminals, net of income, which are deferred due to the fact that they correspond to sales under concession and that they are not recognized as such until the equipment signal is activated, as explained in notes 2.10 and 2.24.
- (d) It corresponds to expenses directly related to obtaining commercial contracts (sales commissions, expenses with third parties, among others).
- (e) It corresponds to the unearned balance due to the use of the radioelectric spectrum, which is accrued during the year.
- (f) The cost of Pay Television equipment, modems and decoders. Before January 2018, this equipment was sold to the client who contracted the service. However, due to a change in local regulation, this equipment is provided to the client as part of the service. The equipment is differentiated as it is a compliance obligation for client contracts.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) The table below presents the breakdown of the item:

	As of September 30, 2019 S/000	As of December 31, 2018 S/000
Associated companies		
Red Digital del Perú S.A.C. (b)	4,901	7,697
Internet para Todos S.A.C. (c)	262,425	-
	<u>267,326</u>	<u>7,697</u>
Other share investments		
Wayra Perú Aceleradora de Proyectos S.A.C. (d)	41	41
	<u>41</u>	<u>41</u>
	<u>267,367</u>	<u>7,738</u>

(b) Company incorporated in November 2014, dedicated to developing, managing and supporting diverse products and services for small, medium and large companies. The Company's share in Redigpesa S.A.C. is 40 percent.

(c) On May 1, 2019, at the General Shareholders' Meeting, the Company made a simple reorganization by transferring certain assets to the new Company Internet para Todos S.A.C. (see note 1.3 (a)), and a complementary non-cash contribution for the amount of S/ 1,022,000.

On May 10, 2019, the Company reached agreements with other investors JML International Limited, a subsidiary of Facebook, Inc. (Facebook), Andean Development Corporation (CAF) and Inter-American Investment Corporation (IDB) to regulate their joint investment and common share in the equity of Internet for Todos S.A.C. (IPT). The monetary contributions were:

Company	Investment contribution	%
Facebook	122,655,000	24.67
CAF	51,382,500	10.33
IDB	51,382,500	10.33

After the agreement with the partners, Telefónica del Perú diluted its share to 54.67 percent of IPT shares, recognizing an income of S/ 2,573,000. As a result of this agreement the control of IPT was renounced.

(d) The associated Companies do not have contingent liabilities or capital commitments as of September 30, 2019 and December 31, 2018.

13 AVAILABLE-FOR-SALE ASSETS

(a) The movement and composition of the item as of the date of the consolidated statement of financial position are detailed below:

	Properties S/000	Buildings & other constructions S/000	Plant S/000	Equipment and others S/000	Works in progress and units by receive S/000	Total S/000
Cost						
As of January 1, 2019	-	-	-	-	-	-
Available-for-sale assets	<u>7,411</u>	<u>50,802</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,213</u>
As of September 30, 2019	<u>7,411</u>	<u>50,802</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,213</u>
Accumulated depreciation						
As of January 1, 2019	-	-	-	-	-	-
Available-for-sale assets	<u>-</u>	<u>37,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,734</u>
As of September 30, 2019	<u>-</u>	<u>37,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,734</u>
Net amount						
As of September 30, 2019	<u>7,411</u>	<u>13,068</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,479</u>
As of December 31, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(b) In September 2019, the contract for the sale of the Arequipa Avenue property was signed. The Company received an advance amount of S/ 24,137,000. See note 21 (a). The sale of the property is part of the review and eventual release of assets that are not a strategic part of the business. This is so the Company achieves better positioning, liquidity and optimization of the return on capital. See note 31 (c).

14 PROPERTY, PLANT AND EQUIPMENT, NET

(a) The movement and composition of the item as of the date of the consolidated statement of financial position are detailed below:

	Buildings & other		Equipment and other		Movable assets and chattel	Works in progress and units by receive (c)	Total
	Lands S/000	constructions S/000	Plant S/000	s S/000	S/000	S/000	S/000
Cost							
As of January 1, 2018	136,794	1,758,993	24,106,641	1,002,826	121,687	945,930	28,072,871
Additions	-	-	6,697	22	-	1,320,284	1,327,003
Transfers	778	39,812	1,250,668	20,320	1,004	(1,312,582)	-
Transfer to intangible assets, note 15(a)	-	-	-	-	-	(186,844)	(186,844)
Other	(6,085)	6,085	-	-	-	19,041	19,041
Withdrawals and sales, net	(6,289)	(14,113)	(539,451)	(901)	(15)	-	(560,769)
As of December 31, 2018	125,198	1,790,777	24,824,555	1,022,267	122,676	785,829	28,671,302
Additions	-	-	7,944	-	-	699,423	707,367
Transfers	510	13,436	532,091	15,914	108	(562,059)	-
Transfer to intangible assets, note 15(a)	-	-	-	-	-	(67,043)	(67,043)
Other	-	-	-	-	-	15,176	15,176
Assets available for sale, note 13(a)	(7,411)	(50,802)	-	-	-	-	(58,213)
Transfer IFRS 16, note 16	-	-	(39,063)	(665)	-	-	(39,728)
Equity block transfer	-	(174,547)	(329,735)	(3)	-	(27,905)	(532,190)
Withdrawals and sales, see notes 1.3 (a), 13 and 31	(2,529)	(184,205)	(109,463)	(2,033)	-	(816)	(299,046)
As of September 30, 2019	115,768	1,394,659	24,886,329	1,035,480	122,784	842,605	28,397,625
Accumulated depreciation							
As of January 1, 2018	-	1,046,645	19,361,293	905,348	107,873	-	21,421,159
Depreciation for the period	-	71,905	953,837	39,972	4,115	-	1,069,829
Withdrawals and sales, net	-	(10,741)	(538,030)	(540)	(12)	-	(549,323)
As of December 31, 2018	-	1,107,809	19,777,100	944,780	111,976	-	21,941,665
Depreciation for the period	-	46,084	669,326	29,788	2,638	-	747,836
Assets available for sale, note 13(a)	-	(37,734)	-	-	-	-	(37,734)
Transfer IFRS 16, note 16	-	-	(11,353)	(141)	-	-	(11,494)
Equity block transfer	-	(62,498)	(216,165)	(2)	-	-	(278,665)
Withdrawals and sales, net	-	(88,548)	(63,063)	(2,033)	-	-	(153,644)
As of September 30, 2019	-	965,113	20,155,845	972,392	114,614	-	22,207,964
Net amount							
As of September 30, 2019	115,768	429,546	4,730,484	63,088	8,170	842,605	6,189,661
As of December 31, 2018	125,198	682,968	5,047,455	77,487	10,700	785,829	6,729,637

- (b) As of December 31, 2018, "plant, equipment and other items" included assets acquired through finance lease agreements. See note 18.2(a). The net asset book values are as follows:

	As of December 31, 2018
	S/000
Equipment and others	525
	<u>525</u>

- (c) (c) As of September 30, 2019 and December 31, 2018, the works in progress are mainly constituted of the construction of networks and the transmission of data; as well as projects to expand coverage, improve the quality of signal reception, increase the capacity of the voice and data transmission network, and software under development, which Management expects to complete in the short term.
- (d) The Group initiated a modernization plan for its plant in order to simplify the same. Via said plan, updates and/or changes will be undertaken to 2G and 3G technology transmission equipment incorporating multi-band equipment that supports 2G, 3G and 4G frequencies simultaneously and is expected to culminate during 2019. As a result of this, the Group has identified the equipment that would be shut down and their useful life re-estimated. The foregoing implied greater depreciation in the assets included in the "Plant" item at an amount of S/ 49,212,000 as of December 2018, as supported by technical reports.
- (e) As of September 30, 2019 and December 31, 2018, Management considers that there are no signs to indicate a impairment of property, plant and equipment. In its opinion, no estimate is required for this item at the date of the consolidated statement of financial position.

15 INTANGIBLE ASSETS OTHER THAN CAPITAL GAINS, NET

- (a) The movement and composition of the item as of the date of the consolidated statement of financial position are detailed below:

	Administrative concessions (b)	Software (c)	Software in development	Total
	S/000	S/000	S/000	S/000
Cost				
As of January 1, 2018	7,810,164	2,035,782	-	9,845,946
Transfer of works in progress, note 14(a)	-	186,844	-	186,844
As of December 31, 2018	<u>7,810,164</u>	<u>2,222,626</u>	<u>-</u>	<u>10,032,790</u>
Additions	-	-	25,682	25,682
Equity block transfer	-	(952)	-	(952)
Transfer of works in progress, note 14(a)	-	67,043	-	67,043
As of September 30, 2019	<u>7,810,164</u>	<u>2,288,717</u>	<u>25,682</u>	<u>10,124,563</u>
Accumulated amortization				
As of January 1, 2018	5,665,752	1,727,478	-	7,393,230
Amortization for the period	159,265	204,266	-	363,531
As of December 31, 2018	<u>5,825,017</u>	<u>1,931,744</u>	<u>-</u>	<u>7,756,761</u>
Amortization for the period	117,117	148,137	-	265,254
Equity block transfer	-	(952)	-	(952)
As of September 30, 2019	<u>5,942,134</u>	<u>2,078,929</u>	<u>-</u>	<u>8,021,063</u>
Net amount				
As of September 30, 2019	<u>1,868,030</u>	<u>209,788</u>	<u>25,682</u>	<u>2,103,500</u>
As of December 31, 2018	<u>1,985,147</u>	<u>290,882</u>	<u>-</u>	<u>2,276,029</u>

- (b) The concessions include:
- (i) The difference between the share acquisition cost and the fair value of the respective net assets of the Company Peruana de Teléfonos S.A. (CPT), acquired by the Company in 1994, was allocated to the cost of the concession, which amortizes over a period of 33 years, due in December 2027.
 - (ii) Band A 1710-1730 Mhz and 2110-2130 Mhz (4G LTE) in Lima and Provinces, awarded by the MTC in July 2013 for US \$152,229,000, which is amortized over a period of 20 years until 2033. It also includes the use of the B band of provinces, the use of the band in Lima and Callao, and the use of the 25 Mhz band corresponding to the 1,900 Mhz band.
 - (iii) Block C, of the 700 Mhz band, in Lima and Provinces, signed with the MTC in July 2016, for US \$315,007,700, which is amortized over a period of 20 years until 2036. Telefónica del Perú S.A.A. contracted forwards and designated assets to hedge the exchange rate risk in the CAPEX associated with the disbursement for the award of the 700 band. Telefónica del Perú S.A.A. has chosen to recognize the associated profit of S/ 1,190,000 as part of the initial cost of the book value of the related concession, as per that described in note 2.9.
- (c) The software includes the financial and accounting applications based on the SAP system, as well as the network licenses corresponding to platform software that support the commercial systems. The software activated during 2019 and 2018 corresponds mainly to corporate systems for the commercial area, switching software, mobile networks, among others.
- (d) As of September 30, 2019 and December 31, 2018, Management considers that there are no signs to indicate the existence of a impairment in the value of the intangibles. In its opinion, no estimate is required for the date of the consolidated statement of financial position.

16 RIGHTS OF USE

(a) The movement and composition of the item as of the date of the consolidated statement of financial position are detailed below:

	Rights of use of properties and natural goods S/000	Rights of use of constructions S/000	Rights of use of installations Technical Installations and machinery S/000	Other rights for Use S/000	Total S/000
Cost					
As of January 1, 2019	-	-	-	-	-
Adoption of IFRS16, (note 2.29)	411,937	473,766	78,920	36,920	1,001,543
Additions	32,970	103,917	3,042	-	139,929
Other movements	(1,382)	1,366	(1)	-	(17)
Equity block transfer	(12,284)	-	-	-	(12,284)
Transfer IFRS 16, note 14	-	-	39,063	665	39,728
As of September 30, 2019	<u>431,241</u>	<u>579,049</u>	<u>121,024</u>	<u>37,585</u>	<u>1,168,899</u>
Accumulated depreciation					
As of January 1, 2019	-	-	-	-	-
Transfer IFRS 16, note 14	-	-	11,353	141	11,494
Depreciation for the period	55,265	59,569	8,021	9,853	132,708
Equity block transfer	(751)	-	-	-	(751)
As of September 30, 2019	<u>54,514</u>	<u>59,569</u>	<u>19,374</u>	<u>9,994</u>	<u>143,451</u>
Net amount					
As of September 30, 2019	<u>376,727</u>	<u>519,480</u>	<u>101,650</u>	<u>27,591</u>	<u>1,025,448</u>
As of December 31, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

- (b) As of September 30, 2019, the item "plant, equipment and others" includes assets acquired through finance lease agreements. See note 19 (a). The net asset book values are as follows:

	As of September 30, 2019
	S/000
Equipment and others	240
	<u>240</u>

17 GOODWILL

- (a) The changes for the item are as follows:

	S/000
Balance at December 31, 2017	1,224,379
Balance as of December 31, 2018 (b)	<u>1,224,379</u>
Internet para Todos S.A.C. (c)	493
Discharge due to sale of Data Center business (d)	<u>(9,727)</u>
Balance at September 30, 2015	<u><u>1,215,145</u></u>

- (b) Corresponds to the highest value paid for the acquisition of 17.44 percent of shares of Telefónica Móviles Perú Holding S.A.A. and of the entire share in Telefónica Empresas Perú S.A.A., as well as of the subsidiaries Star Global Com S.A.C. and Telefónica Multimedia S.A.C., over the share of the Company in the fair value of the respective net assets acquired, companies that were absorbed.
- (c) On April 30, 2019, the Company purchased 100 percent of the shares in Internet para Todos S.A.C. (IPT) from Wayra Peru, generating a capital gain due to the greater value paid for the acquisition of these shares. See notes 1.3(a) and 12(c).
- (d) On May 8, 2019, the agreement was made for the sale of the business and the assets related to the data center with Daytona DC, S.L.U., which were transferred in July 2019 for EUR 27,376,000. See note 31(c) and 31(e). The sale was confirmed by the signing of a contract for the provision of services for energy consumption for a term of ten years. The contract however does not include the sale of servers owned by the Company or those of its customers hosted in the data centers, and nor the management, operation and administration of the same.

With this sale, the Company will optimize customer service by investing a total of S/ 20,000,000 to improve its cloud offer and its housing, hosting and outsourcing services.

The recoverable amount has been determined using projections of cash flows derived from the financial budgets approved by Senior Management. The aforementioned cover three years (3) and perpetuity. The corresponding discount rate has been determined and is applicable to cash flow projections. Cash flows that go beyond the period indicated in the projections are extrapolated using a specific growth rate that is similar to the long-term average growth rate for the industry in which the Group operates. Likewise, it was concluded in the analysis that the fair value minus the cost of sale did not exceed the value in use as determined.

As of September 30, 2019 and December 31, 2018, the amount of the capital gain has been compared with the recoverable value. Management has determined that it is not necessary to establish an impairment estimate for these assets at the date of the consolidated statement of financial position. See note 2.14.

Key assumptions used in calculations of value in use

The calculation of the value in use for the units evaluated is largely sensitive to the following assumptions:

- Gross margin
- Discount rate
- Market share during the budgeted period; and
- Long-term growth rate used to extrapolate cash flows that go beyond the budget period.

Gross margin

Is based on the average values recorded in the three years prior to the commencement of the budget period and future projects of each company. It increases during the budget period with the expected improvements in efficiency. In the long term, the gross margin (OIBDA) of the Group will remain constant at 28.2 percent.

Discount rate

It represents the current market assessment of the Group's specific risks, considering the time value of money and the particular risks of the underlying assets that were not included in the cash flow estimates. The calculation of the discount rate is based on the specific circumstances of the Group, and represents the average cost of capital. This average considers both debt and equity. The cost of equity is based on the return on investment that the Group's shareholders expect to obtain. The cost of the debt is based on the loans that accrue interest that the Group must pay. The specific segment risk is incorporated through the application of individual beta factors. Beta factors are evaluated annually on the basis of market information available to the public.

The after-tax discount rate used as of September 30, 2019 and December 31, 2018 was 9.49 percent.

Market Share

Using industry information to forecast growth rates is important because Management evaluates how the position of the unit could change in relation to its competitors during the budgeted period. Management expects the Group's market share to remain stable during the budgeted period.

Long-term growth rate

This rate is based on published market research and trends in the telecommunications sector. The growth rate as of September 30, 2019 and December 31, 2018, which has been considered for the subsequent years, is 3.38 percent.

Sensitivity to changes in assumptions

Management considers that the most sensitive assumptions for the model are the growth rate and the discount rate. As such, the Company carried out a sensitivity analysis where it concluded that the Company's recoverable value is above its book value by considering a variation of 10 percent in both variables simultaneously (an increase of 0.9 percent discount rate and reduction of 0.3 percent growth rate). It was concluded that the Company would remain above the book value and would not have to recognize any impairment in capital gain as of September 30, 2019.

18 OTHER FINANCIAL LIABILITIES

(a) The table below presents the breakdown of this field:

	As of September 30, 2019			As of December 31, 2018		
	Portion current	Portion no current	Total	Portion current	Portion no current	Total
	S/000	S/000	S/000	S/000	S/000	S/000
Bonds (18.1)	280,983	3,051,665	3,332,648	165,724	1,456,164	1,621,888
Long-term debt (18.2)	279,260	-	279,260	106,020	233,434	339,454
Short-term debt (18.3)	24,326	-	24,326	187,986	-	187,986
	<u>584,569</u>	<u>3,051,665</u>	<u>3,636,234</u>	<u>459,730</u>	<u>1,689,598</u>	<u>2,149,328</u>

(b) The movement of the other financial liabilities as of September 30, 2019 and December 31, 2018, is as follows:

	cash flow				Changes that do not generate Cash flows		Final balance S/000
	Initial balance S/000	New loans S/000	Payment of loans S/000	Payment of interests S/000	Interests accrued S/000	Difference in exchange S/000	
As of September 30, 2019							
Financial commitments	<u>2,149,328</u>	<u>2,798,411</u>	<u>(1,407,618)</u>	<u>(75,847)</u>	<u>172,008</u>	<u>(48)</u>	<u>3,636,234</u>
As of December 31, 2018							
Financial commitments	<u>1,905,436</u>	<u>1,085,384</u>	<u>(853,862)</u>	<u>(103,281)</u>	<u>115,177</u>	<u>474</u>	<u>2,149,328</u>

18.1 Bonds -

(a) As of September 30, 2019 and December 31, 2018, the following bond issues remain in effect:

Program	Issue and series	Date of expiration	Amount authorized S/000	Amount used S/000	Total		Current portion		Non-current portion	
					As of September 30, 2019 S/000	As of December 31, 2018 S/000	As of September 30, 2019 S/000	As of December 31, 2018 S/000	As of September 30, 2019 S/000	As of December 31, 2018 S/000
Second (**)	27th. A	August 2019	S/ 200,000	S/ 50,000	-	51,077	-	51,077	-	-
Fourth (*)	12th. A	November 2019	S/ 120,000	S/ 60,000	86,187	84,031	86,187	84,031	-	-
Fourth (*)	19th. A	July 2027	S/ 150,000	S/ 60,000	87,355	86,723	665	1,429	86,690	85,294
Fourth (*)	19th. B	April 2028	(***)	S/ 49,000	68,706	67,124	858	369	67,848	66,755
Fourth (*)	19th. C	July 2028	(***)	S/ 20,000	27,498	27,270	168	380	27,330	26,890
Fourth (*)	37th. A	May 2028	S/ 200,000	S/ 48,000	66,944	65,360	737	219	66,207	65,141
Fifth (*)	22nd. Ab	October 2019	(***)	S/ 12,000	16,146	15,750	16,146	15,750	-	-
Fifth (*)	22nd. Ac	October 2021	(***)	S/ 24,000	32,291	31,501	534	255	31,757	31,246
Sixth (f)	11th A	June 2023	S/ 400,000	S/ 260,000	265,179	260,892	5,179	892	260,000	260,000
Sixth (g)	11th B	April 2024	(***)	S/ 120,000	123,539	121,681	3,539	1,681	120,000	120,000
Sixth (g)	12th. A	June 2020	S/ 200,000	S/ 110,000	111,621	110,228	111,621	228	-	110,000
Sixth (g)	12th. B	May 2021	(***)	S/ 70,000	71,070	70,332	1,070	332	70,000	70,000
Sixth (g)	13th A	July 2022	S/ 200,000	S/ 140,000	141,557	143,494	1,557	3,494	140,000	140,000
Sixth (g)	14th A	September 2022	S/ 200,000	S/ 100,000	100,291	101,626	291	1,626	100,000	100,000
Sixth (g)	15th A	October 2024	S/ 135,000	S/ 135,000	138,332	136,487	3,332	1,487	135,000	135,000
Sixth (g)	16th A	April 2025	S/ 400,000	S/ 105,120	107,639	106,195	2,519	1,075	105,120	105,120
Sixth (g)	17th A	May 2030	S/ 250,000	S/ 60,000	62,429	60,957	716	239	61,713	60,718
First	1st. A	October 2026	S/ 200,000	S/ 80,000	82,612	81,160	2,612	1,160	80,000	80,000
First (h)	18th A	April 2027	S/ 1,700,000	S/ 1,700,000	1,743,252	-	43,252	-	1,700,000	-
Total					<u>3,332,648</u>	<u>1,621,888</u>	<u>280,983</u>	<u>165,724</u>	<u>3,051,665</u>	<u>1,456,164</u>

(*) (*) Annual interest rate with constant update value.

