

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2021 AND AS OF DECEMBER 31, 2020

Consolidated balance sheet

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

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

	As of September 30 2021	As of December 31 2020
	S/000	S/000
Trade Accounts Receivable, Net (Note 7)	1,000,924	1,168,348
Contractual Assets (Note 9)	<u>21,237</u>	<u>39,016</u>
	<u><u>1,022,161</u></u>	<u><u>1,207,364</u></u>

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

	As of September 30 2021	As of December 31 2020
	S/000	S/000
Trade Accounts Receivable, Net (Note 7)	1,441	503
Contractual Assets (Note 9)	<u>1,585</u>	<u>4,461</u>
	<u><u>3,026</u></u>	<u><u>4,964</u></u>

- The code 1D0317, short-term "Deferred income" includes:

	As of September 30 2021	As of December 31 2020
	S/000	S/000
Deferred Income (Note 22)	38,025	29,277
Contractual Liabilities (Note 9)	<u>174,270</u>	<u>149,664</u>
	<u><u>212,295</u></u>	<u><u>178,941</u></u>

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

	As of September 30 2021	As of December 31 2020
	S/000	S/000
Deferred Income (Note 22)	71,636	81,359
Contractual Liabilities (Note 9)	<u>82,088</u>	<u>59,669</u>
	<u><u>153,724</u></u>	<u><u>141,028</u></u>

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

	As of 30 September 2021	As of 31 December 2020
	S/000	S/000
Property, Plant, and Equipment (Note 13)	5,132,904	5,567,517
Right-of-Use Assets (Note 15)	<u>883,816</u>	<u>953,798</u>
	<u><u>6,016,720</u></u>	<u><u>6,521,315</u></u>

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

	As of September 30 2021	As of December 31 2020
	S/000	S/000
Financial Obligations (Note 17)	380,600	153,762
Financial Lease Liabilities (Note 18)	315,737	336,268
	<u>696,337</u>	<u>490,030</u>

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

	As of 30 September 2021	As of 31 December 2020
	S/000	S/000
Financial Obligations (Note 17)	2,718,819	2,943,715
Financial Lease Liabilities (Note 18)	814,460	790,481
	<u>3,533,279</u>	<u>3,734,196</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 2021	As of September 30 2020
	S/000	S/000
Fixed Business Income (Note 26)	2,627,081	2,703,763
Mobile Business Income (Note 27)	2,579,487	2,198,015
Total	<u>5,206,568</u>	<u>4,901,788</u>

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

	As of September 30 2021	As of September 30 2020
	S/000	S/000
General and Administrative Expenses (Note 28)	3,109,077	3,023,143
Equipment Sales Cost (Note 10 (b))	893,080	604,833
Depreciation (Note 13)	694,942	750,462
Personnel Expenses (Note 29)	541,736	480,101
Amortization (Note 14)	194,083	236,585
Depreciation of Rights-of-Use (Note 15)	156,315	152,060
Total	<u>5,589,233</u>	<u>5,247,184</u>

	As of September 30 2021	As of September 30 2020
	S/000	S/000
Administrative Expenses (2D0301)	5,518,627	5,187,585
Selling and Distribution Expenses (2D0302)	70,606	59,599
Total	<u>5,589,233</u>	<u>5,247,184</u>

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES

NOTES ON CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2021 AND AS OF DECEMBER 31, 2020

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 Hispanoamérica S.A. (a company incorporated in Spain and formerly known as Latin America Cellular Holding B.V.) 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 subsidiary included in the consolidated financial statements as of September 30, 2021 is as follows:

- Servicios Globales de Telecomunicaciones S.A.C. that is dedicated to the commercialization of public telephony services to stores, convenience stores and similar establishments and, of which the Company maintains a 99.90 percent market share.

As of December 31, 2020, it merged with Servicios Globales de Telecomunicaciones S.A.C., PangeaCo S.A.C., and Telefónica Cloud Tech Perú S.A.C. See Note 1.3(a).

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

	As of September 30 2021 S/000	As of December 31 2020 S/000
Servicios Globales de Telecomunicaciones S.A.C.		
Assets	10,658	17,159
Liabilities	13,491	14,856
Net Equity	(2,833)	2,303
Net Loss	(5,136)	(3,353)

	As of September 30 <u>2021</u> S/000	As of December 31 <u>2020</u> S/000
PangeaCo S.A.C.		
Assets	-	45
Net equity	-	45
Telefónica Cloud Tech Perú S.A.C., Note 1.3(a)		
Assets	-	50
Net Equity	-	50

1.2 Approval of consolidated financial statements -

The consolidated financial statements as of December 31, 2020 were approved by the General Shareholders Meeting held on March 26, 2021. The consolidated financial statements as of September 30, 2021 were approved by the Board of Directors on October 26, 2021.

1.3 Corporate reorganization -

a) Assignment of equity block in favor of Telefónica Cloud Tech Perú S.A.C. (TCTP) and sale -

In 2020, the Company incorporated Telefónica Cloud Tech Perú S.A.C. (TCTP) with a cash contribution of S/ 50,000 for 99.99% of the shares.

Subsequently, on December 23, 2020, the Company's General Shareholders Meeting approved the simple reorganization in favor of TCTP of an equity block made up of assets and liabilities related to the cloud technology services business. The equity block was transferred on January 1, 2021 and was composed as follows:

	January 1 <u>2021</u> S/ 000
Assets	
Accounts Receivable from Staff	20
Other Non-Financial Assets	221
Property, Plant, and Equipment, Net	25,350
Intangible Assets Other than Capital Gains, Net	3,646
Deferred Tax Assets	935
Total Assets	<u>30,172</u>
Liabilities	
Accounts payable to Staff	234
Total Liabilities	<u>234</u>
Equity Block Contributed	<u><u>29,938</u></u>

On January 1, 2021, the Company sold its total stake in TCTP to Telefónica Cybersecurity & Cloud Tech Perú S.A.C. for S/ 41,941,000, thereby obtaining a profit of S/ 11,953,000. See Note 30(e).

b) Assignment of equity block in favor of Telefónica Cybersecurity & Cloud Tech Perú S.A.C. (TCCTP) and sale -

On July 3, 2020, the Company completed the TCCTP constitution process with a cash contribution of S/ 50,000 for 99.99% of the shares.

Subsequently, on September 30, 2020, the General Shareholders Meeting of the Company approved the simple reorganization in favor of TCCTP of an equity block of S/ 30,292,000 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 Assets	943
Total Assets	<u>47,264</u>
Liabilities	
Accounts Payable to Staff	360
Financial Lease Liabilities	16,612
Total Liabilities	<u>16,972</u>
Equity Block Contributed	<u><u>30,292</u></u>

On October 1, 2020, Telefónica Ingeniería de Seguridad S.A.C. contributed an equity block to TCCTP equivalent to S/ 4,483,000. After these contributions, the Company's share in TCCTP was diluted to 75%.

On that date, the Company sold its total stake in TCCTP to Telefónica Cybersecurity Tech, S.L. (a non-domiciled company) for S/ 47,565,000, obtaining a profit of S/ 17,223,000. See Note 30(e)

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, 2021 and December 31, 2020, the main concession contracts that were maintained are as follows:

Services	Location	Ministerial Resolution	Term	Start	Expiration
Fixed and LD	Lima, Callao & Provinces	272-99-MTC / 15.03	20 years + renewed term	1994	2027
Mobiles	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
Mobiles	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 for some of the concession agreements, the Company has extended guarantees for US \$60,470,000 up to a term of approximately 10 years by means of current guarantee letters with various banking entities.

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) Tariffs -

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 an annual Productivity Factor as a reference point. For the period September 2019 to August 2022, the annual Productivity Factor was set at -2.43 percent. If inflation is in the range of between -1.43 percent to -3.43 percent, the Group will not make tariff adjustments.

The application of the Virtual Mobile Area (a single national cell area) in 2010 to all domestic long-distance to cell phone calls, including those originating from public telephones, have been eliminated and for which only local rates apply.

Furthermore, Resolution No. 021-2015-CD/OSIPTEL approved the value of the price caps 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 rate system, the establishment of the rates for local landline-mobile calls corresponding to the concessionary companies of the Landline Telephony Service. By means of Resolution No. 160-2011-CD/OSIPTEL, an adjustment to the fixed-mobile rate is made each time adjustments are made to any of the charges that

make up said rate. The rate excluding the general sales tax is S/ 0.0006 per second, as of February 9, 2019.

2 DETAIL OF MAIN ACCOUNTING POLICIES

The main accounting principles and practices 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 respectively effective as of September 30, 2021 and as of December 31, 2020.

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 where 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 judgment or complexity, or those in which the assumptions and estimates are significant for the consolidated financial statements, are described in note 4.

2.2 Consolidation -

The consolidated financial statements are comprised of the Group's financial statements as at September 30, 2021 and December 31, 2020.

a) Subsidiaries

Subsidiaries are the entities over which the Group has control. Control is achieved when the Group is exposed to, or has the rights to, the variable returns from its involvement in the investee company, and has the ability to influence the returns through its power over the investee company. The 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.

Unrealized transactions, balances, and earnings with subsidiaries are eliminated. Profits or losses resulting from transactions between related parties that are recognized in any asset item have also been eliminated. The accounting policies of the subsidiaries, if required, have been modified to ensure uniformity with the policies adopted by the Group.

As of September 30, 2021, the Company maintains a subsidiary, Servicios Globales de Telecomunicaciones S.A.C., as of December 31, 2020, it maintains three subsidiaries, Servicios Globales de Telecomunicaciones S.A.C., PangeaCo S.A.C., and Telefónica Cloud Tech Perú S.A.C.

