

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2020 AND AS OF DECEMBER 31, 2019

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 their respective reference to the notes on the consolidated financial statements.

- Code 1D0103 short-term "Trade accounts receivable" includes:

	As of September 30, 2020	As of December 31, 2019
	S/000	S/000
Trade accounts receivable, net (note 7)	1,385,113	1,730,518
Contractual assets (note 9)	48,874	129,295
	<u>1,433,987</u>	<u>1,859,813</u>

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

	As of September 30, 2020	As of December 31, 2019
	S/000	S/000
Trade accounts receivable, net (note 7) 526	15,918	
Contractual assets (note 9)	3,406	
	<u>6,110</u>	
	<u>3,932</u>	<u>22,028</u>

- Code 1D0317 "Short-term deferred income" includes:

	As of September 30, 2020	As of December 31, 2019
	S/000	S/000
Deferred income (note 23) 36,776	48,996	
Contractual liabilities (note 9)	144,403	137,566
	<u>181,179</u>	<u>186,562</u>

- Code 1D0403 Long-term "deferred income" includes:

	As of September 30, 2020	As of December 31, 2019
	S/000	S/000
Deferred income (nota 23)	93,103	99,611
Contractual liabilities (note 9)	52,255	79,391
	<u>145,358</u>	<u>179,002</u>

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

	As of September 30, 2020	As of December 31, 2019
	S/000	S/000
Property, plant and equipment (note 14)	5,706,487	6,187,142
Right-of-use assets (note 16)	949,454	1,057,095
	<u>6,655,941</u>	<u>7,244,237</u>

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

	As of September 30, 2020	As of December 31, 2019
	<u>S/000</u>	<u>S/000</u>
Financial obligations (note 18) 157,868	408,070	
Financial lease liabilities (note 19)	<u>309,465</u>	<u>243,083</u>
	<u><u>467,333</u></u>	<u><u>651,153</u></u>

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

	As of September 30, 2020	As of December 31, 2019
	<u>S/000</u>	<u>S/000</u>
Financial obligations (note 18)	2,973,363	3,036,855
Financial liabilities for leasing (note 19)	<u>813,316</u>	<u>922,268</u>
	<u><u>3,786,679</u></u>	<u><u>3,959,123</u></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, 2020 S/000	As of September 30, 2019 S/000
Fixed business income (note 27) 2,703,763	3,112,138	
Mobile business income (note 28)	<u>2,198,015</u>	<u>2,889,307</u>
Total	<u><u>4,901,788</u></u>	<u><u>6,001,445</u></u>

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

	As of September 30, 2020 S/000	As of September 30, 2019 S/000
General and administrative expenses (note 29)	3,023,143	3,375,848
Equipment sales cost (note 10 (b))	604,833	1,011,233
Depreciation (note 14)	750,462	747,836
Personnel expenses (note 30)	480,101	879,817
Amortization (note 15)	236,585	265,254
Amortization of rights of use (note 16)	<u>152,060</u>	<u>132,708</u>
Total	<u><u>5,247,184</u></u>	<u><u>6,412,696</u></u>

	As of September 30, 2020 S/000	As of September 30, 2019 S/000
Administrative expenses (2D0301)	5,187,585	6,308,978
Selling and distribution expenses (2D0302)	<u>59,599</u>	<u>103,718</u>
Total	<u><u>5,247,184</u></u>	<u><u>6,412,696</u></u>

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES

NOTES ON CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2020 AND AS OF DECEMBER 31, 2019

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 services of mobile telephony, internet, fixed telephony, data transmission and information technology, national and international long distance carrier services, mobile satellite services and paid television services. 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 subsidiaries included in the consolidated financial statements as of September 30, 2020 are the following:

- Servicios Globales de Telecomunicaciones S.A.C. that is dedicated to the commercialization of services of public telephony to stores, convenience stores and similar establishments and, of which, the Company maintains a 99.90 percent market share.
- Telefónica Cybersecurity Tech Perú S.A.C. (in pre-operative stage), a company dedicated to providing cybersecurity and electronic information security services.
- Infracó Perú S.A.C. (in pre-operational stage), a company that is dedicated to exploiting and providing all kinds of telecommunications services, dedicating itself to the acquisition, possession, and exploitation of telecommunications infrastructure.
- Telefónica Cloud Tech Perú S.A.C. (in pre-operational stage), a company that is dedicated to providing any technology service in the cloud ("Cloud" services), virtualized communications, hosting, housing or positioning services.

As of December 31, 2019, it only consolidated with Servicios Globales de Telecomunicaciones S.A.C.

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

	<u>As of September 30, 2020</u> S/000	<u>As of December 31, 2019</u> S/000
Servicios Globales de Telecomunicaciones S.A.C.		
Assets	16,447	25,261
Liabilities	13,350	19,605
Net equity	3,096	5,656
(Loss)/net income	(2,560)	1,192
Telefónica Cybersecurity Tech Perú S.A.C.		
Assets	50	-
Net equity	50	-
Infraco Perú S.A.C.		
Assets	45	-
Net equity	45	-
Telefónica Cloud Tech Perú S.A.C.		
Assets	50	-
Net equity	50	-

1.2 Approval of consolidated financial statements -

The consolidated financial statements as of December 31, 2019 were approved by the General Shareholders' Meeting held on July 24, 2020.

1.3 Corporate reorganization -

a) Transfer of property block in favor of Internet Para Todos [Internet For All] 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 General Shareholders Meeting approved the simple reorganization in favor of IPT effective May 1, 2019, contributing the rural mobile infrastructure assets and liabilities necessary for IPT to operate. The equity block contributed on May 1, 2019, was comprised as follows:

	<u>May 1, 2019</u> S/000
Assets	
Accounts receivable from staff	2
Inventory	678
Property, plant and equipment, note 14	252,538
Assets for rights of use, note 16	11,533
Deferred tax asset, note 25 (a)	12,273
Total assets	<u>277,024</u>
Liabilities	
Accounts payable to staff	182
Financial liabilities for leases	8,118
Provision for retirement of assets	3,104
Total liabilities	<u>11,404</u>
Equity block contributed	<u><u>265,620</u></u>

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 note 12(c).

b) Assignment of equity block in favor of Telefónica Cybersecurity Peru S.A.C. (TCP) -

On July 3, 2020, the Group completed the TCP constitution process with a cash contribution of S/ 50,000 for 99.99 percent of the shares.

Subsequently, on September 30, 2020, the General Shareholders' Meeting of the Company approved the simple reorganization in favor of TCP of an equity block made up of assets and liabilities related to the cybersecurity business. The equity block was contributed on October 1, 2020 and was composed as follows:

	October 1, 2020 S/000
Assets	
Accounts receivable from staff	10
Other non-financial assets	203
Property, plant and equipment, net	25,324
Intangible assets other than capital gain, net	5,424
Rights-of-use assets	15,360
Deferred tax asset	943
Total assets	47,264
Liabilities	
Accounts payable to staff	360
Financial liabilities for leases	16,612
Total liabilities	16,972
Equity block contributed	<u>30,292</u>

On October 1, 2020, Telefónica Ingeniería de Seguridad S.A.C. contributed a capital block to TCP equivalent to S/ 4,483,000. After these contributions, TdP's stake in TCP was diluted to 75 percent.

On that date, the Company sold its total stake in TCP to Telefónica Cybersecurity Tech, S.L. (a non-domiciled company) for S/ 47,565,000, obtaining a profit of S/ 17,223,000.

1.4 Concession contracts and fees -

a) Concession contracts

The Group, together 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, whose nature is that of Contract Law, 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 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, 2020 and December 31, 2019, the main concession contracts that were maintained are as follows:

<u>Services</u>	<u>Location</u>	<u>Ministerial Resolution</u>	<u>Term</u>	<u>Start</u>	<u>Expiration</u>
Landline and LD	Lima, Callao & Provinces	272-99-MTC/15.03	20 years + renewed term	1994	2027
Mobile	Lima and Callao	373-91-TC/15.17	20 years + renewed term	1991	2030
Mobile	Provinces	055-92-TC/15.17	20 years + renewed term	1992	2030
Mobile	Lima and Callao	440-91-TC/15.17	20 years + renewed term	1991	2030
Mobile	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 the process of renewal with the MTC.

As a guarantee of faithful compliance with the obligations established in some of the concession agreements, the Group 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 the consolidated financial statements, the Group 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 service are adjusted quarterly on the basis of service baskets according to a formula of 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.

OSIPTEL sets the productivity factor to be applied in three-year periods, 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 is being determined that a verification procedure should be carried out, taking as reference an annual Productivity Factor. For the period September 2016 to August 2019, the annual Productivity Factor was set at -3.40 percent. If inflation was to be in the range of between -2.40 percent and - 4.40 percent, the Group shall not make tariff adjustments. If inflation is outside of that range, the Group will make the respective rate adjustments. For the period September 2019 to August 2022, the annual Productivity Factor was set at -2.43 percent. If inflation was in the range of between -1.43 percent and - 3.43 percent, the Group shall not make tariff adjustments.

With the entry into force of the Virtual Mobile Area (a single national cell area), as of September 4, 2010, all domestic long-distance calls with a mobile destination, including those originating from public telephones for public use, 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 of the Group to personal communications and trunked mobile telephony networks. It was established that said rate is to be reviewed after four years; thereby annulling adjustments, 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 tariff 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:

<u>Date</u>	<u>Resolution</u>	<u>Rate/seconds</u>
03.14.2018	065-2018-CD/OSIPTEL	S/0.0009 x seg.
02.09.2019	008-2019-CD/OSIPTEL	S/0.0006 x seg.
01.09.2020	005-2020-CD/OSIPTEL	S/0.0006 x seg.

2 SUMMARY OF MAIN ACCOUNTING POLICIES

The main 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 for 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 effective as of September 30, 2020, and as of December 31, 2019, respectively.

The information contained in these consolidated financial statements is the responsibility of the Group Management, which expressly states that the principles and criteria included in the International Financial Reporting Standards (IFRS) issued by the IASB have been fully 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. It also requires that Management exercises its critical judgment in the process of applying Group accounting policies. The areas that involve a greater degree of critical judgment or complexity, or those in which the assumptions and estimates are significant for the separate 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, 2020 and December 31, 2019.

a) Subsidiary

The subsidiary is the entity 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 gains with the subsidiary are eliminated. Profits or losses resulting from transactions between related parties that are recognized in any asset item are also 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 amendments to standards and interpretations adopted by the Group in 2020 -

The accounting policies adopted are consistent with those applied in previous years, except that the Group has adopted the new IFRS and revised IAS policies, which are mandatory for the periods beginning on or after January 1, 2020. The adoption of these standards had no effect on the separate financial statements.

- Modifications to the Conceptual Framework.
- Modifications to IAS 1 and IAS 8.
- Modifications to IFRS 3.

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

The Group has decided not to adopt IFRS 17 "Insurance Contracts" that was issued by the IASB in advance. This modification is effective for periods beginning on or after January 1, 2021. However, the Company estimates that it will not have effects on its consolidated financial statements.

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 other than 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 that are furthermore focused on a convergent offer (several aggregated telecommunications services). Thus, 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 transaction dates. 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 in 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, except for those exchange differences in foreign currency transactions with cash flow hedges. These are directly recorded in the equity up to the disposal of the same, at which time it is 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 are recorded by the method of interest unification.

In accordance with the interest unification 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 a unification 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 surplus value is 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 equivalents -

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 changes 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, gains and losses will be recorded in the consolidated statement of income or in the consolidated statement of 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 makes re-classifications of its debt instruments if its business model for the management of these assets changes.

(ii) Recognition and de-recognition -

Acquisitions and sales of financial assets are recognized on the trade date, 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 Group 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 results.

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 (FVTOCI):** 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 profits or losses due to exchange differences, which are recognized in profit or loss. When the financial asset is derecognized, the accumulated profit or loss recognized in the consolidated comprehensive result statement is reclassified from equity to income 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 on exchange differences are recognized in the consolidated statement of income under the heading 'Net gain/(loss) due to exchange differences, while the impairment losses are also recognized in the consolidated statement of income and presented as a separate line item.
- **Fair value through Profit and Loss (FVTPL):** Assets that do not meet the conditions to use amortized cost or FVTOCI 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 the consolidated income statement 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 Group opts for the designation of FVTPL, when the asset is de-recognized, 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 the consolidated income statement 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 -

Looking 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 experienced a significant increase.

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 total 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 re-measured 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 total fair value of a hedging derivative is classified as non-current assets or liabilities if the time remaining to maturity of the hedged item is more than 12 months, and as current assets or liabilities 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 fluctuations in the foreign currency. 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 other equity reserve account. 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 Group 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 other equity reserve account. The changes in the element of the forward contract that relates to the hedged item ("aligned forward element") is recognized as part of other comprehensive income as reserve costs for hedges in equity. In certain cases, the Group 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 other equity reserve account.

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 finally recognized in income, as the hedged item also affects the results (for example, with 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 the consolidated income statement.

(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, 2020 and December 31, 2019, the Group had forwards operations contracted to cover the exchange rate risk in the purchase of assets associated with the disbursement of projects.

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, it will not be included in the cost of the inventories given that it pertains to cost of commercialization, because it is always associated with the customer registration 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 note 2.24. Inventories in transit are presented at the specific cost of acquisition.

The estimate for impairment is determined based on an analysis of the conditions and rotation of terminal equipment, materials and supplies. In the case of damaged equipment and that which have no movement in the last year, the estimate is equivalent to balance in books and recorded in the fiscal year results, and in which its requirement is determined

2.11 Properties, 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 note 2.14. The initial cost of the property, plant and equipment includes its acquisition price, including non-refundable import duties and taxes, and any directly attributable cost to locate 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, when they 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 for 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.

Similarly, when a large inspection or repair is carried out, its 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:

Description	Years
Buildings and other constructions	13, 15, 33 and 40
Plant (Platform and telecommunications networks)	3 to 20
Equipment and others	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 same for the development of new technology, forces the Group to continually update and renovate its plant in order to be competitive in the market. Based on the historical information and considering the technological advances, it has been determined that the value of the properties, plant and equipment at the end of its useful life is not significant and therefore the Group estimates that they do not have residual values, depreciating the total cost in the useful life of the same.

A component of property, plant and equipment or any significant part of it initially recognized is written off 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 de-recognition (calculated as the difference between the net income from the sale of the asset and its carrying amount) is included in the consolidated income statement when the asset is derecognized.

Disbursements incurred after property, plant and equipment have been put into use are capitalized as an additional cost of this asset when it is probable 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, through the recording of a lower expense in the consolidated statement of income, in the item "Personnel expenses."

Works in progress is 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 note 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 per the straight-line method, based on the following estimated useful lives, when they are ready for use:

<u>Description</u>	<u>Years</u>
Administrative concessions	According to the term of the concessions (note 1.4 (a))
Software	3 a 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 materializing in 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 de-recognition 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 permanent impairment losses on its value. See note 2.14. The losses are determined on the basis of impairment tests carried out by the Group during the last quarter of each year in order to determine whether the book value is fully recoverable.

2.14 Impairment of long-term 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 such indications, the Group estimates the recoverable value of the asset, which is the higher of fair value, less costs to sell, and 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 deterioration 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 note 2.4.

Impairment is determined by the evaluation of the recoverable value; considering that 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, 2020 and December 31, 2019, the pre-tax discount rate used was 12.17 percent (equivalent to an after-tax rate of 8.58 percent).

When new events or changes in existing circumstances take place and that demonstrate an impairment loss recorded in an earlier period may have disappeared or been reduced, the Group undertakes a new estimate of the profitability of 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 carrying amount 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 the consolidated income statement 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 in associated companies -

An associate is an entity over which the Group 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 presented 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 Group's share in the net assets of its associates from the date of acquisition.

2.16 Trade 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 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 fees are recognized as transaction costs of financial obligations insofar as it is probable 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 with which it relates.

Financial obligations are eliminated from the consolidated statement of financial position when the obligation specified in the contract is de-recognized, canceled or expires. The difference between the carrying amount 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 qualified assets considered for the purpose of capitalizing financing costs are those whose preparation period exceeds eighteen months.

As of September 30, 2020 and December 31, 2019, the Group did not have assets in progress qualified 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, and charged to the consolidated income statement as they accrue.

Gratuities

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 length 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 staff service time 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 leave and other paid absences are recognized on an accrual basis. The provision for the estimated obligation for annual leave of the 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 probable 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 in the consolidated income statement 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 judgment, 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 the recovery is certain. The provisioned amount is presented in the consolidated income statement, net of the 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 an integral 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, as appropriate.

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 them 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 what is detailed in the plan, there must be a valid prospect 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, short and long term, for the income tax for the period are measured using the amounts expected to be recovered from or paid to the tax authority and includes the effect of tax reparations pending resolution of periods prior to the time of settling the current tax. 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 capital gains or of 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 probable that profit subject to taxation will be available against which deductible temporary differences can be used, with the following exceptions: (a) the deferred tax asset that emanates from the initial recognition of a different asset/liability in a business combination, which, at the time of the transaction, affects neither the accounting profit nor the taxable profit; and (b) deferred tax assets that emanate 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 probable that the temporary difference will be reversed in the foreseeable future and taxable utility will be available against which the difference can be used.

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 probable 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 make 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 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 with 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 depreciated 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 cable 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 usually has expiration periods of up to twelve months. Based on historical consumption the Group estimates traffic that will not be consumed and is imputed to the consolidated income statement based on traffic consumed.

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), the income is recognized on a straight line basis in the period of time covered by the rate paid by the customer.

Connection and installation fees -

Revenue from connection and installation fees originated when customers connect to the Group's network is deferred and imputed to the income statement over the estimated average period of duration of the relationship with the customer or the term of the contract, whether or not a material right is granted, respectively, 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.

Income 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 sets is activated and transferred to the final customer.

Bundled services -

In the case of revenues from the sale of multi-elements, sets plus telephony services, internet and paid television, the revenues are allocated based on the fair value of the components delivered. The offers of commercial 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 set 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 bundles are sold at a discount on equipment (mainly in mobile telephony) and that there is a contract that generates explicit or implicit permanence, the criteria defined in IFRS 15 will apply. The application of the criteria defined in IFRS 15 represents an increase in revenue recognized for sales of equipment, which will generally be recognized coinciding with the moment 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 sets 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 with 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 are effected, and are recorded in the periods with which they are related.