(**) Bond placement by Móviles.

(***) The authorized amount is unique for the series (A, B or C) of the same issue.

- (b) The bonds in Soles in effect as of September 30, 2019 and December 31, 2018, cause a weighted average annual interest rate of 6.76 percent and 5.81 percent, respectively. Additionally, the weighted average spread of the VAC bonds in force as of September 30, 2019 and December 31, 2018, is 3.33 percent.
- (c) As of September 30, 2019 and December 31, 2018, the bonds issued according to their contractual conditions have the following maturities:

Year of maturity	As of September 30, 2019			As of December 31, 2018		
	Interests S/000	Main S/000	Total S/000	Interests S/000	Main S/000	Total S/000
2019	69,967	101,016	170,983	16,335	149,389	165,724
2020	-	110,000	110,000	-	110,000	110,000
2021	-	101,757	101,757	-	101,246	101,246
2022	-	240,000	240,000	-	240,000	240,000
2023	-	260,000	260,000	-	260,000	260,000
2024 onwards	-	2,449,908	2,449,908	-	744,918	744,918
Total	69,967	3,262,681	3,332,648	16,335	1,605,553	1,621,888

- (d) The resources raised in the bond issue were used to finance working capital, restructuring liabilities, making investments, among others. These bonds are guaranteed with the equity of Telefónica del Perú S.A.A.
- (e) The amount authorized for the issuance of bonds is up to US \$1,650,000,000, outstanding or their equivalent in national currency, as approved by the Telefónica del Perú S.A.A. General Shareholders' Meeting on March 24, 2017, for a term that was extended until December 31, 2022.
- Furthermore, within the same term, it may issue short-term instruments up to an amount of US \$550,000,000 outstanding with a maximum limit of US \$2,000,000,000 as a whole.
- (f) In June 2016, the issue of Corporate Bonds maturing in June 2023, and for an amount of S/ 260,000,000 at an issue price at par and a fixed nominal annual interest rate of 6.66 percent, was finalized. The foregoing was undertaken in order to assume the expenses associated with the Company's participation in the public tender for Block C of the 700 Band (see note 15(b) (iii)).
- (g) As of December 31, 2018, the issuance of Corporate Bonds for a total amount of S/ 315,120,000 was finalized with the purpose of re-profiling the financial debt and financing the working capital of the Company.
- (h) In April 2019, the issuance of an International Bond with maturity in April 2027 was finalized for an amount of S/ 1,700,000,000 at a nominal fixed annual interest rate of 7.38 percent. The resources raised in the placement will be used for the execution of investment projects in capital goods, the re-profiling of some debt operations and other corporate uses.

18.2 Long-term debt -

(a) As of September 30, 2019, and December 31, 2018, long-term debt includes:

Creditor	Payment	Currency	Date of expiration	As of September 30, 2019		As of December 31, 2018		Current portion		Non-current portion	
				Currency foreign (f.)	Equivalent Currency national	Currency foreign	Equivalent Currency national	As of September 30, 2019	As of December 31, 2018	As of 30 September of 2019	As of December 31, 2018
				USD \$000	S/000	USD \$000	S/000	S/000	S/000	S/000	S/000
European Investment Bank (Luxemburg)	USD \$	Semi-annually	April, 2019	-	-	716	2,419	-	2,419	-	-
BBVA Banco Continental, financial leasing (g)	USD \$	Semi-annually	April, 2020	-	-	29	100	-	66	-	34
BBVA Banco Continental, financial leasing (g)	USD \$	Semi-annually	September, 2020	-	-	35	117	-	58	-	59
BBVA Banco Continental, financial leasing (g)	USD \$	Semi-annually	February, 2021	-	-	40	136	-	54	-	82
BBVA Banco Continental, financial leasing (g)	USD \$	Semi-annually	March, 2021	-	-	45	151	-	60	-	91
Banco Scotiabank del Perú	S/	On maturity	May, 2019	-	-	-	41,330	-	41,330	-	-
Banco de Crédito del Perú	S/	On maturity	May, 2019	-	-	-	21,717	-	21,717	-	-
Banco de Crédito del Perú	S/	On maturity	May, 2020	-	68,050	-	65,408	68,050	-	-	65,408
Banco de Crédito del Perú	S/	On maturity	August, 2020	-	111,052	-	107,026	111,052	-	-	107,026
Banco Scotiabank del Perú (h)	S/	On maturity	April, 2020	-	60,114	-	60,734	60,114	-	-	60,734
Banco Scotiabank del Perú	S/	On maturity	December, 2019	-	40,044	-	40,430	40,044	40,430	-	-
Financial derivatives, net (f)				-	-	-	(114)	-	(114)	-	-
Total					<u>279,260</u>		<u>339,454</u>	<u>279,260</u>	<u>106,020</u>	<u>-</u>	<u>233,434</u>

- (b) The long-term debts in Soles in effect as of September 30, 2019 and December 31, 2018 produce a weighted average annual interest rate of 4.75 and 4.83 percent respectively. The debts in foreign currency in effect as of December 31, 2018, accrue a weighted average annual interest rate of 3.63 percent.
- (c) The Company maintains certain restrictive clauses in relation to its long-term debt, such as:
- Default on payment of debt.
 - Insolvency and dissolution process.
 - Assignment of assets for a substantial amount in relation to the total assets or that significantly affect the generation of resources.

The loan obtained via the European Investment Bank (Luxembourg) is guaranteed by Banco Santander Central Hispano SA

In Management's opinion, the commitments agreed with the financial entities, as of September 30, 2019 and December 31, 2018, have been fulfilled.

- (d) As of September 30, 2019 and December 31, 2018, long-term debt has the following maturities:

<u>Year of expiration</u>	<u>As of September 30, 2019</u>			<u>As of December 31, 2018</u>		
	<u>Interests</u>	<u>Main</u>	<u>Total</u>	<u>Interests</u>	<u>Main</u>	<u>Total</u>
	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>
2019	44	40,000	40,044	3,732	102,288	106,020
2020	19,216	220,000	239,216	13,288	220,063	233,351
2021	-	-	-	-	83	83
Total	<u>19,260</u>	<u>260,000</u>	<u>279,260</u>	<u>17,020</u>	<u>322,434</u>	<u>339,454</u>

- (e) At a Board Meeting held on May 25, 2005, the Telefónica del Perú S.A.A. Board of Directors approved the execution of a non-massive private offering of promissory notes. The offer was made through one or several issues for up to the equivalent of US \$400,000,000 in circulation and delegated powers to certain officers of Telefónica del Perú S.A.A. in order to establish the respective issue characteristics. This term was extended until December 31, 2018 by the General Shareholders' Meeting of March 24, 2014.
- (f) As of September 30, 2019, the Company did not maintain cash flow hedge contracts (swaps) for exchange rate and interest rate risk. As of December 31, 2018, they were valued at US \$2,260,000.

- (g) The future minimum payments for financial leases obtained as of December 31, 2018, are as follows:

	As of December 31, 2018
	S/000
2019	252
2020	218
2021	61
Total minimum lease payments	<u>531</u>
Less:	
Financial burden to apply to results during term of lease	(27)
Current value of the minimum lease payments	<u>504</u>
Liabilities from current finance	
Current	238
Non-current	266
Total	<u>504</u>

As of September 30, 2019, financial lease liabilities are being presented in the "Financial lease liabilities" section, in accordance with IFRS 16. See notes 2.29 and 19.

- (h) In September 2018, the loan with Banco Scotiabank was renewed for the amount of S/ 60,000,000 at an interest rate of 4.10 percent. Maturity was extended to April 2020, appearing in December 2018 as long-term debt.

18.3 Short-term debt -

- (a) The table below shows the breakdown of the item:

	Currency originating	As of September 30, 2019	As of December 31, 2018
		S/000	S/000
Scotiabank Bank (d)	S/	-	50,802
BBVA Banco Continental (d)	S/	-	50,795
BBVA Banco Continental (d)	S/	-	50,740
Banco de Crédito del Perú (d)	S/	-	30,385
BBVA Banco Continental Trust (b)	S/	2,370	5,264
Telxius Torres Perú S.A.C. (c)	S/	21,956	-
Total		<u>24,326</u>	<u>187,986</u>
Composition of the debt			
Main		24,326	185,264
Interests		-	2,722
Total		<u>24,326</u>	<u>187,986</u>

- (b) Risk not transferred in the assignment of collection rights with the BBVA Banco Continental Trust. See note 7(e).
- (c) As of September 30, 2019, the Group had sold 877 towers to Telxius Torres Peru S.A.C. for a total value of S/ 350,097,000 through contracts. The Group has recognized as income S/ 328,141,000 as the buyer has the obligation to return 20 percent according to the clauses of the contract. See note 14(a) and 31(c).
- (d) Loans for working capital

(e) The current average annual rate of loans in Soles as of December 31, 2018 is 3.31 percent.

19 FINANCIAL LEASE LIABILITY

(a) The table below presents the breakdown of the item:

	As of September 30, 2019	
	USD \$000	S/000
Financial lease liabilities. See notes 2.29 and 16	86,494	292,782
Financial lease liabilities. See notes 2.29 and 16	-	801,917
Financial leasing (d)	89	<u>301</u>
	-	1,095,000
Less - Non-current portion	-	<u>(872,051)</u>
Current portion	-	<u><u>222,949</u></u>

As of December 31, 2018, the financial lease liabilities were presented in the section "Financial Obligations". See note 18.2.

(b) Future payments as per the leases as of September 30, 2019 are as follows:

	As of September 30, 2019
	S/000
2019	49,264
2020	189,094
2021	175,488
2022	152,240
2023	134,592
2024 onwards	<u>394,322</u>
	<u><u>1,095,000</u></u>

(c) The current average annual rate of lease liabilities in Soles as of September 30, 2019 is 3.53 percent, and in Dollars it is 3.87 percent.

- (d) The future minimum payments for financial leases obtained as of December 30, 2019, are as follows:

	As of September 30, 2019 S/000
2019	34
2020	213
2021	<u>60</u>
Total minimum lease payments	307
Less:	
Financial burden to apply to results during term of lease	(<u>6</u>)
Current value of the minimum lease payments	<u><u>301</u></u>
Liabilities from current finance commitments	241
Non-current	<u>60</u>
Total	<u><u>301</u></u>

20 TRADE ACCOUNTS PAYABLE

- (a) The table below presents the breakdown of the item:

	As of September 30, 2019 S/000	As of December 31, 2018 S/000
Accrued obligations to be invoiced	816,800	775,713
Domestic suppliers (c)	639,397	1,147,993
Related, note 24(d)	188,852	301,800
Foreign suppliers	46,435	124,071
Guarantee deposits - contractors	<u>12,230</u>	<u>4,177</u>
	<u><u>1,703,714</u></u>	<u><u>2,353,754</u></u>

- (b) Commercial accounts payable are denominated in Soles, US dollars and euros, do not accrue interest, have current maturities, are normally paid in an average period of 60 days, and no guarantees have been granted.
- (c) Domestic suppliers, as of September 30, 2019 and December 31, 2018, represent S/ 388,916,000 and S/ 505,887,000, respectively, in accounts payable that are under assignment of collection rights with Investment Funds, in which TFP S.A.C. (an affiliate of the Group) provides management services required for suppliers to access such transactions. The aforementioned collection rights transfer transactions have not involved a change in the commercial terms agreed with the suppliers and the Group. As such, their classification as commercial accounts payable is maintained.
- (d) The book values of the commercial accounts are considered equal to their fair values due to their short-term nature.

21 OTHER ACCOUNTS PAYABLE

(a) The table below presents the breakdown of the item:

	As of September 30, 2019	As of December 31, 2018
	S/000	S/000
Remunerations and holiday benefits (b)	458,186	208,168
Taxes and royalty payable, note 25(h)	47,341	27,725
Worker share, note 25	38,857	446
Dividends and returns payable to shareholders	25,083	27,667
Advances received, note 13	24,137	-
Collection on behalf of third parties (c)	19,512	101,697
Guarantee Deposits	12,922	14,281
Other	16,954	16,297
	<u>642,992</u>	<u>396,281</u>
Less - Non-current portion (b)	(196,567)	(76,281)
Current portion	<u>446,425</u>	<u>320,000</u>
Financial liabilities classified as other accounts payable	98,608	159,945
Non-financial liabilities classified as other accounts payable	544,384	236,336
	<u>642,992</u>	<u>396,281</u>

(b) On September 26, 2019, the Voluntary Retirement Incentive Program called "New Horizons" was launched, ending with the signing-up of 735 employees on October 11, 2019 for an amount of S/ 313,316,000. These employees retired from the Company on October 15, 2019.

In the third quarter of 2018, Management initiated a Voluntary Retirement Program Incentive called "Valuable Time". As of September 30, 2019 and 2018, organizational restructuring costs were estimated at S/ 14,881,000 and S/ 77,193,000 respectively. See notes 2.19 and 30.

(c) Collections made by the Company on behalf of the Continental Bank Trust (BBVA), on rights assigned by the Company. See note 7(e).

22 OTHER PROVISIONS

(a) The table below presents the breakdown of the item:

	As of September 30, 2019	As of December 31, 2018
	S/000	S/000
Litigation and risks, note 34(b)	3,068,494	2,483,079
Tower decommissioning, note 2.19	54,175	108,900
Others (d)	19,710	1,218
	<u>3,142,379</u>	<u>2,593,197</u>
Less - Non-current portion	(451,211)	(459,646)
Current portion	<u>2,691,168</u>	<u>2,133,551</u>

(b) Item movement is detailed below:

	<u>Litigation and risks</u> <u>S/000</u>	<u>Decommissioning</u> <u>S/000</u>	<u>Other</u> <u>S/000</u>	<u>Total</u> <u>S/000</u>
As of January 1, 2018	2,446,288	131,547	3,832	2,581,667
Additions	103,232	7,575	566	111,373
Derecognitions	-	(30,222)	(3,180)	(33,402)
Payments	(66,441)	-	-	(66,441)
As of December 31, 2018	2,483,079	108,900	1,218	2,593,197
			24,03	
Additions	609,868	9,111	4	643,013
Derecognitions	-	(63,836)	(5,542)	(69,378)
Payments	(24,453)	-	-	(24,453)
			19,71	
As of September 30, 2019	3,068,494	54,175	0	3,142,379

(c) Largely includes various provisions made by the Company in accordance with the practice described in note 2.19, based on its best estimates of the disbursement that would be required to settle obligations at the date of the separate statement of financial position.

Management and its internal and external legal advisors consider that the recorded provisions are sufficient to hedge the risks affecting the Company's business as of September 30, 2019 and December 31, 2018, as described in note 34(b).

(d) As of September 30, 2019, as a result of the 877 towers sold, the Group made a provision for tower reinforcement for the amount of S/ 24,034,000. See notes 18.3(c) and 31(c).

23 DEFERRED INCOME

(a) The table below presents the breakdown of the item:

	<u>As of</u> <u>September 30,</u> <u>2019</u> <u>S/000</u>	<u>As of</u> <u>December 31,</u> <u>2018</u> <u>S/000</u>
Grants, (b) and notes 8(d) and 2.22	121,620	139,940
Intégrame	4,474	5,768
Other	20,860	32,262
	<u>146,954</u>	<u>177,970</u>
Less - Non-current portion	(110,923)	(125,321)
Current portion	<u>36,031</u>	<u>52,649</u>

(b) Deferred income from grants mainly includes:

- Lambayeque Project: corresponding to the contract signed on May 27, 2015 between the Company and the Peruvian State (represented by the Telecommunications Investment Fund - FITEL), for the non-refundable financing of the Project "Integral Broadband Connectivity for the social development of the northern part of the Country". The balance for this Project as of September 30, 2019 and December 31, 2018, amounts to approximately S/ 113,020,000, and S/ 124,850,000, respectively. The Lambayeque project includes the construction of a transportation network for US \$11,613,000. The investment term was extended until 2017.
- BAS Project: corresponding to the contract signed on February 27, 2009, between the Company and the Peruvian State (represented by FITEL), for the non-reimbursable financing of the Broadband Project for Isolated Locations (BAS). The balance for this project amounts to approximately S/ 1,734,000 and S/ 6,931,000 as of September 30, 2019 and December 31, 2018, respectively.

- Selva Project: corresponding to the contract signed on February 18, 2011, between the Company and the Peruvian State (represented by FITEL), for the non-refundable financing of the Project "Integration of rural areas and places of preferential social interest to the mobile service network - Selva". The balance for this project amounts to approximately S/ 6,866,000 and S/ 8,159,000 as of September 30, 2019 and December 31, 2018, respectively.

The Company has the obligation to use such financing at its own risk for the design, acquisition of equipment, installation, commissioning, operation and maintenance of a system that will allow the provision of public telecommunications services in beneficiary localities, complying with the conditions foreseen in the technical specifications presented in the financing contract.

Project	Lambayeque	BAS	Selva
Investment period	14 months	19 months	12 months
Period of operation	120 Months	48 months	50 months
End of contract	Continue with the obligations stipulated in their respective concession contracts.		
Amount	US \$47,626,000	US \$48,849,000	US \$14,718,000

For the nine-month period ending September 30, 2019 and 2018, the Group accrued income of S/20,017,000 and S/18,162,000 respectively, and are presented under "Other income and operating expenses" of the consolidated statement of income. See note 31(a).