2.3 New standards, modifications, and interpretations -

a) New standards and amendments to standards and interpretations adopted by the Group in 2021 -

The following accounting standards (IFRS), amendments to standards and interpretations are effective as of January 1, 2020, and have not had an impact on the consolidated financial statements of the Group, for the 2020 period or for the 2021 period:

- **Amendments to IAS 1 and IAS 8 - Definition of materiality -**

The amendments provide a new definition of "materiality", as information whose omission due to error or obstruction is reasonably expected to influence the decision-making of the primary users of the financial statements. The amendments clarify that materiality will depend on the nature or magnitude of the information, individually or aggregated with other information, in the context of the financial statements.

- **Modifications to IFRS 3 - Definition of Business -**

The amendments provide a new definition of business that requires an acquisition to include at least one input and one substantive process that together significantly contribute to the ability to create products. The definition of the term "products" has been modified to focus on goods and services provided to customers, generating investment income and other income, and excludes returns in the form of lower costs, savings, and other economic benefits.

- **Amendments to IFRS 7, IFRS 9, and IAS 39 - Reform of the benchmark interest rate -**

The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments, and IAS 39 Financial Instruments: Recognition and Measurement provide certain exemptions in relation to the benchmark interest rate reforms. The exemptions relate to hedge accounting and imply that the amendments should not generally cause the termination of hedge accounting. However, any ineffectiveness of the hedge will continue to be recorded in the income statement.

- **Modifications to the Financial Reporting Conceptual Framework -**

The revised conceptual framework includes some new concepts and definitions, as well as criteria for the recognition of assets and liabilities, and clarifies some concepts. In particular, the IASB has issued a revised Conceptual Framework to be used for standard-setting decisions with immediate effect. The key changes include:

- (i) Increase the importance of administration in the objective of financial information.
- (ii) Restore prudence as a component of neutrality.
- (iii) Define a reporting entity, which may be a legal entity, or a part of an entity.
- (iv) Review the definitions of an asset and a liability.
- (v) Eliminate the probability threshold for recognition and add guidance on derecognition.
- (vi) Add guides on different measurement bases, and
- (vii) Establish that profit or loss is the main indicator of performance and that, in principle, income and expenses in other comprehensive income should be recycled when this improves the relevance or faithful representation of the financial statements.

These modifications had no impact on the consolidated financial statements and are not expected to have future impacts on the Group.

- Amendment to IFRS 16 "Leases" - Covid-19 related to rentals -

This amendment was issued on May 28, 2020, is applicable for annual periods beginning on June 1, 2020 and provides an exemption in relation to the accounting process of modification of lease contracts under IFRS 16, to lessees who obtain modifications of lease contracts in the context of Covid-19 "payment holidays" and the extension of lease payments.

The application of this amendment did not have a significant impact on the Group's consolidated financial statements as of September 30, 2021.

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

The following standards, amendments to standards and interpretations have been published and apply to periods beginning after the presentation date of these financial statements, and have not been adopted in advance:

- Amendment to IAS 1: Classification of Liabilities as Current or Non-Current -

The amendments to IAS 1, Presentation of Financial Statements, clarify that liabilities are classified as current or non-current, depending on the rights that exist at the end of the reporting period. The classification is not affected by the entity's expectations or events subsequent to the reporting date (for example, the receipt of a waiver or the breach of an agreement).

The amendments also clarify what IAS 1 means when it refers to the "settlement" of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine the classification, and for some liabilities that may be converted to equity.

The amendments should be applied retrospectively in accordance with the normal requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In May 2020, the IASB issued a Standard Proposal proposing to postpone the effective date of the amendments until January 1, 2023. The modifications are effective for the annual periods reported on or after January 1, 2023 and must be applied retrospectively.

- Amendment to IAS 16 - Property, Plant, and Equipment: Product before use -

In May 2020, the International Accounting Standards Board issued the amendment Property, Plant and Equipment: Product before intended use, which prohibited entities from deducting from the cost of an item of Property, Plant, and Equipment any proceeds from the sale of articles produced while taking such assets to the location, and the conditions required for the item to operate in the manner intended by management. Instead, an entity must recognize the proceeds from the sale of those items, and the costs of production associated with those items, in profit or loss.

The amendments are effective for the annual periods reported on or after January 1, 2023 and must be applied retrospectively to items of property, plant, and equipment made available for use on or after the beginning of the first period presented when the entity applied the amendment for the first time.

- Amendments to IFRS 3 - Reference to the Conceptual Framework -

Minor amendments were made to IFRS 3, Business Combinations, to update the references to the

Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities, and Contingent Assets, and of the interpretation of IFRIC 21 Levies.

The amendments also confirm that contingent assets should not be recognized on the acquisition date.

The modification will be effective for the annual periods reported on or after January 1, 2022.

- Onerous Contracts - Cost of fulfilling a contract - Amendments to IAS 37 -

In May 2020, the International Accounting Standards Board issued amendments to IAS 37 to specify what cost an entity needs to include when evaluating whether a contract is onerous or loss making.

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to the fulfillment of the contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on the assets used to fulfill the contract.

The modification is applicable to the annual periods reported on or after January 1, 2022.

- Annual improvements to IFRS 2018-2020 Cycle -

As part of its 2018-2020 annual enhancements to the IFRS standard process, in May 2020 the International Accounting Standards Board issued the following amendments:

- (i) IFRS 9 Financial Instruments - clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- (ii) IFRS 16 Leases - amendment of illustrative example 13 to remove the illustration of lessor payments related to lease improvements, to eliminate any confusion about the accounting of lease incentives.
- (iii) IFRS 1 First-time adoption of international financial reporting standards allows entities, which have measured their assets and liabilities at the book values recorded in the books of their parent company, to also measure any accumulated translation differences using the amounts reported by the parent company. This modification will also apply to associates and joint ventures that are subject to the same exception from IFRS 1.

The modifications will be effective for the annual periods reported beginning on or after January 1, 2022 with early adoption permitted.

- Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture -

The IASB has made modifications of limited scope to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures."

The amendments clarify the accounting process of asset sales or contributions of assets between an investor and its associates or joint ventures. They further confirm that the accounting process will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business" (as defined in IFRS 3 "Business Combinations").

When non-monetary assets constitute a business, the investor shall recognize the total profit or loss from the sale or contribution of the assets. If the assets do not meet the definition of a business, the profit or loss is recognized by the investor only in proportion to the investment of the other investors of the associated joint venture. These modifications will be applied prospectively.

In December 2015 the IASB decided to postpone the application date of this amendment until its research project on the equity method has been completed.

The amendments will be effective for the annual periods reported on or after January 1, 2023 and must be applied retrospectively to items of property, plant, and, equipment made available for use on or after the beginning of the first period presented when the entity applied the amendment for the first time.

The Group is currently evaluating the impact that these modifications or amendments may have on current practice.

2.4 Operating Segments -

An operating segment is a group of assets and operations that provide goods or services, and that is subject to significant risks and returns different to the risks and returns of other business segments. A geographical segment is characterized by providing goods or services within a particular economic environment that is subject to risks and returns different to those segments that operate in other economic environments. The Group is organized into a single operational segment for the provision of telecommunications services located in a single geographic segment (Peru), as the Group makes strategic commercial, financial, purchasing, and investment decisions focused on the customer, and that furthermore center 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 dates of the transactions. Monetary assets and liabilities denominated in foreign currency are subsequently adjusted to the functional currency using the exchange rate in effect on the date of the consolidated statement of financial position.

Profit or losses from exchange differences resulting from the settlement of said 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 "Net Profit/(Loss) due to Exchange Difference", in the consolidated income statement, with the exception of exchange differences of operations in foreign currency with cash flow hedges, which are directly recorded in equity until their disposal, at which time they are recognized in the consolidated income statement. Non-monetary assets and liabilities determined in foreign currency are converted to the functional currency at the prevailing exchange rate on the transaction date.

2.6 Business combinations between entities under common control -

Business combinations between entities under common control are recorded using the method of interest unification.

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

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

2.7 Cash and Cash Equivalents -

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

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

2.8 Financial Assets -

(i) Classification -

The Group classifies its financial assets in the following categories:

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

The classification depends on the business model that the entity uses to manage its financial assets and the contractual terms that impact the cash flows. For assets measured at fair value, profits and losses will be recorded in 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 undertakes reclassifications of its debt instruments if its business model for the management of these assets changes.

(ii) Recognition and derecognition -

Purchases and sales of financial assets are recognized on the trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments expire or are transferred and the 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 profit and loss.

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

Debt Instruments -

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

- Amortized cost: Applicable to assets whose business model is to collect contractual cash flows, provided that these cash flows only represent capital and interest payments. The interest generated by these financial assets is recognized as financial income using the effective interest method. Any profit or loss arising from derecognizing this type of financial asset is recognized in profit or loss. Impairment losses are presented in a separate line item in the consolidated income statement.

- Fair value through other comprehensive income (FVOCI): Applicable to assets whose business model is mixed, i.e., 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 carrying 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 income statement under the heading "Net profit/(loss) due to exchange differences", while the impairment losses are also recognized in the consolidated income statement 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 FVOCI are measured at fair value through profit or loss. Changes in the fair value of debt instruments in this category are recognized as profit or loss in the consolidated income statement and presented net in the item "Other expenses (income)" in the period in which the change occurs.