2.25 Leasing -

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 regulation requires the landlord 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 commencement 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.

IFRS 16 will mainly affect the accounting of lessees and will result in the recognition of almost all leases in the consolidated financial position statement. The regulation eliminates the difference formulated by IAS 17 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 lease contracts. There is an optional exception for short-term and low-value leases.

The consolidated statement of results is also affected as the total expense tends to be higher in the first years of leasing and lower in the following years. Besides, interests and depreciation replace operational expenses, thus, key metrics such as EBITDA change.

Operational cash flow will be higher since the cash payments for the main portion of liabilities due to leasing are classified within the financial activities.

Only the part of payments which reflects the interest can still be shown as operating cash flows.

The lessors' accountability does not significantly change.

The Group applied the standard by using a modified retroactive approach, which affected the financial assets as of January 1st, 2019 in (S/14,524,000).

The Group as lessor -

Leases in which the Group substantially retains all the risks and benefits inherent to the ownership of the leased assets were 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 income is recorded as income in the period in which it was obtained in the consolidated income statement.

2.26 Share-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 position statement in the period in which the dividends are approved by the Group's shareholders.

2.28 Loss per share -

Basic and diluted losses per share have been calculated on the basis of the weighted average of the common shares outstanding as of the date of the consolidated financial position statement. As of September 30, 2020 and December 31, 2019, the Group did not maintain financial instruments producing dilutive effects, thus the loss per basic and diluted share is 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 at 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 Group must be able to access the main or the most advantageous market. 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) in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level of information is significant for measurement at fair value is directly or indirectly observable.
- Level 3: Valuation techniques by which the lowest level of information is significant for measurement at fair value 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.

3 FINANCIAL RISK MANAGEMENT

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 that arise directly from its operations. The Group also has 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) Directory -

The Board is responsible for the general 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 Audit -

The Internal Audit area of the Group is responsible for supervising the operation and reliability of the internal control systems and the administrative and accounting information. Likewise, it 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 Audit, which analyzes both the adequacy of the procedures and compliance with them. Internal Audit 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 general 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 of its placements in the 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 assesses the credit quality of the client, with its financial position, past experience and other factors being taken into account. Individual risk limits are established based on internal or external ratings in accordance with the limits established by Management. Compliance with credit limits by wholesale customers is regularly supervised by line management, which is used to determine the estimate required for uncollectibility. Additionally, partial and total service suspensions are effected to users who have accounts receivable due in accordance with the policy described in note 2.8 (iv); 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:

	Not impaired	Impaired	Total
	S/000	S/000	S/000
As of September 30, 2020			
Not matured	574,297	26,879	601,176
Matured			
Up to 1 month	297,394	56,768	354,162
From 1 to 3 months	236,414	121,230	357,644
From 3 to 6 months	193,258	151,825	345,083
From 6 to 12 months	84,276	284,311	368,587
More than 12 months	-	4,347,565	4,347,565
Total	<u>1,385,639</u>	<u>4,988,578</u>	<u>6,374,217</u>

As of December 31, 2019

Not matured	924,422	22,872	947,294
Matured			
Up to 1 month	388,276	64,126	452,402
From 1 to 3 months	222,799	101,794	324,593
From 3 to 6 months	120,120	135,528	255,648
From 6 to 12 months	90,819	279,124	369,943
More than 12 months	-	3,962,073	3,962,073
Total	<u>1,746,436</u>	<u>4,565,517</u>	<u>6,311,953</u>

Consequently, according to Management's opinion, there are no significant concentrations of credit risk as of September 30, 2020 and December 31, 2019.

As of September 30, 2020, the Group's Management estimated that the maximum net amount of credit risk to which the Group is exposed amounts to approximately S/ 1,656,387,000 (S/ 2,052,472,000 as of December 31, 2019), 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 exchange and interest rates.

The sensitivity analyzes in the following sections refer to positions for the nine-month periods ended September 30, 2020 and 2019. 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 sensitivity in the consolidated profit or loss statement is the effect of the changes assumed in the respective market risk. The foregoing is based on financial assets and liabilities held as of September 30, 2020 and December 31, 2019, 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 Superintendency of Banking, Insurance and Private Pension Fund Administrators. As of September 30, 2020, the weighted average free market exchange rates for transactions in US Dollars were S/ 3,595 per US \$1 purchasing and S/ 3,599 for US \$1 selling (S/ 3,311 per US \$1 purchasing and S/ 3,317 for US \$1 selling at December 31, 2019) and for transactions in Euros, the rates were S/ 4.170 for €1 purchasing and S/ 4.522 for €1 selling (S/ 3.652 for €1 purchasing and S/ 3.877 for €1 selling as of December 31, 2019), respectively.

The result of maintaining balances in foreign currency for the Group for the nine-month periods ending September 30, 2020 and 2019, was a net loss of approximately S/ 12,955,000 and S/ 2,288,000 respectively, which were presented in the section "Net exchange differences" in the consolidated income statement. See note 32.

As of September 30, 2020 and December 31, 2019, the Group had the following assets and liabilities in foreign currency:

	As of September 30, 2020		As of December 31, 2019	
	US\$000	Euros000	US\$000	Euros000
Assets -				
Cash and cash equivalents	4,175	-	-	447
Trade accounts receivable, net	75,502	4,965	123,790	4,553
Accounts receivable from related entities	135,000	-	-	-
Other accounts receivable, net	<u>32,487</u>	<u>-</u>	<u>32,482</u>	<u>-</u>
	<u>247,164</u>	<u>4,965</u>	<u>156,272</u>	<u>5,000</u>
Liabilities -				
Bank overdraft	-	(184)	(1,768)	-
Financial lease liability	(89,255)	-	(86,437)	-
Trade accounts payable	(149,387)	(13,577)	(263,998)	(18,677)
Other accounts payable	(37,008)	-	(37,359)	-
Other accounts payable to related entities	(180,000)	-	-	-
	<u>(455,650)</u>	<u>(13,761)</u>	<u>(389,562)</u>	<u>(18,677)</u>
Purchase position of derivatives (baseline)	<u>211,256</u>	<u>8,743</u>	<u>295,201</u>	<u>10,000</u>
Monetary position, net	<u>2,770</u>	<u>(53)</u>	<u>61,911</u>	<u>(3,677)</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 swaps and forwards 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, while a positive amount reflects a potential net gain in the consolidated statement of income.

Sensitivity analysis	Change in exchange rates	Effect on results before Consolidated taxes	
%		As of September 30, 2020	As of September 30, 2019
Devaluation -			
Dollars	5	498 (	1,492)
Dollars	10	996 (	2,984)
Re-valuation -			
Dollars	5 (	498)	1,492
Dollars	10 (	996)	2,984
Devaluation -			
Euros	5 (	12)	583)
Euros	10 (	24)	1,165)
Re-valuation -			
Euros	5	12	583
Euros	10	24	1,165

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.

(b) Interest rate risk -

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument could 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:

	Variable rate (*) S/000	Fixed rate S/000	No Interest S/000	Total S/000	Interest Rate Average %
As of September 30, 2020					
Financial assets					
Cash and cash equivalents	538,885	-	-	538,885	0.05
Trade accounts receivable, net	-	811,342	574,297	1,385,639	1.15
Contractual assets	-	-	52,280	52,280	-
Other accounts receivable from related entities	485,325	-	-	485,325	0.56
Other accounts receivable, net	-	-	237,512	237,512	-
Financial Liabilities					
Other financial liabilities	500,965	2,626,054	4,212	3,131,231	6.43
Financial liability for leasing	309,465	813,316	-	1,122,781	3.86
Trade accounts payable	-	-	1,372,082	1,372,082	-
Other accounts payable to related entities	647,820	-	7,523	655,343	2.36
Other accounts payable	-	-	60,395	60,395	-
	Rate variable (*) S/000	Fixed rate S/000	No Interest S/000	Total S/000	Interest Rate Average %
As of December 31, 2019					
Financial assets					
Cash and cash equivalents	1,015,924	-	-	1,015,924	2.25
Trade accounts receivable, net	-	822,014	924,422	1,746,436	2.23
Contractual assets	-	-	135,405	135,405	-
Other accounts receivable from related entities	-	-	27,333	27,333	-
Other accounts receivable, net	-	-	180,621	180,621	-
Financial Liabilities					
Other financial liabilities	737,403	2,694,596	12,926	3,444,925	6.25
Financial lease liabilities	-	1,165,351	-	1,165,351	3.50
Trade accounts payable	-	-	2,046,591	2,046,591	-
Other accounts payable to related entities	-	-	4,929	4,929	-
Other accounts payable	-	-	219,949	219,949	-

(*) 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 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 on September 30, 2020 and 2019 will be renewed at the end and will be maintained for the remainder of the following year:

Changes in basic points	Effect on income	
	<u>consolidated before tax</u>	
	As of September 30, 2020 S/000	As of September 30, 2019 S/000
+(-) 50	(-)+1,628	(-)+1,688
+(-) 100	(-)+3,255	(-)+3,376
+(-) 200	(-)+6,511	(-)+6,753

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 Management may take to mitigate the impact of this risk.

iii) Liquidity risk -

The liquidity risk is the risk that the Group cannot meet its payment obligations related to financial liabilities upon 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, whose execution depends on the resolution of various instances, see note 34(b). In addition, the Group recorded a net loss in 2020 and 2019 due to the high competition in the sector. Nonetheless, the Group is considering reversing this position through the launch of new business models and strengthening 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 Group's obligations as of the date of the consolidated statement of financial position and the amounts to be disbursed upon maturity, based on non-discounted payments that will be made:

	<u>Less than 3 months</u> S/000	<u>3 to 12 months</u> S/000	<u>1 to 5 years</u> S/000	<u>More than 5 years</u> S/000	<u>Total</u> S/000
As of September 30, 2020					
Other financial liabilities					
Amortization of capital	-	70,000	1,459,978	1,607,219	3,137,197
Interest payment flow	89,593	106,826	688,283	171,634	1,056,336
Financial lease liability	53,785	255,679	594,068	219,249	1,122,781
Trade accounts payable	1,372,082	-	-	-	1,372,082
Other accounts payable to related entities	654,356	-	987	-	655,343
Other accounts payable	<u>60,395</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,395</u>
Total liability flows	<u>2,230,211</u>	<u>432,505</u>	<u>2,743,316</u>	<u>1,998,102</u>	<u>7,404,134</u>
As of December 31, 2019					
Other financial liabilities					
Amortization of capital	-	330,000	858,481	2,281,710	3,470,191
Interest payment flow	8,533	218,157	718,858	248,532	1,194,080
Financial lease liabilities	48,392	194,691	622,099	300,169	1,165,351
Trade accounts payable	2,046,591	-	-	-	2,046,591
Other accounts payable to related entities	2,991	-	1,938	-	4,929
Other accounts payable	<u>219,949</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>219,949</u>
Total liability flows	<u>2,326,456</u>	<u>742,848</u>	<u>2,201,376</u>	<u>2,830,411</u>	<u>8,101,091</u>

The table above does not include any contingency provisions as their execution is subject to the resolution of various instances per that described in note 34(b). Likewise, it 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:

	<u>Less than 3 months</u> S/000	<u>3 to 12 months</u> S/000	<u>1 to 5 years</u> S/000	<u>More than 5 years</u> S/000	<u>Total</u> S/000
As of September 30, 2020					
Income	801,143	-	-	-	801,143
Expenses	(761,594)	-	-	-	(761,594)
Net flow	<u>39,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,549</u>
Discounted net cash flow	<u>39,366</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,366</u>
As of December 31, 2019					
Income	743,362	287,545	-	-	1,030,907
Expenses	(727,909)	(288,521)	-	-	(1,016,430)
Net flow	<u>15,453</u>	<u>(976)</u>	<u>-</u>	<u>-</u>	<u>14,477</u>
Discounted net flow	<u>(9,750)</u>	<u>448</u>	<u>-</u>	<u>-</u>	<u>(9,302)</u>

3.2 Capital risk management -

The Group actively manages a capital base to hedge the risks inherent in its activities. The capital adequacy of the Group is monitored using, among other measures, the indicators 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 is mainly constituted by: (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, lease liabilities, 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, 2020 and December 31, 2019, the consolidated leverage indicator was as follows:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Total indebtedness	6,700,942	7,383,545
Less: Cash and cash equivalent	(538,885)	(1,015,924)
Net Debt (A)	6,162,057	6,367,621
Total equity (B)	4,250,588	4,750,949
Leverage ratio (A/B)	1.45	1.34

As of September 30, 2020 and December 31, 2019, there were no changes in the activities and policies of capital management in the Group.

3.3 Estimation of fair value -

(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 price in active markets Level 1 S/000	Significant observable variables Level 2 S/000	Significant Non observable variables Level 3 S/000	Total S/000
As of September 30, 2020				
Financial assets -				
Derivative financial instruments:				
Foreign currency forward	-	39,366	-	39,366
Total financial assets	-	39,366	-	39,366
As of December 31, 2019				
Financial liabilities -				
Derivative financial instruments:				
Foreign currency forward	-	9,302	-	9,302
Total financial liabilities	-	9,302	-	9,302

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 derivative's fair value.

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 derivatives 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 not supported by prices of observable transactions in the current market for the same instrument, or based on available market data. The Group did not have any level 3 instruments as of September 30, 2020 and December 31, 2019.

- 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:

	Value of price in active market (Level 1) S/000	Significant observable variable (Level 2) S/000	Significant non-observable variable (Level 3) S/000	Fair value S/000	Book value S/000
As of September 30, 2020					
Financial assets -					
Asset as per derived financial instruments	-	39,366	-	39,366	39,366
Other accounts receivable from related entities	-	485,325	-	485,325	485,325
Total financial assets	<u>-</u>	<u>524,691</u>	<u>-</u>	<u>524,691</u>	<u>524,691</u>
Financial liabilities -					
Liability for financial derivative instruments	-	-	-	-	-
Bonds issued and debts and loans that accrue interest	-	3,131,231	-	3,131,231	3,131,231
Financial lease liabilities	-	1,122,781	-	1,122,781	1,122,781
Other accounts payable to related entities	-	655,343	-	655,343	655,343
Total financial liabilities	<u>-</u>	<u>4,909,355</u>	<u>-</u>	<u>4,909,355</u>	<u>4,909,355</u>

	Value of price in active Markets (Level 1) S/000	Significant observable variables (Level 2) S/000	Significant Non-observable variables (Level 3) S/000	Fair value S/000	Book value S/000
As of December 31, 2019					
Financial assets -					
Other accounts receivable from related entities	-	27,333	-	27,333	27,333
Total financial assets	<u>-</u>	<u>27,333</u>	<u>-</u>	<u>27,333</u>	<u>27,333</u>
Financial liabilities -					
Liability for financial derivative instruments	-	9,302	-	9,302	9,302
Bonds issued and debts and loans that accrue interest	-	3,444,925	-	3,444,925	3,444,925
Financial lease liability	-	1,165,351	-	1,165,351	1,165,351
Other accounts payable to related entities	-	4,929	-	4,929	4,929
Total financial liabilities	<u>-</u>	<u>4,624,507</u>	<u>-</u>	<u>4,624,507</u>	<u>4,624,507</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 book value -

For financial assets and liabilities that are liquid or have short-term maturities (less than three months), the carrying amount 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 six-month periods ended September 30, 2020 and 2019.

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. The Group Management does not expect that the variations, if any, will have a significant effect on the consolidated financial statements.

The most significant estimates considered by Management in relation to the consolidated financial statements basically refer to:

- Estimate for doubtful accounts. See note 2.8 and notes 3, 7 and 8.
- Estimate for contractual assets and liabilities, see notes 2.24 and 9.
- Estimate for devaluation of inventories. See notes 2.10 and 10.
- The residual value, useful life and depreciation of property, plant and equipment. See notes 2.11 and 14.
- Estimate for impairment of long-term assets. See notes 2.14, 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, 22 and 34(b).
- Cash flow hedge. See note 2.9.
- Provision for restructuring, see notes 2.20, 21 and 30.
- Estimate of uncertainties and judgments made in relation to lease accounting. See notes 2.25 and 16.

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

Estimate of the effects of the Covid-19 global pandemic on the consolidated financial statements

The Group has made its best estimate of the effects that the pandemic that affects both the region and the world could have as a consequence of the spread of the Covid-19 virus. In this context, the Peruvian

State declared a state of national emergency from March 16, 2020, and which has been extended until October 31, 2020. Other measures include compulsory social immobility, the restriction of productive and commercial activities, except those considered as a basic necessity. The telecommunications sector in which the Group carries out its commercial activities is considered to be a basic necessity. However, since the beginning of the state of emergency, the commercialization of our offer has been suspended. We have been nonetheless providing our internet services, paid TV, mobile telephony, fixed telephony, interconnection and connectivity in a consistent way and without significant interruptions-communicating and serving the country.

The main impact that the Group has had is in fundraising and revenue collection for the services provided. Furthermore, the Government has prohibited suspending telecommunications services for non-payment during the period of the state of emergency. The Group, while supporting the national recovery has, via an app since April 13, granted payment facilities of from 6 to 12 installments without interest on bills expiring in this period. Although this benefit has been received by our clients, we have readjusted our expected loss due to bad debt based on the projections of the fall in GDP.

Our initial estimates of revenue growth are diminished. However, these are partially offset by lower expenses, better utilization of our installed capacity, with significant growth in the use of internet and TV. We thus have determined that we have no problems in recovering our investments and therefore there is no impairment of assets, a situation that the Group Management is constantly monitoring.