24 TRANSACTIONS WITH RELATED ENTITIES

- (a) During the nine-month periods ending September 30, 2019 and 2018, the most significant transactions made by the Group with related entities were the following:

	As of September 30, 2019	As of September 30, 2018
	S/000	S/000
Revenues with related companies for:		
Rental of land		
- Telxius Torres Perú S.A.C.	157	474
Other transaction fees		
- TFP S.A.C.	887	303
Expenses with related companies for:		
Fee for use of trademark, note 29(a)		
- Telefónica, SA (b)	500	(96,294)
Internet and fiber optic linking services		
- Telxius Cable Perú S.A.C.	(69,950)	(67,794)
Logistics service		
- Tgestiona Logística S.A.C.	(21,454)	(59,317)
Systems and management services		
- Telefónica Global Technology SAU.	(39,277)	(43,627)
Site rental		
- Telxius Torres Perú S. A.C.	92	(32,981)
Transfer of management capacity, note 29(a)		
- Telefónica Latinoamérica Holding S.L. (c)	(5,642)	(8,022)

- (b) The Group has a contract with Telefónica S.A., through which it pays a fee for brand use equivalent to 1.6 percent of the monthly income, excluding local operations with related companies, unless the previous year had a negative balance of applying the operating result less depreciation and amortization and the CAPEX of that year. This situation occurred in 2018 and thus a corresponding fixed fee had to be paid in 2019.
- (c) As of September 30, 2019 and December 31, 2018, the Group had contracts with Telefónica Latinoamérica Holding S.L. for the transfer of management capacity.

As of September 30, 2019 and December 31, 2018, the Group had the following commercial balances with related entities:

	As of September 30, 2019		As of December 31, 2018	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
	S/000	S/000	S/000	S/000
Related:				
Telefónica International Wholesale Services S.L.	25,907	17,622	21,846	25,222
Media Networks Latin América S.A.C.	21,446	43,082	17,102	53,038
Telefonica Venezolana C.A.	14,513	244	14,542	16
Telxius Cable Perú S.A.C.	7,366	18,335	17,696	28,214
Internet para Todos S.A.C.	5,774	8,208	-	-
Telefónica Digital España S.L.	4,148	21,682	8,776	17,919
Telefónica, S.A.	3,417	723	4,206	70,294
Telefónica Data USA	3,284	749	2,915	756
Telefónica Servicios TIWS S.A.C.	3,279	22,576	12,441	5,318
Fundación de Telefónica del Perú	1,656	-	1,421	-
Pegaso Recursos Humanos S.A. de C.V.	1,363	-	1,472	-
Terra Networks Perú S.A.C.	907	23	885	1,740
Telefonica Ingeniería de Seguridad SA Peru Branch	694	11,972	1,197	11,126
Telefónica Móviles España, S.A.	590	-	-	1,266
Telefonica Servicios Audiovisuales SA Peru Branch	568	1,092	574	983
Telxius Torres Perú S.A.C.	510	88	2,066	12,808
Telefónica Latinoamérica Holding S.L.	373	7,919	519	11,915
Telefónica Gestión de Tecnología SAU	-	13,871	-	13,155
Telefónica Compras Electrónicas	-	3,499	-	5,424
Tgestiona Logística S.A.C. (*)	-	-	2,588	23,300
Media Networks Services Chile S.P.A.	-	-	1,830	-
Other	19,252	17,167	21,506	19,306
Commercial accounts receivable and payable related, (see notes 7(a) and 20(a))	115,047	188,852	133,582	301,800

(*) Tgestiona Logística S.A.C. was sold on April 4, 2019 to Brightstar Perú S.R.L., and thus is no longer part of the Telefónica Group. The sale generated a profit of S/ 197,000.

- (e) As of September 30, 2019 and December 31, 2018, the Group had an account receivable from Wayra Perú Aceleradora de Proyectos S.A.C. for S/587,000 and S/959,000, respectively, for investments.

As of September 30, 2019, the Group maintained an account receivable from Telfisa Global B.V. for S/490,177,000 as a result of a loan, which expires in December 2019 at a rate of 2.55 percent.

As of September 30, 2019, the Company maintains an account receivable from Telxius Torres Perú S.A.C. for S/62,275,000 for the sale of 156 towers.

As of September 30, 2019 and December 31, 2018, the Group had an account payable to Telefónica S.A. for an amount of approximately S/4,146,000 and S/3,744,000, corresponding to the fair value of the stock options granted by the Parent company in Spain to certain executives of the Company, who may exercise their rights within a maximum term of until 2021. See note 2.26.

- (f) Loans to personnel -

The Group grants loans to its employees and officers for terms of up to 24 months. The interest rates applied are generally below the interest rates existing in the market; however, the other loan terms are substantially the same as those of the market. The balance of employee loans was approximately S/32,045,000 and S/30,942,000 as of September 30, 2019 and December 31, 2018, respectively. The loans are presented in the section "Other accounts receivable, net" of the consolidated statement of financial position. See note 8(a).

- (g) Remuneration to the Board of Directors and members of Key Management -

Remuneration received by directors and key management personnel amounted to approximately S/ 22,594,000 for the nine-month period ending September 30, 2019 (approximately S/ 26,928,000 for the nine-month period ending September 30, 2018), which include short-term benefits, compensation for time served, and others.

- (h) As of September 30, 2019, the Group had current accounts in the Group's finance company, Telfisa Global, B.V., amounting to US \$2,014,000, equivalent to S/ 6,811,000, which are presented under "Cash and cash equivalents". (As of December 31, 2018, the Company held current accounts in Telfisa Global, B.V., for an amount of US \$684,000, equivalent to S/ 2,304,000 respectively).

Terms and conditions of transactions with related parties -

Sales and purchases with related parties are made under market conditions equivalent to those applied to transactions between independent parties. As of September 30, 2019 and December 31, 2018, the Group had not recorded any estimate for doubtful accounts in relation to the balances owed by the related parties. This evaluation is performed annually by examining the commercial position of the related party and the market in which it operates.

In the opinion of Management, accounts receivable and payable classified as current as of September 30, 2019, will be collected and paid in the short term.

25 18 TAX SITUATION

(a) Deferred Taxes -

The movement of the item is as follows:

	January 1, 2018 S/000	Credit (charge) to the income statement S/000	Credit (charge) to another comprehensive income S/000	As of December 31, 2018 S/000	Credit (charge) to the income statement S/000	Credit (charge) to another income statement S/000	As of September 30, 2019 S/000
Deferred assets/(liabilities)							
Depreciation	313,782	51,485	-	365,267	(24,098)	11,779	329,390
Estimate for doubtful account collection	137,818	72,052	-	209,870	84,624	-	294,494
Provision for various contingencies	52,532	(13,970)	-	38,562	(2,351)	-	36,211
VAC bonds	32,805	(2,587)	-	30,218	2,103	-	32,321
Personnel expenses	29,997	10,974	-	40,971	45,478	(25)	86,424
Provision for decommissioning equipment.	38,911	(33,174)	-	5,737	4,328	(170)	9,895
Other	34,948	15,964	-	50,912	31,562	-	82,474
Impairment of inventories and property, plant and equipment	9,702	(1,462)	-	8,240	(241)	(298)	7,701
Deferred revenue from tower sales	900	(326)	-	574	-	-	574
Finance lease	8,267	(15,791)	-	(7,524)	539	-	(6,985)
Other deferred income	120	(70)	-	50	(17)	-	33
Payroll capitalization for plant construction	(442)	135	-	(307)	100	-	(207)
Financial instruments	2,248	987	(2,495)	740	(1,810)	(209)	(1,279)
Amortization of software licenses	(14,826)	5,375	-	(9,451)	6,108	-	(3,343)
Allocation of the price paid per fixed asset	(4,228)	529	-	(3,699)	396	-	(3,303)
Cost attributed to fixed assets	(13,825)	1,249	-	(12,576)	228	-	(12,348)
IFRS 15	(108,018)	(2,764)	-	(110,782)	14,430	-	(96,352)
IFRS 16	-	-	-	-	42,702	-	42,702
Administrative concession	(629,346)	46,983	-	(582,363)	34,550	-	(547,813)
Deferred costs and income-Decos	-	(78,486)	-	(78,486)	(39,069)	-	(117,555)
Tax loss	-	55,538	-	55,538	(54,776)	-	762
Total assets/(liabilities)						12,481	
deferred, net	<u>(108,655)</u>	<u>112,641</u>	<u>(2,495)</u>	<u>1,491</u>	<u>144,786</u>	<u>()</u>	<u>133,796</u>

- (b) The deferred income tax is determined by its estimated reversal term as shown in the following detail:

	<u>As of September 30, 2019</u>	<u>As of December 31, 2018</u>
	<u>S/000</u>	<u>S/000</u>
Deferred income Tax assets:		
Reversion expected in the next 12 months	74,852	32,790
Reversion expected after 12 months	58,944	(32,255)
Total deferred income tax liabilities	<u>133,796</u>	<u>535</u>

- (c) The expense/(income) shown for the income tax in the consolidated profit and loss statement, is composed as follows:

	<u>As of September 30, 2019</u>	<u>As of September 30, 2018</u>
	<u>S/000</u>	<u>S/000</u>
Current	742,692	97,154
	144,786	
Deferred	()	(72,645)
	597,906	
	6	24,509

- (d) The reconciliation of effective income tax rate with tax rate is as follows:

	<u>As of September 30, 2019</u>		<u>As of September 30, 2018</u>	
	<u>S/000</u>	<u>%</u>	<u>S/000</u>	<u>%</u>
Results before income tax	(384,545)	100.00	(201,947)	100.00
Income tax according to tax rate tax (income)	(113,441)	29.50	(59,574)	29.50
Tax impact:				
Rental of premises for public telephony (not deductible)	449	(0.12)	605	(0.30)
Contingencies and taxes, note 34 (b)	681,131	(177.13)	48,933	(24.23)
Expenses from previous periods	1,772	(0.46)	2,116	(1.05)
Results in associated companies	925	(0.24)	(1,452)	0.72
Expenses not allowed	577	(0.15)	1,024	(0.51)
Employee profit sharing	-	-	1,635	(0.81)
Other, net	26,493	(6.88)	31,222	(15.46)
Income tax expenses	<u>597,906</u>	<u>(155.48)</u>	<u>24,509</u>	<u>(12.14)</u>

- (e) The Group is subject to the tax regime of Peru. The income tax rate as of September 30, 2019 and December 31, 2018, on taxable income after deducting the employee profit sharing, is calculated at a rate of 10 percent on taxable income.

Legal entities not domiciled in Peru and natural persons are subject to the withholding of an additional tax on dividends received.

According to Legislative Decree No. 1261, the withholding of an additional tax on dividends received as of 2017 is 5 percent, and whose distribution is made as of that date (until 2014, 4.1 percent, and for the 2015 and 2016, periods, 6.8 percent).

- (f) For purposes of determining the income tax and general sales tax, the transfer pricing of transactions with related entities and with companies resident in territories with low or no taxation must be supported by documentation and information on the valuation methods used, and the criteria considered for their determination. Based on the analysis of the Group's operations, Management and its legal advisors believe that, as a consequence of the application of these standards, no material contingencies will arise for the Group as of September 30, 2019 and December 31, 2018.

As of September 30, 2019, the Group recorded a provision for income tax of S/ 742,692,000 that, net of tax instalment payments and the other provisions recorded, resulted in a balance of S/ 208,268,000 (S/ 110,214,000 from income tax payable that, in its net effect on tax instalment payments and other recorded provisions, resulted in a positive balance of S/ 304,285,000 as of December 31, 2018). Likewise, the Group generated a tax loss in 2018, amounting to S/ 188,263,000; for which deferred income tax of S/ 55,538,000 was recorded. The Group expects to offset this deferred tax asset through the generation of new cash flows generated by the Management's plans described in note 3.2.

Other tax credits are presented in the item "Other accounts receivable" of the consolidated statement of financial position.

- (g) The sworn declarations on the income tax and the general sales tax for the years 2014 to 2019 are pending inspection by the Tax Authority in Peru. During the 2017 and 2016 periods, the 2009 and 2010 tax periods for income tax were audited.

The tax authorities have the power to review and, if applicable, correct the taxes calculated by the Company and its Subsidiary. The sworn declarations of the income tax and general sales tax of the Company for the years 2014 to 2019 are subject to inspection by the Tax Administration.

The sworn declarations of the income tax and general sales tax of its Subsidiaries are subject to verification by the Tax Administration.

These subsidiaries are:

	<u>Period</u>
Servicios Globales de Telecomunicaciones S.A.C.	2014 to 2019
Telefónica Multimedia S.A.C.	2014 to January 2018 (*)
Star Global Com S.A.C.	2014 to January 2018 (*)
Telefónica Móviles S.A.	September 2014 (*)
Telefónica Servicios Comerciales S.A.C.	July 2014 (*)

(*) Date on which these companies were absorbed by the Company.

Due to the possible interpretations that the tax authorities can give to the legal norms in force, it is not possible to determine to date if the revisions that may be made will result in additional liabilities or not. Any eventual higher tax or additional payment that could result from the fiscal reviews will be applied to the results of the fiscal year in which it is determined. However, in the opinion of the Group's Management and its legal advisors, any possible additional tax settlement will not be significant for the consolidated financial statements as of September 30, 2019 and December 31, 2018.

- (h) As of September 30, 2019 and December 31, 2018, the "Other accounts payable" item includes other taxes for approximately S/ 21,956,000 and S/ 27,725,000 respectively.

In accordance with Supreme Decree 013-93-TCC, which approves the Consolidated Text of the Telecommunications Law, and its Regulations, approved by Supreme Decree No.020-2007-MTC, the Company and its Subsidiaries, in their capacity as concessionaires of telecommunications services, must pay the following fees and charges:

Item	Beneficiary	%	Calculation base
Special right for the Fund of Telecommunications Investments (FITEL)	MTC	1.0	Billed revenue and received for services carriers and end of telephony.
Contributions for supervisory services	OSIPTEL	0.5	Billed revenue and received for different services of telecommunications.
Commercial exploitation rate of Service	MTC	0.5	Services subject to concession and/or authorization.

The amount recorded as an expense for these items amounts to approximately S/ 81,116,000 and S/ 94,540,000 for the nine-month periods ending September 30, 2019 and 2018, respectively, and are included in the item "General and administrative expenses" of the consolidated profit or loss statement. See note 29(a).

Likewise, the aforementioned instruments create an annual fee for the use of radioelectric spectrum.

- (i) Regulatory framework - Amendments to the Income Tax Law -

On September 13, 2018, Legislative Decree 1422 was issued, which includes, among other modifications, one that corresponds to the incorporation of items and/or definitions of "non-cooperating country or territory" and "preferential tax regime", "permanent establishment", "Indirect alienation" of shares, as well as the following topics:

- *Transfer pricing:*

The scope of application of the Transfer Pricing regulations is extended to transactions carried out from, to or through non-cooperating countries or territories or subjects whose income and earnings enjoy a preferential tax regime.

- *Accrual:*

A legal definition of accrual is established for the recognition of income and expenses for purposes of Income Tax, according to which third-category income is understood to be accrued when substantial events generating the income have occurred and the right to it is not subject to a suspension.

- *Restriction on deductibility of financial expenses:*

New rules are incorporated for the deductibility of interest, and for the applicability of limits both for loans granted by related parties, as well as for credits granted by parties that are not economically linked.

- *General Anti-elusive Clause (Standard XVI):*

A special procedure has been established for the application of Standard XVI, according to which SUNAT may apply the provisions of the second to fifth paragraphs of Standard XVI within the framework of a final control, provided that a favorable opinion is previously available from a Review Committee composed of three (3) SUNAT officials. Likewise, the Board's obligation to approve, ratify or modify the acts, situations and economic relations to be carried out (or already been carried out) within the "fiscal planning" framework has been established.

26 EQUITY

(a) Issued capital -

As of September 30, 2019 and December 31, 2018, the capital issued by Telefónica del Perú S.A.A. is represented by 3,344,363,158 common shares, fully subscribed and paid, at a nominal value of S/ 0.86 each. See note 33.

The capital structure issued as of September 30, 2019 and December 31, 2018, is composed of the following share classes:

	<u>As of September 30, 2019</u> %	<u>As of 31 December, 2018</u> %
Class B		
Telefónica Latinoamérica Holding S.L.	50.224	50.224
Latin America Cellular Holding B.V.	48.349	48.349
Other minor shareholders	1.421	1.421
Class C	0.006	0.006
	<u>100.000</u>	<u>100.000</u>

The class "B" shares choose as many directors as required to complete the number of members set by the General Shareholders' Meeting for each term while bearing in mind the director that, where appropriate, has the task of designating the shareholders for class "C".

Furthermore, class "C" shares, which correspond to Telefónica del Perú S.A.A. employees, elect one (1) director provided that they have reached an equity ratio of not less than 3 percent of the subscribed capital. If they do not reach this percentage by the time of the election, one more director of class "B" will be elected, thus completing the required number of Board members.

(b) Share premium account -

These correspond to the incorporation resulting from the merger by the absorption of Telefónica Móviles Perú Holding S.A.A. undertaken on December 31, 2008, as well as the higher value paid over the nominal value in the acquisition of the own shares.

(c) Other capital reserves -

This is composed of the legal reserve, as provided by the General Corporation Law, that requires a minimum of 10 percent of the distributable profit of each year, net of income tax, to be transferred to a legal reserve until it is equal to 20 percent of the capital. The legal reserve can compensate for losses or it can be capitalized, in both cases there is a requirement to replace it.

The legal reserve as of September 30, 2019 and December 31, 2018, amounts to S/ 576,453,000.

(d) Other equity reserves -

These correspond mainly to net profits and losses due to changes in the estimated market value of the derivative financial instruments of cash flow hedges. The change in value is initially reflected in equity, and subsequently affects the profit and loss statement as per how it is influenced by the underlying hedge. During the nine-month period ending September 30, 2019 and 2018, the unrealized loss generated by the valuation of hedging derivatives amounts to S/ 705,000 and S/ 7,953,000, respectively. The net (loss)/profit of its tax effect amounts to S/ 496,000 (S/ 5,614,000 for the nine-month period ending September 30, 2018). See notes 8(g) and 18.2(f).

27 LANDLINE (FIXED) BUSINESS INCOME

The table below presents the breakdown of this field:

	As of September 30, 2019	As of September 30, 2018
	S/000	S/000
Services	2,313,717	2,297,043
Data + IT	488,150	418,902
Wholesale	169,677	121,696
Equipment	67,929	62,474
Other	72,665	101,570
Total	<u>3,112,138</u>	<u>3,001,685</u>

28 MOBILE BUSINESS INCOME

The table below presents the breakdown of the item:

	As of September 30, 2019	As of September 30, 2018
	S/000	S/000
Postpaid	1,305,099	1,321,209
Terminals	916,365	845,770
Pre-paid	468,991	552,753
Wholesaler	132,665	239,914
Other	66,187	100,883
Total	<u>2,889,307</u>	<u>3,060,529</u>

29 GENERAL AND ADMINISTRATIVE EXPENSES

(a) The table below presents the breakdown of the item:

	As of September 30, 2019	As of September 30, 2018
	S/000	S/000
Services provided by third parties (c)	2,722,309	3,001,067
Taxes and royalties (b)	170,527	176,972
Provision for doubtful accounts and for impairment of inventories, notes 7 (d), 8(f) and 10(c), net of recoveries	460,517	240,744
Fee for brand use and transfer of management capacity, note 24(a)	5,142	104,316
Other management charges	17,353	17,613
Total	<u>3,375,848</u>	<u>3,540,712</u>

(b) The heading "Taxes and royalties" corresponds mainly to OSIPTEL payments and the MTC, note 25(h).