Equity Instruments -

Subsequent to 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 the consolidated income statement (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 FVOCI, when the asset is derecognised, 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 -

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

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

2.9 Derivative Financial Instruments and Hedge Accounting -

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

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

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

The total fair value of a hedging derivative is classified as a non-current asset or liability if the time remaining to maturity of the hedged item is more than 12 months, and as a current asset or liability if the time remaining to maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in the other equity reserves 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 the comprehensive income statement 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 asset cost. Deferred amounts are ultimately recognized in income as the hedged item also affects the results (for example, on the sale of inventories).
- Profits or losses related to the effective portion of interest rate *swap contracts* that cover variable rate loans are recognized in income under "Financial expenses" at the same time as the interest on hedged loan is recognized.

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

When a hedging instrument expires, is sold, terminated, or when a hedge fails to meet the criteria for applying hedge accounting, any accumulated equity profit or loss or any deferred hedge cost on equity until that time shall remain in equity until the expected transaction occurs, which will result in the recognition of a non-financial asset, such as inventories. When a forecasted transaction is not expected to occur, the accumulated profit or loss and any deferred hedging costs that were reported in equity are immediately transferred to 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, 2021 and December 31, 2020, 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 handsets, 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, handsets are 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 turnover of handsets, materials and supplies. In the case of damaged equipment and those which have had 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 purchase taxes, and any directly attributable cost to place and leave the asset in working condition.

The cost of the asset also includes the present value of the disbursements that are expected to be required to pay any cost of decommissioning and removal of equipment or rehabilitation of the physical site where it is established. The foregoing is applied when the disbursements constitute obligations incurred under certain conditions (See Note 2.20). The cost may also include equity transfers of any profit or loss in the hedges of cash flows qualified 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.

In the same way, when a large inspection or repair is carried out, the cost is recognized as a replacement in the carrying amount for property, plant, and equipment, if the criteria for recognition are met.

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

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 decognized at the time of its sale or when it is not expected to obtain future profit by means of its use or sale. Any profit or loss at the time of asset derecognition (calculated as the difference between the net income from the sale of the asset and its book 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 profit, 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.

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

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

2.12 Intangible Assets and Administrative Concessions -

Intangible assets are initially recorded at cost. An asset is recognized as intangible if the attributable future economic benefits that it generates are likely to flow to the Group, and its cost can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment loss. See 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 profit,
- The required technical, financial, and other resources are available to complete the development of the software, thus permitting its use or sale.

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

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

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

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

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

2.13 Capital Gains -

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 Group determines the losses on the basis of impairment tests carried out during the last quarter of each year in order to determine whether the book value is fully recoverable.

2.14 Impairment of Long-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 any such indications, the Group estimates the recoverable value of the asset, which is the higher of fair value (less costs to sell) or of the value in use. Said value in use is determined by discounting the estimated future cash flows. When the recoverable value of an asset is below its net book value, it is considered that there is a 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 evaluating the recoverable value. When said value is less than its carrying value, an impairment loss is recognized. Impairment losses related to capital gain can not 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, 2021 and December 31, 2020, the pre-tax discount rate used was 12.64% (equivalent to an after-tax rate of 8.91%).

When new events or changes in existing circumstances take place and that demonstrate an impairment loss recorded in an earlier period that may have disappeared or been reduced, the Group undertakes a new estimate of the profitability for the corresponding asset. This evaluation is performed each financial year. Previously recognized impairment losses are reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset from the date on which the impairment loss was last recognized. If this is the case, the book value of the asset is increased to its recoverable amount. This increased amount can not exceed the book 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 16 for further information.

2.15 Investments in Associates -

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 20 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 20 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 likely that part or all of the facility will be withdrawn. In this case, the rate is postponed until the withdrawal occurs. To the extent that there is no evidence that part or all of the facility is likely to be withdrawn, the rate is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

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

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

2.18 Financing Costs -

The financing costs directly attributable to the acquisition, construction or production of an eligible asset that necessarily presents a considerable period of preparation to be available for use or sale are capitalized as part of the cost of the respective asset.

All additional financing costs are recognized as an expense in the period in which they occur. The financing costs are constituted by interest and other costs that the entity incurs in connection with the financed funds.

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

As at September 30, 2021 and December 31, 2020, the Group does not have assets in progress qualifying for the purpose of capitalizing financing costs.

2.19 Staff Benefits -

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

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 long service

The compensation for time of service of the Group's staff corresponds to their compensation rights calculated in accordance with the legislation in force, which must be deposited in the bank accounts designated by the workers in the months of May and November of each year.

The compensation for time of service is equivalent to half the monthly remuneration in force on the date of deposit. The Group has no additional payment obligations once it makes the annual deposits of the funds to which the employee is entitled.

Annual leave

Staff annual leave and other paid absences are recognized on an accrual basis. The provision for the estimated annual leave obligation for personnel, which is calculated on the basis of a monthly salary for every twelve (12) months of services rendered by staff, 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 the 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 judgement, and supplemented by experience gained in similar transactions and, in some cases, reports from experts. The evidence to be considered includes any additional data provided by events after the closing of the consolidated statement of financial position.

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

Decommissioning -

The Group records the present value of the estimated costs of the legal and implicit obligations required to pay the costs of decommissioning and removal of equipment or the rehabilitation of the physical site where it is established in the period in which the obligation is incurred.

Decommissioning costs are presented at the present value of the expected costs to settle the obligation, using estimated cash flows, and are recognized as a constituent part of asset costs. See Note 2.11. Cash flows are discounted at the pre-tax risk-free market rate that reflects the specific risks of the decommissioning liability.

The accrual of the discount is recorded as an expense as it is incurred and is recognized in the consolidated income statement as a financial cost. The estimated future decommissioning costs are reviewed annually and adjusted, as appropriate, on an annual basis. Changes in estimated future costs or in the applied discount rate are added to or deducted from the cost of the related asset, 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 those involved; the main locations affected; the location, function, and approximate number of employees that will be compensated; the disbursements that will be carried out; and the dates on which the plan will be implemented.

In addition to that detailed in the plan, there must be a valid prospect produced among those affected, either by having begun to implement the plan or by announcing its main features to them.

2.21 Income tax -

Current Income Tax -

Current assets and liabilities, 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 amount. 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. They are 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 from 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 book 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 makes it possible to recover the same deferred tax assets which were previously unrecognized.

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

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

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

2.22 Government Grants -

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

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

2.23 Issued Capital -

Common shares are classified in equity.

2.24 Recognition of Income, Costs, and Expenses -

The Group's revenues come mainly from the provision of the following telecommunication services: traffic, connection, and installation fees, periodic fees for the use of the network, interconnection and rental of networks and equipment, as well as for the provision of internet and 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 the traffic that will not be consumed and is imputed to the consolidated income statement, based on traffic consumed.

Connection and Installation Fees -

Revenue from connection and installation fees, originating from 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.

Periodic Fees for Network Use -

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

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 the calls.

Sale of Equipment -

Revenue from the sale of goods (mobile handset equipment) is recognized when the signal from the handsets is activated and transferred to the end customer.

Bundled services -

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

Revenues from the sale of modems and decoders, as they are essential elements for service provision, are recognized as internet and television services, respectively, throughout the average life of the customer, accruing the cost of the equipment delivered in the same period. As they are elements that can be used independently from contracting the service, landline sales revenue is recognized when the equipment is transferred to the final customer and the signal is activated. Fixed telephony, internet and television services are recognized on a straight-line basis for the duration of the contract.

To the extent that 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 equipment and terminals and the amount received from the customer at the start of the contract is shown as a contractual asset in the consolidated statement of financial position, which will be recovered over the term of the contract with the customer.

The costs that can be finally activated, will be amortized in a systematic and consistent manner upon the transfer of the goods to the customer, 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 occur, and are recorded in the periods to which they are related.

2.25 Leases -

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.

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 maintains a significant volume of lease agreements as the lessee of various assets, mainly: towers, office and store buildings, and land where own towers are located. These leases accrue at an interest rate as described in Note 18(c).

The Group as Lessee -

The standard requires the leaseholder 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.

The Group as the Lessor -

Leases in which the Group substantially retains all the risks and benefits inherent to the ownership of the leased assets are classified as operating leases. The initial direct costs incurred in negotiating and contracting the operating lease are added to the carrying 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 can not 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 Group's shareholders approve the dividends.

2.28 Fair Value Measurements -

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

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

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

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

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

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

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

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

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

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

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 arising 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) Board of Directors -

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

ii) Finance -

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

iii) Internal Audit -

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

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

(b) Risk mitigation -

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

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

Credit Risk -

Credit risk is the risk that a counterparty does not comply with its obligations stipulated in a financial instrument or contract, thus causing a loss. The Group is exposed to credit risk due to its operating activities, mainly in terms of its accounts receivable and financial activities, including its deposits in banks and transactions with derivatives, and other financial instruments.

Credit risk arises from cash and cash equivalents, contractual cash flows from equity investments accounted for at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss, favorable derivative financial instruments, and deposits in banks and financial institutions, as well as credit exposures to wholesale and retail customers, including any outstanding accounts receivable.