5 FINANCIAL INSTRUMENTS

(a) Financial instruments by category

The classification of financial instruments by category is as follows:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Assets according to consolidated balance sheet		
Financial assets at amortized cost:		
- Cash and cash equivalents	538,885	1,015,924
- Trade accounts receivable and Other accounts receivable (*)	1,623,151	1,927,057
- Other accounts receivable from related entities	485,325	27,333
- Financial derivative instruments used for hedging	<u>39,366</u>	<u>39,366</u>
	<u><u>2,686,727</u></u>	<u><u>2,970,314</u></u>
Liabilities according to consolidated balance sheet		
Financial liabilities at amortized cost:		
- Financial obligations	3,131,231	3,444,925
- Financial liability for leasing	1,122,781	1,165,351
- Trade accounts payable and Other accounts payable (*)	1,432,477	2,266,540
- Other accounts payable to related entities	655,343	4,929
- Financial derivative instruments used for hedging	<u>9,302</u>	<u>9,302</u>
	<u><u>6,341,832</u></u>	<u><u>6,891,047</u></u>

(*) Does not include advances or taxes.

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

6 CASH AND CASH EQUIVALENTS

(a) The breakdown of the item is presented below:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Fixed funds	461	477
Current and savings accounts (b)	121,204	131,939
Time deposits (c)	118,000	708,200
Trust fund (d)	<u>299,220</u>	<u>175,308</u>
	<u><u>538,885</u></u>	<u><u>1,015,924</u></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) Time deposits have original maturities of less than 90 days and may be renewed upon maturity. As of September 30, 2020 and December 31, 2019, they include deposits in national currency and US Dollars in several national banks. These time deposits are remunerated at current market rates.

(d) Includes the funds of the trust fund administered by La Fiduciaria S.A. (with the involvement of the Banco de Credito del Peru and Banco Santander), which consolidates the collection rights and the cash flows in such a way that the Group 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 Credito del Peru and Banco Santander denominated: (i) BCP disbursements, where the financing from the Banco de Credito 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, 2020 and December 31, 2019, the trust includes only cash.

(e) There were no restrictions on the balances of cash and cash equivalents as of September 30, 2020 and December 31, 2019.

7 COMMERCIAL ACCOUNTS RECEIVABLE, NET

(a) The breakdown of the item is presented below:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Fixed business subscribers	2,980,276	2,702,014
Mobile business subscribers	1,953,827	2,048,256
Data and information technology	708,079	713,157
Distributors, agencies and large stores	319,011	411,705
Wholesale - Interconnection and Correspondents	208,906	245,943
Related, note 24 (d)	119,179	125,802
Others	<u>84,939</u>	<u>65,076</u>
	6,374,217	6,311,953
Less - Allowance for doubtful accounts (c)	(4,988,578)	(4,565,517)
	1,385,639	1,746,436
Less - Non-current portion (d)	(526)	(15,918)
Current portion	<u>1,385,113</u>	<u>1,730,518</u>

(b) Commercial accounts receivable (net) generate interest after maturity. The items of internet, fixed and public telephony, cable television, mobile phone subscribers, distributors, agencies, and large stores are mainly billed in soles, while accounts receivable for data and information technology, interconnection and foreign correspondents are mainly are billed in US Dollars. Furthermore, as of September 30, 2020, as a result of the State of Emergency, the Group has financed the bills that were mainly due between January and June 2020 to an amount of S/ 183,200,000, granting them interest-free payment terms of 6 or 12 months.

As of September 30, 2020, trade accounts receivable included estimates for un-billed services rendered for approximately S/ 54,0822,000 (S/54,630,000 as of December 31, 2019). The Group Management estimates that these items will be invoiced in full in 2020.

As of September 30, 2020, the Group had approximately 1,957,000 fixed and public telephony lines in service, 4,020,000 postpaid mobile telephony lines, 1,897,000 broadband service connections, and approximately 1,394,000 paid television accesses (2,120,000, 4,588,000, 1,956,000 and 1,505,000, respectively as of December 31, 2019).

(c) The movement of the allowance for doubtful accounts as of September 30, 2020 and December 31, 2019, is as follows:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Initial balance	4,565,517	3,978,739
Endowment for the period, note 29 (a)	420,536	595,678
Punishment (40,199) -		
Net exchange differences	<u>42,724</u>	(8,900)
Final balance	<u>4,988,578</u>	<u>4,565,517</u>

In Management's opinion, the allowance 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 (b).

(d) As of September 30, 2020 and December 31, 2019, they include accounts receivable for financed sales of mobile terminals and equipment related to internet, central and paid 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.

The amount recognized for implicit interest for the three months ending September 30, 2020, amounts to S/ 1,335,000 (S/ 4,185,000 for the nine-month period ending September 30, 2019) and is presented in the item of "Financial income" of the consolidated statement of income.

- (e) In 2020, the Group transferred the collection rights related to sales of mobile terminals financed to Inter-American Investment Corporation for S/31,584,000, generating a loss of S/ 542,000, and the Group was also charged with the collection of rights assigned.

In 2020, collection rights were assigned to Group customers with the Banco Continental Trust (BBVA), for the amount of S/ 60,867,000, retaining risks for S/ 4,212,000 as of September 30, 2020. The foregoing is presented as "Other financial liabilities" (see note 18.3), which generated a loss on sale (discount) of S/ 2,731,000. The latter also entrusted the Group with the collection of the rights assigned. In 2019, the assignment of collection rights to customers of the Group with the Continental Bank Trust (BBVA) was made, for the amount of S/ 296,997,000 and retaining risks for S/ 6,540,000 as of December 31, 2019. This portion is presented as "Other financial liabilities" (see note 18.3) producing a loss on sale (discount) of S/ 7,927,000. The latter also charged the Group with the collection of the assigned rights. See note 21(c).

8 OTHER ACCOUNTS RECEIVABLE, NET

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

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Collection rights for coercive executions (b)	141,463	141,443
Collection rights (c)	110,062	110,062
Grants receivable (d)	111,290	102,498
Sale of properties	13,919	22,881
Loans to personnel, note 24(f)	21,366	27,759
Loans to third parties	13,585	13,759
Derivative financial instruments (g)	39,366	-
Others	59,352	41,483
	510,403	459,885
Less - Estimate for doubtful accounts (f)	(159,231)	(158,997)
	351,124	300,888
Less - Non-current portion	(179,825)	(177,433)
Current portion	171,299	123,455
Financial assets classified as Other accounts receivable	237,512	180,621
Non-financial assets classified as Other accounts receivable	113,612	120,267
	351,124	300,888

- (b) The collection rights for coercive executions mainly correspond to 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 continues 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.

- (c) As of September 30, 2020 and December 31, 2019, these correspond mainly to collection rights to the Tax Administration, for payment of tax assessments (see note 34 (b)). These, in the opinion of Management and of the legal advisors, will be recovered when certain appeals filed regarding the assessments received for income tax from previous years are resolved, as permitted by IAS 12 - "Income Tax."

The Group Management expects to recover this item in the long term.

- (d) Corresponds mainly to the Lambayeque Project - a contract signed on May 27, 2015, between the Group and the Peruvian State (represented by the Investment Fund in Telecommunications - FITEL), for the non-reimbursable financing of the Project "Broad Band for Integral Connectivity and the social development of the country's northern area", which has been collected 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 are denominated in national and foreign currency and do not generate interest.
- (f) The other accounts receivable were collectively evaluated to determine if there was objective evidence of impairment. However, the Group determined that the estimate of doubtful collections at the end of the period is sufficient, in accordance with the Group's accounting practice, described in note 2.8(iv).
- (g) As of September 30, 2020, the Group did not have cash flow hedging contracts (forwards) to reduce the exchange rate risk of the disbursements of certain operations. As of December 31, 2019, the hedge contracts were for US \$4,000,000. The cash flow hedge of the future expected 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.

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:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Terminal sales, note 2.24	52,280	135,405
Less - non-current portion	(3,406)	(6,110)
Current portion	<u>48,874</u>	<u>129,295</u>

(b) Contract liabilities:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Fixed and mobile telephone services, note 2.24	76,814	90,643
Deferred installation fee, note 2.24	55,573	52,229
Access rights IRU (c)	49,120	52,777
Business project	12,056	13,320
Others	<u>3,095</u>	<u>7,988</u>
	196,658	216,957
Less - non-current portion	(52,255)	(79,391)
Current portion	<u>144,403</u>	<u>137,566</u>

(c) These correspond to the irrevocable rights of unrestricted use of certain Group assets granted to third parties for a period of up to 20 years.

10 INVENTORIES

(a) The breakdown of the item is presented below:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Goods and supplies	192,370	249,705
Inventories receivable	<u>11,837</u>	<u>75,678</u>
	204,207	325,383
Less - Estimate for inventory devaluation (c)	(31,121)	(18,548)
	<u>173,086</u>	<u>306,835</u>

The cost of inventories sold for the nine-month period ended September 30, 2020, was approximately S/ 604,833,000 (S/ 1,011,233,000 for the nine-month period ending September 30, 2019) and is presented in the "Cost of equipment sales" in the consolidated income statement.

- (c) The movement of the inventory devaluation estimate as of September 30, 2020 and December 31, 2019, is as follows:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Opening balance	18,548	27,808
Transfer of IPT equity block, note 1.3	(1,014)	-
Provision (recovery) for impairment of inventories, net, note 29	12,573	(7,987)
Others	-	(259)
Ending balance	<u>31,121</u>	<u>18,548</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 breakdown of the item is presented below:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Deferred compliance obligation costs (b)	418,952	440,904
Annual fee (e)	21,492	-
Customer acquisition expense (c)	81,844	70,169
Maintenance of licenses and computer equipment	25,231	20,952
Advances granted to suppliers	8,428	3,863
Advertising paid in advance	3,069	4,794
Advance payments for access rights (d)	3,872	4,163
Prepaid insurance	10,067	4,997
Others	<u>103,851</u>	<u>109,063</u>
	676,661	658,905
Less - Non-current portion	(263,262)	(310,703)
Current portion	<u>413,399</u>	<u>348,202</u>

- (b) Includes the costs of Pay TV modems and decoders, this equipment is provided to the customer as part of the service, and which is deferred as they are compliance obligations in customer contracts.
- (c) Corresponds to expenses directly related to obtaining commercial contracts (sales commissions, expenses with third parties, among others), which are amortized for contracts for an undetermined term in the average life of the client, and for contracts with onerous permanence within that period.
- (d) As of September 30, 2020 and December 31, 2019, the foregoing includes access rights not classified as a lease under the application of IFRS 16.
- (e) Corresponds to the non-accrued balance due to the use of the radio-electric spectrum, which is accrued during the year.

12 INVESTMENTS IN ASSOCIATES

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

(b)

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Associates		
Red Digital del Perú S.A.C. (b)	5,587	5,796
Internet Para Todos S.A.C. (c)	<u>259,033</u>	<u>261,481</u>
	<u>264,620</u>	<u>267,277</u>
Other share investments		
Wayra Perú Aceleradora de Proyectos S.A.C.	<u>219</u>	<u>41</u>
	<u>219</u>	<u>41</u>
	<u>264,839</u>	<u>267,318</u>

(b) Company incorporated in November 2014, which is dedicated to developing, managing, and supporting a variety of products and services for small, medium, and large companies. The Group's stake in Red Digital Perú S.A.C. is 40.00 percent.

(c) On May 1, 2019, at the General Shareholders' Meeting, the Group undertook 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:

<u>Company</u>	<u>Investment contribution</u> S/	<u>%</u>
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 participation to 54.67 percent of the IPT shares, there recognizing an income of S/ 2,573,000; Furthermore, as a result of the agreements with the new shareholders, the Group lost control of the subsidiary, consequently becoming an associate.

The following table shows the summary of the main items of the associate financial statements as of September 30, 2020 and at December 31, 2019.

	As of September 30, 2020	As of December 31, 2019
	<u>S/000</u>	<u>S/000</u>
Assets	526,665	521,158
Liabilities	54,596	42,854
Net equity	472,069	478,304
Income for the year (5,652) (13,546)		

- (d) The associated companies do not have contingent liabilities or capital commitments as of September 30, 2020 and December 31, 2019.

13 ASSETS AVAILABLE FOR SALE

(A) The changes and breakdown of the item, as of the date of the consolidated statement of financial position, is as follows:

	<u>Land</u> S/000	<u>Buildings and other constructions</u> S/000	<u>Plant</u> S/000	<u>Equipment and others</u> S/000	<u>Works in progress and receivable units</u> S/000	<u>Total</u> S/000
Cost						
As of January 1, 2020	-	-	-	-	-	-
Assets available for sale	<u>4,512</u>	<u>42,787</u>	<u>357,695</u>	<u>-</u>	<u>-</u>	<u>404,994</u>
As of September 30, 2020	<u>4,512</u>	<u>42,787</u>	<u>357,695</u>	<u>-</u>	<u>-</u>	<u>404,994</u>
Accumulated depreciation						
As of January 1, 2020	-	-	-	-	-	-
Assets available for sale	<u>-</u>	<u>22,388</u>	<u>323,290</u>	<u>-</u>	<u>-</u>	<u>345,678</u>
As of September 30, 2020	<u>-</u>	<u>22,388</u>	<u>323,290</u>	<u>-</u>	<u>-</u>	<u>345,678</u>
Net Value						
As of September 30, 2020	<u>4,512</u>	<u>20,399</u>	<u>34,405</u>	<u>-</u>	<u>-</u>	<u>59,316</u>
As of December 31, 2019	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

14 PROPERTY, PLANT AND EQUIPMENT

(a) The changes and breakdown of the item, as of the date of the consolidated statement of financial position, are as follows:

	<u>Land</u> S/000	<u>Buildings and Other constructions</u> S/000	<u>Plant</u> S/000	<u>Equipment and other</u> S/000	<u>Furniture and goods</u> S/000	<u>Works in progress and units to receive (c)</u> S/000	<u>Total</u> S/000
Cost							
As of January 1, 2019	125,198	1,790,777	24,824,555	1,022,267	122,676	785,829	28,671,302
Additions	-	-	9,042	-	-	1,031,076	1,040,118
Transfers	510	24,343	841,870	33,258	1,260	(901,241)	-
Transfer to intangible assets, note 15(a)	-	-	-	-	-	(108,365)	(108,365)
Others	-	195	(195)	-	-	32,748	32,748
NIIF 16 transfer, note 16(a)	-	-	(39,063)	(665)	-	-	(39,728)
Transfer of equity block, note 1.3(a)	-	(174,547)	(328,463)	(3)	-	(27,905)	(530,918)
Withdrawals and sales, note 31	(11,636)	(258,094)	(159,274)	(2,105)	(1,441)	(1,756)	(434,306)
As of December 31, 2019	114,072	1,382,674	25,148,472	1,052,752	122,495	810,386	28,630,851
Additions	-	-	(3,823)	-	-	341,736	337,913
Transfers	121	7,252	547,432	16,301	429	(571,535)	-
Transfer of intangible assets, note 15 (a)	-	-	-	2	-	-	2
Assets available for sale, note 13(a)	(4,512)	(42,787)	(357,695)	-	-	-	(404,994)
Disposals and sales, note 31	(288)	(26,964)	(41,453)	(844)	(16)	(881)	(70,446)
As of September 30, 2020	<u>109,393</u>	<u>1,320,175</u>	<u>25,292,933</u>	<u>1,068,211</u>	<u>122,908</u>	<u>579,706</u>	<u>28,493,326</u>
Accumulated depreciation							
As of January 1, 2019	-	1,107,809	19,777,100	944,780	111,976	-	21,941,665
Depreciation for the period	-	58,476	938,175	41,442	3,347	-	1,041,440
Others	-	61	(61)	-	-	-	-
IFRS 16 transfer, note 16(a)	-	-	(11,353)	(141)	-	-	(11,494)
Transfer of equity block, note 1.3(a)	-	(62,498)	(215,880)	(2)	-	-	(278,380)
Disposals and sales, note 31	-	(138,356)	(107,697)	(2,105)	(1,364)	-	(249,522)
As of December 31, 2019	-	965,492	20,380,284	983,974	113,959	-	22,443,709
Depreciation for the period	-	43,968	675,277	29,188	2,029	-	750,462
Assets available for sale, note 13(a)	-	(22,388)	(323,290)	-	-	-	(345,678)
Retirements and sales, note 30	-	(22,159)	(38,647)	(837)	(11)	-	(61,654)
As of September 30, 2020	<u>-</u>	<u>964,913</u>	<u>20,693,624</u>	<u>1,012,325</u>	<u>115,977</u>	<u>-</u>	<u>22,786,839</u>
Net Value							
As of September 30, 2020	<u>109,393</u>	<u>355,262</u>	<u>4,599,309</u>	<u>55,886</u>	<u>6,931</u>	<u>579,706</u>	<u>5,706,487</u>
As of December 31, 2019	<u>114,072</u>	<u>417,182</u>	<u>4,768,188</u>	<u>68,778</u>	<u>8,536</u>	<u>810,386</u>	<u>6,187,142</u>

- (b) As of September 30, 2020 and December 31, 2019, the works in progress mainly constituted 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.
- (c) As of September 30, 2020 and December 31, 2019, Management considered that there are no signs to indicate a deterioration 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 GAIN, 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) S/000	Software (c) S/000	Software in development S/000	Total S/000
Cost				
As of January 1, 2019	7,810,164	2,222,626	-	10,032,790
Additions	164	-	56,088	56,252
Transfer of equity block, note 1.3	-	(952)	-	(952)
Transfer of works in progress, note 14 (a)	-	108,365	-	108,365
As of December 31, 2019	7,810,328	2,330,039	56,088	10,196,455
Additions	-	-	86,200	86,200
Transfer	-	74,148	(74,148)	-
Transfer to works in progress, note 14 (a)	-	-	(2)	(2)
Withdrawals and sales	-	(47)	-	(47)
As of September 30, 2020	7,810,328	2,404,140	68,138	10,282,606
Accumulated amortization				
As of January 1, 2019	5,825,017	1,931,744	-	7,756,761
Amortization for the period 156,796	205,803	-	362,599	
Transfer of equity block, note 1.3	-	(952)	-	(952)
As of December 31, 2019	5,981,813	2,136,595	-	8,118,408
Amortization for the period 117,595	118,990	- 236,585	-	
Withdrawals and sales	-	(47)	-	(47)
As of September 30, 2020	6,099,408	2,255,538	-	8,354,946
Net Value				
As of September 30, 2020	1,710,920	148,602	68,138	1,927,660
As of December 31, 2019	1,828,515	193,444	56,088	2,078,047

(b) The concessions include:

- (i) The difference between the share acquisition cost and the fair value of the respective net assets of the Compañía Peruana de Teléfonos S.A. (CPT), acquired by the Group in 1994, was allocated to the cost of the concession, which amortizes over a period of 33 years, maturing 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 the year 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 the 2036.
- (c) The software includes the financial and accounting applications based on the SAP system, as well as the network licenses corresponding to software for platforms that support the commercial systems. The software activated during 2020 and 2019, corresponds mainly to corporate systems for the commercial area, office applications, control equipment software and network management, among others.
- (d) As of September 30, 20120 and December 31, 2019, Management considered that there were no signs to indicate the existence of a deterioration in the value of the intangibles. In its opinion, an estimate is not required at the date of the consolidated statement of financial position.