(c) The services rendered by third parties include the following:

	As of September 30, 2019	As of September 30, 2018
	S/000	S/000
Fees, commissions and services	1,221,886	1,260,311
Television signals and circuits	500,783	439,440
Maintenance and repair	290,554	268,586
Interconnection costs and carriers	179,556	256,423
Capacity Services	122,996	162,764
Advertising	103,718	138,957
Basic services	93,686	89,963
Transportation and warehousing	36,545	44,395
Value-added services	33,690	37,429
Rents	25,012	156,785
Roaming charges	13,339	11,836
Other	100,544	134,178
Total	<u>2,722,309</u>	<u>3,001,067</u>

30 STAFF EXPENSES

(a) The table below presents the breakdown of the item:

	As of September 30, 2019 <u>S/000</u>	As of September 30, 2018 <u>S/000</u>
Wages	470,590	465,573
Restructuring expenses, note 21(b)	328,197	77,193
Social security and welfare	55,494	51,662
Employee participation	38,549	5,544
Compensation for length of service	34,421	35,275
Other personnel expenses	5,816	3,710
Capitalization of payroll for plant construction	(53,250)	(57,569)
Total	<u>879,817</u>	<u>581,388</u>

(b) The Group had 5,246 employees as of September 30, 2019 (5,606 as of December 31, 2018).

31 OTHER OPERATING INCOME AND EXPENSES

(a) The table below presents the breakdown of the item:

	As of September 30, 2019 <u>S/000</u>	As of September 30, 2018 <u>S/000</u>
Other operating income		
Income from disposal of assets (c), (d) and (e)	198,580	17,002
Government grants, notes 8(d) and 23(b)	20,017	18,162
Claims reimbursement	8,281	26,648
Other	25,518	9,939
	<u>252,396</u>	<u>71,751</u>
Other operating expenses		
Other provisions (b)	(24,280)	(14,332)
Other	(8,811)	(10,848)
	<u>(33,091)</u>	<u>(25,180)</u>

(b) The other provisions correspond to those made by the Group in accordance with the practice described in note 2.20, based on its best estimate of the disbursement that will be required to settle the obligations at the date of the consolidated statement of financial position.

(c) As of September 30, 2019, and 2018, property sales have occurred, thus generating a net profit whose composition is detailed below:

	As of September 30, 2019 <u>S/000</u>	As of September 30, 2018 <u>S/000</u>
Net income from disposal of assets (d) and (e)		
Asset sale income	481,63	18,764
	2	
	283,052	
Cost of asset sales	()	(1,762)
	198,58	
	0	17,002

- (d) In May and September 2019, contracts were signed for the transfer of ownership of up to 938 towers to Telxius Torres Peru for S/ 374,448,000 plus GST. In order to safeguard the continuity of telecommunications services, a contract for the usufruct of spaces in the same towers for a period of 10 years was signed, for which the Company must pay rent to Telxius.

As of September 30, 2019, the Company has recognized S/ 328,141,000 as income since the buyer reserves the right to accept part of the towers for a period of 6 months and the gain of S/ 111,812,000 (which includes a loss of S/ 136,612,000 for loss of right of use under IFRS 16). The aforementioned additionally generates asset for use rights amounting to S/ 56,179,000, a financial debt for the total income until the end of the term of S/ 191,696,000. See notes 14(a), 18.3(c) and 22(d).

- (e) In July 2019, the sale in Peru was completed, which was framed in a global initiative for the sale of the Data Center business for EUR 27,000,000 equivalent to S/ 105,179,000, in which the assets related to this line of business were included. The revenue from this operation was S/ 44,834,000. See notes 14(a) and 17(d).

32 FINANCIAL INCOME AND EXPENSES

- (a) The table below presents the breakdown of the item:

	As of September 30, 2019	As of September 30, 2018
	S/000	S/000
Financial income		
Interest on accounts receivable	27,969	16,973
Interest on term deposits	7,936	2,382
Other	6	4,239
	<u>35,911</u>	<u>23,594</u>
Financial expenses		
Interest on bonds and commercial papers	(128,951)	(63,914)
Lease Interests	(29,001)	-
Interest on other debts	(24,496)	(20,347)
Loss from financial instruments for interest Rate hedging	(7,266)	(6,975)
Other	(33,374)	(71,973)
	<u>(223,088)</u>	<u>(163,209)</u>
Net exchange differences		
Net loss from exchange differences	17,658	(768)
Net income from exchange differences related to financial leasing	205	-
Net (loss)/profit from exchange differences related to derivative financial instruments	(20,151)	5,908
	<u>(2,288)</u>	<u>5,140</u>

33 LOSS PER SHARE

- (a) Earnings per basic and diluted share is calculated by dividing the net profit to common shareholders of the corresponding period by the weighted average of the number of ordinary shares outstanding at the date of the consolidated statement of financial position:

	<u>Outstanding shares</u>	<u>Days of validity during the period</u>	<u>Average weighted of shares</u>
2018 financial year			
Balance as of January 1, 2018	3,344,363,158	270	3,344,363,158
Balance at September 30, 2018	<u>3,344,363,158</u>		<u>3,344,363,158</u>
2019 financial year			
As of January 1, 2019	3,344,363,158	270	3,344,363,158
Balance at September 30, 2015	<u>3,344,363,158</u>		<u>3,344,363,158</u>

- (b) The calculation of the loss per basic and diluted share of the controlling shareholding for the periods of nine months ending September 30, 2019 and 2018, is presented below:

<u>As of September 30, 2019</u>			<u>As of September 30, 2018</u>		
<u>Loss (numerator) S/000</u>	<u>Number of shares (denominator)</u>	<u>Loss per share S/</u>	<u>Loss (numerator) S/000</u>	<u>Number of shares (denominator)</u>	<u>Loss per share S/</u>
(982,451,000)	3,344,363,158	(0.293763)	(226,456,000)	3,344,363,158	(0.067713)

34 COMMITMENTS AND CONTINGENCIES

- (a) Commitments -

Letters of

guarantee

The Group maintains letters of guarantee obtained for its normal commercial activity and guarantees for the different processes of awarding tenders in concessions and spectra with third parties. As of September 30, 2019, these letters of guarantee amounted to approximately S/ 1,783,285,000 and US \$92,088,000 (S/ 1,733,853,000 and US \$89,178,000 as of December 31, 2018).

Lines of credit

Up until August 15, 2019, the Group held a committed credit line up to S/ 256,000,000 with Banco BBVA Perú and Banco de Crédito del Perú S.A., up to the amount of S/ 170,000,000 in the case of Banco BBVA Peru at the annual compensatory interest rate of 4.55 percent, and S/ 86,000,000 in the case of Banco de Crédito del Perú S.A. at the compensatory interest rate of 4.65 percent per year; within 6 months of disbursement.

Commitments for operating leases - Group as lessee -

The Group, as a lessee, signed contracts with third parties. The contracts related mainly to leases of infrastructure, circuits and spaces. There are lease commitments with a duration of up to 10 years. See notes 2.30, 16 and 18.

The future minimum payments as per operating leases that cannot be canceled as of September 30, 2019 and December 31, 2018, are as follows (for 2019, they correspond to leases of less than one year and low-value amounts that are not recognized as part of the implementation of IFRS 16):

	As of September 30, 2019	As of December 31, 2018
	S/000	S/000
Less than 1 year	3,517	117,747
Between 1 year and 3 years	20,085	228,766
More than 3 years and less than 5 years	-	197,437
More than 5 years	-	213,913
	<u>23,602</u>	<u>757,863</u>
(b) Contingencies		

In the normal course of its operations, the Group has been subject to various tax, civil, labor, administrative, regulatory and customs claims, which are recorded and disclosed in accordance with International Financial Reporting Standards. See note 2.20.

With regard to tax claims, the National Superintendence of Customs and Tax Administration (SUNAT), in the course of its audit activities for the years 1998 to 2010, has notified the Company of various resolutions concerning: (I) Income Tax, (II) General Sales Tax, and (III) Income Tax withholdings of non-residents.

In certain cases, the Company has decided to appeal particular decisions made by SUNAT and the Tax Court (TF). In other cases, the Company has proceeded to pay the amounts for those defined.

Insofar as:

1. Income Tax:

(a) Fiscal year 1998 -

On July 21, 2011, the TF, by means of Resolution No.11450-5-2011, issued a pronouncement for the 1998 financial year.

SUNAT, for its part, in compliance with the aforementioned Resolution of the TF, dated October 3, 2011, notified the Company of Intendancy Resolution No. 0150150001023, which contemplated an amount of S/ 69,386,327 in favor of the Company.

The Company filed an appeal against the decision before the Tax Court as it did not agree with the balance in favor determined by SUNAT. The Tax Court hearing the aforementioned appeal, by means of Resolution No. 974-5-2012: (1) revoked the objection to S/ 252,989,493 for exchange differences, considering that this is an accounting result to which the principle of causality is not applicable; (2) ordered SUNAT, regarding the upheld amounts, to evaluate the effect of the exchange profits in order to obtain a net result; (3) ordered SUNAT to carry out a new determination of the doubtful collection provision (DCP), insofar as there are cases that have not been validated by SUNAT, but do correspond to valid collection procedures; and (4) it endorsed that "under the door" notifications can be considered as collection efforts.

As per the above-mentioned resolution, SUNAT, on June 20, 2012, notified the Company via Intendency Resolution No. 0150150001100. When said Resolution was not found to comply with the law, on July 11, 2012, the Company filed an appeal, which was resolved by Tax Court Resolution (RTF) No. 18121-5-2012 (notified on November 2, 2012). The Tax Court ruled that SUNAT could not ignore the credit for donations in the determination of the Tax.

On November 5, 2012, the Company was notified with Intendency Resolution No. 0150150001152 by means of which SUNAT, in compliance with the RTF mentioned in the previous paragraph, determined a balance for the 1998 fiscal year of S/ 137,706,421. As such, the administrative proceedings for this file were terminated.

(ii) Notwithstanding the foregoing, on October 10, 2011, the Company filed a contentious-administrative claim against Tax Court Resolution No. 11450-5-2011, by means of which it requested the partial nullity of said Resolution in the cases in which it upholds the objections to: (i) DCP; and (ii) receipts for leases (TPI). On March 22, 2013, the Company was notified with the first instance ruling that partially upheld the Company's claim based on the objections of: (i) DCP and (ii) TPI.

On March 27, 2013, the Company requested to integrate the resolutive part of the judgment in order to establish that our claim for full jurisdiction has been protected regarding the objection to the TPI. On April 2, our application for integration was protected. On April 3 and 4, 2013, the Tax Court and SUNAT appealed the judgment. These appeals were granted by means of Resolution No. 15, dated April 23, 2013. On August 7, 2013, the referral to the file was made to the Seventh Contentious-Administrative Chamber with Subspecialty in Tax and Customs Issues. Said Chamber assumed knowledge of the case. An unfavorable fiscal opinion was issued, and on March 24, 2014, the case was heard via an oral submission from the TDP, SUNAT and Tax Court. On January 19, 2015, Resolution No. 31 was issued, informing that there has been disagreement regarding the reconsideration of the TPI. Consequently, a first deciding judge was summoned, and before whom the hearing of the case took place on April 29, 2015. The first deciding judge adhered to the minority. Consequently, a hearing of the case was scheduled in front of a second deciding judge, which was held on June 26, 2015. On August 21, 2015, the Company was notified with the resolution of the Chamber partially confirming the first instance resolution: (i) it accepts the deductibility of the expenses of TPI; and, (ii) regarding the DCP, it ordered SUNAT to verify if the customers were subject to collection actions by means of telephone records. On September 4, 2015, both the TDP and SUNAT filed a cassation appeal, while the MEF did so on September 7, 2015. By means of Resolution No. 46, dated October 7, 2015, the Chamber admitted the cassation appeals and ordered them to be submitted to the Supreme Court. Subsequently, on November 6, 2015, the case entered the Permanent Chamber of Constitutional and Social Law of the Supreme Court and the parties were ordered to indicate procedural address, with which they timely complied. On June 27, 2017, the oral submission was carried out. Based on the information downloaded from the system of the Judiciary, the Company's appeal for cassation would have been declared unfounded and there was disagreement with the cassation appeal made by the Tax Court and SUNAT. On August 6, 2018, the hearing of the case in dispute was held. On February 1, 2019, the Supreme Court finding was notified in which the objection of the DCP was declared null and the objection of the TPI was upheld. On March 4, 2019, the resolution was notified and by means of which it is necessary to comply with that enforced. On May 6, 2019, the case was heard at a second instance. On July 31, 2019, the Company was notified with the new hearing ruling that declared the DCP objection founded, only insofar as the telephone receipts, and unfounded regarding the other matters. On August 16 and 18, 2019, the parties filed an appeal against said judgment. On September 20, 2019, the file was sent to the Supreme Court.

During the course of the aforementioned judicial process, the Company obtained a partial precautionary measure regarding the objection by TPI. The Company filed an appeal as to the point in which the Court rejected the request for precautionary measure regarding the objection to the DCP. The appeal was allowed (without suspensive effect) and referred to the Superior Court, which later dismissed the request made by the Company. Likewise, under the ruling issued on March 22 and supplemented on April 2, 2013, the Company requested an extension of the terms of the injunction so as to understand the remedy of DCP. This request for extension was dismissed. On October 14, 2013, the Company again requested an extension of the injunction as the Court required SUNAT to specify the updated amount of the debt. This request was attended to on May 12, 2014 by means of a letter in which SUNAT determined the debt to be S/ 616,883,233, an amount that has been accepted by the Court and therefore requiring TDP to comply with guarantee said amount. The Company appealed this decision on June 27, 2014. However, as the Company did not comply with the consolidation of the debt, the Court closed the incident. On February 20, 2015, we again requested an injunction that pertains to the DCP compensation. Subsequently, on April 8, 2015, the Court required SUNAT to update the amount of the debt. On April 17, 2015, we requested the inclusion of Resolution No. 23; a request that was declared unfounded. On May 8, 2015, SUNAT proceeded to specify the amount of the tax debt, for which we attach the corresponding letter of guarantee. On May 26, 2015, the Court declared the cautionary measure inadmissible and ordered the return of the letter of guarantee. An appeal was filed on May 29, 2015, and the Chamber declared the decision invalid and ordered the judge to issue a new ruling. By means of Resolution No. 13, notified on September 10, 2015, the Court again rejected the precautionary measure and ordered the return of the letter of guarantee. Appeal was filed and the Chamber, by means of Resolution No. 16, dated October 29, 2015, revoked the decision of first instance granting the extension of precautionary measure and ordering the judge to determine the amount of the injunction bond. By means of Resolution No. 18, the Company was informed of the brief filed by SUNAT, through which it indicated the updated debt amount. Subsequently, on January 14, 2016, the Company presented a letter of guarantee for the amount equivalent to 60 percent of the debt. However, by means of Resolution No. 19, notified on January 29, 2016, the judge required SUNAT to update the debt amount due to the correction of the DCP.

Also, on that date, the letter of guarantee presented by the Company was returned. By means of Resolution No. 21 the judge accepted the SUNAT debt update, ordering TDP to guarantee 60 percent of the same, which was undertaken on March 31, 2016, by submitting the corresponding letters of guarantee. On March 21, 2016, an appeal was lodged against Resolution No. 21, which was upheld by Resolution No. 22 without suspensive effect and with deferred status. As such, a complaint was filed against this last resolution. On April 4, 2016, the judge approved the injunction bond presented by TDP and, by means of Resolution No. 24, ordered SUNAT to comply with suspending the effects of RTF No. 11450-5-2011 which upheld the repair of DCP, within a period of 5 days. On June 8, the complaint was declared valid, and the appeal against Resolution No. 21 was upheld, without suspensive effect and without deferred status, and thus referring the appeal case to the Sixth Chamber. Subsequently, on June 9, SUNAT complied and informed the court of what was ordered by the judge through Resolution No. 24. The Chamber revoked Resolution No. 21 and set the new amount of the injunction bond, which already has a letter of guarantee. On March 10, 2017, we proceeded to renew the letter of guarantee. However, on June 23, 2017, the judge requested SUNAT to update the debt, which was performed on September 28, 2017 by the entity and notified to the Company on January 2, 2018. On January 31, 2018, the injunction bond was filed. By means of Resolution No. 32, the Court requested SUNAT to again update the DCP tax debt. However, on September 28, 2018, Resolution No. 07 notified that the Superior Court revoked Resolution No. 32 and accepted the letter of guarantee. Consequently, on December 17, 2018, Resolution No. 35 was notified by means of which the injunction bond presented by TDP was offered on January 31, 2018. On February 25, 2019, the letter of guarantee for the period 2019 - 2020 was attached for the amount of S/ 329,440,798.

On March 19, 2019, the injunction bond was renewed for the sum of S/ 329,440,798.

For their part, both SUNAT and the Tax Court opposed the injunction granted. The opposition process was resolved, upholding the injunction measure in question. The Tax Court and SUNAT appealed this decision, taking the case to the Third Transitory Contentious-Administrative Chamber. On September 12, 2013, the file was referred to the 22nd Court with the Subspecialty in Tax and Customs Matters, who subsequently referred the appeal filed by SUNAT and Tax Court to the Seventh Contentious-Administrative Chamber with Sub-specialty in Tax and Customs Matters. This Court, on June 12, 2014, upheld the precautionary measure granted in favor of the Company, ordering compliance with its effects. On March 23, 2015, in response to a SUNAT request to retrieve and verify the injunction bond, the Court ordered SUNAT to indicate the updated amount of the debt for the TPI reparation. On March 26, 2015, we responded to the SUNAT request. On July 21, 2015, the court ruled the variation of the injunction bond requested by SUNAT as inadmissible; a decision that SUNAT appealed on July 24, 2015. By means of Resolution No. 3, dated October 30, 2015, the Chamber declared the request for variation of the injunction bond inadmissible. By means of Resolution No. 28, notified on March 18, 2016, the bond was considered as having been renewed. On February 22, 2017, we again renewed the letter of guarantee. However, by means of Resolution No. 29, the court has requested SUNAT to update the tax debt, against which we have presented a request for nullity. Resolution No. 30 declares the nullity of Resolutions 28 and 29 and orders the return of the letter of guarantee, which is why we have filed for nullity against this resolution, which has been declared unfounded by the judge. Regarding the foregoing, the court has been informed that the letter of guarantee, valid until 2018, will not be collected in order to avoid subsequent requests by SUNAT. On March 2, 2018, we presented the renewal of the letter of guarantee; however, the court rejected it again.