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

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

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

	<u>Not impaired</u> <u>S/000</u>	<u>Impaired</u> <u>S/000</u>	<u>Total</u> <u>S/000</u>
As of September 30, 2021			
Unexpired	657,148	32,978	690,126
Expired			
Up to 1 month	171,614	62,354	233,968
From 1 to 3 months	84,825	85,960	170,785
From 3 to 6 months	63,984	104,760	168,744
From 6 to 12 months	16,960	282,158	299,118
More than 12 months	7,834	4,837,697	4,845,531
Total	<u>1,002,365</u>	<u>5,405,907</u>	<u>6,408,272</u>
As of December 31, 2020			
Not matured	648,729	28,058	676,787
Expired			
Up to 1 month	169,700	49,841	219,541
From 1 to 3 months	167,963	88,003	255,966
From 3 to 6 months	109,784	165,396	275,180
From 6 to 12 months	72,675	313,353	386,028
More than 12 months	-	4,415,531	4,415,531
Total	<u>1,168,851</u>	<u>5,060,182</u>	<u>6,229,033</u>

Consequently, according to Management's opinion, there are no significant concentrations of credit risk as of September 30, 2021 and December 31, 2020.

As at September 30, 2021, the Group's Management estimated that the maximum net amount of credit risk to which the Group is exposed amounts to approximately S/1,234,870,000 (S/1,430,422,000 as at December 31, 2020), which represents the net book value of accounts receivable and other financial assets.

Market Risk -

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

The sensitivity analyzes in the following sections refer to positions for the nine-month periods ended September 30, 2021 and 2020. Furthermore, they are based on the net amount of debt, the ratio of fixed interest rates, and the position of instruments in foreign currency remaining constant. The sensitivities in the consolidated profit or loss statement are the effect of the changes assumed in the respective market risk. This is based on financial assets and liabilities held as at September 30, 2021 and December 31, 2020, 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 at September 30, 2021, the weighted average free market exchange rates for transactions in US dollars were S/ 4.132 per US \$1 purchasing and S/ 4.136 for US \$1 selling (S/ 3.618 per US \$1 purchasing and S/ 3.624 for US \$1 selling at December 31, 2020) and for transactions in Euros, the rates were S/ 4.730

for €1 purchasing and S/ 5.138 for €1 selling (S/ 4.446 for €1 purchasing and S/ 4.906 for €1 selling as at December 31, 2020), respectively.

The result of maintaining balances in foreign currency for the Group for the three-month periods ended September 30, 2021 and 2020, was a net profit/(loss) of approximately S/ 12,654,000 and S/ 12,955,000, respectively, which are presented in the item "Net Exchange Differences" of the consolidated income statement. See Note 31.

As at September 30, 2021 and December 31, 2020, the Group had the following assets and liabilities in foreign currency:

	As of September 30, 2021		As of December 31, 2020	
	US \$000	Euros000	US\$000	Euros000
Assets -				
Cash and Cash Equivalents	17,991	-	2,996	-
Trade Accounts Receivable, Net	50,357	5,536	76,088	5,412
Other Accounts Receivable, Net	24,693	-	32,487	-
	<u>93,041</u>	<u>5,536</u>	<u>111,571</u>	<u>5,412</u>
Liabilities -				
Bank overdraft	-	(174)	-	(178)
Financial Lease Liability	(95,111)	-	(77,285)	-
Trade Accounts Payable	(213,466)	(8,871)	(208,524)	(13,728)
Other Accounts Payable	(27,009)	(-)	(36,938)	(-)
	<u>(335,586)</u>	<u>(9,045)</u>	<u>(322,747)</u>	<u>(13,906)</u>
Purchase position of derivatives (baseline)	<u>253,328</u>	<u>3,336</u>	<u>212,845</u>	<u>8,503</u>
Monetary Position, Net	<u><u>10,783</u></u>	<u><u>(173)</u></u>	<u><u>1,669</u></u>	<u><u>9</u></u>

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

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

Sensitivity analysis	Change in rates Change %	Effect on results before consolidated taxes	
		As of September 30 2021	As of September 30 2020
Devaluation -			
Dollars	5	2,228	498
Dollars	10	4,456	996
Revaluation -			
Dollars	5 (	2,228)	(498)
Dollars	10 (	4,456)	(996)

Sensitivity analysis	Change in rates Change %	Effect on results before consolidated taxes	
		As of September 30 2021	As of September 30 2020
Devaluation -			
Euros	5	(44)	(12)
Euro	10	(89)	(24)
Revaluation -			
Euros	5	44	12
Euros	10	89	24

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

ii) Interest Rate Risk -

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

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

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

	Rate variable (*) S/000	Fixed rate S/000	No interest S/000	Total S/000	Interest rate average %
As of September 30, 2021					
Financial Assets					
Cash and Cash Equivalents	954,602	-	-	954,602	0.59
Trade Accounts Receivable, Net	-	345,217	657,148	1,002,365	0.81
Contractual Assets	-	-	22,822	22,822	-
Other Accounts Receivable, Net	-	-	216,211	216,211	-
Financial Liabilities					
Other Financial Liabilities	711,217	2,388,202	-	3,099,419	6.42
Financial Lease Liability	315,737	814,460	-	1,130,197	4.20
Trade Accounts Payable	-	-	1,907,788	1,907,788	-
Other Accounts Payable to Related Entities	-	-	8,734	8,734	-
Other Accounts Payable	-	-	32,342	32,342	-
As of December 31, 2020					
Financial Assets					
Cash and Cash Equivalents	876,784	-	-	876,784	0.03
Trade Accounts Receivable, Net	-	520,122	648,729	1,168,851	0.98
Contractual Assets	-	-	43,477	43,477	-
Other Accounts Receivable, Net	-	-	237,909	237,909	-
Financial Liabilities					
Other Financial Liabilities	462,976	2,626,575	7,926	3,097,477	6.42
Financial Lease Liability	336,268	790,481	-	1,126,749	3.52
Trade Accounts Payable	-	-	1,706,080	1,706,080	-
Other Accounts Payable to Related Entities	-	-	7,873	7,873	-
Other Accounts Payable	-	-	55,456	55,456	-

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

Shown below is the consolidated profit or loss income statement's sensitivity, which is due to the possible effect of changes in the interest rate on financial expenses for the period, before income tax, assuming that the financial liabilities at September 30, 2021 and 2020 will be renewed at the end, and will be maintained for the rest of the following year:

<u>Changes in Basis Points</u>	<u>Effect on Separate Results</u>	
	<u>Before Taxes</u>	
	<u>As of</u>	<u>As of</u>
	<u>September 30</u>	<u>September 30</u>
	<u>2021</u>	<u>2020</u>
+(-)50	(-)+ (271)	(-)+ 1,628
+(-)100	(-)+ (543)	(-)+ 3,255
+(-)200	(-)+(1,085)	(-)+ 6,511

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

iii) Liquidity Risk -

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 negative working capital generated mainly by provisions for contingencies classified as short term, whose execution depends on the resolution of various instances. See Note 32(b). Additionally, as of September 30, 2021, the Group maintains available credit lines for US \$270,269,000. Furthermore, the Group recorded a net loss in 2020 and 2019 due to high sector competition. 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. The foregoing takes into account that the Group has a solid share in fixed services.

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

	Less than 3 months S/000	3 to 12 months S/000	1 to 5 years S/000	More than 5 years S/000	Total S/000
As of September 30, 2021					
Other Financial Liabilities					
Amortization of Capital	48,299	249,592	1,753,340	1,048,465	3,099,696
Flow from Interest Payments	88,857	105,281	597,154	70,925	862,217
Financial Lease Liability	78,934	236,803	620,888	193,572	1,130,197
Trade Accounts Payable	1,907,788	-	-	-	1,907,788
Other Accounts Payable to Related Entities	5,544	-	3,190	-	8,734
Other Accounts Payable	<u>32,342</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,342</u>
Total Flows from Liabilities	<u>2,161,764</u>	<u>591,676</u>	<u>2,974,572</u>	<u>1,312,962</u>	<u>7,040,974</u>
As of December 31, 2020					
Other Financial Liabilities					
Amortization of capital	-	103,231	1,426,730	1,607,029	3,136,990
Flow from Interest Payments	8,576	186,465	648,215	123,423	966,679
Financial Lease Liability	49,935	286,333	557,201	233,280	1,126,749
Trade Accounts Payable	1,706,080	-	-	-	1,706,080
Other Accounts Payable to Related Entities	5,284	-	2,589	-	7,873
Other Accounts Payable	<u>55,456</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,456</u>
Total Flows from Liabilities	<u>1,825,331</u>	<u>576,029</u>	<u>2,634,735</u>	<u>1,963,732</u>	<u>6,999,827</u>

The table above does not included any contingency provisions as their execution is subject to the resolution of various instances per that described in Note 32(b). Furthermore, the table does not include hedging financial derivatives because Management considers that such contracts are effectively settled on a net basis. Consequently, the flow of the hedge derivatives and the reconciliation of the amounts equivalent to the accounting values of the discounted net flow generated by these instruments are presented below:

	Less than 3 months S/000	3 to 12 months S/000	1 to 5 years S/000	More than 5 years S/000	Total S/000
As of September 30, 2021					
Income	1,125,476	77,424	-	-	1,202,900
Expenses	(1,109,516)	(77,646)	-	-	(1,187,162)
Net Cash Flow	<u>15,960</u>	<u>(222)</u>	<u>-</u>	<u>-</u>	<u>15,738</u>
Discounted Net Cash Flow	<u>17,159</u>	<u>274</u>	<u>-</u>	<u>-</u>	<u>17,433</u>
As of December 31, 2020					
Income	1,055,243	2,979	-	-	1,058,222
Expenses	(1,041,490)	(2,959)	-	-	(1,044,449)
Net Cash Flow	<u>13,753</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>13,773</u>
Discounted Net Cash Flow	<u>13,970</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u>13,995</u>

3.2 Capital Risk Management -

The Group actively manages a capital base to hedge the risks inherent to its activities. The capital adequacy of the Group is monitored using, among other measures, the 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 undertaking 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 at September 30, 2021 and December 31, 2020, the consolidated leverage indicator was as follows:

	As of September 30 2021 S/000	As of December 31 2020 S/000
Total indebtedness	6,457,053	6,341,356
Less: Cash and Cash Equivalents	(961,476)	(876,784)
Net Debt (A)	5,502,451	5,464,572
Total Equity (B)	3,055,774	4,061,063
Leverage ratio (A/B)	1.80	1.35

As of September 30, 2021 and December 31, 2020, 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:

	Quote price of market assets Level 1 S/000	Significant observable variables Level 2 S/000	Significant unobservable variables Level 3 S/000	Total S/000
As of September 30, 2021				
Financial Assets -				
Derivative financial instruments:				
Foreign currency forward	-	17,433	-	17,433
Total financial assets	-	17,433	-	17,433
As of December 31, 2020				
Financial Assets -				
Derivative financial instruments:				
Foreign currency forward	-	13,995	-	13,995
Total financial assets	-	13,995	-	13,995

Level 1 -

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

Level 2 -

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

- Derivative Financial Instruments -

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

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

The adjustment for credit valuation is applied to "over-the-counter" derivative exposures to take into account the risk of default of the counterparty when measuring the fair value of the derivative.