16 ASSETS FOR USE RIGHTS

(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 to land and natural assets S/000	Rights of use to constructions S/000	Rights of Use to technical installations & machinery S/000	Others rights of use S/000	Total S/000
Cost					
As of January 1, 2019	411,937	473,767	78,920	36,920	1,001,544
Additions	80,986	134,665	6,843	-	222,494
Transfer of equity block, note 1.3(a)	(12,284)	-	-	-	(12,284)
Transfer of IFRS 16, note 14(a)	-	-	39,063	665	39,728
As of December 31, 2019	480,639	608,432	124,826	37,585	1,251,482
Additions	2,233	5,076	39,091	285	46,685
Transfers	(18,856)	18,856	-	-	-
Withdrawals	-	(3,309)	-	(70)	(3,379)
As of September 30, 2020	464,016	629,055	163,917	37,800	1,294,788
Accumulated depreciation					
At January 1, 2019	-	-	-	-	-
IFRS 16 transfer, note 14(a)	-	-	11,353	141	11,494
Amortization for period	76,156	82,229	10,911	14,348	183,644
Equity block transfer, note 1.3 (a)	(751)	-	-	-	(751)
As of December 31, 2019	75,405	82,229	22,264	14,489	194,387
Amortization for the period	56,972	67,995	17,318	9,775	152,060
Retirements	-	(1,063)	-	(50)	(1,113)
As of September 30, 2020	132,377	149,161	39,582	24,214	345,334
Net Value					
As of September 30, 2020	331,639	479,894	124,335	13,586	949,454
As of December 31, 2019	405,234	526,203	102,562	23,096	1,057,095

17 CAPITAL GAIN

(a) 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 Group in the fair value of the respective net assets acquired, companies that were absorbed.

(b) The movement for the item is as follows:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Initial balance	1,215,145	1,224,379
Internet Para Todos S.A.C. (c)	-	493
Discharge due to sale of Data Center business (d)	-	(9,727)
Final balance	<u>1,215,145</u>	<u>1,215,145</u>

(c) On April 30, 2019, the Group purchased 100 percent of the shares in Internet para for Todos S.A.C. (IPT) from Wayra Peru, and thus producing a capital gain due to the higher value paid for the acquisition of these shares. See note 12(c).

(d) On May 8, 2019, an agreement was entered into 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 (equivalent to S/105,179,000). See note 30(c) and (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 Group or those of its customers hosted in the data centers, and nor the management, operation and administration of the same.

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. Furthermore, 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, 2020 and December 31, 2019, 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 mostly 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 efficiency improvements. In the long term, the gross margin (OIBDA) of the Group remains constant at 24.8 percent.

Discount rate -

This rate 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, 2020 and December 31, 2019 was 8.58 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, 2020 and December 31, 2019, which has been considered for the following years, is 3.56 percent.

Sensitivity to changes in assumptions -

Management considers that the most sensitive assumptions for the model are the growth rate and the discount rate. Therefore, the Company carried out a sensitivity analysis where it concluded that the Company's recoverable value is above its carrying amount 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, 2020.

18 OTHER FINANCIAL LIABILITIES

(a) The breakdown of the item is presented below:

	<u>As of September 30, 2020</u>		<u>As of December 31, 2019</u>			
	<u>Current portion</u>	<u>Non-current portion</u>	<u>Total</u>	<u>Current portion</u>	<u>Non-current portion</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>
Bonds (18.1)	153,656	2,973,363	3,127,019	153,002	3,036,855	3,189,857
Long-term debt (18.2)	-	-	-	242,141	-	242,141
Short-term debt (18.3)	<u>4,212</u>	<u>-</u>	<u>4,212</u>	<u>12,927</u>	<u>-</u>	<u>12,927</u>
	<u>157,868</u>	<u>2,973,363</u>	<u>3,131,231</u>	<u>408,070</u>	<u>3,036,855</u>	<u>3,444,925</u>

(b) The movement of the other financial liabilities as of September 30, 2020 and December 31, 2019, is as follows:

	<u>Initial balance</u>	<u>Cash flow</u>		<u>Payment of interest</u>	<u>Changes that do not generate cash flow</u>		
	<u>S/000</u>	<u>New loans</u>	<u>Payment of loans</u>	<u>S/000</u>	<u>Interest accrued</u>	<u>Difference in exchange</u>	<u>Final balance</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>	<u>S/000</u>
2020							
Financial obligations	<u>3,444,925</u>	<u>10,799</u>	(<u>343,127</u>)	(<u>136,970</u>)	<u>155,60</u>	<u>-</u>	<u>3,131,231</u>
2019							
Financial Obligations	<u>2,149,328</u>	<u>2,804,951</u>	(<u>1,551,104</u>)	(<u>170,415</u>)	<u>212,213</u>	(<u>48</u>)	<u>3,444,925</u>

18.1 Bonds -

(a) As of September 30, 2020 and December 31, 2019, the following bond issues remain in effect:

Program	Issuance and series	Date of expiration	Amount authorized S/000	Amount used S/000	Total		Current portion		Non-current portion	
					As of 30 September 2020 S/000	As of 31 December 2019 S/000	As of 30 September 2020 S/000	As of 31 December 2019 S/000	As of 30 September 2020 S/000	As of 31 December 2019 S/000
Fourth (*)	19th A	July, 2027	S/ 150,000	S/ 60,000	88,839	88,349	686	1,462	88,153	86,887
Fourth (*)	19th B	Abril, 2028	(**)	S/49,000	69,865	68,375	872	374	68,993	68,001
Fourth (*)	19th C	July, 2028	(**)	S/20,000	27,962	27,779	171	387	27,791	27,392
Fourth (*)	37th A	May, 2028	S/200,000	S/48,000	68,074	66,579	749	222	67,325	66,357
Fifth (*)	22nd A	October, 2021	(**)	S/24,000	32,836	32,087	543	259	32,293	31,828
Sixth (f)	11th A	June, 2023	S/400,000	S/260,000	265,250	260,912	5,250	912	260,000	260,000
Sixth	11th B	April, 2024	(**)	S/120,000	123,567	121,687	3,567	1,687	120,000	120,000
Sixth	12th A	June, 2020	S/200,000	S/110,000	-	110,252	-	110,252	-	-
Sixth (g)	12th B	May, 2021	(**)	S/70,000	71,095	70,348	71,095	348	-	70,000
Sixth	13th A	July, 2022	S/200,000	S/140,000	141,596	143,511	1,596	3,511	140,000	140,000
Sixth	14th A	September, 2022	S/200,000	S/100,000	100,319	101,637	319	1,637	100,000	100,000
Sixth	15th A	October, 2024	S/135,000	S/135,000	138,362	136,495	3,362	1,495	135,000	135,000
Sixth (g)	16th A	April, 2025	S/400,000	S/105,120	107,661	106,201	2,541	1,081	105,120	105,120
Sixth (g)	17th A	May, 2030	S/250,000	S/60,000	63,482	62,094	728	242	62,754	61,852
First (g)	1st A	October, 2026	S/200,000	S/80,000	82,628	81,159	2,628	1,159	80,000	80,000
First (h)	Int. issue	April, 2027	S/1,700,000	S/1,700,000	1,745,483	1,712,392	59,549	27,974	1,685,934	1,684,418
Total					<u>3,127,019</u>	<u>3,189,857</u>	<u>153,656</u>	<u>153,002</u>	<u>2,973,363</u>	<u>3,036,855</u>

(*) Annual interest rate with constant update value.

(***) 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, 2020 and December 31, 2019, cause a weighted average annual interest rate of 6.83 percent and 6.76 percent, respectively. Additionally, the weighted average spread of the VAC bonds in force as of September 30, 2020 and December 31, 2019, is 3.24 percent.
- (c) As of September 30, 2020 and December 31, 2019, the bonds issued according to their contractual conditions have the following maturities:

<u>Year of maturity</u>	<u>Interest</u> <u>S/000</u>	<u>As of September 30, 2020</u>		<u>Interest</u> <u>S/000</u>	<u>As of December 31, 2019</u>	
		<u>Principal</u> <u>S/000</u>	<u>Total</u> <u>S/000</u>		<u>Principal</u> <u>S/000</u>	<u>Total</u> <u>S/000</u>
2020	83,656	-	83,656	43,002	110,000	153,002
2021	-	102,293	102,293	-	101,829	101,829
2022	-	240,000	240,000	-	240,000	240,000
2023	-	260,000	260,000	-	260,000	260,000
2024	-	255,000	255,000	-	255,000	255,000
2025 onwards	-	<u>2,186,070</u>	<u>2,186,070</u>	-	<u>2,180,026</u>	<u>2,180,026</u>
Total	<u>83,656</u>	<u>3,043,363</u>	<u>3,127,019</u>	<u>43,002</u>	<u>3,146,855</u>	<u>3,189,857</u>

- (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 General Shareholders' Meeting on March 24, 2017, of Telefónica del Perú S.A.A., within 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 Group's participation in the public tender for Block C of the 700 Band (see note 14(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 Group.
- (h) In April 2019, the issuance of an International Bond with maturity in April 2027 was finalized, and 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, 2020 and December 31, 2019, the long-term debt is comprised of:

<u>Creditor</u>	<u>Currency</u>	<u>Method of payment</u>	<u>Maturity due</u>	<u>Total</u>		<u>Current portion</u>		<u>Non-current portion</u>	
				<u>As of 30 September 2020</u>	<u>As of 31 December 2019</u>	<u>As of 30 September 2020</u>	<u>As of 31 December 2019</u>	<u>As of 30 September 2020</u>	<u>As of 31 December 2019</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>
Banco de Crédito del Perú	S/	At maturity	May, 2020	-	68,964	-	68,964	-	-
Banco de Crédito del Perú	S/	At maturity	August, 2020	-	112,443	-	112,443	-	-
Banco Scotiabank del Perú (e)	S/	At maturity	April, 2020	-	60,734	-	60,734	-	-
Total				<u>-</u>	<u>242,141</u>	<u>-</u>	<u>242,141</u>	<u>-</u>	<u>-</u>

- (b) The long-term debts in soles in effect as of December 31, 2019 produced a weighted average annual interest rate of 4.87 percent.

In Management's opinion, the commitments agreed with the financial entities as of September, 2020 and December 31, 2019 have been fulfilled.

- (c) As of September 30, 2020 and December 31, 2019, the long-term debt has the following maturities:

<u>Year of maturity</u>	<u>As of September 30, 2020</u>			<u>As of December 31, 2019</u>		
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</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>
2020	-	-	-	22,141	220,000	242,141
Total	-	-	-	22,141	220,000	242,141

As of September 30, 2020 and December 31, 2019, the Group did not have cash flow hedging contracts (swaps) for exchange rate and interest rate risk.

- (e) 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.

18.3 Short-term debt -

- (a) The breakdown of the item is presented below:

	<u>Currency of origin</u>	<u>As of September 30, 2020</u> <u>S/000</u>	<u>As of December 31, 2019</u> <u>S/000</u>
BBVA Banco Continental trust (b)	S/	4,212	6,540
Telxius Torres Perú S.A.C. (c)	S/	-	6,387
Total		<u>4,212</u>	<u>12,927</u>
Debt composition			
Principal		4,212	12,927
Interest		-	-
Total		<u>4,212</u>	<u>12,927</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, 2020, the Group had recognized S/ 4,790,000 as income from the 2019 sale of 12 towers.

As of December 31, 2019, the Group sold 944 towers to Telxius Torres Peru S.A.C., for a total value of S/ 376,843,000 plus GST. The Company only recognized S/370,456,000 as income.

19 FINANCIAL LEASES LIABILITIES

(a) The breakdown of the item is presented below:

	<u>As of September 30, 2020</u>		<u>As of December 31, 2019</u>	
	<u>Foreign</u>	<u>Equivalent</u>	<u>Foreign</u>	<u>Equivalent</u>
	<u>currency</u>	<u>in national</u>	<u>currency</u>	<u>in national</u>
	<u>US\$000</u>	<u>S/000</u>	<u>US\$000</u>	<u>S/000</u>
Financial lease				
lease. See note 16	89,237	321,163	86,357	286,445
Financial lease				
lease. See note 16	-	801,555	-	878,640
Finance lease	18	63	80	266
		1,122,781		1,165,351
Less - Non-current portion		(813,316)		(922,268)
Current portion		<u>309,465</u>		<u>243,083</u>

(b) Future payments under leases as of September 30, 2020 and December 31, 2019, are as follows:

	<u>As of</u>	<u>As of</u>
	<u>September 30,</u>	<u>December 31,</u>
	<u>2020</u>	<u>2019</u>
	<u>S/000</u>	<u>S/000</u>
2020	59,225	243,083
2021	220,884	181,284
2022	190,384	158,451
2023	159,915	141,093
2024	149,013	133,059
2025 onwards	343,360	308,381
	<u>1,122,781</u>	<u>1,165,351</u>

(c) The current average annual rate of lease liabilities in soles as of September 30, 2020 was 4.17 percent and in Dollars it was 3.09 percent (3.40 percent in soles and 3.81 percent in Dollars as of December 31, 2019).

20 COMMERCIAL ACCOUNTS PAYABLE

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

	<u>As of</u>	<u>As of</u>
	<u>September 30,</u>	<u>December 31,</u>
	<u>2020</u>	<u>2019</u>
	<u>S/000</u>	<u>S/000</u>
National suppliers (c)	516,905	985,789
Accrual of obligations to be invoiced	521,457	720,524
Related, note 24(d) 200,032	215,814	
Foreign suppliers 130,239	117,050	
Contractor security deposits	3,449	7,414
	<u>1,372,082</u>	<u>2,046,591</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 2020 and December 31 2019, represented S/ 174,798,000 and S/ 564,223,000, respectively, in accounts payable that are under assignment of collection rights with Investment Funds. For these funds, TFP S.A.C. (an affiliate of the Group) provides the 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 has been maintained.
- (d) The carrying amounts of the commercial accounts are considered equal to their fair values due to their short-term nature.

21 OTHER ACCOUNTS PAYABLE

- (a) The breakdown of the item is presented below:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Remuneration and vacations (b)	326,461	422,429
Collection on behalf of third parties (c)	10,500	161,055
Taxes and canon payable, note 25 (h)	32,229	43,736
Dividends and returns payable to shareholders	19,976	21,295
Guarantee deposits	12,191	12,373
Employee participation, note 25(e)	420	35,635
Derivative financial instruments 8 (g)	-	9,302
Others	<u>17,728</u>	<u>15,924</u>
	419,505	721,749
Less - Non-current portion (b)	(<u>116,856</u>)	(<u>193,108</u>)
Current portion	<u>302,649</u>	<u>528,641</u>
Financial liabilities classified as other accounts payable	60,395	219,949
Non-financial liabilities classified as other accounts payable	<u>359,110</u>	<u>501,800</u>
	<u>419,505</u>	<u>721,749</u>

- (b) In August 2020, Management began a retirement program identifying positions that did not fit the business model. This meant the termination of 130 employees at the end of September 2020 for the amount of S/ 36,623,000.

On September 26, 2019, Management initiated an Incentive Voluntary Retirement Program called "Nuevos Horizontes", which achieved the affiliation of 736 employees on October 11, 2019, for the amount of S/ 332,062,000. These employees were released from the Group on October 15, 2019. See notes 2.20 and 30(a). Also, on December 30, 2019, the Group launched an additional retirement program for S/ 16,011,000. This plan concluded with the affiliation of 32 workers.

- (c) As of September 30, 2020, this corresponds to collections made by the Company on behalf of Inter-American Investment Corporation, on rights assigned by the Company. See note 7(e).

As of December 31, 2019, this corresponds to collections made by the Company on behalf of the Banco Continental Trust (BBVA), on rights assigned by the Company. See note 7(e).

22 OTHER PROVISIONS

(a) The breakdown of the item is presented below:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Litigation and risks, note 34 (b)	605,033	579,029
Dismantling of towers, note 2.20	46,447	49,906
Others (d)	<u>14,577</u>	<u>10,989</u>
	666,057	639,924
Less - Non-current portion	(284,567)	(276,957)
Current portion	<u>381,490</u>	<u>362,967</u>

(b) Item movement is detailed below:

	Litigation and risks S/000	Dismantling S/000	Others S/000	Total S/000
Balances as of January 1, 2019	385,389	108,900	1,218	495,507
Additions. See note 34(b)	236,468	10,209	19,143	265,820
Disposals	-	(69,203)	(9,372)	(78,575)
Payments	(42,828)	-	-	(42,828)
As of December 31, 2019	579,029	49,906	10,989	639,924
Additions, see note 34 (b)	54,384	3,633	12,957	70,974
Disposals	-	(7,092)	(9,369)	(16,461)
Payments	(28,380)	-	-	(28,380)
As of September 30, 2020	<u>605,033</u>	<u>46,447</u>	<u>14,577</u>	<u>666,057</u>

(c) Mainly includes various provisions made by the Group in accordance with the practice described in note 2.20, based on best estimates of the disbursement that would be required to settle obligations on the date of the consolidated statement of financial position.

Management and its internal and external legal advisors consider that the provisions recorded are sufficient to cover the risks that affect the Group's business as of September 30, 2020 and December 31, 2019, as described in note 34(b).

(d) As of September 30, 2020, "Others" includes a provision for tower reinforcement as a consequence of the 962 towers sold. See note 31(d).