Furthermore, the Company considered that its right to an effective judicial protection was violated and proceeded to initiate an amparo proceeding that questions the action of the Court when rejecting the precautionary request and the non-application of article 159 of the Tax Code, which has been declared inadmissible in first and second instance, and for which a Constitutional Appeal was filed, as permitted by Resolution No. 12, dated March 23, 2016. On May 18, 2016, the file was submitted to the Second Chamber of the Constitutional Court. On October 15, 2018, the Second Chamber of the Constitutional Court declared the Constitutional Complaint Appeal inadmissible, and the judgment was published on October 22, 2018.

The repair of TPI has been resolved favorably and definitively in favor of the Company. In relation to the DCP, in the opinion of Management and its legal advisors there are legal arguments to consider that the contentious administrative process could be definitively adjudicated in favorable terms for the Company. As a result, any contingency should be classified as remote. If so, this process will not have a significant impact on the consolidated financial statements of the Group.

On August 7, 2012, the Company was notified of a contentious administrative complaint filed by SUNAT requesting partial nullity of RTF No. 11450-5-2011, as ruling in favor of the company, the Court permitted the revocation of deductions for the account for exceptional expenses. On August 23, 2013, the file was sent to the 23 Administrative Contentious Court with Subspecialty in Tax and Customs Issues. On March 24, 2015, an oral submission was heard during which the Company and SUNAT were present. On May 5, 2015, the aforementioned oral submission was invalidated and a new one was scheduled for July 9, 2015, in which the same parties participated. By means of Resolution No. 33, dated October 16, 2015, the claim was declared unfounded, which was appealed by the Company and the Tax Court. Subsequently, the hearing of the case was held on August 10, 2016, and Resolution No. 43 declared the judgment of first instance null and ordered the judge to issue a new duly-reasoned judgment. By means of Resolution No. 47, the court sustained the claim; therefore, on January 31, 2017, an appeal was filed. On October 3, the Chamber upheld the judgment that supported the basis of the claim. On April 24, 2019, the Supreme Court decision declaring the appeal filed by TDP to be inadmissible, upholding the hearing ruling that ordered the intendency resolution regarding the exceptional expenses be upheld. On May 20, 2019, the file was sent to the Tax Court to comply with the provisions of the supreme court ruling. On August 9, 2019, compliance to RTF No. 6304-1-2019 was notified.

Based on the foregoing, the Tax Court's criterion regarding the compensation of exceptional expenses (purchase option), which was favorable to the interests of the Company, has changed to being probable, to the extent that the Supreme Court declared the appeal filed by the Company as inadmissible; and, consequently, declared the claim made by SUNAT to be founded.

Furthermore, on May 14, 2013, the company was notified with a contentious administrative claim filed by SUNAT requesting the partial nullity of RTF no. 974-5-2012, as ruling in favor of the company, the resolution permitted the revocation of the deductions to compensation for the exchange difference of different accounts. The main argument is that the RTF has determined that all exchange differences are computed for the determination of net income, in contravention of Article 61 of the Income Tax Law that establishes that it will only be computed in the manner indicated above when dealing with taxable activities. On April 26, 2013, the Company requested a derogation of the expiration term and on May 6, 2013, the Company responded to the claim. On July 24, 2013, the derogation was declared unfounded and the process declared as rectified. On August 7, 2013, the case was submitted to the 23 Administrative Contentious Court with Subspecialty in Tax and Customs Issues. The first instance ruling declared the claim unfounded, and SUNAT filed an appeal on April 7, 2015. By means of resolution No. 19 of August 12, 2015, the case was to be heard on Wednesday, March 9, 2016. By means of Resolution No. 24, the Chamber upheld the judgment of first instance, against which SUNAT filed a Cassation appeal. This appeal was admitted for processing and on May 12, 2016, the case entered the Permanent Chamber of Constitutional and Social Law of the Supreme Court. Subsequently, on September 13, 2016, the qualification hearing of the Cassation appeal took place, where it was declared admissible. On February 15, 2017, a legal judgment was issued, which ruled that the cassation was to be upheld. The case was heard on April 19, 2018, with the decision still pending. The contingency must be qualified as remote.

(b) Fiscal year 1999 -

By means of RTF No. 16603-4-2010, on December 23, 2010, the Tax Court finalized the administrative procedure corresponding to the aforementioned fiscal year, by declaring the nullity of all the proceedings by SUNAT in relation to the same, and furthermore, allowed the Company to invoke its statute of limitations. As such on April 4, 2012, the Company requested the statute of limitations for the aforementioned fiscal year.

SUNAT, by means of Intendency Resolution No. 011-020-0000323/SUNAT, notified on May 4, 2012, declared a statute of limitations for the fiscal year in question.

In the opinion of Management and its legal advisors, there are legal arguments to understand that statute of limitations for the aforementioned fiscal year impede SUNAT from undertaking a new determination. As such, the balance determined by the Company in 1999 should be that which SUNAT assigns to the fiscal year 2000.

(c) Fiscal years 2000 and 2001 -

On December 29, 2010, The Tax Court, by means of RTF No. 17044-8-2010, (and later clarified by RTF No. 1853-8-2011, notified on February 11, 2011) gave notification of finalizing the administrative procedure corresponding to the aforementioned fiscal years.

In view of the fact that these resolutions were not in accordance with the law, the Company filed (on March 21, 2011) a contentious administrative claim against SUNAT and the Tax Court, requesting the partial nullity of RTF No. 17044-8-2010, RTF No. 17133-8-2010, and RTF No. 01853-8-2011, insofar as upholding the deductions for: (1) financial charges - CF, (2) DCP, (3) TPI, (4) disposal of assets via transfer of assets to Telefónica Móviles S.A.C. –Reorganization - and, (5) fixed asset costs deducted off the books as an expense (Over Head) made against the Company. In addition, the Company requested the partial nullity of RTF No. 17133-8-2010 insofar as the deduction of interests corresponding to the payments on account for the fiscal year 2000.

On March 20, 2013, the Company was notified with the judgment of the first instance that partially upheld the Company's claim regarding the modifications of: (i) CF; (ii) DCP; and (iii) TPI, on the basis of the Company's claim of full jurisdiction. In the same manner, the deductions to (i) Reorganization and (ii) Over Head, were dismissed. On March 27, 2013, SUNAT, the Tax Court and the Company appealed the ruling. These appeals were granted by means of Resolution No. 20 dated April 9, 2013. On August 13, 2013, the appeal was referred to the Seventh Contentious-Administrative Chamber with Subspecialty in Tax and Customs Issues. In this process, a legal judgment was issued that states that the ruling should be revoked, and on March 24, 2014, the case was heard with oral submissions from TDP, SUNAT and the Tax Court. On January 22, 2015, there was disagreement regarding the deduction made by TPI, for which a first deciding judge was summoned, and before whom the hearing of the case took place on April 29, 2015. The first deciding judge adhered to the minority. Consequently, a hearing of the case was scheduled before a second deciding judge, and was held on June 26, 2015. By means of Resolution No. 62, dated July 20, 2015, the Chamber partially upheld the ruling by resolving the following: (i) FC for Exchange Rate Difference: accepted the deductibility; (ii) FC for interests: ordered to forward the file to SUNAT to verify again; (iii) DCP: ordered SUNAT to verify if customers were subject to collection actions through telephone receipts. (iv) TPI: upheld the deduction of the expense; and, (v) Over Head and Reorganization: to not accept the expenses deducted. On September 3, 2015, SUNAT presented a Cassation submission, while TDP and the Tax Court presented their respective appeals on September 4 and 7, 2015. By means of Resolution No. 65, dated September 9, 2015, the Superior Court admitted the appeals and ordered them to be submitted to the Supreme Court. On November 11, 2015, the case entered the Permanent Chamber of Constitutional and Social Law of the Supreme Court and on July 15, 2016, the internal qualification of the appeals was carried out, which were declared admissible. On January 16, 2017, a legal judgement was handed down which ordered that the ruling be declared invalid. On June 27, 2017, the case was heard, with the decision pending.

During the aforementioned proceedings, the Company obtained a partial precautionary measure pursuant to which the suspension of the effects of the disputed resolutions was ordered with respect to the following objections: (1) CF, (2) DCP and, (3) TPI. SUNAT and the Tax Court opposed the precautionary measure granted to the Company. On May 17, 2013, the modifications were rejected and said decision was appealed by SUNAT and the Tax Court, who were granted an appeal on June 10, 2013. On September 11, 2013, the file was sent to the 23 Contentious Court with Subspecialty in Tax and Customs Issues, which referred the file on appeal to the Seventh Contentious-Administrative Chamber with Subspecialty in Tax and Customs Issues. On November 12, 2014, the rejection of the oppositions presented by SUNAT and the Tax Court was upheld. On December 5, 2014, SUNAT requested the modification of the amount of injunction bond. The application that was declared unfounded by the Court.

On March 25, 2015, SUNAT filed an appeal, which was supported by the Court granting the request for a modification of the precautionary measure. In view of this situation, a nullity was put forward, and which has been declared inadmissible. By means of Resolution No. 31, dated November 17, 2015, SUNAT was required to specify the updated amount of the tax debt. Subsequently, by means of Resolution No. 43, dated January 18, 2016, the Company was required to submit an injunction bond for 60 percent of the debt, which was performed on January 25, 2016. The bond was thus considered renewed and adequate. On January 11, 2017, the letter of guarantee was renewed; however, on February 27, 2017, the court returned the same so that SUNAT could update the debt. On April 20, 2017, the debt was considered as outstanding, and on April 27, 2017, we complied with presenting the letter of guarantee, which was accepted. On March 26, 2018, the court requested SUNAT to update the amount of the debt. By means of resolution No. 40, dated May 4, 2018, the debt was considered up-to-date, requiring TDP to secure 60 percent. On May 31, 2018, the injunction bond was considered as having been renewed. On April 4, 2019, the Court required SUNAT to comply with the tax debt update. On May 8, 2019, the injunction bond for the amount of S/ 675,047,236 was renewed.

On July 11, 2019, the findings of the Supreme Members were notified, which have protected three (3) deductions in favor of SUNAT and the Tax Court (Over Head, Simple Reorganization and CF), the TPI deduction is upheld in favor of TDP, and there is discord regarding the deduction of the DCP (3-2). On August 9, 2019, the ruling hearing was carried out with Judge Arias Lazarte. The decision is pending.

Regarding the modifications to FC, Simple Reorganization and Over Head, the Company has reassessed its contingencies, based on the ruling issued by the Supreme Court, so the qualification of the process has been adjusted to probable. Regarding the deduction of the TPI, the rating of the deduction is maintained as remote, to the extent that it has been resolved on favorable terms for the Company. Regarding the deduction of the DCP, the rating of the proceedings is also maintained as remote for the interests of the Company.

On October 4, 2011, as per RTF No. 17044-8-2010 and RTF No. 1853-8-2011, SUNAT gave notice of Intendancy Resolution No. 0150150001030 by means of which SUNAT determined an alleged tax debt amounting to S/ 2,379,451,375.

- On October 24, 2011, the Company filed an appeal before the Tax Court against the aforementioned Intendancy Resolution. SUNAT conditioned the admissibility of the same appeal on the prior payment by the Company for the amount of S/ 1,627,950,109. Subsequently, the very SUNAT - due to the precautionary measure obtained by the Company in the contentious administrative proceeding initiated against RTF No. 17044-8-2010, reduced the amount of the alleged debt to a total of S/ 619,814,185.

On November 30, 2011, the Company filed a complaint before the Tax Court against the admissibility requirement that SUNAT had required to admit the appeal mentioned in the preceding paragraph. While the aforementioned appeal was pending, SUNAT notified the Company of a Coercive Execution Resolution amounting to S/ 134,353.008.

The Company (notwithstanding the payment of S/ 134,353,008 under protest) appealed to the Tax Court (in complaint) regarding the aforementioned Coercive Execution Resolution because it understood that the request made by SUNAT lacked legal basis.

On January 27, 2012, the Complaint Appeal filed by the Company was resolved (in favor of the Company) with the Tax Court stating that there was no coercively enforceable debt.

On February 22, 2012, adjudicating the appeal filed against Intendancy Resolution No. 0150150001030, the Tax court communicated Resolution No. 01973-8-2012 by which it ordered SUNAT to issue a new Intendancy Resolution.

On April 1, 2013, the Company was notified with Intendancy Resolution No. 0150150001203 (replaced by a Resolution of the same number notified on April 3, 2013, which in turn was modified by means of Intendancy Resolution No. 0150190000041, notified on April 4, 2013) by means of which SUNAT complied with the provisions of the Tax Court. Having considered that the aforementioned Resolution does not comply with the provisions of the Tax Court, on April 19, 2013, the Company filed an appeal, which was resolved by means of RTF 13365-3-2013, notified on September 23, 2013. In this resolution, the Tax Court upheld the declaration on the Intendancy Resolution issued. On October 7, 2013, the Company submitted a request for clarification, considering that it is not possible to determine the Income Tax for the year 2000; while Chamber 11 of the Tax Court still has a case determination pending related to payments on account of the year 2000.

On November 6, 2013, the Company was notified with RTF 15989-3-2013, which upheld that it is not possible to determine Income Tax for the year 2000 until the process related to the payments on account finalizes. On July 1, 2015, the Company was notified with Intendancy Resolution No. 0150150001364 by means of which SUNAT complied with the provisions of the Tax Court. Demonstrating discord with that stated in the aforementioned resolution, on July 22, 2015, SUNAT filed an appeal, which was adjudicated by Resolution No. 1323-3-2017, which provides that for the settlement of this fiscal year such payment can proceed after resolving the case regarding payments on account and in the cases of the return of payments made by coercive collection.

Notwithstanding the aforementioned, it is important to specify that after the issuance of Intendancy Resolution No. 0150150001203, SUNAT communicated Coactive Execution Resolution No. 011-006-0044540, by means of which it demands the payment of S/ 150,842,142 related to the Income Tax fine for the year 2000. The Company (without prejudicing the payment of S/ 150,842,142 under protest) appealed to the Tax Court (in complaint) regarding the aforementioned Coercive Execution Resolution as the SUNAT request lacked legal basis.

On January 6, 2014, the Company was notified of RTF 18209-Q-2013, which upheld the submitted Complaint Appeal. On May 12, 2014, SUNAT filed a contentious administrative action against the aforementioned RTF, and was declared inadmissible. SUNAT appealed the ruling of first instance, which has been upheld by the Chamber by means of Resolution No. 23, which is why an appeal for cassation was submitted. On March 14, 2016, the file was submitted to the Permanent Chamber of Constitutional and Social Law of the Supreme Court and on September 2, 2016, the qualification hearing of the appeal was held, which was declared admissible. On February 23, 2017, the Prosecutor's Office forwarded a judgment stating that the Cassation was declared unsubstantiated. The hearing of the case was held on April 5, 2018. On June 14, 2019, we were notified with the supreme court ruling that upheld the appeal filed by SUNAT, and as a result, annulled the second instance decision that declared the claim inadmissible, ordering the judge to issue a new ruling. On June 25, 2019, the file was submitted to the 18th Specialized Tax Litigation Court, pending compliance with issuing a new ruling that must rule on the merits of the dispute. On September 17, 2019, the Court considered the claim filed by the Company and the Tax Court.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote.

On February 24, 2014, SUNAT communicated Coactive Resolution No. 0110070101757 by means of which the coercive collection procedure was revoked, although without ruling on the payment made by the Company. On April 23, 2014, two briefs were submitted to the coercive executor requesting the return of S/ 134,353,008 (paid in January 2012) and S/ 150,842,142 (paid in November and December 2013). On May 8, 2014, the coercive executor gave notification of Coactive Resolutions No. 0110070109273 and No. 0110070109274 whereby the same forwarded the files to the Supervision Department of SUNAT in order to evaluate and adjudicate on the request made by the Company. On June 17, 2014, the Company submitted two Complaint Appeals before the Tax Court so that the Court ordered the coercive executor to return the amounts paid. On July 3, 2014, the Tax Court communicated RTF 03249-Q-2014, in which it declared the complaints filed to be baseless, stating that according to the law, SUNAT, by means of Coactive Resolutions No. 0110070109273 and No. 0110070109274, had granted them the processing of reimbursement requests and had sent them to the competent area to issue the corresponding ruling.

On July 31, 2014, the Company was notified with Intendancy Resolutions No. 012-180-0007031, No. 012-180-0007032 and No. 012-180-0007038 (related to the request for the return of the S/ 134,353,008, paid in January 2012) and Intendancy Resolution No. 012-180-007033 (linked to the request for refund of the S/ 150,842,142 paid in November and December 2013), by means of which SUNAT declared the Company's requests as inadmissible.

On August 27, 2014, the Company filed the corresponding claim appeals. On January 30, 2015, the Tax Administration adjudicated on the aforementioned appeals, stating that the reimbursement for the amounts requested is inadmissible. As we did not agree with the adjudication, on February 19, 2015, appeals were filed. On May 8 and June 24, 2019, we were notified of RTFs that provide for the revocation of the intendancy resolutions (appealed as indicated in the previous paragraph) and order SUNAT to validate, at the time of final settlement, if the return of the amounts paid is applicable.

In view of the fact that RTF No. 13365-3-2013 was not in accordance with the law, the Company filed (on November 19, 2013) a contentious-administrative claim against SUNAT and the Tax Court, requesting the partial nullity of RTF No. 13365-3-2013 insofar as to uphold the deductions for: (1) balance in favor of previous fiscal years and, (2) sale of the Nortel analog network. On March 23, 2015, a ruling of first instance was issued that declared the claim baseless, which was appealed and granted on March 31, 2015. On July 10, 2015, the case files were forwarded to the Public Prosecutor's Office for a Legal Judgment. By means of resolution No. 19, dated August 12, 2015, the case was to be heard on Wednesday March 9, 2016. As such, on August 27, 2015, questions on the Legal judgment commenced. On March 9, 2016, the hearing of the case was held. Subsequently, Resolution No. 27, dated July 7, 2016, reported on the discord produced insofar as the deduction for the balance of the previous years (2 to 1 due to the revocation of the ruling that declared the claim baseless). On July 22, 2016, the hearing on the discord case was held. Resolution No. 40 upheld the ruling of first instance, and based on which, an appeal for cassation was filed and has been declared admissible. On June 9, 2017, the file was submitted to the Public Prosecutor's Office, which, by means of the corresponding Legal Judgment, requested that the cassation filed by the Company be declared as baseless. On July 24, 2018, the hearing took place, and the decision left pending.

Despite the result obtained in the first and second instance, as well as the result of the analysis carried out, ratified by the legal opinion of the external advisors overseeing the process, we consider that the contingency should be classified as reasonably remote.

(d) Amparo Action derived from Income Tax 2000-2001 -

On July 3, 2013, the Company filed a request for protection, by means of which the Company requested, as a consequence of the violation of its constitutional rights to: (i) undertake procedures without delay; (ii) proscription of the abuse of right; and (iii) non-confiscation of taxes, a finding of inapplicability to the specific case of Article 33 of the Tax Code, which regulates the arrears interest of unpaid taxes.