A credit valuation adjustment is the cost of protection at the market price required to hedge the credit risk of the counterparty in this type of derivative portfolio. The credit valuation adjustment is calculated by multiplying the probability of default, the default value of loss, and the exposure expected at the time of default.

- Debt Instruments Available for Sale -

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

Level 3 -

The financial assets included in level 3 are measured using a valuation technique (internal model), based on assumptions that are neither supported by prices of observable transactions in the current market for the same instrument, nor based on available market data. The Group does not have any level 3 instruments as at September 30, 2021 and December 31, 2020.

- 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:

	Quote price of market assets (Level 1) S/000	Significant observable variables (Level 2) S/000	Significant unobservable variables (Level 3) S/000	Fair value S/000	Book value S/000
As of September 30, 2021					
Financial Assets -					
Asset as per Derivative					
Financial Instruments	-	17,433	-	17,433	17,433
Total Financial Assets	-	17,433	-	17,433	17,433
Financial Liabilities -					
Bonds Issued and Debts					
and Loans That Accrue					
Interest	-	3,099,419	-	3,099,419	3,099,419
Financial Lease					
Liabilities	-	1,130,197	-	1,130,197	1,130,197
Other Accounts Payable to					
Related Entities	-	8,734	-	8,734	8,734
Total Financial Liabilities	-	4,238,350	-	4,238,350	4,238,350
As of December 31, 2020					
Financial Assets -					
Asset As per Derivative					
Financial Instruments	-	13,995	-	13,995	13,995
Total Financial Assets	-	13,995	-	13,995	13,995
Financial Liabilities -					
Bonds Issued and Debts					
and Loans That Accrue					
Interest	-	3,097,477	-	3,097,477	3,097,477
Financial Lease					
Liabilities	-	1,126,749	-	1,126,749	1,126,749
Other Accounts Payable to					
Related Entities	-	7,873	-	7,873	7,873
Total Financial Liabilities	-	4,232,099	-	4,232,099	4,232,099

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 book value is considered to be similar to its fair value. This assumption also applies to term deposits, savings accounts without a specific maturity and floating-rate financial instruments.

ii) Fixed Rate Financial Instruments -

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

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

4 ESTIMATES AND CRITICAL ACCOUNTING CRITERIA

The preparation of the consolidated financial statements in accordance with IFRS requires Management to make significant judgments, estimates and assumptions to determine the reported figures of assets and liabilities, the exposure of contingent assets and liabilities on the date of the consolidated financial statements, as well as the reported figures of income and expenses for the nine-month periods ending September 30, 2021 and 2020.

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.

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

- Estimation for doubtful accounts. See Notes 2.8, 3.1(b), 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 13.
- Estimate for impairment of long-term assets. See Notes 2.14, 13, 14, and 16.
- Assets and liabilities for deferred taxes. See Notes 2.21 and 24.
- Estimated accrued income. See Note 2.24.
- Provision for decommissioning. See Notes 2.11, 2.20, and 21.
- Provision for contingencies. See Notes 2.20, 21, and 32(b).
- Cash flow hedge. See Note 2.9.
- Provision for restructuring. See Notes 2.20, 20, and 29.
- Estimation of uncertainties and judgments made in relation to lease accounting. See notes 2.25, 15, and 18.

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

As a consequence of the Covid-19 virus spreading throughout the region and world, the Peruvian State declared a state of national emergency as of March 16, 2020, which has been extended until August 31, 2021, and which, among other measures, included mandatory social immobility (between March 16 and June 30, 2020), the restriction of production and commercial activities, except those considered as essential. The Group carries out its commercial activities in the telecommunications sector, which is considered a basic necessity. Even though at the beginning of the state of emergency the commercialization of the Group's offers was suspended, internet services, payment, mobile telephony, fixed telephony, interconnection, and connectivity were consistently provided and did not experience significant interruptions.

Therefore, the main impact that the Group has had is in the collection of the services provided, in addition, the Government prohibited the interruption of telecommunications services due to non-payment during the period of social immobilization, between March and June. The Group supporting the national recovery has granted since April 13, 2020, an interest-free payment plan of 6 or 12 installments for

overdue accounts that expired during this period. Furthermore, the Group has granted discounts. Although these benefits have been welcomed by customers, the expected loss due to bad debts has been readjusted based on the projections on the decline in GDP. The Group experienced an increase in credit risk during the second quarter of 2020, mainly associated with the installment plan for accounts that expired during said period. As of December 31, 2020, the estimate for doubtful collections includes possible variations in credit risk.

The Group's initial estimates of revenue growth were diminished. However, this has been partially offset by lower expenses, making better use of installed capacity, and by significant growth in the use of internet and TV. We have determined that the Group has no problems in the recovery of its investments and therefore there is no deterioration of assets. Management has been constantly monitoring this situation.

5 FINANCIAL INSTRUMENTS

(a) Financial Instruments by Category

The classification of financial instruments by category is as follows:

	As of September 30 2021 S/000	As of December 31 2020 S/000
Assets according to consolidated balance sheet		
Financial assets at amortized cost:		
- Cash and Cash Equivalents	954,602	876,784
- Trade Accounts Receivable and Other Accounts Receivable (*)	1,218,576	1,406,760
- Financial Derivative Instruments Used for Hedging	17,433	13,995
	<u>2,190,611</u>	<u>2,297,539</u>
Liabilities according to consolidated balance sheet		
Financial liabilities at amortized cost:		
- Financial Obligations	3,099,419	3,097,477
- Financial Liability for Leasing	1,130,197	1,126,749
- Trade Accounts Payable and Other Accounts Payable (*)	1,940,130	1,761,536
- Other Accounts Payable to Related Entities	8,734	7,873
	<u>6,178,480</u>	<u>5,993,635</u>

(*) Does not include advances or taxes.

The maximum exposure to credit risk as of September 30, 2021 and December 31, 2020, is the book value of each class of financial asset mentioned above.

6 CASH AND CASH EQUIVALENTS

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

	As of September 30 2021 S/000	As of December 31 2020 S/000
Fixed Funds	301	307
Current and Savings Accounts (b)	163,376	118,945
Time Deposits (c)	448,610	526,700
Trust Fund (d)	<u>342,315</u>	<u>230,832</u>
	<u>954,602</u>	<u>876,784</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 23(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 31, 2021 and December 31, 2020, these were composed of deposits in national currency in various national banks. These term deposits are remunerated at current rates in the market.
- (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. As at September 30, 2021 and December 31, 2020, the trust includes only cash.
- (e) There were no restrictions on the balances of cash and cash equivalents as at September 30, 2021 and December 31, 2020.

7 COMMERCIAL ACCOUNTS RECEIVABLE, NET

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

	As of September 30 2021 S/000	As of December 31 2020 S/000
Fixed Business Subscribers	3,114,999	2,897,256
Mobile Business Subscribers	2,222,077	2,128,191
Data and Information Technology	554,567	645,230
Distributors, Agencies, and Department Stores	144,378	144,548
Wholesale - Interconnection and Related	206,966	190,327
Correspondents, Note 23(d)	94,881	123,075
Others	<u>70,404</u>	<u>100,406</u>
	6,408,272	6,229,033
Less - Allowance for Doubtful Accounts (c)	(5,255,024)	(5,060,182)
	1,002,365	1,168,851
Less - Non-Current Portion (d)	(1,441)	(503)
Current Portion	<u>1,000,924</u>	<u>1,168,348</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 billed in US dollars. Likewise, as of September 30, 2021, as a result of the State of Emergency, the Group has financed its fixed and mobile business customers for the invoices expiring mainly between January and June 2020 for S/ 183,200,000. We granted customers interest-free payment terms of 6 or 12 months, and have thus far received S/ 115,074,000.

As of September 30, 2021, trade accounts receivable include estimates for unbilled services rendered for approximately S/66,569,000 (S/56,073,000 as at December 31, 2020). The Group Management estimates that these items will be invoiced in full in 2021.

As of September 30, 2021, the Group had approximately 1,626,000 fixed and public telephony lines in service, 4,371,000 postpaid mobile telephony lines, 1,993,000 connections in broadband service, and approximately 1,378,000 paid television accesses (1,828,000, 4,169,000, 1,912,000, and 1,384,000, respectively as at December 31, 2020).