23 DEFERRED INCOME

(a) The breakdown of the item is presented below:

	As of September 30, 2020 S/000	As of December 31, 2019 S/000
Grants (b) and notes 8(d) y 2.21	100,002	109,243
Intégrame	2,865	4,042
Others	<u>27,012</u>	<u>35,322</u>
	129,879	148,607
Less - Non-current portion	(93,103)	(99,611)
Current portion	<u>36,776</u>	<u>48,996</u>

(b) Deferred revenue from grants mainly includes:

- Lambayeque Project: corresponds to the contract signed on May 27, 2015, between the Group and the Peruvian State (represented by the Investment Fund in Telecommunications - FITEL), for the non-reimbursable financing of the Project "Integral Broadband Connectivity for development social activity in the northern part of the country."

The balance for this project as of September 30, 2020 and December 31, 2019, amounts approximately to S/ 95, 575,000 and S/ 102,806,000, respectively. The Lambayeque project includes the construction of a transportation network for US \$11,613,000. The investment term was extended until 2027.

- BAS Project: corresponds to the contract signed on February 27, 2009, between the Group 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 ended accruing in January 2020, and as of December 31, 2019 amounted to approximately S/579,000.
- Selva [Jungle] Project: corresponds to the contract signed on February 18, 2011, between the Group and the Peruvian State (represented by FITEL), for the non-reimbursable financing of the Project "Integration of rural areas and places of preferential social interest to the network of the mobile service - Selva." The balance for this project amounts to approximately S/ 4,427,000 and S/5,858,000 as of September 30, 2020 and December 31, 2019, respectively.

The Group 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.

<u>Proyecto</u>	<u>Lambayeque</u>	<u>BAS</u>	<u>Selva</u>
Investment term	14 months	19 months	12 months
Period of operation	120 months	48 months	50 months
End of the contract	Continue with the obligations stipulated in the respective concession contracts		
Amount	US\$47,626,000	US\$48,849,000	US\$14,718,000

For the nine-month period ending September 30, 2020 and 2019, the Group accrued income of S/19,210,000 and S/20,017,000 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 years 2019 and 2018, the most significant transactions made by the Group with related entities were the following:

	As of September 30, 2020 S/000	As of September 30, 2019 S/000
Revenues with related companies for:		
Land leases		
- Telxius Torres Perú S.A.C.	464	157
Other commission transactions		
- TFP S.A.C.	424	887
Other non-recurring income related to:		
Sale of towers		
- Telxius Torres Perú S.A.C.	5,499	111,812
Expenses with related companies for:		
Trademark use fee, note 28(a)		
- Telefónica, S.A. (b)	(77,248)	500
Internet and fiber optic linking services		
- Telxius Cable Perú S.A.C.	(56,677)	(69,950)
Logistics services		
- Tgestiona Logística S.A.C.	-	(21,454)
Systems and management services		
- Telefónica Global Technology S.A.U.	(42,493)	(39,277)
Emplacement leasing		
- Telxius Torres Perú S.A.C.	146	92
Transfer of management capacity. Note 28(a)		
- Telefónica Latinoamérica Holding S.L. (c)	(7,297)	(5,642)

- (b) The Group has a contract with Telefónica S.A., through which it pays a fee for the use of a brand 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, 2020 and December 31, 2019, the Group had contracts with Telefónica Latinoamérica Holding S.L. for the transfer of management capacity.

(d) As of September 30, 2020 and December 31, 2019, the Company maintained the following trade balances with related entities:

	<u>As of September 30, 2020</u>		<u>As of December 31, 2019</u>	
	<u>Accounts</u>	<u>Accounts</u>	<u>Accounts</u>	<u>Accounts</u>
	<u>receivable</u>	<u>payable</u>	<u>receivable</u>	<u>payable</u>
	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>
Relacionadas:				
Telefónica International Wholesale Services S.L.	28,486	16,017	21,581	25,287
Media Networks Latin América S.A.C.	22,020	38,795	20,773	38,573
Internet para Todos S.A.C.	16,154	21,603	8,474	9,058
Telxius Cable Perú S.A.C.	12,398	14,827	9,191	27,973
Telefónica Servicios TIWS S.A.C.	4,718	14,924	7,295	28,612
Telefónica Digital España S.L.	3,090	14,824	2,637	24,537
Telefónica Data USA	2,685	797	2,111	734
Fundación de Telefónica del Perú	1,930	-	1,768	-
Telxius Torres Perú S.A.C.	1,810	316	858	462
Pegaso Recursos Humanos S.A. de C.V.	1,449	-	1,335	-
Telefonica Ingeniería de Seguridad S.A. Sucursal del Perú	1,301	15,192	1,002	14,168
Terra Networks Perú S.A.C.	834	25	1,295	400
Telefonica Servicios Audiovisuales S.A. Sucursal del Perú	636	13	616	22
Telefónica, S.A.	477	18,267	2,863	712
Telefónica Latinoamérica Holding S.L.	395	7,597	366	8,471
Telefónica Venezolana C.A.	111	-	14,235	-
Telefónica Gestión de Tecnología SAU	-	18,067	-	17,923
Telefónica Compras Electrónicas	-	2,728	-	2,497
Otros	<u>20,685</u>	<u>16,040</u>	<u>29,402</u>	<u>16,385</u>
Commercial accounts receivable and payable related, (see notes 7 (a) and 20 (a))	<u>119,179</u>	<u>200,032</u>	<u>125,802</u>	<u>215,814</u>

- (e) As of September 30, 2020, the Group maintains a loan receivable from Telfisa Global BV for US \$135,000,000 equivalent to S/485,325,000 maturing in December 2020 and accrues a fixed annual rate of 0.56 percent.

As of December 31, 2019, the Group maintained other accounts receivable Telxius Torres Perú S.A.C. for S/ 26,746,000 for the sale of towers. See note 31(d).

As of December 31, 2019, the Group had other accounts receivable from Wayra Perú Aceleradora de Proyectos S.A.C. of S/ 587,000 for investments.

As of September 30, 2019 and December 31, 2019, the Group had an account payable to Telefónica S.A. for an amount of approximately S/7,523,000 and S/4,929,000. This account corresponds to the fair value of the share 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 2.25.

As of September 30, 2020, the Group maintained a loan payable to Latin America Cellular Holdings, S.L. for US \$ 180,000,000, equivalent to S/ 647,820,000, maturing in December 2020 and which accrues a fixed annual rate of 2.36 percent.

(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 existing market interest rates. However, the other terms of the loans are substantially the same as those of the market. The balance of the loans to employees was approximately S/ 21,366,000 and S/ 27,759,000 as of September 30, 2020 and December 31, 2019, 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 the Key Management -

Remuneration received by directors and key management personnel amounted to approximately S/ 22,603,000 for the nine-month period ending September 30, 2020 (approximately S/ 22,594,000 for the nine-month period ending September 30, 2019), which include short-term benefits, compensation for time of service, and others.

- (h) As of September 30, 2020, the Group had current accounts in the Group's finance company, Telfisa Global, B.V., for an amount of US \$3,831,000 equivalent to S/ 13,772,000, 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 \$4,349,000, equivalent to S/ 14,400,000, 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, 2020 and December 31, 2019, 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 June September, 2020 and December 31, 2019, will be collected and paid in the short term.

25 TAX SITUATION

(a) Deferred taxes -

The movement of the item is as follows:

	As of January 1, 2019 S/000	Credit (charge) to income statement S/000	Credit (charge) to the state of financial statement S/000	Credit (charge) to another comprehensive statement S/000	As of December 31., 2019 S/000	Credit (charge) income statement S/000	Credit (charge) to another comprehensive statement S/000	As of September 30, 2020 S/000
Deferred assets/(liabilities)								
Depreciation	365,267	(15,257)	(11,779)	-	338,231	12,274	-	350,505
Estimate for accounts of doubtful collection	209,870	109,433	-	-	319,303	14,344	-	333,647
Provision for miscellaneous contingencies	38,562	(3,740)	-	-	34,822	413	-	35,235
Bonds VAC	30,218	(5,093)	-	-	25,125	337	-	25,462
Personnel expenses	40,971	50,226	(25)	-	91,172	(15,236)	-	75,936
Provision for decommissioning of equipment	5,737	1,795	(170)	-	7,362	(19,240)	-	(11,878)
Others	50,912	47,146	-	-	98,058	13,134	-	111,192
Deterioration of inventories and property, planta, and equipment	8,240	(2,358)	(299)	-	5,583	3,709	-	9,292
Deferred revenue from sale of towers	574	-	-	-	574	-	-	574
Financial leasing	(7,524)	724	-	-	(6,800)	-	-	(6,800)
Other deferred income	50	(17)	-	-	33	-	-	33
Payroll capitalization for plant construction	(307)	132	-	-	(175)	-	-	(175)
Financial Instruments	740	(1,142)	-	25	(377)	203	(25)	(199)
Amortization of software licenses	(9,451)	8,701	-	-	(750)	6,901	-	6,151
Allocation of the price paid by fixed assets	(3,699)	529	-	-	(3,170)	2,374	-	(796)
Cost attributed to fixed assets	(12,576)	231	-	-	(12,345)	-	-	(12,345)
NIIF 15	(110,782)	47,002	-	-	(63,780)	21,794	-	(41,986)
NIIF 16	-	49,150	-	-	49,150	9,828	-	58,978
Administrative concession	(582,363)	45,924	-	-	(536,439)	34,444	-	(501,995)
Deferred income and costs-Decos	(78,486)	(76,290)	-	-	(154,776)	10,599	-	(144,177)
Income from connection fee	-	15,516	-	-	15,516	1,051	-	16,567
Capitalized financial costs	-	(4,594)	-	-	(4,594)	298	-	(4,296)
Tax loss	55,538	(54,776)	-	-	762	1,385	-	2,147
Total deferred assets/(liabilities), net	<u>1,491</u>	<u>213,242</u>	<u>(12,273)</u>	<u>25</u>	<u>202,485</u>	<u>98,612</u>	<u>(25)</u>	<u>301,072</u>

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

	As of September 30, 2020	As of December 31, 2019
	S/000	S/000
Deferred income tax assets:		
Expected reversal in the next 12 months	56,994	65,171
Expected reversal after 12 months	<u>244,078</u>	<u>137,314</u>
Total deferred income tax	<u><u>301,072</u></u>	<u><u>202,485</u></u>

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

	As of September 30, 2020	As of September 30, 2019
	S/000	S/000
Current	50,972	742,692
Deferred	(<u>98,612</u>)	(<u>144,786</u>)
	<u>(<u>47,640</u>)</u>	<u><u>597,906</u></u>

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

	As of September 30, 2020		As of September 30, 2019	
	S/000	%	S/000	%
Results before income tax	(<u>547,983</u>)	<u>100.00</u>	(<u>384,545</u>)	<u>100.00</u>
Income tax according to tax rate				
tax (income)	(<u>161,655</u>)	29.50	(<u>113,441</u>)	29.50
Tax impact:				
Rental of premises for public				
public (non-deductible)	101	(0.02)	449	(0.12)
Contingencies and taxes				
(non-deductible), notes 22 and 34(b)	50,711	(9.25)	681,131	(177.13)
Debt forgiveness	4,188	(0.76)	-	-
Expenses from prior years	1,284	(0.23)	1,772	(0.46)
Result in subsidiary and associates	(<u>28</u>)	0.01	925	(0.24)
Expenses not allowed	1,406	(0.26)	577	(0.15)
Unused losses	761	(0.14)	-	-
Derivative instruments	1,739	(0.32)	8,146	(2.11)
Deferred tax adjustment	26,058	(4.76)	(<u>1,699</u>)	0.44
Others, net	<u>27,795</u>	<u>(5.07)</u>	<u>20,046</u>	<u>(5.21)</u>
(Income)/ Tax expense				
on earnings	<u>(<u>47,640</u>)</u>	<u>8.70</u>	<u><u>597,906</u></u>	<u>(<u>155.48</u>)</u>

- (e) The Group is subject to the tax regime of Peru. The income tax rate as of September 30, 2019 and December 31, 2019, on taxable income, is 29.50%, after deducting the share of workers, calculated at a rate of 10% on taxable income.

Legal entities not domiciled in Peru and natural persons are subject to 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%, and whose distribution is undertaken as of that date (until 2014, 4.1% and for the 2015 and 2016 periods, 6.8%).

- (f) For purposes of the determination of income tax and general sales tax, the transfer prices 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, 2020 and December 31, 2019.

As of September 30, 2020, the Group recorded a provision for income tax of S/50,972,000 that, net of the payments of tax installments and the other provisions recorded, resulted in a balance of S/ 155,922,000 (S/ 772,621,000 from income tax payable that, in its net effect on tax installment payments and other recorded provisions, resulted in a positive balance of S/ 209,739,000 as of December 31, 2019). The foregoing is thus presented as an asset. 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 substantially compensated for the 2018 tax loss through the generation of taxable income in 2019 by means of the management plans described in note 3.1(iii).

Additionally, the Group maintains provisions for uncertainties in the treatment of income tax, as required by IFRIC 23 for S/ 2,220,905,000 in current income tax, and S/ 77,866,000 in long-term current income tax as of September 30, 2020 (S/ 2,177,835,000 current Income Tax, and S/ 90,880,000 in current long-term Income Tax as of December 31, 2019).

- (g) The sworn declarations on the income tax and the general sales tax for the years 2016 to 2020 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 of the general sales tax of the Group for the years 2016 to 2020 are subject to inspection by the Tax Administration.

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

These subsidiaries are:

Period

Servicios Globales de Telecomunicaciones S.A.C.	2016 to 2020
Telefónica Multimedia S.A.C.	2016 to January 2018 (*)
Star Global Com S.A.C.	2016 to January 2018 (*)

(*) Date on which these companies were absorbed by the Company. See note 1.3.b

Due to the possible interpretations that the tax authorities may hand down on the current legal norms and per the application of IFRIC 23, the Group has determined that no additional liabilities will result. 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, 2020 and December 31, 2019.

- (h) As of September 30, 2020 and December 31, 2019, the section "Other accounts payable" includes other taxes of approximately S/ 32,229,000 and S/ 43,736,000, respectively.

In accordance with Supreme Decree No. 013-93-TCC, which approves the Single Ordered Text of the Telecommunications Law, and its Regulations, approved by Supreme Decree No. 020-2007-MTC, the Company and its Subsidiary, in their quality of telecommunications service concessionaires, must pay the following rights and fees:

<u>Item</u>	<u>Beneficiary</u>	<u>%</u>
	<u>Calculation basis</u>	
Special right for the Program for National Telecommunications (PRONATEL) telephony.	MTC	1.0 Income billed and received for services carriers and final
Contributions for supervision services	OSIPTEL	0.5 Revenue billed and received by 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/ 66,543,000 and S/ 81,116,000 for the nine-month periods ending September 30, 2020 and 2019, respectively, and are included in the item "General and administrative expenses" of the consolidated profit or loss statement. See note 29(a).

Furthermore, the aforementioned instruments create an annual fee for the use of radio-electric spectrum.

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

During 2018, Legislative Decrees 1422, 1423, 1424 and 1425 were issued, effective as of January 1, 2019, which include, among other modifications, the incorporation of concepts and/or definitions of "non-cooperating country or territory" and "preferential tax regime", "permanent establishment", "indirect disposal" of shares, as well as the following, which are most significant:

- *Transfer pricing:*

The scope of application of the Transfer Pricing regulations was extended to transactions carried out from, to, or through non-cooperating countries or territories or subjects whose income or earnings receive preferential tax treatment.

- *Accrual:*

A legal definition of accrual was 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.

- *Deductibility of financial expenses:*

New rules for the deductibility of interests were incorporated, and for the applicability of limits for loans granted by related parties, as well as to loans granted by parties not linked economically, indicating terms for debts constituted or renewed until September 13, 2018, from September 14, 2018, and as of January 1, 2019. For those constituted or renewed as of January 01, 2021, a new limit for the deduction of net interest (interest expense less taxable interest) that exceeds 30% of EBITDA (net income after compensating losses plus net interest, depreciation and amortization) from the previous year. The foregoing may be carried forward to the next immediate 4 years.

- *Derivative financial instruments:*

It was established that the Derivative Financial Instruments, considered as an exclusively underlying element, the exchange rate of a foreign currency, the profit and losses are imputed at the close of each taxable year even when the expiration date of the contract corresponds to a subsequent year.

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

A special procedure has been established for the application of Rule XVI, according to which SUNAT may apply the provisions of the second to fifth paragraphs of Rule XVI within the framework of a final audit, provided that the 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 carried out) within the framework of a "fiscal planning" has been established.

Finally, a new assumption of joint and several liability is established for the legal representatives of the tax debtor when it is subject to the application of Standard XVI, provided that such representatives have collaborated with the design or approval or execution of acts or situations or economic relations foreseen in the mentioned norm.

Additionally, on August 2, 2018, Legislative Decree No. 1369 was issued, effective as of January 1, 2019, and which amended the Single Ordered Text of the Income Tax Law, approved by Supreme Decree No. 179- 2004-EF, regarding the following topics:

- *Transfer pricing:*

It states that the benefit test is applicable in determining the market value of the services to the taxpayer by its related parties.

- *Withholdings in operations with non-domiciled subjects:*

The obligation to pay the Tax Administration the amount equivalent to the withholding in the case of taxpayers who account royalties, remuneration for services, technical assistance, assignment in use or others of a similar nature as expenses or costs, in favor of non-domiciled subjects.

- *Deduction of expenses for operations with non-domiciled subjects:*

It was established that royalties, remuneration for services, technical assistance, assignment in use or others of a similar nature in favor of non-domiciled beneficiaries, may be deducted as cost or expense in the taxable year to which they correspond when they have been paid or credited within the period established by the Regulation for the presentation of the affidavit corresponding to said fiscal year.

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, 2020 and December 31, 2019, is composed of the following share classes (in percentage values):

	As of September 30, 2020 %	As of December 31, 2019 %
Class B		
Telefónica Hispanoamerica, S.L.	98.939	48.349
Telefónica Latinoamérica Holding, S.L.	-	50.224
Other minority shareholders	1.055	1.421
Class C	<u>0.006</u>	<u>0.006</u>
	<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, considering 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 members of the Board.