Indeed, SUNAT by Intendency Resolution No. 0150190000041 decided to continue the collection of Determination Resolutions No. 0120030008377, 0120030008382, 0120030008383, 0120030008378, 0120030008388, 0120030008380, 0120030008385, 0120030008312, 0120030008386, 0120030008379, 0120030008387, 0120030008384 and 0120030008381, and Fine Resolutions No. 0120020008152, 0120020008160, 0120020008157, 0120020008161, 0120020008150, 0120020008154, 0120020008158, 0120020008162, 0120020008151, 0120020008155 and 0120020008159, for the sum of S/ 2,163,333,920 (updated on April 1, 2013). This amount includes 73 percent interest and capitalized interest (under the application of Article 33 of the Tax Code) of which a percentage corresponds to interest accrued within the legal term, and other, the interest accrued in the time lapse in excess of the adjudication's legal term. By means of the amparo the Company is questioning the interest accrued during the time in which the Tax Court has exceeded the deadline for resolving the abovementioned RI appeal, which continues to increase. On July 16, 2013, by means of Resolution No. 1, the claim was admitted for processing.

On August 2 SUNAT responded and submitted a failure to exhaust the administrative remedy and lis pendens. On August 16, 2013, the case was referred to the 11th Constitutional Court with Subspecialty in Tax and Customs Matters. On September 10, 2013, the Company responded to the submissions made by SUNAT. On December 26, 2013, the Court declared the submissions as baseless. Consequently, both the Tax Court and SUNAT appealed the decision. After the hearing on March 12, 2014, with an oral submission from SUNAT and TDP, on April 7, 2014, the claim was declared inadmissible because it was considered that there was an equally satisfactory way in which the question, the subject of this process, is currently framed. This observation refers to the proceedings in which the Company questions the modification of Income Tax 2000-2001. This decision was appealed and the file was referred to the Second Civil Chamber, which heard the case on January 7, 2015. On May 22, 2015, the Chamber declared the ruling null and ordered the Court to issue a new ruling on the submission of failure to exhaust the administrative remedy. On August 19, 2015, the case was heard in court, which by means of Resolution No. 32, dated October 12, 2015, declared the submission of lack of exhaustion of the administrative remedy as baseless, which was appealed by the SUNAT and the Tax Court. Subsequently, by means of Resolution No. 36, dated December 14, 2015, the court declared the claim inadmissible, which was appealed by the Company, referring the case to the 2nd Civil Chamber. On August 2, 2016, the case was heard and Resolution No. 8 revoked Resolution No. 32, stating that the submission for lack of exhaustion of the administrative remedy was founded, and that all action taken was null and void. In view of this, a constitutional complaint was filed on August 29, 2016. On January 23, 2017, the case was referred to the First Chamber of the Constitutional Court. To date, the Chamber is still yet to schedule a date for the qualification hearing.

Since the Tax Administration has exceeded the legal deadlines for resolving our reconsideration and appeal remedies, thereby generating an excessive amount of interest, the likelihood of success of this process is probable, and consequently, the qualification of the contingency is remote.

On July 16, 2013, the Company requested a precautionary measure with the purpose of suspending the enforceability of the interest corresponding to the settlement of Income Tax 2000-2001. This precautionary measure was, in the last instance, denied on July 15, 2014. As the Company saw its right to an effective interim protection as being affected, on September 18, the Company filed an amparo writ in which it denounced the request for the initiation of the coercive execution of the debt in order to be able to accede to the precautionary protection. This claim was declared inadmissible and that decision was appealed. In second instance, the hearing was held on October 21, 2015, in the Third Civil Chamber.

By means of resolution No. 5, dated October 21, 2015, the Chamber noted that several items were missing. As a result, by means of Resolution No. 6 of October 23, 2015, the proceedings in this instance were declared null and void and returned to the court of origin. This was to request TDP to complete the missing items and refer them as appropriate. After fulfilling the court mandate, by means of Resolution No. 6, dated July 1, 2016, it was ordered to refer the writs to the Third Civil Chamber. Through Resolution No. 15, the Chamber upheld the decision that declared the claim inadmissible. Consequently, an appeal was lodged for constitutional remedy. On January 23, 2017, the case was referred to the First Chamber of the Constitutional Court. To date, the Chamber is still yet to schedule a date for the qualification hearing.

In the opinion of Management and its legal advisors there are reasonable legal arguments that the contentious-administrative process could be adjudged in favor of the Company. As a result, any contingency should be classified as remote.

(e) Payments on Account for year 2000:

On December 30, 2010, by means of RTF No. 17133-8-2010 (and later clarified by RTF No. 16430-8-2011, notified on October 13, 2011), the tax Court gave notice of the finalization of the administrative procedure corresponding to Payments on Account for the aforementioned fiscal year.

On November 17, 2011, as per the aforementioned resolution, SUNAT communicated Intendancy Resolution No. 0150150001039 in which a presumed tax debt amounting to S/ 678,541,069 was quantified.

On November 28, 2011, the Company filed an appeal before the Tax Court against the aforementioned Intendancy Resolution. SUNAT however conditioned the admissibility of the aforementioned appeal to the prior payment (by the Company) of the amount of S/ 189,297,341.

On November 12, 2012, the Company filed a complaint before the Tax Court against the admissibility requirement that SUNAT had required to admit the appeal mentioned in the preceding paragraph.

On June 15, 2012, the Tax Court communicated Resolution No. 06671-11-2012, expanded by Resolution No. 08037-11-2012, by means of which it adjudicated on the appeal filed by the Company, stating: (1) that it is appropriate that SUNAT re-settles the adjudications on the fines as long as they had not been revoked; (2) that SUNAT must determine the debt balance in accordance with the powers and parameters established in the Tax Code, authorizing it, however, to modify the balance in favor as declared by the Company in 1999, ignoring the effects of the statutes of limitations.

On June 21, 2012, the Company requested a clarification of Resolution No. 06671-11-2012, which was resolved by the Tax Court by means of Resolution No. 10322-11-2012, which establishes: (1) that the Tax Court did not annul the fines imposed by SUNAT; and (2) that the Company is entitled to invoke the statute of limitations for the 1999 fiscal year in case SUNAT modifies the determination of the tax debt corresponding to that year.

a Notwithstanding the foregoing, the Company filed (on September 11, 2012) a contentious-administrative claim against RTF No. 06671-11-2012 clarified by RTF No. 08037-11-2012 insofar as it is unaware that the fines imposed on the Company were revoked by means of RTF No. 17133-8-2010, and clarified by the RTF No. 16430-8-2011. The claim was admitted by the Court and both the SUNAT and the Tax Court have responded to the same. On August 7, 2013, the case was referred to the 22 Administrative Contentious Court with Subspecialty in Tax and Customs Issues. On April 6, 2015, the claim was declared to be baseless; a decision that we appealed on April 13, 2015. On July 6, 2015, the case was referred to the Public Prosecutor's Office, which issued an unfavorable legal judgment. Subsequently, by means of Resolution No. 23, dated August 12, 2015, the case was scheduled to be heard on March 9, 2016, in the second instance. On April 1, 2016, the ruling of second instance was communicated, which revoked the first sentence, and amending the same, declared it inadmissible due to lack of interest to act by the TDP. On April 15, 2016, the Company filed an appeal for Cassation and the file was referred to the Supreme Court. On June 15, 2016, the case entered the Permanent Chamber of Constitutional and Social Law of the Supreme Court. On November 21, 2016, the Cassation appeal qualification hearing was carried out. Said appeal was declared inadmissible on June 1, 2017. As a result, the case concluded.

On October 31, 2013, the Company requested a precautionary measure with the purpose of nullifying RTF No. 06671-11-2012, and also the application of the diffuse control contained in Article 159 of the Tax Code to avoid notifying SUNAT of the same, and that the total debt security is required. Notwithstanding this specific request, and after the Court notified SUNAT of the precautionary measure request on July 15, 2014, the debt security was required and, on July 31, 2014, the Company complied with securing the debt. However, on September 3, 2014, the precautionary measure request was rejected for not complying with the likelihood requirement. This decision was appealed and annulled by the Superior Chamber, who ordered the Court to again make a ruling. On April 13, 2015, we desisted from this precautionary measure and requested the return of the letter of guarantee, which was returned on April 16, 2015, and thus the definitive closing of the precautionary action was undertaken.

In the opinion of Management and its legal advisors, the alleged debt demanded by SUNAT is directly linked to the contentious-administrative process indicated in subsection (c), in which there are legal arguments to defend that said contentious-administrative proceeding could be resolved in favorable terms for the Company; consequently, any contingency must be classified as remote. If so, the favorable result derived from the aforementioned proceedings will not have a significant impact on the Group's consolidated financial statements.

On April 1, 2013, the Company received notice of RI No. 0150150001202 by means of which SUNAT complied with the Tax Court provisions. Having contemplated that the aforementioned Adjudication does not comply with the Tax Court provisions, on April 19, 2013, the Company filed an appeal. On March 16, 2015, the Company was notified with RTF No. 02569-11-2015, by means of which it was adjudicated that SUNAT may modify the balance for fiscal year 1999 despite being subject to the statute of limitations.

However, the Court ordered that the Tax Administration issue a new Intendency Resolution because it committed calculation errors when determining the debt.

On June 26, 2015, the Company was notified with Intendancy Resolution No. 0150150001362, by means of which SUNAT complied with the Tax Court provisions. Disagreeing with that stated in the aforementioned resolution, on July 20, 2015, an appeal was filed, which was adjudicated by means of Tax Court Resolution No. 3329-2-2017, which ordered the suspension of the administrative proceedings in response to the precautionary measure obtained, and to which we refer in the following paragraphs.

As RTF No. 02569-11-2015 was not in accordance with the law, on June 8, 2015 the Company filed a contentious-administrative action against SUNAT and the Tax Court. We requested the annulment of the aforementioned RTF for the alleged compliance to the provisions of RTF No. 06671-11-2012 of May 3, 2012, regarding the 1999 income tax balance, which must be applied for payments on account for the 2000 fiscal year. On July 2, 2015, the claim was responded to by the Ministry of Economy and Finances (MEF) and on September 24, 2015, an unfavorable Legal Judgment, No. 957-2015, was issued, which we have settled. Subsequently, by means of Resolution No. 8, dated October 6, 2015, the case was scheduled to be heard on October 20, 2015, in the court which declared the claim as baseless. On January 21, 2016, the Company filed an appeal, which was granted. On March 11, 2016, the file was referred to the Sixth Chamber and on April 5, 2016, the appeal was communicated to SUNAT. Subsequently, the case file was sent to the Sixth Superior Civil Prosecutor's Office, which opined that the sentence that declared the claim as baseless should be upheld. The hearing was scheduled for and took place on November 14, 2016. On January 17, 2017, the hearing decision was notified, revoking the ruling of first instance and declaring it partially founded. Consequently, on January 31 and February 1, 2017, the parties filed an appeal, which have been declared admissible. On May 31, 2018, an unfavorable Legal Judgment was handed down. On June 26, 2018, the background hearing was scheduled for July 24, 2018, and subsequently is still pending a decision.

In addition, on July 16, 2015, the Company filed a precautionary measure, which the first and second instances declared inadmissible. Subsequently, upon obtaining a favorable ruling in the second instance, on January 31, 2017, a new innovative precautionary measure was requested, which was granted by means of Resolution No. 4, temporarily suspending the effects of RTF No. 2569-11-2015. On March 17, 2017, the letter of guarantee was presented. On February 26, 2018, the letter of guarantee renewal was presented, which was considered as presented on March 21, 2018. On March 1, 2019, the renewal of the letter of guarantee for the amount of S/ 39,247,200 was considered as presented.

In the opinion of Management and its legal advisors there are reasonable legal arguments that the contentious-administrative process could be adjudged in favor of the Company. As a result, any contingency should be classified as remote.

Furthermore, on June 15, 2015, the Company received notice of a contentious administrative complaint filed by SUNAT, requesting the nullity of RTF No. 02569-11-2015 insofar as the ruling on rounding the coefficients applicable for determining the payments on account for the year 2000 income tax. On June 30, 2015, we proceeded to respond to the claim and on September 22, 2015, the hearing took place. Subsequently, by means of Resolution No. 10, the court declared the claim unfounded; SUNAT subsequently appealed the decision. On November 12, 2015, the appeal was granted and on December 18, 2015, the case was referred to the Sixth Chamber. In the second instance, the transfer of the appeal was responded to and by means of Resolution No. 15, dated June 7, 2016, the Chamber scheduled the hearing for November 23, 2016. The legal judgment was handed down and upheld the ruling. Subsequently, the hearing was rescheduled for March 15, 2017. On March 23, 2017, the Chamber revoked the ruling of first instance, declaring the claim as justified. Consequently, a Cassation appeal was filed, which has been declared admissible. On December 20, 2017, the file was forwarded to the Public Prosecutor's Office for the corresponding Legal Judgment, which opined that the appeal filed by the company was justified. On October 18, 2018, the hearing was held, with the decision still pending.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote. If so, the favorable result derived from the aforementioned proceedings will not have a significant impact on the Group's consolidated financial statements.

(f) Amparo Action derived from Payments to Income Tax Account 2000 Fiscal Year -

On July 3, 2013, the Company filed a request for protection, by means of which the Company sought, as a consequence of the violation of its constitutional rights: (i) to undertake procedures without delay; (ii) the proscription of the abuse of right; and (iii) the non-confiscation of taxes, a finding of inapplicability to the specific case of Article 33 of the Tax Code, which regulates the arrears interest of unpaid taxes.

In effect, SUNAT, by means of Intendency Resolution No. 015150001202, decided to continue with the collection of Resolutions of Determination No. 012-003-0006189, 012-003-0006190, 012-0030006191, 012-003-0006193, 012-003- 0006194, 012-003-0006195, 012-003-0006196, 012-003-0006197 and Fine Resolutions No. 012-002-0006014 and 012-002-0006022 for an amount of S/ 657,405,312 that includes 91 percent interest and capitalized interest (by virtue of the application of Article 33 of the Tax Code). This increase in debt is due to the undue delay in administrative proceedings, as to date the Tax Court has not adjudicated on the appeals against the Determination and Penalty Resolutions mentioned above. The administration has exceeded the legal deadlines for resolving this matter.

On August 19, 2013, the case was referred to the 11th Constitutional Court with Subspecialty in Tax and Customs Matters. On September 6, 2013, SUNAT responded to the complaint and submitted a failure to exhaust administrative proceedings and lis pendens. The Tax Court answered the complaint and accepted exceptions. By means of Resolution No. 13, the derogation for lack of exhaustion of the administrative proceedings was protected, and thus the proceeding was declared concluded. Said decision was appealed by TDP and on June 27, 2014, the nullity of Resolution No. 13 was declared and the decision was revoked, declaring the exception of lack of exhaustion of the administrative proceedings without basis, and ordering the process to continue.

On October 14, 2014, the oral submission was carried out and on November 12, 2014, a judgment of first instance was issued that declared the claim partially justified, which was then appealed by SUNAT and TDP. Subsequently, in the second instance, the case was heard on March 17, 2015 before the Superior Court, which revoked the first judgment (3 to 1) and declared the Amparo Process inadmissible. An appeal for Constitutional Remedy was filed, and granted on November 9, 2015. On January 11, 2016, the file entered the Second Chamber of the Constitutional Court. To date, the Second Chamber of the Constitutional Court has yet to set the date for hearing the case.

Since the Tax Administration has exceeded the legal deadlines for resolving our reconsideration and appeal remedies, thereby generating an excessive amount of interest, the likelihood of success of this process is probable, and consequently, the qualification of the contingency is remote.

On February 19, 2015, we requested a precautionary measure ordering the suspension of collection of late payment interest, as recognized in the ruling of first instance. On Monday, April 13, 2015, we learned that this precautionary measure had been rejected on the grounds that there is no danger in the delay. The respective appeal was lodged and on June 11, 2015, the hearing was carried out without an oral submission. By means of Resolution No. 53, the 4th Civil Chamber decided to uphold Resolution No. 3, dated April 10, 2015, by means of which they rejected the requested precautionary measure. On May 18, 2016, the file entered the Second Chamber of the Constitutional Court. On October 15, 2018, the Constitutional Remedy Appeal of TDP was declared inadmissible, and the aforementioned ruling was published on October 22, 2018. To date, the Chamber is still yet to schedule a date for the qualification hearing.

(g) Fiscal year 2002 -

The Tax Court, by means of RTF No. 04831-9-2012, notified on May 7, 2012, finalized the administrative procedure corresponding to the aforementioned fiscal year.

By means of the aforementioned Resolution, the Tax Court: (1) revoked the deduction related to the exchange difference considering that this is an accounting result to which the principle of causality is not applied; (2) revoked the deduction related to financial interests, and orders SUNAT to perform a new review of the documentation supporting the Cash Flow Statement, as well as third party reports submitted by the Company. Regarding the foregoing, on June 18, 2014 SUNAT, issued a request seeking information which the Company filed on September 17, 2014; (3) with respect to the DCP, upheld a part of the deduction, as it considers that the Company was obliged to present the information that supports the entire DCP even though SUNAT only required a sample; and (4) only recognized the termination notifications as valid collection management, thus, ordering SUNAT to carry out a new review. It should be noted that, unlike what was resolved in the file for the years 2000 and 2001, the Tax Court does not recognize that the DCP that was modified in 2001 may be deducted in 2002 for being greater than 12 months. Likewise, the Tax Court upheld the modifications related to non-business TPI expenses, unsecured credit notes, among others. SUNAT must proceed with the issuance of the corresponding Intendancy Resolution.

Notwithstanding the foregoing, on August 3, 2012, the Company filed a contentious-administrative claim against RTF No. 04831-9-2012 insofar as it upholds the objections for: (1) DCP; (2) undocumented expenses - submarine cable; (3) expenses unrelated to the business - judicial deposits; (4) deductions requested by the Company, and (5) TPI. The claim has been admitted by the Court and both SUNAT and the Tax Court proceeded to respond. On September 4, 2013, the case was referred to the 21 Administrative Contentious Court with Subspecialty in Tax and Customs Issues. On December 26, 2013, the Court declared the proceeding to be correctly presented and ordered that the file be referred to the Public Prosecutor's Office for a judgment, which was unfavorable. On July 7, 2015, the court declared the claim baseless, which was declared null by the Chamber with Resolution No. 31. On November 12, 2018, the ruling that the claim was justified on various grounds was communicated. On December 10, 2018, the resolution granting the appeals filed by the parties was notified. On December 17, 2018, the file entered the 6th Court, specializing in Contentious Administrative Tax. On December 17, 2018, the file entered the 6th Chamber of Contentious Administrative Tax. On May 15, 2019, the case was heard at a second instance. On July 5, 2019, we were notified of the hearing verdict that upheld the judgment of first instance in an unfavorable manner for the Company regarding the deductions from the TPI, Submarine Cable and Deductions not accepted, and revoked the ruling declaring the deductions for the DCP (on telephone bills) and expenses outside the business to be baseless. Finally, it upheld the ruling of first instance regarding the non-validation of the procedure for calculating the interest used by SUNAT between December 25, 2016 and March 15, 2017. On August 23, 2019, the file entered the Supreme Court.

In the opinion of Management and its legal advisors, there are legal arguments that indicate that the contingency must be classified as reasonably remote with respect to the deductions for: (i) non-business expenses - judicial deposits, (ii) provision for doubtful collection and (iii) indoor public telephones iv) deductions requested v) expenses without supporting documentation (Pan American submarine cable), is remote.