- (c) The movement of the allowance for doubtful accounts as at September 30, 2021 and December 31, 2020, is as follows:

	As of September 30 2021 S/000	As of December 31 2020 S/000
Opening Balance	5,060,182	4,565,517
Endowment for the Period, Note 28(a)	304,841	504,411
Punishments	(36,591)	(55,934)
Net Exchange Differences	<u>77,475</u>	<u>46,188</u>
Ending balance	<u>5,405,907</u>	<u>5,060,182</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 at September 30, 2021 and December 31 2020, they include accounts receivable for financed sales of mobile handsets 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, 2021, amounts to S/ 887,000 (S/ 526,000 for the nine-month period ending September 30, 2020) and is presented in the item of "Financial income" of the consolidated statement of income. See Note 31.

- (e) In June and August 2020, the Group transferred the collection rights related to sales of financed mobile terminals to Inter-American Investment Corporation for S/ 34,166,000. This action produced a loss of S/ 542,000, and the Group was also tasked with the collection of assigned rights.

In 2020, the assignment of collection rights to customers of the Group with the Continental Bank Trust (BBVA) was made, for the amount of S/ 122,712,000, whilst retaining risks for S/ 7,926,000 as at December 31, 2020. This portion is presented as "Other financial liabilities" (See Note 17.3). The foregoing produced a loss of sales (discount) of S/ 2,314,000. The latter also tasked the Group with the collection of the assigned rights.

8 OTHER ACCOUNTS RECEIVABLE, NET

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

	As of September 30 2021 S/000	As of December 31 2020 S/000
Collection Rights for Enforcement Actions (b)	141,483	141,531
Collection Rights (c)	110,062	110,062
Grants Receivable (d)	98,395	112,002
Sale of properties	216	45,746
Loans to Staff, Note 23(f) 14,141	16,620	
Loans to Third Parties	9,760	13,645
Derivative financial instruments (g)	17,433	13,995
Others	<u>90,407</u>	<u>52,521</u>
	481,897	506,122
Less Estimation for Doubtful Accounts (f)	<u>(159,431)</u>	<u>(159,406)</u>
	322,219	346,716
Less - Non-Current Portion	<u>(100,472)</u>	<u>(65,158)</u>
Current Portion	<u><u>221,747</u></u>	<u><u>281,558</u></u>
Financial Assets Classified as		
Other accounts receivable	216,211	237,909
Non-financial assets classified as		
Other accounts receivable	<u>106,008</u>	<u>108,807</u>
	<u><u>322,219</u></u>	<u><u>346,716</u></u>

(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 is continuing with the filing of the legal actions and estimates that the seizures undertaken will be declared illegal. Likewise, based on a collectability study carried out, the respective doubtful collection estimates have been established.

(c) As of September 30, 2021 and December 31, 2020, these correspond mainly to collection rights to the Tax Administration, for payment of tax assessments (See Note 32(b)) that in the opinion of Management, and of the legal advisors, will be recovered when certain appeals filed in relation to the assessments received for income tax from previous years are resolved, as permitted by IAS 12 - "Income Tax".

The Group Management expects to recover this item in the short 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 "Comprehensive broadband 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 pending payments are presented under "Deferred income" in the consolidated statement of financial position. See Note 22.

(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 at September 30, 2021, the Group had forwards cash flow hedging contracts to reduce the exchange rate risk for disbursements of certain Opex and Capex operations, for a nominal value of US \$33,364,000 that has maturity dates during 2021. As of December 31, 2020, the hedging contracts were for US \$33, 422.00. The cash flow hedge of the expected future payments was evaluated as being highly effective. It is expected that the amounts retained in the separate statement of other comprehensive income will affect the separate profit or loss statement in each of the future periods until their maturity dates.

9 ASSETS AND LIABILITIES RELATED TO CUSTOMER CONTRACTS

The Group has recognized the following assets and liabilities related to customer contracts.

- (a) Contractual assets:

	As of September 30 2021 S/000	As of December 31 2020 S/000
Handset Sales. Note 2.24	22,822	43,477
Less - Non-Current Portion	(1,585)	(4,461)
Current Portion	<u>21,237</u>	<u>39,016</u>

- (b) Contract liabilities:

	As of September 30 2021 S/000	As of December 31 2020 S/000
Fixed and Mobile Telephony Services, Note 2.24	93,040	73,454
Deferred Installation Fee, Note 2.24	74,814	61,767
IRU Rights of Access (c)	56,694	47,168
Business Project	29,714	23,938
Others	<u>2,096</u>	<u>3,006</u>
	256,358	209,333
Less - Non-Current Portion	(82,088)	(59,669)
Current Portion	<u>174,270</u>	<u>149,664</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 2021 S/000	As of December 31 2020 S/000
Merchandise and Supplies	149,753	152,914
Inventories Receivable	<u>87,940</u>	<u>41,432</u>
	237,693	194,346
Less Estimate for Inventory Devaluation (c)	<u>(14,588)</u>	<u>(26,058)</u>
	<u><u>223,105</u></u>	<u><u>168,288</u></u>

(b) The cost of inventories sold for the nine-month period ended September 30, 2020, was approximately S/ 893,080,000 (S/ 604,833,000 for the nine-month period ending September 30, 2020) and is presented in the "Cost of equipment sales" in the consolidated income statement.

(c) The movement of the inventory devaluation estimate as at September 30, 2021 and December 31, 2020, is as follows:

	As of September 30 2021 S/000	As of December 31 2020 S/000
Opening balance	26,058	18,548
Provision (Recovery) for Impairment of Inventories, Net. Note 28	<u>(11,470)</u>	<u>7,510</u>
Final Balance	<u><u>14,588</u></u>	<u><u>26,058</u></u>

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

11 OTHER NON-FINANCIAL ASSETS

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

	As of September 30 2021 S/000	As of December 31 2020 S/000
Deferred Compliance Obligation Costs (b)	397,570	413,066
Customer Acquisition Expense (c)	213,989	116,979
Maintenance of Licenses and Computer Equipment	40,295	14,909
Annual Fee (e)	15,576	-
Advances Granted to Suppliers	21,742	7,470
Prepaid Insurance	10,930	4,769
Advance Payments for Right of Access (d)	3,283	3,581
Prepaid Advertising	2,153	2,018
Others	<u>96,752</u>	<u>67,750</u>
	802,290	630,542
Less - Non-Current Portion	<u>(321,077)</u>	<u>(263,207)</u>
Current portion	<u><u>481,213</u></u>	<u><u>367,335</u></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 at September 30, 2021 and December 31, 2020. 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 radioelectric spectrum, which is accrued during the year. During 2021, the Group has accessed a benefit of S/ 21,176,000, granted by the Mobile Royalty Law for infrastructure expansion and/or the technological improvement of the structure. The foregoing reduced the royalty for the period by committing to cover 39 new locations with 4G technology in 12 months. This coverage will be carried out through a provider, as legally permitted. Furthermore, the Company requested to pay monthly installments for the 2021 canon, which was approved by the Ministry of Transportation and Communications for 12 months. The payment plan will expire on February 28, 2022. See Note 17.2(b).

12 INVESTMENTS IN ASSOCIATED COMPANIES

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

	As of September 30 2021 S/000	As of December 31 2020 S/000
Associated companies		
Red Digital del Perú S.A.C. (b)	-	8,431
Internet Para Todos S.A.C. (c)	247,839	256,506
	<u>247,839</u>	<u>264,937</u>
Other share investments		
Wayra Perú Aceleradora de Proyectos S.A.C.	478	219
	<u>478</u>	<u>219</u>
	<u>248,317</u>	<u>265,156</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%. In 2021, the shares were sold to Movilway Perú S.A.C.
- (c) Internet para Todos S.A.C.

In 2019, the Company reached agreements with other investors, JML International Limited, which is 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 Para Todos S.A.C. (IPT) in the following manner:

Company	%
Facebook	24.67
CAF	10.33
IDB	10.33

As a result of the agreement with the partners, Telefónica del Perú diluted its share to 54.67% of the IPT shares, and the Company also lost control of the subsidiary, thereby becoming an associate.

The following table shows the summary of the main items of the associate financial statements as at September 30, 2021 and at December 31, 2020.

	As of September 30 <u>2021</u> S/000	As of December 31 <u>2020</u> S/000
Assets	617,791	521,952
Liabilities	172,054	55,224
Net Equity	445,737	466,728
Profit for the Year	(18,579)	(10,993)

- (d) The associated companies do not have contingent liabilities or capital commitments as of September 30, 2021 and December 31, 2020.