(b) Issue premiums -

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, for which it is required that a minimum of 10 percent of the distributable profit of each year, net of income tax, be transferred to a legal reserve until it is equal to 20 percent of the capital. The legal reserve can offset losses or can be capitalized; in both cases there is an obligation to replenish any funds used. The reserve also includes the dividends declared by the Company prescribed.

The legal reserve as of September 30, 2020 and December 31, 2019, amounted to S/582,513,000.

d) Other equity reserves -

These correspond mainly to the net of the 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 according to how it is influenced by the underlying hedge. During the nine-month period ending September 30, 2020 and 2019, the unrealized gain/(loss) produced per the valuation of hedging derivatives amounts to S/ 43,000 and S/ 705,000, respectively. The net gain/(loss) from its tax effect amounts to S/ 18,000 (S/ 496,000 for the nine-month period ending September 30, 2019). See notes 18.2(e) and 21(d).

27 FIXED BUSINESS INCOME

The table below presents the breakdown of the item:

	As of September 30, 2020 S/000	As of September 30, 2019 S/000
Services	2,110,397	2,313,717
Data + IT	367,899	488,150
Wholesale	125,813	169,677
Sets	57,799	67,929
Others	41,855	72,665
Total	<u>2,703,763</u>	<u>3,112,138</u>

28 MOBILE BUSINESS REVENUE

The table below presents the breakdown of the item:

	As of September 30, 2020 S/000	As of September 30, 2019 S/000
Postpaid	1,223,377	1,305,099
Terminals	445,433	916,365
Prepaid	407,805	468,991
Wholesale	111,417	132,665
Others	9,983	66,187
Total	<u>2,198,015</u>	<u>2,889,307</u>

29 GENERAL AND ADMINISTRATIVE EXPENSES

(a) The breakdown of the item is presented below:

	As of September 30, 2020 S/000	As of September 30, 2019 S/000
Services provided by third parties (c)	2,364,814	2,722,309
Taxes and royalties (b)	139,034	170,527
Provision for doubtful accounts and for impairment of inventories, notes 7(d), 8(f) and 10(c), net of recoveries	415,934	460,517
Fee for brand use and transfer of management capacity, note 24(a)	84,545	5,142
Miscellaneous management charges	18,816	17,353
Total	<u>3,023,143</u>	<u>3,375,848</u>

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

(c) Third-party services include:

	As of September 30, 2020 S/000	As of September 30, 2019 S/000
Fees, commissions and services	1,001,185	1,239,222
Television and circuit signals	466,861	465,045
Maintenance and repair	256,525	272,209
Interconnection and correspondent expenses	196,611	179,556
Capacity Services	120,267	124,005
Basic services	97,366	93,686
Advertising	59,599	103,718
Rentals	25,987	25,012
Transportation and storage	20,759	36,545
Value-added services	17,925	33,690
Roaming expenses	9,255	13,339
Others	92,474	136,282
Total	<u>2,364,814</u>	<u>2,722,309</u>

30 PERSONNEL EXPENSES

(a) The breakdown of the item is presented below:

	As of September 30, 2020 S/000	As of September 30, 2019 S/000
Remuneration	398,173	470,590
Restructuring expenses, note 21(b)	37,132	328,197
Social security and welfare	42,554	55,494
Compensation for time of service	29,239	34,421
Employee shareholding	4,284	38,549
Other personnel expenses	9,969	5,816
Payroll capitalization for plant construction	(41,250)	(53,250)
Total	<u>480,101</u>	<u>879,817</u>

(b) The Group had 4,197 employees as of September 30, 2020 (4,468 as of December 31, 2019).

31 OTHER OPERATING INCOME AND EXPENSES

(a) The breakdown of the item is presented below:

	As of September 30, 2020 S/000	As of September 30, 2019 S/000
Other operating income		
Government grants, notes 8(d) and 23(b)	19,210	20,017
Income from asset disposal (c) and (d)	5,806	198,580
Claims reimbursement	3,260	8,281
Others	<u>34,666</u>	<u>25,518</u>
	<u>62,942</u>	<u>252,396</u>
Other operating expenses		
Other provisions (b)	(24,139)	(24,280)
Others	<u>(6,658)</u>	<u>(8,811)</u>
	<u>(30,797)</u>	<u>(33,091)</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, 2020 and 2019, asset sales had generated a net income, whose composition is detailed below:

	As of September 30, 2020 S/000	As of September 30, 2019 S/000
Net income from disposal of assets (d)		
Income from sale of assets	17,267	481,632
Net cost of assets sold	<u>(11,461)</u>	<u>(283,052)</u>
	<u>5,806</u>	<u>198,580</u>

- (d) In 2020, contracts were signed for the transfer of ownership of up to 18 towers in favor of Telxius Torres Peru for S/ 7,186,000, 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. See note 17.3(c).

32 INCOME AND FINANCIAL EXPENSES

- (a) The breakdown of the item is presented below:

	As of September 30, 2020 S/000	As of September 30, 2019 S/000
Financial income		
Interest on accounts receivable	37,940	27,969
Interest on time deposits	3,035	7,936
Others	83	6
	<u>41,058</u>	<u>35,911</u>
Financial expenses		
Interest on bonds and commercial papers	(156,614)	(128,951)
Lease interest	(32,511)	(29,001)
Interest on other debts	(11,518)	(24,496)
Loss from financial instruments from interest rate coverage	(17,286)	(7,266)
Others	(44,990)	(33,374)
	<u>(262,919)</u>	<u>(223,088)</u>
Net exchange differences		
Net (loss)/gain due to exchange differences (95,382) 17,863		
Net gain/(loss) on exchange differences related to derivative financial instruments	82,427	(20,151)
	<u>(12,955)</u>	<u>(2,288)</u>

32 LOSS PER SHARE

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

	Shares in circulation	Valid days during period	Average share weighting
2019 Fiscal year			
Balance as of January 1, 2019	<u>3,344,363,158</u>	270	<u>3,344,363,158</u>
Balance as of September 30, 2019	<u>3,344,363,158</u>		<u>3,344,363,158</u>
2020 Fiscal year			
Balance as of January 1, 2020	<u>3,344,363,158</u>	270	<u>3,344,363,158</u>
Balance as of September 30, 2020	<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 parent for nine-month periods ending September 30, 2020 and 2019, is presented below:

<u>As of September 30, 2020</u>			<u>As of September 30, 2019</u>		
<u>Loss</u>	<u>Number of</u>	<u>Loss per</u>	<u>Loss</u>	<u>Number of</u>	<u>Loss per</u>
<u>(numerator)</u>	<u>shares</u>	<u>share</u>	<u>(numerator)</u>	<u>shares</u>	<u>share</u>
<u>S/000</u>	<u>(denominator)</u>	<u>S/000</u>	<u>S/000</u>	<u>(denominator)</u>	<u>S/000</u>
(500,343,000)	3,344,363,158	(0.149608)	(982,451,000)	3,344,363,158	(0.293763)

33 COMMITMENTS AND CONTINGENCIES

(a) Commitments -

Surety letters

The Group maintains surety letters 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, 2020, these surety letters amounted to approximately S/ 1,813,810,000 and US \$ 85,327,000 (S/ 1,766,223,000 and US \$ 93,272,000 as of December 31, 2019).

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, including for a duration of up to 10 years. See notes 2.30, 16 and 19.

The future minimum payments, as per non-cancelable operating leases, as of September 30, 2020 and December 31, 2019, are as follows (these correspond to leases of less than one year and low-value amounts that are not recognized as part of the implementation of IFRS 16):

	<u>As of</u> <u>September 30,</u> <u>2020</u> <u>S/000</u>	<u>As of</u> <u>December 31,</u> <u>2019</u> <u>S/000</u>
Less than one year	3,021	11,136
Between one year and 3 years	9,272	8,545
	<u>12,293</u>	<u>19,681</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 Superintendency 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:

I. Income Tax:

(a) 1998 Fiscal Year -

On July 21, 2011, the TC [Tax Court], by means of Resolution No.11450-5-2011, issued a pronouncement for the 1998 fiscal year.

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

The Company filed an appeal against the decision before the TC as it did not agree with the balance as determined by SUNAT. The Tax Court hearing the aforementioned appeal and by means of Resolution No. 974-5-2012: (1) revoked the modification for 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 confirmed amounts, to evaluate the effect of the profits in exchange 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 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 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 Intendancy Resolution No. 0150150001152 through which SUNAT, in compliance with the TCR [Tax Court Resolution] 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.

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 requests the partial nullity of said Resolution in those cases in which it confirms the modifications for: (i) DCP; and (ii) billing for leases (TPI). On March 22, 2013, the Company was notified with the first instance judgment that declared in part the Company's claim regarding the objections of: (i) DCP and (ii) TPI, which was in part confirmed by the Superior Court. Said judgment was declared null by the Supreme Court at the end of the DCP and ordered that the Superior Court issue a new judgment and then definitively and favorably confirmed the Company's appeal to the TPI.

On July 31, 2019, the Company was notified with the new judgment of the Superior Court that declared the DCP's appeal founded; however, only with respect to the telephone billing. Both parties filed an appeal. The appeals were declared admissible and a date for the Oral Hearing was set for November 24, 2020.

During the course of the aforementioned judicial process, the Company obtained a partial precautionary measure regarding the appeal by the TPI and that the appeal by the DCP was unfounded. The Superior Court through Resolution No. 16 of October 29, 2015, granted the extension of the precautionary measure regarding this appeal.

On August 12, 2020, the Surety Letter was renewed for the sum of S/ 344,706,463, corresponding to the period 2020-2021.

In relation to the DCP, after the corresponding evaluation ratified by the external legal advisors, there are legal arguments to consider that it will be definitively resolved in terms favorable to the Company. Consequently, the contingency must be classified as remote.

On August 7, 2012, the Company was notified of a contentious administrative lawsuit filed by SUNAT requesting partial nullity of TC 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 April 24, 2019, the Supreme Court's resolution was notified, which found in favor of the lawsuit. As such, on November 11, 2019, it was notified with the Intendancy Resolution No. 0150160000145, by means of which SUNAT proceeds to rectify the balance in favor of the 1998 Income Tax.

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 compensation for the exchange difference of different accounts. The main argument is that the TCR 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.

The judgment of the first instance declared the lawsuit unfounded, the same that was favorably upheld for the interests of the Company by the Court of Appeals. For this reason, SUNAT appealed against the judgment of the Superior Court. As such, on January 14, 2020, the decisions of the Supreme Court justices were notified. There was discord to the extent that three supreme justices voted that the claim of SUNAT be declared unfounded, one declared the decision of the Superior Court null and void, and thus requiring a new decision, and one member who upheld the claim of SUNAT. On October 2, 2020, a settlement hearing with the justice Juan José Linares San Román was scheduled for October 23, 2020.

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.

(b) Fiscal Year 1999 -

The TC, by means of TCR No. 16603-4-2010, notified on December 23, 2010, 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. In this regard, on April 4, 2012, the Company requested the statute of limitations for the aforementioned fiscal year. SUNAT, by means of 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 the Management, and its legal advisors, there are legal arguments that allow to understand that statute of limitations for the aforementioned fiscal year impedes SUNAT from undertaking a new determination. As such, the balance determined by the Company in 1999 should be that which SUNAT assign to the year 2000 fiscal year.

(c) Fiscal years 2000 and 2001 -

The TC, by means of TCR No. 17044-8-2010, notified on December 29, 2010 (and subsequently clarified by TCR No. 1853-8-2011, notified on February 11, 2011) finalized the administrative procedure corresponding to the aforementioned fiscal years.

As these resolutions were not in accordance with the law, the Company filed (on March 21, 2011) a contentious-administrative action against SUNAT and the Tax Court, requesting partial nullity of TCR No. 17044-8-2010, TCR No. 17133-8-2010, and TCR No. 01853-8-2011, insofar as the appeals to: (1) financial charges - FC, (2) DCP, (3) TPI, (4) disposal of assets by means of the transfer of equity to Telefónica Móviles S.A.C. -Reorganization- and, (5) the costs of fixed assets deducted off the books as an expense (overhead) made against the Company. In addition, the Company requested the partial nullity of TCR No. 17133-8-2010, insofar as the compensation of interests corresponding to the payments on account for the year 2000 fiscal year.

On March 20, 2013, the Company was notified of the judgment of the first instance that partially upheld the Company's lawsuit regarding the challenges to: (i) TC; (ii) DCP; and (iii) TPI. In the same manner, the objections to (i) Reorganization and (ii) Overhead, were declared unfounded. Said resolution was partially upheld by the Superior Court regarding the appeals on deduction by TC and PCD, and partially upheld the appeal of TPI. Regarding the aforementioned appeal to the DCP, the Superior Court validated the management, only regarding the telephone billing and ordered that all the bills sent be reviewed again. Furthermore, it upheld the aspects that did not protect our appeals for the disposal of assets by transferring assets to Telefónica Móviles S.A.C. -Reorganization- and fixed asset costs deducted off the books as expenses - Overhead. Both parties involved in the process presented appeals, which were admitted and declared admissible.

Subsequently, on July 11, 2019, the decisions of the appeals court justices were handed down. In this regard, the appeals regarding Overhead, Simple Reorganization and Financial Charges were declared unfounded, and the appeal of TPI was deemed founded, causing disagreement regarding the appeal of the DCP. Subsequently, after having made the two Oral Hearings before the ruling members, and with a majority result, the Superior Court ruling was declared null and void, and a new ruling was issued regarding said appeal. On July 29, 2020, the second instance judgment was notified that declared PCD's objection unfounded. On September 21, 2020, the file entered the Supreme Court, and the qualification of the appeal filed by the Company against said judgment is 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 appeals: (1) TC, (2) DCP and, (3) TPI.

On September 21, 2020, we presented the Surety Letter for the amount of S/ 709,076,288 corresponding to the period 2020-2021, an amount that includes the interest update made by SUNAT, pending the renewal of the injunction bond.

Regarding the appeals to the TC, Simple Reorganization and Overhead, the Company has reassessed its contingencies based on the ruling issued by the Supreme Court. Consequently, the qualification of the case has been adjusted to probable. Regarding the TPI appeal, the qualification of the appeal has been maintained as remote, to the extent that it was resolved in favorable terms for the Company. Regarding the DCP appeal, the qualification of the case remains reasonably remote.

As per TCR No. 17044-8-2010 and TCR No. 1853-8-2011, SUNAT, on October 4, 2011, communicated Intendence Resolution No. 0150150001030, according to which it determined an alleged tax debt amounting to S/ 2,379,451,375.

On October 24, 2011, the Company filed an appeal before Tax Court against the aforementioned

Intendancy Resolution. SUNAT conditioned the admissibility of the same appeal on the previous payment by the Company for the amount of S/ 1,627,950,109. Subsequently, SUNAT, due to the precautionary measure obtained by the Company in the contentious administrative proceeding initiated against TCR No. 17044-8-2010, reduced the amount of the alleged debt to a total of S/ 619,814,185.

The Company, on November 30, 2011, 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 (without prejudicing the payment of S/ 134,353,008 under protest) appealed to the Tax Court 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 TC communicated Resolution No. 01973-8-2012 by means of 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 Intendancy Resolution No. 0150190000041 notified on April 4, 2013) by means of which SUNAT complies with the provisions of the Tax Court. Considering 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 adjudicated by means of TCR No. 13365-3-2013 and notified on September 23, 2013. In this adjudication, the Tax Court confirmed the declaration on the Intendancy 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 Tax Court Resolution 15989-3-2013, which confirms 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 according to 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 means of Resolution No. 1323-3-2017, which provides that, in order to effect 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 Coercive Execution Resolution No. 011-006-0044540, by means of which it requires the payment of S/ 150,842,142 related to the fine for the Income Tax of year 2000. The Company (without prejudicing the payment of S/ 150,842,142 under protest) appealed to the Tax Court regarding the aforementioned Coercive Execution Resolution as the SUNAT request lacked legal basis.

On January 6, 2014, the Company was notified of TCR 18209-Q-2013, which upheld the submitted Appeal. On May 12, 2014, SUNAT filed a contentious administrative action against the aforementioned TCR, which was declared inadmissible by the Superior court, thus our appeal was upheld. However, the Supreme Court declared the appeal filed by SUNAT as having legal basis, and consequently ordered the judge of first instance to re-qualify the lawsuit. As such, the court admitted the lawsuit for processing. Currently, a date has been scheduled for the Oral Hearing, prior to the issuance of the first instance sentence, for October 15, 2020.

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 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 notified Coercive 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 with the aim of the Court ordering the coercive executor to return the amounts paid. On July 3, 2014, the Tax Court communicated Tax Court Resolution 03249-Q-2014, in which it declared the complaints filed to be baseless, stating that according to the law, SUNAT, by means of Coercive 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 of the amounts requested is inadmissible. As we did not agree with the adjudication, on February 19, 2015, appeals were filed. On May 9 and June 25, 2019, we were notified of Tax Court Resolutions that provide for the revocation of the appealed intendancy resolutions (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.

As Tax Court Resolution No. 13365-3-2013 was not in accordance with the law, on November 19, 2013, the Company filed a contentious-administrative claim against SUNAT and the Tax Court, requesting the partial nullity of Tax Court Resolution No. 13365-3-2013 to uphold the modifications for: (1) the balance in favor of previous fiscal years and, (2) the sale of the Nortel analog network. On March 23, 2015, a first instance judgment that declared the claim unfounded was issued. This ruling was confirmed by the Superior Court (3 votes against, and 1 in favor). On July 24, 2018, the hearing of the case hearing was held in the Supreme Court, and the notification of the final resolution is 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) Protective action derived from IR 2000-2001 -

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

Indeed, SUNAT by means of Intendancy Resolution No. 0150190000041 decided to continue the collection of Determination Resolutions Nos. 0120030008377, 0120030008382, 0120030008383, 0120030008378, 0120030008388, 0120030008380, 0120030008385, 0120030008312, 0120030008386, 0120030008379, 0120030008387, 0120030008384 and 0120030008381, and Fine Resolutions Nos. 0120020008152, 0120020008160, 0120020008157, 0120020008161,

0120020008150, 0120020008154, 0120020008158, 0120020008162, 0120020008151, 0120020008155 and 0120020008159, for the sum of S/ 2,163,333,920 (updated as of 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 interest accrued in the time lapse in excess of the adjudication's legal term. By means of the amparo protection, the Company is questioning the interest accrued during the time in which the Tax Court has exceeded the deadline for resolving the abovementioned IR appeal, which continues to increase.