Additionally, on November 20, 2012, the Company was notified with a contentious-administrative suit filed by SUNAT, requesting the partial nullity of RTF No. 04831-9-2012, insofar as revoking Intendancy Resolution No. 0150140006992, dated December 28, 2007, for the deduction of the financial burden due to the exchange difference and, as a secondary claim, that the Tax Court issues a new resolution that upholds the Intendancy Resolution. On August 7, 2013, the case was referred to the 23 Contentious Administration Court with Subspecialty in Tax and Customs Issues. The Company possesses a ruling of first instance, dated September 18, 2014, which declared the claim as being baseless. This ruling was appealed by SUNAT and an unfavorable superior legal judgment was issued. After the hearing of the case on September 23, 2015, the Sixth Chamber, by means of Resolution No. 20, dated September 29, 2015, upheld the ruling of the first instance that declared the claim as baseless. SUNAT, responding to the aforementioned, filed a Cassation appeal, which was granted by means of Resolution No. 21 on November 6, 2015. Subsequently, on January 11, 2016, the file entered the Permanent Chamber of Constitutional and Social Law of the Supreme Court and a review of the cassation appeal was scheduled for August 1, 2016, declaring it admissible. On February 27, 2017, a legal judgment was handed down, which opined that the appeal filed by SUNAT be upheld insofar as the exchange rate differences, and yet baseless in terms of the deduction relating to the incentive regime. On June 21, 2017, the case was heard. On March 27, 2019, a Supreme Court ruled to declare the appeal filed by SUNAT as being justified, upholding the position of the TDP regarding the deduction of the incentive regime, and declaring the nullity of the RTF insofar as the difference in exchange, and providing for the issuance of a new resolution. On April 4, 2019, the file was referred to the 18th Contentious Administration Tax Court so that in turn it would be returned to the Tax Court, and the latter would issue a new resolution regarding the deduction of the exchange rate difference. On June 26, 2019, RTF compliance was communicated. On September 20, 2019, the Court upheld the transfer of the compliance RTF to SUNAT.

The deduction of the incentive regime has been adjudicated favorably for the Company. In relation to the exchange rate deduction, the Supreme Court declared the nullity of the RTF that resulted in being favorable to the interests of the Company.

II. General Sales Tax -

The Company has been notified by means of the Intendancy Resolutions issued by SUNAT regarding the General Sales Tax for the years 1998, 1999, 2000 and 2001. In this regard, the Company made the payment corresponding to the determination made by SUNAT, except for the case related to the General Sales Tax of 2001 (for which the Tax Court ruled in favor of the Company). Regarding the General Sales Tax for 2002, by means of RTF No. 04831-9-2012, the Tax Court upheld the deductions made for this item.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote.

III. Withholding Taxes for Non-Residents -

Regarding withholdings of Income Tax from non-residents from the years 1999 to 2006, cases have been resolved in favor of the Company. It should be noted that SUNAT has appealed to the courts, challenging the respective resolutions for the years 1999, 2000, 2001, 2002, 2003 and 2004, which are in process.

SUNAT issued determinations and fines against the Company for withholding Income Tax, supposedly corresponding to revenues of non-resident companies operating a satellite. For the purposes of SUNAT, said income is revenue from Peruvian sources.

The Tax Court revoked the SUNAT rulings that declared that the claims presented by the Company were baseless and, therefore, it has rendered the determination and fine for these items sin effect. However, SUNAT has contested these decisions via legal means. Thus, to date, SUNAT has filed five contentious administration claims for the years 1999 - 2000 (merged into a single proceeding), 2001, 2002, 2003 and 2004.

Regarding the 2002 financial year, on November 10, 2014, the judgment in the first instance was issued that declared the claim unfounded in all aspects. This decision was revoked by the Superior Chamber. On April 19, 2018, the Supreme Court notified of the ruling, declaring the Cassation appeals filed by the Company and the Ministry of Economy and Finance as baseless. On July 4, 2019, the Court received the administrative case.

As the supreme sentence contained defects that affect the constitutional rights of the Company, an amparo petition was filed. On July 10, 2018, the claim was admitted for processing. On August 10, 2018, the Tax Court was declared non-compliant, because the SUNAT prescription exception was formulated and the response to the claim of the Attorney General and SUNAT was presented. On March 20, 2019, the nullity of the resolution declaring the Tax Court to be in contempt of court, and declared the exception to the statute of limitations made by SUNAT as baseless. On May 9, 2019, the oral submission was heard. The finding is still pending, as is the resolution for the appeal filed by SUNAT against the resolution declaring the exception of the statute of limitations to be baseless.

It should be noted that we have a precautionary measure in place to suspend the effects of the judgment on the contentious administrative process. On January 22, 2019, the appeal presented by SUNAT was granted. The precautionary measure book is still to be submitted to the Superior Chamber.

Regarding fiscal year 2004, on January 22, 2013, the Company was received notice of the judgment issued in the first instance that declared the claim to be unfounded in all aspects. Said sentence was upheld by the second instance. On July 20, 2018, the Supreme Court communicated the ruling, which stated that the Cassation appeal filed by the tax administration is justified. In this process, the Supreme Court has adhered to the same criteria for the 2002 financial year, and consequently qualified the provision of satellite capacity as a service provided in Peruvian territory, and therefore, it is on the onus of the provider to pay the tax and that Company withholds the same.

On August 16, 2019, a compliance RTF 7066-2-2019 was presented to the Court of origin. The Company questioned said resolution in a letter dated September 13, 2019.

Currently, an amparo proceeding is being initiated against the ruling for the 2004 financial year as it contains several defects that affect the constitutional rights of the Company. On October 12, 2018, the claim was admitted for processing. On February 8, 2019 and February 14, 2019, the Tax Court and SUNAT responded to the claim, to which the Company has responded. On September 10, 2019, the oral report was heard in the first instance. The decision is still pending. It should be noted that, in the aforementioned process, on September 24, 2019, a precautionary measure was presented in order to suspend the effects of the compliance RTF, as well as any SUNAT document relevant to the collection of the amount to be settled.

On August 16, 2019, RTF No. 07066-2-2019 corresponding to IRND - 2004 was received. Through this resolution, the Tax Court complies with the provisions of the judicial headquarters, by means of which fifteen (15) values between Determination Resolutions and Fine Resolutions are upheld. Furthermore, the Tax Court revoked six (6) Fine Resolutions under the argument of *reformatio in peius*.

Regarding fiscal year 2003, on January 23, 2013, the Company received notice of the judgment issued in the first instance that declared the claim to be unfounded in all aspects. Said sentence was upheld by the second instance. On February 4, 2019, notification of the ruling was received and via which the cassation appeal filed by the tax administration was declared as justified. On June 3, 2019, the Company received notification via a compliance RTF (as ordered by the Supreme Court).

The Company presented a new administrative contentious process against the compliance RTF on June 24, 2019. The claim is based on the fact that the Tax Court failed to rule on the terms of the Supreme Court, and therefore failed to rule on two arguments put forward by the Company in the administrative headquarters, thereby contravening the right to due administrative procedure. On August 1, 2019, the claim was declared inadmissible, and the Company appealed the resolution on August 15, 2019. To date, a case hearing has been scheduled in the second instance for October 16, 2019.

Furthermore, in relation to the 2003 judgment, an amparo process was also initiated. On May 29, 2019, the claim was admitted for processing.

Regarding the 1999-2000 financial year, the judgment of first instance declared the claim unfounded in all respects. This decision was upheld in the second instance and SUNAT filed an appeal for Cassation. On May 13, 2019, the discord hearing before Judge Bermejo Ríos took place. On August 28, 2019, the Company was notified with the supreme resolution that took a position against the interests of the Company. On September 6, 2019, the file entered the Court of First Instance in order to order the Tax Court to issue the corresponding compliance resolution.

Regarding the 2001 financial year, on September 6, 2013, the abandonment of the process was declared. Said decision was appealed by SUNAT and annulled by the Chamber, returning the proceeding to the Court of origin. On March 31, 2016, a ruling that declared the claim as being baseless was issued. This ruling was upheld in the second instance and subsequently, SUNAT filed a cassation appeal. On August 16, 2017, the qualification hearing was held, declaring the proceeding admissible. On November 21, 2018, the substantive hearing was held. The decision by Judge Bermejo Ríos is still pending.

It should be noted that in April 2018, a preliminary interpretation was requested for the five (5) proceedings before the Court of Justice of the Andean Community. The foregoing has the purpose of this entity issuing a binding ruling on satellite capacity services provided by non-domiciled operators. However, in the five proceedings, the Judiciary declared the Company's request inadmissible.

Also, due to the lack of uniform criteria from the Supreme Court members, the Company has requested the presiding judges of the Permanent Constitutional and Social Law Chamber and the Third Chamber of Constitutional and Social Transitional Law, to convene the Plenary Assembly of the Supreme Court, in order that the matter be discussed.

The legal secretariat and its advisors consider that the contingency for periods 99/2000, 2002, 2003 and 2004 should be classified as probable.

Finally, regarding fiscal year 2001, after a re-evaluation of the contingency corresponding to this period, it must be qualified as probable due to (i) the decision that is still pending corresponds to the same judge who, in fiscal year 99-00 found against the interests of the Company (ii) the same member adhered to the majority decision without exhaustive analysis (iii) none of the decisions that have been cast in favor of the Company with respect to the previous fiscal years referred to Supreme Decree 22-2017-MTC.

IV. General Sales Tax from 2003 to 2010 and Income Tax from 2003 to 2010 -

vi) The Intendancy Resolutions resolving the claims presented for the years 2003 to 2010 by the Company were notified by SUNAT between 2008 and 2017. Disagreeing with that adjudicated by SUNAT, appeals were filed and must be resolved by the Tax Court. On January 9, 2018, the Tax Court adjudicated on the file relating to the General Sales Tax for 2005, ordering SUNAT to make a new settlement. The same occurred with the General Sales Tax for 2004 (the ruling of the Court was notified on November 14, 2018). As such, we are awaiting a new settlement. Finally, regarding the Income Tax and General Sales Tax for 2003, on January 25, 2019, RTF 10820-4-2018 was notified, ordering SUNAT to produce a new settlement after revoking the following deductions: i) excess depreciation for difference in computable cost, ii) amortization of training and maintenance, iii) expenses without reliable supporting documentation, iv) income tax and GST of unsecured credit notes, v) documents that do not support expenses, vi) DCP, vii) charging of interest and fines. Regarding the foregoing, on July 2, 2019, the contentious administrative claim filed by the Company was admitted for processing.

Furthermore, on April 14, 2019, we were notified with a contentious-administrative claim filed by SUNAT against RTF 10820-4-2018, whereby the modifications adjudicated in favor of the company were challenged: i) expenses for compensation without supporting evidence, ii) DCP, iii) amortization of intangibles without supporting evidence, iv) modification of the coefficient. An oral submission has been scheduled for November 12, 2019.

In the opinion of the Management and its legal advisors, the contentious administration proceedings have sufficient arguments to consider that the proceedings should be classified as remote.

As a result of the auditing years 2000 to 2009 for Móviles, SUNAT has notified of various resolutions for alleged omissions regarding income tax, income tax withholdings of non-residents, withholding of income tax from fifth category and general sales tax; in the latter case, up to the 2007 fiscal year.

In some cases, Móviles has filed claim appeals for failing to find the corresponding resolutions in accordance with the legal regulations in force in Peru and, in others, it has paid the assessments received.

With regard to:

a) Income Tax for fiscal year 2000 -

On March 30, 2007, SUNAT issued an Intendancy Resolution adjudicating on the claim presented by Móviles for the Income Tax for the year 2000. Disagreeing with the decision, an appeal was presented before the Tax Court.

The Tax Court notified Móviles on February 7, 2013 with RTF No. 20274-9-2012 and by means of which the appeal file related to the Income Tax for the year 2000 was adjudicated. This RTF upheld the following deductions: (i) Financial charges; (ii) Provisions for doubtful collection; (iii) Over Head; (iv) Expenses re-invoiced by TDP; (v) Cellphone Sales Commission; and, (vi) Voluntary Retirement Program. In addition, the Tax Court declared the nullity of the deductions related to: (i) Interconnection expenses; (ii) Management fee; and, (iii) Doubtful collection provision for the months of February to June, August and October to December, and revoked the deductions related to depreciation not accepted for fixed assets transferred to the equity block, and loss due to exchange differences. Finally, regarding the deduction for the Nortel Analogue Network, the Court suspended the procedure until the Judicial Authority provides a ruling.

Notwithstanding the foregoing, said RTF was questioned in court on May 6, 2013. On February 17, 2015, a ruling was issued that declared the claim as baseless, which was appealed on February 24, 2015. Said appeal was referred to the Sixth Contentious-Administrative Chamber with Subspecialty in Tax Matters, which upheld the ruling of first instance by means of Resolution No. 27. Subsequently, TDP filed a cassation appeal on May 27, 2016, whose file was submitted to the Supreme Court on July 14, 2016. On October 25, 2016, the appeal qualification was heard and declared valid. On October 13, 2017, the file was forwarded to the Public Prosecutor's Office for the corresponding legal Judgment. The Office opined that the cassation appeal filed by the Company was justified. On June 19, 2018, the case was heard. On July 4, 2019, the supreme court decision was received which ruled the second instance as null and void regarding the deductions denominated Nortel Analogue Network, Simple Reorganization and DCP. Consequently, it requires the Superior Court of Justice of Lima to issue the decision again. Regarding the deductions denominated Financial Charges and Over Head, the Supreme Court has adjudicated favorably to SUNAT. On July 11, 2019, the file was referred to the Sixth Superior Court. On September 18, 2019, the case was heard. On September 30, 2019, the new proceedings judgment was issued, declaring the deductions unfounded for unaccepted depreciations and DCP, and that the deduction for the withdrawal of majority shareholder assets (Red Nortel) is inadmissible.

Since Tax Court and overhead deductions have been resolved unfavorably for the Company, the contingency should be modified to probable; However, regarding the deductions for Red Nortel, unaccepted depreciations and DCP, in the opinion of Management and its external advisors, they maintain the contingency as reasonably remote.

b) Amparo action derived from the Income Tax for fiscal year 2000 -

On July 15, 2014, the Company filed a writ for amparo, by means of which the Company requested, as a consequence of the violation of its constitutional rights to: (i) commence procedures without delay; (ii) the proscription of the abuse of right; and (iii) the non-confiscation of taxes, that a declaration be made on a finding of the inapplicability to the specific case of Article 33 of the Tax Code, which regulates the arrears interest of unpaid taxes.

In effect, SUNAT through RTF No. 20274-9-2012 upheld the modifications described in section (a), which an amount of S/ 226,546,795 is involved due to late interest, implying some 60 percent of the tax debt.

To date, this process has been declared inadmissible, in the first and second instance. A constitutional grievance appeal was filed on December 24, 2014, which was granted and designated to the First Chamber of the Constitutional Court on March 19, 2015. On September 27, 2016, the proceeding was discontinued, which was accepted by the Court on March 29, 2017. The proceeding has concluded.

c) General Sales Tax for fiscal year 2000 -

On June 20, 2007, SUNAT notified Moviles of the Intendancy Resolution adjudicating on the claim presented by Móviles for the General Sales Tax for the year 2000. disagreeing with the decision, an appeal was presented before the Tax Court.

On February 10, 2014, Moviles was notified with Resolution No. 0505-4-2014, whereby the Tax Court dismissed the objection to the exchange rate applicable to the retirement of goods (Analogue Network Nortel) and upheld the following objections: (i) Expenses re-billed by the Company and (ii) the Financial charges from the loan transferred by TDP in the reorganization.

It should be noted that Moviles submitted a request for clarification on the application for this file regarding the reduction of 50 percent of the fines generated by the uncontested objections, which was favorably adjudicated by means of Resolution No. 2867-4-2014, notified on March 14, 2014, as the Tax Court clarified that the application of the aforementioned reduction applies. However, when SUNAT made the corresponding settlement, the Company detected errors for which it filed an appeal. These were resolved by RTF No. 11315-10-2017, which ordered a new determination by SUNAT. On March 2, 2018, the Company was notified with Intendancy Resolution No. 0150150001600 which complied with that ordered by the Tax Court, proceeding to payment.

Notwithstanding the foregoing, on May 12, 2014, after having been issued an unfavorable tax opinion, the Company filed a contentious-administrative claim regarding the objection to Financial Charges. The date of the case hearing was set for September 10, 2015, and duly carried out. Subsequently, by means of Resolution No. 21, the claim was declared unfounded. Thus, an appeal was filed on September 8, 2016, which was granted by referring the file to the Sixth Chamber. On March 2, 2017, the Company was informed of the legal decision, which upheld the judgment that declared the claim unfounded. On May 18, 2017, the Court upheld the ruling of first instance. As such, on June 1, 2016, we filed an appeal for cassation. On November 24, 2017, the appeal qualification hearing was carried out, declaring it admissible and ordering the referral of the file to the Public Prosecutors Office for the corresponding Legal Judgment, which adjudged that the appeal of Cassation presented by the Company was baseless. On October 30, 2018, the court case hearing was held. On August 12, 2019, the meaning of the result was downloaded because the appeal of the Company was declared unfounded. To date, the aforementioned resolution is pending formal notification.

In the opinion of Management and its legal advisors, taking into consideration the decision of the Supreme Court in the contentious-administrative proceedings of the 2000-2001 fiscal year of TDP, and of the year 2000 of TM, the rating should be modified to probable.

d) Income Tax and General Sales Tax for the year 2001

On October 22, 2007, SUNAT issued the Intendancy Resolution adjudicating the claim presented by Móviles for the Income Tax and General Sales Tax for the 2001 fiscal year. Disagreeing with the decision, an appeal was presented before the Tax Court.

The Tax Court notified Moviles on January 20, 2017, with RTF No. 11549-2-2016, by means of which the appeal file was adjudicated. This RTF upheld the objections, with the exception of (i) the Management fee; and, (ii) the amortization of intangibles, which were dismissed. Likewise, the RTF ordered a new review of a part of the doubtful collection provision and of the loss due to the exchange difference, pending a new pronouncement by SUNAT.

Notwithstanding the foregoing, said RTF was challenged in the court of law on April 19, 2017, which has been admitted for processing. By means of Resolution No. 3, the Court considered that the claim by SUNAT and the Tax Court has been answered. In addition, the Resolution declared the process admissible, admitted controversial points, admitted evidentiary means, and ordered the referral of the file to the Public Prosecutors Office. On October 4, 2018, the oral submission was carried out. On May 7, 2019, we were notified with the judgment of first instance that declared that the claim filed by the Company was unfounded in all aspects. On May 14, the corresponding appeal was lodged, which has been referred to the 7th Special Contentious-Administrative Tax Chamber. On August 12, 2019, the hearing of the case was carried out, pending the issuance of the second instance judgment.

In the opinion of the Management and its legal advisors, there are legal arguments that demonstrate that the contingency should be modified to probable regarding objections to overhead and carve out, to the extent of the Supreme Court resolution on the contentious-administrative proceedings of the 2000-2001 fiscal year of TDP, and the 2000 fiscal year of TM.