13 PROPERTIES, PLANT, AND EQUIPMENT, NET

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

	Land S/000	Buildings and other constructions S/000	Plant S/000	Equipment and other S/000	Furniture and equipment S/000	Works in Progress and units to be received (c) S/000	Total S/000
Cost							
As of January 1, 2020	114,072	1,382,674	25,148,472	1,052,752	122,495	810,386	28,630,851
Additions	-	-	-	-	-	465,610	465,610
Transfers	121	10,004	672,556	16,831	678	(700,190)	-
Transfer of Intangible Assets, Note 14(a)	-	-	-	-	-	1,700	1,700
Disposals and Sales, (c) and Note 30	(9,311)	(96,776)	(96,428)	(1,348)	(16)	(881)	(204,760)
As of December 31, 2020	104,882	1,295,902	25,724,600	1,068,235	123,157	576,625	28,893,401
Additions	-	-	-	-	-	264,881	264,881
Transfers	-	3,059	369,118	5,187	1,603	(378,967)	-
Transfer of Intangible Assets, Note 14(a)	-	-	-	-	-	24,453	24,453
Disposals and Sales, (c) and Note 30	(2,921)	(10,244)	(25,381)	(17,424)	(71)	(7,766)	(63,807)
As of September 30, 2021	<u>101,961</u>	<u>1,288,717</u>	<u>26,068,337</u>	<u>1,055,998</u>	<u>124,689</u>	<u>479,226</u>	<u>29,118,928</u>
Accumulated Depreciation							
As of January 1, 2020	-	965,492	20,380,284	983,974	113,959	-	22,443,709
Depreciation for the Period	-	55,519	908,547	38,012	2,724	-	1,004,802
Disposals and Sales, (c) and Note 30	-	(67,685)	(53,904)	(1,028)	(10)	-	(122,627)
As of December 31, 2020	-	953,326	21,234,927	1,020,958	116,673	-	23,325,884
Depreciation for the Period	-	33,867	643,548	15,824	1,703	-	694,942
Disposals and Sales, (c) and Note 30	-	(9,593)	(16,229)	(8,967)	(13)	-	(34,802)
As of September 30, 2021	<u>-</u>	<u>977,600</u>	<u>21,862,246</u>	<u>1,027,815</u>	<u>118,363</u>	<u>-</u>	<u>23,986,024</u>
Net Amount							
As of September 30, 2021	<u>101,961</u>	<u>311,117</u>	<u>4,206,091</u>	<u>28,183</u>	<u>6,326</u>	<u>479,226</u>	<u>5,132,904</u>
As of December 31, 2020	<u>104,882</u>	<u>342,576</u>	<u>4,489,673</u>	<u>47,277</u>	<u>6,484</u>	<u>576,625</u>	<u>5,567,517</u>

- (b) (c) As at September 30, 2021 and December 31, 2020, the works in progress are mainly constituted of the construction of networks and the transmission of data; as well as projects to expand coverage, improve the quality of signal reception, increase the capacity of the voice and data transmission network and software under development, which Management expects to complete in the short term.
- (c) As of September 30, 2020, the transfer of the equity Block to Telefónica Cloud Tech Peru S.A.C., and the sale of the Group's stake in it for S/ 25,350,000 are included. See Note 1.3(a). As of December 31, 2020, the transfer of the equity Block to Telefónica Cybersecurity & Cloud Tech Peru S.A.C., and the sale of the Group's stake in it for S/ 25,324,000 are included. See Note 1.3(b).
- (d) As of September 30, 2021 and December 31, 2020, Management has carried out an analysis of impairment indicators and determined that there is no impairment in the value of the assets. In Management's opinion, no estimate is required at the date of the consolidated statement of financial position.

14 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)	Software (c)	Software in development	Total
	S/000	S/000	S/000	S/000
Cost				
As of January 1, 2020	7,810,328	2,330,039	56,088	10,196,455
Additions	-	-	169,282	169,282
Transfer	-	82,605	(82,605)	-
Transfer to Works in Progress, Note 13(a)	-	-	(1,700)	(1,700)
Disposals and Sales (d)	-	(16,976)	-	(16,976)
As of December 31, 2020	7,810,328	2,395,668	141,065	10,347,061
Additions	-	-	181,380	181,380
Transfer	-	90,172	(90,172)	-
Transfer to Works in Progress, Note 13(a)	-	-	(24,453)	(24,453)
Disposals and Sales (d)	-	(8,514)	-	(8,514)
As of September 30, 2021	<u>7,810,328</u>	<u>2,477,326</u>	<u>207,820</u>	<u>10,495,474</u>
Accumulated Amortization				
As of January 1, 2020	5,981,813	2,136,595	-	8,118,408
Amortization for the Period	156,794	155,522	-	312,316
Disposals and Sales (d)	-	(11,551)	-	(11,551)
As of December 31, 2020	6,138,607	2,280,566	-	8,419,173
Amortization for the period	117,595	76,488	-	194,083
Disposals and Sales (d)	-	(4,868)	-	(4,868)
As of September 30, 2021	<u>6,256,202</u>	<u>2,352,186</u>	<u>-</u>	<u>8,608,388</u>
Net Amount				
As of September 30, 2021	<u>1,554,126</u>	<u>125,140</u>	<u>207,820</u>	<u>1,887,086</u>
As of December 31, 2020	<u>1,671,721</u>	<u>115,102</u>	<u>141,065</u>	<u>1,927,888</u>

- (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 20-year period until 2036.
- (c) The software includes the financial and accounting applications based on the SAP system as well as the network licenses corresponding to platform software that support the commercial systems. The software activated during 2021 and 2020, corresponds mainly to corporate systems for the commercial area, office applications, control equipment software, and network management, among others.
- (d) As of June 30, 2020, it includes the transfer of the equity block to Telefónica Cloud Tech Peru S.A.C., and the sale of the Group's stake in it for S/ 3,646,000. See Note 1.3(a). As of December 31, 2020, the transfer of the equity Block to Telefónica Cybersecurity & Cloud Tech Peru S.A.C., and the sale of the Group's stake in it for S/ 5,424,000 are included. See Note 1.3(b).
- (e) As of September 30, 2021 and December 31, 2020, Management has carried out an analysis of impairment indicators and determined that there is no impairment in the value of the assets. In Management's opinion, no estimate is required at the date of the consolidated statement of financial position.

15 RIGHTS-OF-USE ASSETS

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

	Rights of use of land and natural assets S/000	Rights of use constructions S/000	Rights of use of technical facilities and machinery S/000	Others rights of use S/000	total S/000
Cost					
As of January 1, 2020	480,639	608,432	124,826	37,585	1,251,482
Additions (b)	102,019	36,794	41,337	285	180,435
Transfers	(18,856)	18,856	-	-	-
Disposals (c)	(41,820)	(66,776)	(17,711)	(4,734)	(131,041)
As of December 31, 2020	521,982	597,306	148,452	33,136	1,300,876
Additions (b)	30,238	24,179	32,480	549	87,446
Transfers	(293)	293	-	-	-
Disposals	(14)	(3,035)	-	(250)	(3,299)
As of September 30, 2021	551,913	618,743	180,932	33,435	1,385,023
Accumulated Depreciation					
As of January 1, 2020	75,405	82,229	22,264	14,489	194,387
Depreciation for the Period	80,616	93,358	22,563	12,572	209,109
Disposals (c)	(26,453)	(22,942)	(4,233)	(2,790)	(56,418)
As of December 31, 2020	129,568	152,645	40,594	24,271	347,078
Depreciation for the Period	65,288	68,358	19,118	3,551	156,315
Disposals	-	(2,075)	-	(111)	(2,186)
As of September 30, 2021	194,856	218,928	59,712	27,711	501,207
Net Amount					
As of September 30, 2021	357,057	399,815	121,220	5,724	883,816
As of December 31, 2020	392,414	444,661	107,858	8,865	953,798

- (b) During 2020, the lease contracts of sites owned by third parties were transferred to Telxius Torres Perú S.A.C., a related company, increasing the periods of the same based on the end dates of the tower space rental contracts (located in these places). The foregoing thus recognized an increase in the rights of use for this increase of S/72,095,000 and a decrease of S/15,572,000 which corresponds to the initial period signed with the third party.
- (c) Corresponds to the transfer of lease contracts of sites for spaces used by Internet Para Todos S.A.C., which meant a reduction of rights of use of S/ 46,274,000.

Includes the transfer of the Equity block to Telefónica Cybersecurity & Cloud Tech Perú, S.A.C., and the sale of the Group's stake in the same for S/ 15,360,000. See Note 1.3(a).

16 CAPITAL GAIN

- (a) Corresponds to the highest value paid for the acquisition of 17.44% 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. These companies were absorbed.
- (b) The movement for the item is as follows:

	As of September 30 2021 S/000	As of December 31 2020 S/000
Opening balance	1,215,145	1,215,145
Final balance	<u>1,215,145</u>	<u>1,215,145</u>

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.

On September 31, 2021 and December 31, 2020, the amount of the capital gain was compared with the recoverable value. Management has thus determined that establishing an impairment estimate for these assets is not required at the date of the consolidated statement of financial position. See Note 2.14.

Key assumptions used in calculations of value in use

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

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

Gross Margin -

Is based on the average values recorded in the three years prior to the commencement of the budget period and future projects of each company. It increases during the budget period with the expected improvements in efficiency. In the long term, the Group's gross margin (OIBDA) remains constant at 32.3%.

Discount Rate -

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

The after-tax discount rate used as of September 30, 2021 and December 31, 2020 was 8.91%.

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, 2021 and December 31, 2020, which has been considered for the following years is 2.70%.

Sensitivity to Changes in Assumptions -

Management considers that the most sensitive assumptions for the model are the growth rate and the discount rate. Therefore, Management carried out a sensitivity analysis where it concluded that the recoverable value of the Group is above its book value, considering a simultaneous variation of 10% in both variables (increase in the discount rate of 0.9% and reduction in the rate of growth of 0.3%), and concluded that the Group would continue to be above the book value and would not have to recognize any impairment in capital gain as of September 30, 2021.