On December 26, 2013, the Court declared the submissions as baseless. Consequently, both the Tax Court and SUNAT appealed the decision. On April 7, 2014, the lawsuit was declared inadmissible because it considers that there is an equally satisfactory way to address the question, referring to the processes in which the Company questions the IR 2000-2001 appeals. On May 22, 2015, the Superior Court declared the ruling null and ordered the Court to issue a new ruling on the submission of failure to exhaust the administrative remedy. The same was declared unfounded. On December 14, 2015, the court declared the lawsuit as inadmissible. Said judgment was revoked by the Superior Court, declaring the exception founded and everything undertaken as null. In view of this, a constitutional appeal was filed on August 29, 2016. On January 23, 2017, the case was referred to the First Chamber of the Constitutional Court. On June 15, 2020, we requested that a date be scheduled for the hearing before the Plenary. The appointment of Manuel Miranda Canales as rapporteur has been downloaded into the Constitutional Court system.

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

(e) Payments on Account for year 2000:

The TC by means of Tax Court Resolution No. 17133-8-2010, notified on December 30, 2010 (and later clarified by Tax Court Resolution No. 16430-8-2011, notified on October 13, 2011) finalized the administrative procedure corresponding to Payments on account of the aforementioned fiscal year.

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

The Company, on November 28, 2011, filed an appeal before the TC 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.

The Company, on November 12, 2012, 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 make the determination of the debit 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.

On April 1, 2013, the Company received notice of Intendancy Resolution No. 0150150001202, by means of which, SUNAT complied with the Tax Court provisions.

When considering that the aforementioned Adjudication does not comply with the provisions of the Tax Court, on April 19, 2013, the Company filed an appeal. On March 16, 2015, the Company was notified with Tax Court Resolution No. 02569-11-2015, by means of which it was adjudicated that SUNAT may modify the balance for the year 1999, despite being subject to the statute of limitations.

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.

In view of the fact that Tax Court Resolution 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, requesting the annulment of the aforementioned Tax Court Resolution with respect to the alleged compliance to the provisions of Tax Court Resolution No. 06671-11-2012 of May 3, 2012, regarding the income tax balance for 1999, which must be applied for payments on account of the income tax of year 2000. On October 20, 2015, the Court declared the lawsuit unfounded.

On January 17, 2017, the judgment revoked the judgment of first instance and declared it partially founded. On July 24, 2018, the hearing took place in the Supreme Court. On March 6, 2020, the votes of the supreme justices were notified, with no definitive judgment being reached. Three justices deemed the Company's claim was unfounded, one justice voted for the nullity of the ruling issued by the Superior Court, and one justice voted for the nullity of the first instance ruling. To date, the appointment of a deciding justice and the corresponding Oral Hearing scheduling are still pending.

In addition, on July 16, 2015, the Company filed a precautionary measure, which was declared inadmissible by the first and second instances. As the judgment is favorable to the interests of the Company, on January 31, 2017, a new innovative precautionary measure was requested, which was granted temporarily, thus suspending the effects of Tax Court Resolution No. 2569-11-2015. On February 12, 2020, we attached the renewal of the surety letter for the amount of S/41,150,268 corresponding to the period 2020-2021, whose granting is currently pending. 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.

(f) Amparo protection action derived from the IR 2000-2001 Account Payments

On July 3, 2013, the Company filed a request for amparo 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 Intendancy 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 procedures, 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 controversy.

The non-exhaustion of the administrative proceeding was protected and thus the proceedings were concluded. Said decision was appealed by means of TDP and on June 27, 2014, the nullity of Resolution No. 13 was declared and the decision was revoked, thus declaring the exception of non-exhaustion of the administrative proceedings without basis and ordering the proceedings to continue. On November 12, 2014, a first instance judgment was issued that partially declared the lawsuit founded, which was subsequently revoked by the Superior Court and who declared the Amparo Protection 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. On November 11, 2019, the full hearing was held, with the vote pending. According to the webpage of the Constitutional Court, José Luis Sardón de Taboada has been appointed as rapporteur.

On February 19, 2015, we requested a precautionary measure ordering the suspension of the collection of late payment interest, recognized in the ruling of first instance. The said precautionary measure was rejected in the first and second instance, deeming that there is no danger in the delay. It should be noted that on October 15, 2018, the Constitutional Court declared the appeal filed by the Company against the second instance judgment as inadmissible.

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

(g) 2002 Fiscal year -

The Tax Court, by means of Tax Court Resolution 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 objection related to the exchange difference considering that this is an accounting result to which the principle of causality is not applied; (2) revoked the objection 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. In this regard, SUNAT, dated June 18, 2014, issued a request seeking information which the Company filed on September 17, 2014; (3) with respect to the DCP, confirmed a part of the modification, 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) recognized as valid collection management only the termination notifications, 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, in 2002 can be deducted for being greater than 12 months. Likewise, the Tax Court confirmed 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 Tax Court Resolution No. 04831-9-2012 insofar as it confirms 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. On July 7, 2015, the court declared the claim baseless, which was declared null by the Superior Court. On November 12, 2018, the ruling that the lawsuit was justified on various grounds was communicated. On July 5, 2019, the Company was 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 May 11, 2020, the appeals filed by the parties were declared admissible. To date, it is pending the completion of the hearing scheduled for December

1, 2020.

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 is remote. Furthermore, we consider that the qualification of the contingency of the challenges referring to i) the requested deductions and ii) the expenses without supporting documentation (Pan American underwater cable), is possible.

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 response to the foregoing, the Company made the payment corresponding to the determination made by SUNAT, except for the case related to the General Sales Tax of 2001 (in which the Tax Court ruled in favor of the Company). Regarding the General Sales Tax for 2002, by means of Tax Court Resolution No. 04831-9-2012, the Tax Court confirmed the appeals made for this matter.

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 probable.

III. Income Tax withholdings of non-residents -

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 resolutions that declared the claims presented by the Company to be unfounded and, therefore, it has annulled the determination and fine resolutions for these matters. SUNAT challenged these decisions in the courts by means of five proceedings for the years 1999 - 2000 (merged into in a single process), 2001, 2002, 2003 and 2004. To date, the five proceedings have concluded unfavorably to the interests of the Company. In response to the fact that the rulings issued by the Supreme Court have violated constitutional rights, the Company initiated five amparo protection processes to question said rulings.

Regarding the 2002 financial year, on October 6, 2020, the judgment of first instance was notified that the claim for protection filed by the Company was deemed unfounded, considering that the constitutional rights demanded have not been violated. On October 9, 2020, the corresponding appeal was filed.

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 is still to be submitted to the Superior Chamber. On September 25, 2020, the Surety Letter was presented for the amount of S/ 9,500,000 corresponding to the period 2020-2021, pending the renewal of the injunction bond.

In the opinion of management and its legal advisors, we believe that the probability of success of the amparo protection process is possible.

Insofar as the 2004 financial year, 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, the compliance to the Tax Court Resolution was notified (as ordered by the Supreme Court).

Disputing the Tax Court compliance resolution, on November 14, 2019, the Company initiated a new administrative contentious process. The claim is based on the fact that the Tax Court failed to rule on two arguments presented by the Company at the administrative headquarters and that these

were not questioned by SUNAT when it adjudged on the controversy. On December 31, 2019, the Court admitted our lawsuit and on April 22, 2020, the responses of SUNAT and the TC were notified, as well as the exception of failure to exhaust the administrative procedure filed by SUNAT. To date, the programming of the Oral Hearing is still pending.

In view of the fact that the supreme resolution contained vices that affect the constitutional rights of the Company, an amparo protection process was initiated. On October 12, 2018, the claim was admitted for processing. On February 8, 2019 and February 14, 2019, the Tax Court and SUNAT respectively responded to the lawsuit; these have been answered by the Company. On September 10, 2019, the Oral Hearing was heard in the first instance. The ruling is still pending.

On August 16, 2019, Tax Court Resolution No. 07066-2-2019 corresponding to IRND - 2004 was received. By means of 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 confirmed. Furthermore, the Tax Court revoked six (6) Fine Resolutions under the argument of *reformatio in peius*.

Subsequently, payment of the amount of S/ 24,864,916.00 was made. Additionally, on October 29, 2019, we filed an appeal against Intendancy Resolution No. 0150600000143, notified on October 7, 2019, by means of which the provisions of the Tax Court are complied with.

In the opinion of management and its legal advisors, we believe that the probability of success of both processes is possible.

Insofar as the 2003 Fiscal year, on February 4, 2019, notification of the ruling was received, via which the cassation appeal filed by the tax administration was declared justified. On June 3, 2019, the Company received notification via a Tax Court Resolution (as ordered by the Supreme Court).

On July 9, 2019, the Company paid the amount of S/ 11,212,971, considering the default interest as of that date as a fine.

The Company initiated a new administrative contentious process against the Tax Court compliance resolution 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. On October 16, 2019, the hearing of the case was carried out in the second instance and the inadmissibility of the claim was declared void. On December 4, 2019, the file entered the Court, which was admitted for processing. Notification on the responses from SUNAT and the TF is still pending.

It should be noted that, on June 26, 2019, we submitted a precautionary measure in the aforementioned process aimed at suspending the effects of the resolution of the administrative contentious process. On September 10, 2019, it was rejected because the claim was declared inadmissible.

In view of the fact that the supreme resolution contained vices that affect the constitutional rights of the Company, an amparo protection proceeding was initiated. Unlike the other two processes initiated by the Company in the periods 2002 and 2004, said proceeding incorporates and furthered the arguments on the application of Legislative Decree No. 1120 and Supreme Decree No. 22-2017-MTC. On May 29, 2019, the claim was admitted for processing. On August 19, 2020, the Oral Hearing was carried out. A judgment is still pending.

In the opinion of management and its legal advisors, we believe that the probability of success of both processes is possible.

In regards to the 1999-2000 financial period, on August 28, 2019, the Company was notified with the supreme resolution that ruled against the interests of the Company. On November 14, 2019, the Tax Court issued the Tax Court compliance resolution, pursuant to which on November 26 the Company paid the sum of S/187,614,698 corresponding to the 1999 financial year, while for the 2000 financial year the sum of S/30,913,192 was paid.

On February 5, 2020, the Company judicially questioned the aforementioned TCR on compliance via a new administrative contentious process because the TCR is null for having violated due administrative procedure. On April 28, 2020, we were notified with the exception of res judicata filed by SUNAT and the lawsuit response from SUNAT and TC. The objection presented was declared inadmissible. To date, the scheduling of the Oral Hearing is still pending.

In parallel, as the supreme resolution ordering the issuance of the TCR on compliance contains vices that affect the Company's constitutional rights, an amparo protection process has been initiated. On October 28, 2019, the lawsuit was admitted. SUNAT is yet to respond to the lawsuit.

In the opinion of management and its legal advisors, we believe that the probability of success of the amparo protection process is possible. Regarding the 2001 financial year, on November 22, 2019, the resolution that declared the SUNAT claim as founded was communicated. On February 24, 2020, the Tax Court issued the compliance TCR, the same that we are questioning in court. On June 17, 2020, the administrative contentious complaint filed against the compliance TCR was admitted for processing. On July 29, 2020, SUNAT's res judicata exception and the TF's reply were notified. To date, the scheduling of the Oral Hearing is still pending.

On March 6, 2020, the amount of S/ 12,982,365 was paid, considering the default interest as of that date.

In response to the fact that the supreme resolution contained vices that affect the constitutional rights of the Company, an amparo protection process was initiated. The same was admitted for processing on March 11, 2020, and is now awaiting a response from SUNAT.

In the opinion of management and its legal advisors, we believe that the probability of success of the amparo protection process is possible.

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

The Intendancy Resolutions ruling on the claims submitted for the years 2003 to 2010 by the Company were notified by SUNAT between 2008 and 2017. In disagreement with that adjudicated by SUNAT, appeals were filed that must be ruled on 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 the 2004 financial year (the Court ruling was notified on November 14, 2018), so we are thus waiting for a new settlement.

Regarding Income Tax and General Sales Tax for the 2003 financial year, on January 25, 2019, Tax Court Resolution No. 10820-4-2018 was communicated, ordering SUNAT to carry out a new settlement after revoking the following challenges: i) excess depreciation for difference in computable cost, ii) amortization of training and maintenance, iii) expenses without reliable supporting documentation, iv) IR and IGV 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 claim submitted by the Company was admitted for processing. On August 19, 2019, the Court considered the lawsuit filed by the Company and the Tax Court. The scheduling of the oral submission in the first instance is still pending.

In the opinion of Management and its legal advisors, we consider that the qualification of the contingency of this process is reasonably remote.

Furthermore, on April 14, 2019, we were notified of a contentious administrative claim filed by

SUNAT against Tax Court Resolution No. 10820-4-2018, whereby the appeals adjudicated in favor of the company at the administrative headquarters were challenged: i) expenses for compensation without supporting evidence, ii) DCP, iii) amortization of intangibles without supporting evidence, iv) modification of the coefficient. On November 12, 2019, the Oral Hearing was carried out in the first instance and on June 11, 2020, we were notified of the judgment that partially declared the lawsuit regarding the reparation of expenses for compensation without substantiation and amortization of intangibles. Likewise, it declared the lawsuit in relation to the DCP's appeals and modification of the coefficient to be unfounded. On June 30, 2020, the appeals filed by the parties were accepted and a hearing in the case was scheduled for November 19, 2020.

In the opinion of Management and its legal advisors, we consider that the qualification of the contingency of this process is reasonably remote.

TDP disputes the nullity of the Tax Court Resolution No. 1858-1-2019 by means of which the IR No. 0150140013079 is confirmed thus declaring the claim made against RD Nos. 012-003-0072541 to 012-003-0072552 and RM Nos. 012-002-0028443 to 012-002-0028454 as unfounded, and which were issued for the IGV from January to December 2010, and for the commission of the infraction typified by section 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 rules, iii) violation of the principle of legal certainty, iv) contravention of the provisions of article three of the Preliminary Title of the Tax Code and fifth article of the Preliminary Title of the Law of the General Administrative Procedure, 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. To date, the Court of first instance is yet to schedule an Oral Hearing date prior to the issuance of the ruling.

It should be noted that, on October 2, 2020, judgment No. 556/2020 of the Constitutional Court was downloaded, which declared as unfounded the claim of unconstitutionality of the First Transitory Complementary Provision of LD No. 1421 that modified the Tax Code, extending the scope of a rule that had come into effect in 2012, regulating new statutes of limitations to collect the debt. In view of this, this criterion will be applied in the processes and procedures in process initiated by the taxpayers.

In the opinion of Management and its legal advisors, we consider that the qualification of the contingency of this process is reasonably remote.

Furthermore, the TDP disputes the nullity of the Tax Court Resolution No. 7453-4-2019, questioning the IGV of the year 2009, and challenging the following appeals: (i) statute of limitations of the period of commencement of the faculty of collection, and (ii) excess of recreational expenses. On January 16, 2020, the lawsuit was filed, and the same was admitted on March 9, 2020. On May 23 we were notified with SUNAT's response. To date, the Court of first instance is yet to schedule an Oral Hearing date prior to the issuance of the ruling.

In the opinion of Management and its legal advisors, we consider that the qualification of the contingency of this process is reasonably remote.

It should be noted that we were notified with Coercive Execution Resolution No. 011-006- 0059149, by means of which we are requested to pay an amount of S/ 144,962, which was performed on November 6, 2019.

Finally, on December 27, 2019, we were notified with Intendancy Resolution No. 0150150002269 by means of which SUNAT complies with that indicated by the Tax Court. As we disagreed with that indicated by SUNAT, on January 20, 2020, we submitted the corresponding appeal.

Subsequently, on February 27, 2020, the file entered the Tax Court, assigned to chamber 4. Furthermore, the Oral Hearing occurred on March 13, 2020.

On September 7, 2020 we were notified with the TCR No. 04088-4-2020, which confirms Intendancy

Resolution No. 0150150002269.

Furthermore, on August 6, 2020, we were notified with Determination Resolutions and Fine Resolution for the months of March, July, August, September, November and December. It should be noted that the values for said periods were declared null by the TCR No. 07453-4-2019.

In view of this, on September 3, 2020, we filed a claim against the values mentioned in the preceding paragraph, regarding the challenge to the tax credit for imports from tax havens.

As a result of the audits of the years 2000 to 2009 on Móviles, this has been notified by SUNAT with 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 2012.

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

With regard to:

a) Tax on Revenue for the 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. As we disagreed with the decision, an appeal was submitted before the Tax Court.

The Tax Court notified Móviles on February 7, 2013, by means of TCR No. 20274-9-2012, which states that the appeal file related to the Income Tax for the year 2000 was adjudicated on. This TCR upheld the following challenges: (i) Financial charges; (ii) Provisions for doubtful collection; (iii) Over Head; (iv) Expenses re-invoiced by TDP; (v) Cellular Sales Commission; and, (vi) Voluntary Retirement Program. In addition, the Tax Court declared the nullity of the modifications 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 also revoked the modifications related to depreciation not accepted for fixed assets transferred in the equity block, and loss due to exchange differences. On July 13, 2020, the Tax Court notified us of the TCR 2275-5-2020 by which it declared null the appeal made by the Tax Administration regarding the Nortel Analogue Network. Despite this declaration of nullity, on August 3, 2020 SUNAT notified us of the Intendancy Resolution without complying with that ordered by the Tax Court. Therefore, on August 24, 2020 an appeal was filed, which is pending in the Tax Court.