For its part, SUNAT has also challenged the RTF in court, which has been admitted for processing. On August 9, 2017, we challenged the claim, and by means of Resolution No. 11 the process was declared admissible. The file was then referred to the Public Prosecutor's Office, which, via the corresponding Fiscal Judgment, requested the claim be declared as baseless. On May 3, the ruling declaring the claim as justified was communicated. On December 7, 2018, Resolution No. 29 was notified, declaring the ruling as invalid. On January 22, 2019, the oral submission was heard. On April 9, 2019, the ruling of first instance was communicated, stating that the RTF was partially justified and partially invalid, and thus ordered the Tax Court to issue a new resolution, upholding RI 0150140006682 insofar as the modifications due to various expenses transferred by its related party for those that do not prove causality (a deduction referring to the payments undertaken), and for third-party taxes assumed by the taxpayer. On April 24, 2019, the appeals filed by the parties were granted, and the file was referred to the 7th Special Contentious-Administrative Tax Chamber. On July 1, 2019, the case hearing was held, and was pending the issuance of a ruling.

In the opinion of Management and its legal advisors, there are legal arguments to consider that indicate the contingency should be classified as remote.

e) Income Tax and General Sales Tax for the 2002 fiscal year

On January 23, 2008, SUNAT issued an Intendancy Resolution adjudicating the claim presented by Móviles for the Income Tax and General Sales Tax for the 2002 fiscal year. Disagreeing with the decision, an appeal was presented before the Tax Court.

The Tax Court notified Moviles on September 15, 2017, with RTF No. 12003-8-2016, by means of which the appeal file was resolved. This RTF mainly raised the following objections: (i) Management fee; and, (ii) amortization of intangibles; likewise, it declared the nullity of a part of the objection to the DCP and ordered a new review of the objection related to the financial interests (carveout).

On December 15, 2017, the Company filed a contentious-administrative claim for the upheld objections, which was admitted on January 3, 2018. On January 26, 2018, SUNAT presented its response. On September 28, 2018, SUNAT presented the administrative file. On November 8, 2018, the case and the anticipated case trial were declared admissible. On December 14, 2018, the administrative file was deemed as being received. A date for the Oral Submission has been scheduled for October 24, 2019.

4. Furthermore, we have initiated an action of amparo. We seek to stop the computing of interests that exceed the legal deadlines that the administration has to determine the repayments and fines of the Income Tax of the 2002 fiscal year. On January 22, 2018, the claim was admitted for processing. On June 25, 2018, the claim is considered to have been answered and the exception due to lack of administrative exhaustion and incompetence was notified. On July 11, 2018, the Company responded to the submitted exception. On December 3, 2018, Resolution No. 4 notified that the exception of incompetence and exhaustion of the previous remedy was declared invalid. On December 6, 2018, SUNAT filed an appeal against Resolution No. 4. On January 25, 2019, the appeal filed by SUNAT was granted. A date for the oral submission has been scheduled for October 24, 2019.

In the opinion of Management and its legal advisors, there are legal arguments to consider that indicate the contingency should be classified as remote.

On January 30, 2018, the Company was notified of a contentious-administrative claim filed by SUNAT regarding the objections dismissed by the Tax Court. Said claim was responded to on January 15, 2018, by the Tax Court and February 13, 2018, by the Company. On March 13, 2018, the proceeding was declared admissible, the controversial points were established, evidence was admitted, and the referral of the actions to the Public Prosecutor's Office was ordered. On September 20, 2018, the oral submission was heard. On September 28, 2018, in response to the Court request, SUNAT presented the administrative file again. On May 10, 2019, notification was made of the ruling that declared the claim filed by the Company as invalid in all aspects. On May 24, 2019, our appeal was admitted and was referred to the 7th Special Contentious-Administrative Tax Chamber. On August 5, 2019, the case hearing was held. On September 13, 2019, the judgment was downloaded, declaring the judgment of first instance void, so the Court must re-issue a pronouncement.

In the opinion of Management and its legal advisors, there are legal arguments to consider that indicate the contingency should be classified as remote.

On October 24, 2018, SUNAT challenged RTF No. 05108-1-2018 by means of which the request for refund filed by TDP was declared inadmissible. The aforementioned claim was admitted on October 31, 2018. On November 26, 2018, the claim was responded to by the Tax Court and the Company was re-notified at its legal address at Dean Valdivia 148, as we had been incorrectly notified at our former legal address at Calle Shell 310. On December 6, 2018, the administrative file submitted by SUNAT was considered as having been received. On March 12, 2019, notification was made of the Legal Judgment which states that SUNAT claim should be declared inadmissible. On April 16, 2019, the oral submission was heard, whilst the issuance of a ruling was still pending.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote.

f) Income Tax and General Sales Tax for 2004 tax year

On August 29, 2009, SUNAT issued an Intendancy Resolution determining the claim presented by Móviles for the Income Tax and General Sales Tax for the 2004 fiscal year. Disagreeing with the decision, an appeal was presented before the Tax Court.

The Tax Court notified Moviles on January 29, 2018, with RTF No. 10997-1-2017, stating that the appeal file has been determined. The aforementioned determination invalidated the modification for the provision of doubtful collection by the party that was not subject to SUNAT's review; revoked the modification for debt interests with Telefónica del Perú in order to undertake a new review of the evidence; revoked the modification for the amortization of intangibles; and indicated that SUNAT would recognize the deductions requested, if applicable and upheld the other aspects. We are currently awaiting the Intendancy Resolution that complies with that indicated by the Tax Court.

Regarding the modifications that were upheld by the Tax Court: i) DCP, ii) expenses recorded for contracts for the granting of line-of-credit account 671110, iii) depreciation of asset cost and iv) modification of the coefficient of payments on account. On April 27, 2018, RTF 10997-1-2017 was challenged in court. The claim was admitted by means of Resolution No. 01 of May 7, 2018. By means of Resolution No. 03 of May 30, 2018, the claim was answered, the case has been admitted, evidence has been submitted, and SUNAT was ordered to provide the administrative file. On June 11, 2018, the administrative file was deemed as received. On September 20, 2018, the oral submission was heard. On March 11, 2019, the ruling of first instance was deemed as invalid regarding the claim on the modifications to the DCP; the expenses registered for the granting of a line-of-credit contract, Account 671110; depreciation of the cost of assets and calculation of late interest between December 25, 2006 and March 15, 2007; and inadmissible regarding the modification of the coefficient of payments on account. Furthermore, the challenge to the capitalization of interest for the period between December 25, 2006 and March 15, 2007 was declared invalid. On March 28, 2019, the appeal filed by the Company was granted; thus, the file was submitted to the 7th Chamber specializing in contentious administrative matters. On May 9, 2019, the oral report was submitted in the second instance. On August 27, 2019, the judgment upheld the claim for the modification of the DCP only insofar as the telephone receipts. As such, on September 17 and 18, 2019, the parties filed appeals, which were submitted to the Supreme Court on September 23, 2019.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote.

On April 23, 2018, SUNAT made a legal challenge to RTF No. 10997-1-2017, questioning the following modifications: i) DCP (as they were not sampled), ii) Expenses recorded by mutual account contract 671110 - TDP debt interest (S/ 717,765) (interest on debt transferred by TDP using the CarveOut method), and iii) Modification of the coefficient of payments on account of Income Tax for January and February 2004. On May 30, 2018, the case was considered as admissible. On September 4, 2018, the Legal Judgment was notified. On December 11, 2018, the Oral Submission was heard. On March 8, 2019, notification was made of the ruling of first instance that deemed the claim filed by SUNAT as invalid in all aspects. On April 9, 2019, the appeal filed by SUNAT against the ruling of first instance was granted, and thus submitted to the 7th Specialized Chamber on Contentious Administrative Matters. On June 10, 2019, the case was heard at a second instance. On July 27, 2019, the judgment upheld the SUNAT claim based only on the objection to the Carve Out, and unfounded regarding the objections to the DCP and coefficient modification. As such, we filed an appeal against the unfavorable objection on August 5, 2019; the same that was submitted to the Supreme Court on August 28, 2019.

From the analysis carried out, ratified by the legal opinion of the external consultants overseeing the case, we consider that the contingency rating of this case is remote.

Furthermore, we have initiated an action of amparo. We seek to stop the computing the interests that exceed the legal deadlines that the administration has to determine the modifications and fines for the Income Tax of the 2004 fiscal year. By means of Resolution No. 01 of June 13, 2018, the claim was admitted for processing. On August 20, 2018, the claim was considered to have been answered and the exception due to lack of administrative exhaustion and incompetence was notified. On August 22, 2018, the Company responded to the exception made. On December 11, 2018, notification was made of Resolution No. 3, by means of which the exceptions were declared invalid. On January 11, 2019, the appeal filed by SUNAT against Resolution No. 3 was granted.

Since the Tax Administration has exceeded the legal deadlines for resolving our reconsideration and appeal remedies, thereby generating an excessive amount of interest, the likelihood of success of this process is probable, and consequently, the qualification of the contingency is remote.

g) Amparo Action for Income Tax and General Sales Tax for 2002 fiscal year

On December 13, 2017, the Company filed a writ of amparo, by means of which the Company, as a consequence of the violation of its constitutional rights: (i) commencement of procedures without delay; (ii) the proscription of the abuse of right; and (iii) the non-confiscation of taxes, requested a finding of inapplicability to the specific case of Article 33 of the Tax Code, which regulates the arrears interest of unpaid taxes. This claim was admitted for processing on January 22, 2018. On June 25, 2018, the claim was considered to have been responded to, the exception for lack of exhaustion of the administrative remedy submitted by SUNAT has been received, the claim has been answered, and the claim of exception due to incompetence of the Tax Court has been filed. On July 11, 2018, the submitted exceptions were responded to. On December 3, 2018, the submitted exceptions were declared baseless, and for which an appeal was submitted on December 6. On January 25, 2019, the appeal filed by SUNAT was granted, and subsequently pending a ruling.

Since the Tax Administration has exceeded the legal deadlines for resolving our reconsideration and appeal remedies, thereby generating an excessive amount of interest, the likelihood of success of this process is probable, and consequently, the qualification of the contingency is remote.

h) General Sales Tax from 2003 to 2010 and Income Tax from 2003 to 2010 fiscal years -

The Intendancy Resolutions resolving the claims presented for the years 2003 to 2010 by the Company were notified by SUNAT between 2008 and 2017. Disagreeing with that adjudicated by SUNAT, appeals were filed and must be resolved by the Tax Court. On January 9, 2018, the Tax Court adjudicated on the file relating to the General Sales Tax for 2005, ordering SUNAT to make a new settlement. The same occurred with the General Sales Tax for 2004 (the ruling of the Court was notified on November 14, 2018). As such, we are awaiting a new settlement. Finally, regarding the Income Tax and General Sales Tax for 2003, on January 25, 2019, RTF 10820-4-2018 was notified, ordering SUNAT to produce a new settlement after revoking the following objections: i) excess depreciation for difference in computable cost, ii) amortization of training and maintenance, iii) expenses without reliable supporting documentation, iv) Income Tax and GST of unsecured credit notes, v) documents that do not support expenses, vi) DCP, vii) collection of interest and fines. Regarding the foregoing, on July 2, 2019, the contentious administrative lawsuit filed by the Company was admitted for processing. On August 19, 2019, the Court considered the claim filed by the Company and the Tax Court. The scheduling of the oral report in the first instance is still pending.

Furthermore, on April 14, 2019, we were notified with a contentious-administrative claim filed by SUNAT against RTF 10820-4-2018, whereby the modifications adjudicated in favor of the company were challenged: i) expenses for compensation without supporting evidence, ii) DCP, iii) amortization of intangibles without supporting evidence, iv) modification of the coefficient. An oral submission has been scheduled for November 12, 2019.

In the opinion of Management and its legal advisors, for the aforementioned administrative contentious processes there are sufficient arguments to consider the contingency as reasonably remote.

As a result of the auditing years 2000 to 2009 for Móviles, SUNAT has notified of various resolutions for alleged omissions regarding income tax, income tax withholdings of non-residents, withholding of income tax from fifth category and general sales tax; in the latter case, up to the 2007 fiscal year.

In some cases, Moviles has filed claim appeals for failing to find the corresponding resolutions in accordance with the legal regulations in force in Peru and, in others, it has paid the assessments received.

a TDP disputes the nullity of RTF No. 1858-1-2019 which upholds IR No. 0150140013079, declaring as unfounded the claim made against RD No 012-003-0072541 to 012-003-0072552 and RM No 012-002-0028443 to 012-002-0028454, regarding the GST from January to December 2010, and for the commission of the infraction typified by Paragraph 1 of Art. 178 of the Tax Code. The nullity is based on the following arguments: i) violation of the principle of legality, ii) violation of the principle of non-retroactivity of the standards, iii) violation of the principle of legal certainty, iv) contravention of the provisions of Art. III of the TP of the CT and V of the TP of the LPAG, v) violation of the principle of predictability and legitimate trust, vi) is inconsistent and contains a faulty motivation. On June 27, 2019, the claim was filed. By means of resolution No. 01, dated July 15, 2019, the claim was admitted for processing.

In the opinion of Management and its legal advisors, for the aforementioned administrative contentious processes there are sufficient arguments to consider the contingency as reasonably remote.

i) Income Tax Telefónica Multimedia 2014

Telefónica Multimedia challenges RTF No. 149-4-2019 by which IR No. 0150140014378 is upheld which declares the claim made against payment orders No. 011-001-0123981 to 011-0123989 drawn for Income Tax account payments from January to July, October and December 2014 as unfounded. On April 24, 2019, the claim was filed. By means of resolution No. 01, dated May 20, 2019, the claim was admitted for processing. On June 7, 2019, the claim was responded to. To date, an oral report has been scheduled for April 7, 2020.

In the opinion of Management and its legal advisors, for the aforementioned administrative contentious processes there are sufficient arguments to consider the contingency as reasonably remote.

j) Mobile royalties -

On February 27, 2012, the MTC notified the Company of the settlement of the annual payment of the mobile royalties for using the radioelectric spectrum corresponding to that year as per the General Regime, arguing that the Special Regime, to which Telefónica Móviles was subject at the time, was no longer applicable given its temporary nature.

As a result of the MTC's intention of appealing the General Regime, the Company proceeded to a: (i) file a complaint with the MTC itself, arguing that the Special Regime was the one legally applicable to it; and (ii) file a complaint with INDECOPI arguing that the calculation methodology contained in the General Regime constituted a Bureaucratic Barrier.

The appeals lodged by the Company for the years 2012, 2013 and 2014 before the MTC were dismissed. Consequently, the Company filed appeals before the Tax Court, which are pending determination. The MTC is reluctant to make the files available. Furthermore, for the years 2015 and 2016, the Company filed claims before the MTC, which are pending determination by the Tax Court.

The claim of Bureaucratic Barriers was resolved in the last administrative instance on February 19, 2016, declaring that the calculation methodology contained in the General Scheme constituted a Bureaucratic Barrier and therefore was not applicable to Telefónica. This determination applies not only for year 2012, but also for subsequent fiscal years.

In the case of the mobile royalties corresponding to the years 2012, 2013 and 2014, the Company made the payments under protest according to the settlements formulated by the MTC. While the payments corresponding to the years 2015 and 2016 were not made as a precautionary measure was obtained in the procedure of Bureaucratic Barriers, and as a consequence of the definitive determination from INDECOPI, respectively.

However, on January 18, 2017, the Company was notified with the requirement formulated by the MTC for the payment of the corresponding royalties for the years 2015 and 2016. The requirement was based on the existence of a precautionary measure issued by the 25th Contentious-Administrative Court of the Superior Court of Justice of Lima, which ordered INDECOPI to suspend the effects of the ruling that declared that the calculation of the royalties, as per the General Scheme, constituted a Bureaucratic Barrier. The Court specified that if the payment was not made within the term granted, the respective coercive collection actions would proceed.

On January 27, 2017, the Company responded to the aforementioned requirement indicating that (i) to that date it had not been notified of any precautionary measure; (ii) it had not been notified of any INDECOPI resolution that ordered the suspension of the effects of its resolution; and (iii) pursuant to the provisions of Articles 136 and 115 of the Tax Code, Article 16, Section e) of the Law of Procedure for Coercive Execution, and numeral 28, Article III.4 of the Directive approved by Supreme Decree No.036-2010-MTC, it was not possible to initiate any coercive collection action as the Company had filed, within the established legal deadlines, claims before the MTC for the years 2015 and 2016.

On March 7, the Coactive Executor suspended the Enforcement procedure. However, in order to avoid a possible allegation by the Ministry that Telefónica would not be paying the royalties and, due to this, start a procedure stop the concession, Telefónica proceeded to pay the 2015 and 2016 periods for amounts amounting to S/ 50,787,968 and S/ 52,107,136.

Company Management and its internal and external legal advisors estimate that there are legal arguments to indicate that the final determination issued in the contentious-administrative process promoted by the MTC against the INDECOPI decision will be favorable. If so, the favorable result derived from the aforementioned contentious-administrative proceeding will not have a significant impact on the consolidated financial statements of the Group.

k) Income tax Telefónica Multimedia 2007, 2010, 2012 and 2013

As a result of the audits of the financial years 2007, 2010, 2012 and 2013, SUNAT has notified of various resolutions for alleged omissions regarding income tax.

In some cases, Moviles has filed claim appeals for failing to find the corresponding resolutions in accordance with the legal regulations in force in Peru and, in others, it has proceeded to pay the assessments received.

Regarding the Income Tax for the year 2012 for Multimedia, on June 17, 2015, SUNAT issued Determination Resolutions No. 012-003-0059229 to 0059241 and Fine Resolutions No. 012-002-0025995 to 0025997. The main remedy undertaken by SUNAT corresponds to the documentation-supported expenses that were received after the presentation of the sworn statement.

Disagreeing with the stipulations of the Determination and Fine Resolutions, the Subsidiary filed a Claim Appeal. On January 22, 2016, SUNAT communicated Intendence Resolution No. 0150140012250, by means of which the aforementioned Claim Appeal was declared invalid. Consequently, an appeal was filed before the Tax Court.

In the opinion of Management and its legal advisors, there are legal arguments that indicate that the tax process could be resolved on favorable terms for Multimedia. If so, the favorable result derived from the aforementioned proceedings will not have a significant impact on the Group's consolidated financial statements.

In relation to the processes detailed above, as of September 30, 2019, as stated in note 2.20, the Group has recorded the necessary provisions, allocating a possible

contingency of an approximate amount of S/ 717,086,000 (S/ 1,375,829,000 as of December 31, 2018). See note 22. Management and its legal advisors estimate that the individual outcome of the claims should not have a significant impact on the consolidated financial statements of the Group.

In the same way, the Group has various legal (labor and administrative) regulatory and customs claims that are being overseen by its external and internal legal advisors. As of September 30, 2019, as explained in note 2.20, the Group has recorded the necessary provisions, with an amount of S/ 654,594,000 (S/ 558,965,000 as of December 31, 2018) held as possible contingency. See note 22. Management and its legal advisors estimate that the individual outcome of the claims should not have a significant impact on the consolidated financial statements of the Group.

35 SUBSEQUENT EVENTS

Between September 30, 2019 and the date of approval of the consolidated financial statements, there have been no significant subsequent events that in the opinion of Company management require any additional disclosure or any adjustment to the balances presented in the consolidated financial statements.