Notwithstanding the foregoing, on May 6, 2013, the claim was filed against the aforementioned resolution. On February 17, 2015, the claim was declared unfounded, which was confirmed by the Superior Chamber. On July 4, 2019, the Supreme Court ruling was notified by means of which the ruling of the second instance was declared null and void regarding the challenges denominated Nortel Analog Network, Simple Reorganization and DCP. Consequently, the Superior Court of Justice of Lima is required to issue the ruling again. Regarding the challenges denominated Financial Charges and Overhead, the Supreme Court has adjudicated favorably to SUNAT. On September 30, 2019, the new hearing proceedings judgment was issued and declared that: the objections to unaccepted depreciations and DCP are unfounded, and that the objection to the withdrawal of majority shareholder assets (Red Nortel) is inadmissible. Against that resolution, on October 21, 2019, a cassation appeal was filed; the same entered the Supreme Court on December 6, 2019 and declared admissible. To date, the hearing of the case scheduled for December 3, 2020 is pending.

As the financial charges and Overhead appeals were ruled on unfavorably for the Company, the contingency was changed to probable. However, regarding Red Nortel's objections, Depreciation not accepted and DCP, the said appeals have been declared null and void. As such, according to the analysis carried out, and as per with the evaluation of the external advisers, the contingency is

remote.

b) Income Tax and General Sales Tax for 2001 tax year -

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

The Tax Court notified Móviles on January 20, 2017, with Tax Court Resolution No. 11549-2-2016, by means of which the appeal file was adjudicated. This TCR upheld the challenged objections, with the exception of (i) Management fee; and, (ii) amortization of intangibles, which overruled. Likewise, the Tax Court 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. On August 18, 2020, we were notified of the Intendancy Resolution that complies with that ordered by the Tax Court. As we are not satisfied with that stated in said resolution, on September 8, 2020 we filed an appeal, which is pending in the Tax Court.

Without prejudicing the foregoing, on April 19, 2017, the Company filed an administrative claim against the aforementioned resolution. 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 October 14, 2019, the Court declared the resolution of first instance void. As such, the Court is still yet to re-issue a ruling. To date, the oral hearing for November 20, 2020 is still pending.

In the opinion of the Management, and its legal advisors, there are legal arguments that demonstrate that the contingency should be modified to probable, to the extent of the adjudication by the Supreme Court in the contentious administrative proceedings of the 2000-2001 fiscal year of TDP and the 2000 fiscal year of MT regarding the objections to Overhead and Carveout.

On the other hand, SUNAT has also questioned the Tax Court Resolution in court. On May 3, the ruling that declared the claim founded and was declared null by the Superior Chamber on December 7, 2018. On April 9, 2019, the ruling of first instance was communicated, stating that the Tax Court Resolution was partially justified and partially invalid. The Tax Court was thus ordered to issue a new resolution, confirming Intendancy Resolution No. 0150140006682 insofar as to the objections 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 January 24, 2020, the discord hearing was held, to the extent that two superior judges voted for the ruling to be upheld, and one voting that the ruling be revoked. On March 3, 2020, the second instance judgment was notified, which declared SUNAT's claim founded in all its aspects. On May 19, 2020, we filed a cassation appeal against the aforementioned judgment. On September 8, 2020, the file entered the Supreme Court, and the scheduling of the admissibility qualification hearing is still pending.

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

c) Income Tax and General Sales Tax for 2002 tax year -

On October 23, 2008, SUNAT issued a Intendancy Resolution adjudicating the claim presented by Móviles for the Income Tax and General Sales Tax for the 2002 fiscal year. As we disagreed with the decision, an appeal was submitted before the Tax Court.

The Tax Court notified Móviles on September 15, 2017, with Tax Court Resolution No. 12003-8-2016, by means of which the appeal file was determined. This Tax Court resolution mainly challenged the following: (i) management fee; and, (ii) amortization of intangibles; likewise, it declared the nullity of a part of the modification for the DCP and ordered a new review of the

modification related to the financial interest (carveout).

On December 15, 2017, the Company filed a contentious administrative claim for the confirmed challenges. On October 24, 2019, the Oral submission was carried out in the first instance. The judgment is still pending.

In the opinion of management and its legal advisors, the qualification of this process must be classified as reasonably remote.

Furthermore, we have initiated an amparo protection action by means of which we seek to stop computing the interest that exceeds the legal deadlines that the administration has to determine the objections and fines of the 2002 fiscal year income tax. On January 20, 2020, we were notified with the judgment of first instance that declared the claim filed by the Company partially founded, stating that there is a violation of the reasonable period. The same that has been the subject of clarification at the request of SUNAT. To date, the admission of the appeals filed by the parties is still pending.

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 January 30, 2018, the Company was notified of a contentious administrative claim filed by SUNAT regarding the objections overruled by the Tax Court. On September 3, 2020, the new judgment of the first instance once again declared SUNAT's claim founded in all its aspects. To date, the scheduling of the hearing of the second instance case is pending.

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

On October 24, 2018, SUNAT challenged Tax Court Resolution No. 05108-1-2018 by means of which the request for a refund filed by TDP was declared inadmissible. The aforementioned claim was admitted on October 31, 2018. On December 24, 2019, we were notified with the first instance judgment that upheld declared SUNAT's lawsuit. On August 24, 2020, the second instance judgment that declared SUNAT's claim as inadmissible was notified, revoking the decision in the first instance. On September 18, 2020, the file entered the Supreme Court, and the scheduling of the admissibility qualification hearing is still pending.

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

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

On August 29, 2009, SUNAT issued an Intendancy Resolution ruling on the claim submitted by Móviles for the Income Tax and General Sales Tax for the 2004 fiscal year. As we disagreed with the decision, an appeal was submitted before the Tax Court.

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

Regarding the objections that were sustained 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, Tax Court Resolution No. 10997-1-2017 was challenged in court. On March 11, 2019, the ruling of first instance was deemed invalid regarding the claim on the objections 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 the appeal concerning the coefficient of payments on account as inadmissible. Additionally, the questioning of the capitalization of interest for the period between December 25, 2006 and March 15, 2007 was declared invalid.

On August 27, 2019, the hearing decision upheld the lawsuit for the appeal to the DCP, however, only insofar as the telephone billing. In this regard, on September 17 and 18, 2019, the parties filed cassation appeals, which were submitted to the Supreme Court on September 23, 2019. The scheduling of the qualification hearing is 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 reasonably remote.

Furthermore, on February 14, 2020, we were notified with TCR No. 10982-9-2019, which ruled that the objection to financial expenses by contract of granting a line of credit be maintained, while the objection to financial expenses by mutual agreement must be ruled upon by virtue of that indicated in TCR No. 10997-1-2017, as cited above.

Consequently, on February 27, 2020 we were notified with Coercive Execution Resolution No. 01100-0059983, which requests us to pay the amount of S/ 3,052,111, the payment for which was undertaken on March 04, 2020.

On March 12, 2020, we were notified with a new lawsuit from SUNAT which focusses on the partial nullity of the Tax Court Resolution indicated in the previous paragraph insofar as said Resolution ordered the revocation of IR No. 0150140009010 in relation to the objection to the tax credit for "Financial expenses by mutual contract" (Carveout) in the Determination Resolutions and related Fine Resolutions. The TC and the Company have responded to SUNAT's request and filed an exception for failure to exhaust the administrative channel. To date, a decision on the exceptions is still pending, as is scheduling of the corresponding Oral Hearing.

On April 23, 2018, SUNAT made a legal challenge to TCR No. 10997-1-2017, questioning the following appeals: 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 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 July 27, 2019, the hearing judgment upheld the SUNAT claim in terms of the objection to the Carveout, and overruled the objections to the DCP and coefficient modification. Consequently, we filed a cassation appeal against the unfavorable objection on August 5, 2019. On September 3, 2020, the hearing of the case was held in the Supreme Court, and the notification of the supreme resolution is 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 reasonably remote.

Furthermore, we have initiated an amparo protection action by means of which we seek to stop computing the interest that exceeds the legal deadlines that the administration has to determine the objections and fines of 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 January 10, 2020, we were notified with the judgment of first instance that declared the lawsuit filed by the Company partially founded, stating that there is a violation of the reasonable period. On January 15, 2020, we filed an appeal against said judgment, which was granted on October 1, 2020, with the hearing of the case pending the scheduling of the oral hearing.

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

e) General Sales Tax from 2003 to 2010 and Income Tax from 2003 to 2010 tax periods -

As a result of the audits of the tax years 2000 to 2009 on Móviles, this has been notified by SUNAT with 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 deliver the corresponding resolutions in accordance with the legal regulations in force in Peru and, in others, it has proceeded to pay the assessments received.

TM challenges Tax Court Resolution No. 5018-1-2019 through which the IR of 2003 is discussed, challenging the following objections: (i) objection to account 634003 "Maintenance and repair of equipment and cabins", (ii) objection to account 635001 "Office real estate leasing", (iii) objection to depreciation and/or amortization of assets, (iv) Dismissal of questioning of the carry-over loss, (v) Dismissal of recognition of payments made against IRs on IGV February and March 2003, (vi) Improper calculation of default interest, (vii) Objections to expense accounts 621002 and (viii) Inapplicability of interest due to justified delay. The claim was filed on October 30, 2019 and admitted on November 11, 2019. Currently, the Oral Hearing in the first instance has been scheduled for January 19, 2021.

TM challenges TCR No 7639-9-2010 through which the GST for the year 2010 is disputed insofar as the following objections: (i) Statute of limitations regarding the period of commencement of the power of collection of RD 012-003-0076597 to 012-003-0076608 and RM 012-002-0029133, (ii) Excess recreational expenses that are not deductible according to Income Tax rules. On December 23, 2019, a lawsuit was filed, which was granted on May 7, 2020. On June 19, 2020, SUNAT submitted its response to the TC. To date, the re-scheduling of the Oral Hearing in the first instance is 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.

Furthermore, on January 10, 2010, we were notified of a SUNAT claim questioning the objections to: (i) Management fee, (ii) Expenses for management services and business management advice, (iii) Intangibles deducted and not paid for the 2003 period, (iv) DCP, (v) Financial expenses recorded in accounts 637110 and 671110; (vi) Loss of exchange difference from forward contract and mutual contract, (vi) Recovery of DCP, (vii) Modification of the coefficient applicable to payments on account, (ix) Objection to the tax credit for management expenses and business management advice, (x) Objection to the tax credit for reimbursement of interest expenses, ruled on by the Tax Court in Tax Court Resolution No. 6575-10-2019. On January 24, 2020, we submitted our response to the lawsuit. To date, Oral Hearing has been rescheduled in the first instance for January 21, 2021.

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.

Additionally, TM disputes the invalidity of Tax Court Resolution No. 6575-10-2019 by means of which the 2003 IR and GST are disputed in the following appeals: (i) Depreciation of the cost of assets and assets without documentary support, (ii) DCP, (iii) Loss of exchange difference, (iv) Fines related to these objections, and (v) Default interest. On February 7, 2020, the lawsuit was filed and subsequently admitted on February 13, 2020. On June 17, 2020, the Court received a complete response for the lawsuit from SUNAT and the TC. To date, the re-scheduling of the Oral Hearing in the first instance is still pending.

Regarding the 2009 fiscal year, on February 27, 2020, we were notified with TCR No. 12147-4-2019. On this occasion, the Tax Court ordered the following objections not be contemplated: (i) Expenses accrued during the fiscal year billed and/or received late, (ii) Roaming services supported by payment vouchers received late, and (iii) Deduction not accepted for non-operations accrued in accordance with IAS, while maintaining the following appeals: (i) unsubstantiated credit notes linked to the Peruvian Pacific - Switzerland Cia - others, (ii) Expenses for ITF that does not comply with the principle of causation, and, in addition, (iii) Incidence of objections made in TM S.A.C. for depreciation of fixed assets. On May 27, 2020, we filed an administrative contentious claim against the aforementioned resolution, which is pending processing. To date, the exception of lack of exhaustion of the administrative remedies presented by SUNAT is pending resolution, as is the scheduling of the Oral Hearing in the first instance.

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, regarding the 2004 fiscal year, Telefónica Móviles disputes the partial nullity of TCR 10982-9-2019 to the extent that it decided to revoke IR No. 0150140009010 in relation to the following matters: (i) Inadmissibility of reconsideration appeals 012- 003-0019178 and 012-003-0019180; (ii) Tax credit linked to the Expenses Recorded for the Award Contract of the credit line (S/ 51,072.00); and (iii) Default interest. On May 24, 2020, we filed an administrative contentious lawsuit, which has been admitted for processing. To date, the re-scheduling of the Oral Hearing in the first instance is 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.

Furthermore, we were notified with the RTF No. 02663-1-2020 that declares the appeal unfounded insofar as the request on the statute of limitations; and, in addition, upholds the Resolution of Intendancy regarding the objections to the tax credit for excess recreational expenses. 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.

Finally, for fiscal year 2005, we were notified with the TCR No. 01849-1-2020 that resolves: (i) maintain the objection and uphold the appeal regarding the unaccepted depreciation expenses related to the cost of works in progress and other assets fixed assets transferred by TDP, (ii) declare the nullity of the value and that appealed insofar as that the objection was not pertinent to the sample, (iii) overrule the value insofar as that interconnection expenses originating from calls with cards prepayment 147 and (iv) revoke that appealed insofar as payments on account.

From the analysis carried out and ratified by the legal opinion of the external advisers in charge of the process, we consider that these objections should be classified as remote, except for the cost of unsubstantiated assets and the provision for doubtful collections, which have been qualified in part as possible.

f) Mobile royalties -

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

As a consequence of the MTC's claim to apply the General Regime, the Company proceeded to: (i) file a complaint before the MTC arguing that the Special Regime was the one that legally applied; and (ii) submit a complaint to 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. Likewise, for the years 2015 and 2016, the Company filed claims before the MTC, which are awaiting a ruling by the Tax Court.

The claim of Bureaucratic Barriers was decided 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 inapplicable for Telefónica. This determination applies not only for the year 2012, but 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. The payment corresponding to the year 2015 was not made as a precautionary measure was obtained in the procedure of Bureaucratic Barriers, while no payment was made either for year 2016 as a consequence of the definitive determination from INDECOPI.

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, 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, specifying in the requirement that if the payment is not made within the term granted the respective coercive collection actions would proceed.

On January 27, 2017, the Company responded to the aforementioned requirement stating that (i) as of that date, it had not been notified of any precautionary measure; (ii) it had not been notified with any INDECOPI resolution that ordered the suspension of the effects of its determination; and (iii) pursuant to the provisions of Articles 136 and 115 of the Tax Code, Article 16, subparagraph e) of the Coercive Enforcement Procedure Act, and paragraph 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 submitted, 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 starting a procedure of loss of concession, Telefónica proceeded to pay the 2015 and 2016 periods for amounts amounting to S/ 50,787,968 and S/ 52,107,136.

On September 24, 2020, the Supreme Court declared the MTC's cassation appeal founded, and, consequently, the judgment of the Superior Court was overruled. As such, the Superior Court will have to issue a new sentence. To date, the file is in the Superior Court. The scheduling of the hearing of the case is still pending.

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

g) Income tax Telefónica Multimedia 2007, 2010, 2012, 2013, and 2014

As a result of the audits of the financial years 2007, 2010, 2012, 2013, and 2014, this has been notified by SUNAT with various resolutions for alleged omissions regarding income tax.

In some cases, Multimedia 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 the 0025997. The main objection made by SUNAT corresponds to the expenses that are supported with documentation that were received after the submission of the sworn statement. Disagreeing with the stipulations of the Determination and Fine Resolutions, the Subsidiary filed a Claim Appeal. Meanwhile, on January 22, 2016, SUNAT communicated Intendence Resolution No. 0150140012250, by means of which the aforementioned Claim Appeal was declared unfounded. As such, an appeal was filed with the TC, which was resolved through TCR 3752-3-2020, notified on September 7, 2020. In this resolution, the Court overrules the main objection related to the expenses that are substantiated with vouchers received after the sworn statement. Regarding the remaining objections, these were upheld and we are awaiting SUNAT to comply.

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, any favorable result derived from the aforementioned tax proceedings will not have a significant impact on the Company's consolidated financial statements.

Furthermore, TCR No. 149-4-2019 is disputed as it upholds IR No. 0150140014378 that declares the claim made against payment orders No. 011-001-0123981 to 011-0123989 drawn for IR account payments from January to July, October and December 2014 as unfounded. On April 24, 2019, the lawsuit was filed. On August 20, 2020, the Oral Hearing was carried out. The decision of first instance is pending.

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.

Furthermore, for the fiscal year 2010, the Tax Administration issued securities through which it questions the amount of S/ 5,784,119 for not having the respective payment receipt on the date of presentation of the IR Affidavit of the year as these were received and registered after that date. It also states that the deductions of expenses for S/ 1,869,353, made via the affidavit, were not accounted for in 2010 and, therefore, had not accrued in this fiscal year.

As the aforementioned challenges do not comply with the law, on September 15, 2014, a Complaint was filed, which was declared unfounded by Intendancy Resolution No. 0150140011644. As we were not satisfied with the resolution, on December 29, 2014, the corresponding appeal was filed. Said appeal was adjudicated on by TCR No. 09878-4-2019 which revoked the Intendancy Resolution mentioned above and, in addition, permits the request to reimburse the amount paid.

In relation to the proceedings detailed above, as of September 30, 2020, as explained in notes 2.20 and 2.21, the Company recorded the required provisions, with an estimated amount of S/ 723,064,000 (S/ 724,941,000 as of December 31, 2019) held as possible contingents. See note 21. Management and its legal advisors estimate that the individual outcome of the claims should not have a significant impact on the Group's consolidated financial statements.

In the same way, the Company has several legal, (labor and administrative) regulatory, and customs lawsuits that are being undertaken by its external and internal legal advisors. As of September 30, 2020, as explained in note 2.19, the Company has recorded the necessary provisions, an amount of S/ 690,239,000 (S/ 648,979,000 as of December 31, 2019) as possible contingents. See note 22. Management and its legal advisors estimate that the individual outcome of the claims should not have a significant impact on the Group's consolidated financial statements.

34 SUBSEQUENT EVENTS

Between September 30, 2020 and the date of approval of the consolidated financial statements, there were 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.