17 OTHER FINANCIAL LIABILITIES

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

	As of September 30, 2021			As of December 31, 2020		
	Portion current	Portion no current	Total	Portion current	Portion no current	Total
	S/000	S/000	S/000	S/000	S/000	S/000
Bonds (17.1)	356,619	2,718,819	3,075,438	145,836	2,943,715	3,089,551
Short-Term Debt (17.2)	<u>23,981</u>	<u>-</u>	<u>23,981</u>	<u>7,926</u>	<u>-</u>	<u>7,926</u>
	<u><u>380,600</u></u>	<u><u>2,718,819</u></u>	<u><u>3,099,419</u></u>	<u><u>153,762</u></u>	<u><u>2,943,715</u></u>	<u><u>3,097,477</u></u>

(b) The movement of the other financial liabilities as at September 30, 2021 and December 31, 2020, is as follows:

	Cash flow				Changes that do not produce cash flow		
	Opening balance	New loans	Payment loans	Payment interest	Accrued	New debt	Final balance
	S/000	S/000	S/000	S/000	S/000	S/000	S/000
2021							
Financial Obligations	<u>3,097,477</u>	<u>-</u>	<u>(111,499)</u>	<u>(109,205)</u>	<u>165,092</u>	<u>57,554</u>	<u>3,099,419</u>
2020							
Financial Obligations	<u>3,444,925</u>	<u>14,512</u>	<u>(343,127)</u>	<u>(226,567)</u>	<u>207,734</u>	<u>-</u>	<u>3,097,477</u>

17.1 Bonds -

(a) As at September 30, 2021 and December 31, 2020, the following bond issues remain in effect:

Program	Issuance & series	Date of maturity	Amount authorized	Amount used	Total		Current portion		Non-current portion	
					As of 30 September 2021	As of 31 December 2020	As of 30 September 2021	As of 31 December 2020	As of 30 September 2021	As of 31 December 2020
			S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Fourth (*)	19th A	July, 2027	S/150,000	S/60,000	93,239	90,243	720	1,495	92,519	88,748
Fourth (*)	19th B	April, 2028	(**)	S/49,000	73,325	69,842	916	384	72,409	69,458
Fourth (*)	19th C	July, 2028	(**)	S/20,000	29,347	28,374	179	395	29,168	27,979
Fourth (*)	37th A	May, 2028	S/200,000	S/48,000	71,445	68,007	786	229	70,659	67,778
Fifth (*)	22nd A	October, 2021	(**)	S/24,000	34,463	32,776	34,463	32,776	-	-
Sixth (f)	11th A	June, 2023	S/400,000	S/260,000	265,276	260,984	5,276	984	260,000	260,000
Sixth	11th B	April, 2024	(**)	S/120,000	123,574	121,715	3,574	1,715	120,000	120,000
Sixth	12th B	May, 2021	(**)	S/70,000	-	70,372	-	70,372	-	-
Sixth	13th A	July, 2022	S/200,000	S/140,000	141,616	143,551	141,616	3,551	-	140,000
Sixth	14th A	September, 2022	S/200,000	S/100,000	100,334	101,666	100,334	1,666	-	100,000
Sixth	15th A	October, 2024	S/135,000	S/135,000	138,371	136,524	3,371	1,524	135,000	135,000
Sixth	16th. A	April, 2025	S/400,000	S/105,120	107,668	106,224	2,548	1,104	105,120	105,120
Sixth	17th. A	May, 2030	S/250,000	S/60,000	66,626	63,426	764	249	65,862	63,177
First (f)	1st. A	October, 2026	S/200,000	S/80,000	82,628	81,175	2,628	1,175	80,000	80,000
First (g)	Int. issue	April, 2027	S/1,700,000	S/1,700,000	1,747,526	1,714,672	59,444	28,217	1,688,082	1,686,455
Total					<u>3,075,438</u>	<u>3,089,551</u>	<u>356,619</u>	<u>145,836</u>	<u>2,718,819</u>	<u>2,943,715</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 force as of September 30, 2021 and December 31, 2020, have a respective weighted average annual interest rate of 6.90% and 6.83%. Additionally, the weighted average spread of the VAC bonds in force as of September 30, 2021 and December 31, 2020, is 3.24 %.
- (c) As at September 30, 2021 and December 31, 2020, the bonds issued according to their contractual conditions have the following maturities:

Maturity Year	Interest S/000	As of September 30, 2021		Interest S/000	As of December 31, 2020	
		Principal S/000	Total S/000		Principal S/000	Total S/000
2021	82,727	33,892	116,619	43,325	102,511	145,836
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	-	105,120	105,120	-	105,120	105,120
2026 onward	-	2,098,699	2,098,699	-	2,083,595	2,083,595
Total	82,727	2,992,711	3,075,438	43,325	3,046,226	3,089,551

- (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 SAA.
- (e) The amount authorized for the issuance of bonds is up to US \$1,650,000,000, outstanding or their equivalent in national currency, as approved by the Telefónica del Perú S.A.A General Shareholders' Meeting on March 24, 2017, for a term that was extended until December 31, 2022.

Furthermore, within the same term, it may issue short-term instruments up to an amount of US \$550,000,000 outstanding with a maximum limit of US \$2,000,000,000 as a whole.

- (f) In June 2016, the issue of Corporate Bonds maturing in June 2023, and for an amount of S/260,000,000 at an issue price at par and a fixed nominal annual interest rate of 6.66 percent, was finalized. The foregoing was undertaken in order to assume the expenses associated with the Group's participation in the public tender for Block C of the 700 Band. See Note 14(b) (iii)).
- (g) In April 2019, the issuance of an International Bond with maturity in April 2027 was finalized for an amount of S/1,700,000,000, at a nominal fixed annual interest rate of 7.38%. 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. Furthermore, this bond has a covenant not to carry out asset sales operations with subsequent leasing greater than 20% of the consolidated net assets, which are calculated as total consolidated assets excluding capital gain, trademarks, patents and rights, and licenses (without administrative concessions), net of current liabilities. The Group has been complying with this agreement.

17.2 Short-Term Debt -

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

	Currency of origin	As of September 30 2021 S/000	As of December 31 2020 S/000
Ministry of Transport and Communications (b)	S/	23,981	-
BBVA Banco Continental Trust (c)	S/	-	7,926
		<u>23,981</u>	<u>7,926</u>
Debt Composition			
Principal		23,981	7,926
Interest		-	-
		<u>23,981</u>	<u>7,926</u>

(b) Installments for the Mobile Royalty for the 2021 period, matures in February 2022. See Note 11(e).

(c) Risk not transferred in the assignment of collection rights with the BBVA Banco Continental Trust. See Note 7(e).

18 FINANCIAL LEASE LIABILITIES

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

	<u>As of September 30, 2021</u>		<u>As of December 31, 2020</u>	
	Currency foreign US\$000	Equivalent in national currency S/000	Currency foreign US\$000	Equivalent in national currency S/000
Financial Lease Liability	95,111	393,378	77,267	280,016
Financial Lease Liability	-	736,819	-	846,668
Finance lease	-	-	18	65
		<u>1,130,197</u>		<u>1,126,749</u>
Less - Non-Current Portion		(814,460)		(790,481)
Current portion		<u>315,737</u>		<u>336,268</u>

(b) Future payments under leases as at September 30, 2021 and December 31, 2020, are as follows:

	As of September 30 2021 S/000	As of December 31 2019 S/000
2021	78,934	336,268
2022	289,426	164,818
2023	195,157	145,147
2024	179,593	138,141
2025 onwards	<u>387,087</u>	<u>342,375</u>
	<u>1,130,197</u>	<u>1,126,749</u>

- (c) The current average annual rate of lease liabilities in soles as of September 30, 2021 is 4.63% and in dollars it is 3.39% (3.56% in soles and 3.39% in dollars as of December 31, 2020).
- (d) As of December 31, 2020, it contains lease liabilities with Telxius Torres Perú S.A.C., a related company, for S/ 568,184,000.

19 TRADE ACCOUNTS PAYABLE

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

	As of September 30 2021 S/000	As of December 31 2020 S/000
National suppliers (c)	733,897	773,483
Accrual of Invoiceable Obligations	694,949	593,172
Related, Note 23 (d)	408,236	201,083
Foreign Suppliers	68,189)	135,901)
Contractor security deposits	<u>2,517</u>	<u>2,441</u>
	<u>1,907,788</u>	<u>1,706,080</u>

- (b) Commercial accounts payable are denominated in soles, US dollars and euros, do not accrue interest, have current maturities, are normally paid in an average period of 60 days, and no guarantees have been granted.
- (c) Domestic suppliers, as of September 30, 2021 and December 31, 2020, respectively represent S/ 324,845,000 and S/ 414,163,000 in accounts payable that are under assignment of collection rights with Investment Funds, in which TFP S.A.C. (a Group affiliate) 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 is maintained.
- (d) The book values of the commercial accounts are considered equal to their fair values due to their short-term nature.

20 OTHER ACCOUNTS PAYABLE

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

	As of September 30 2021 S/000	As of December 31 2020 S/000
Salaries and Vacations (b)	238,695	303,528
Taxes Payable, Note 24 (h)	39,461	28,392
Security Deposits	12,476	11,258
Dividends and Returns Payable to Shareholders	2,706	16,683
Employee Shareholding, Note 24(e)	417	15,801
Collection Commissioned to Third Parties (c)	-	8,695
Others	<u>17,160</u>	<u>18,820</u>
	310,915	403,177
Less - Non-Current Portion (b)	(<u>63,702</u>)	(<u>135,412</u>)
Current Portion	<u>247,213</u>	<u>267,765</u>
Financial liabilities classified as other		
Accounts Payable	32,342	55,456
Non-financial liabilities classified as other		
Accounts Payable	<u>278,573</u>	<u>347,721</u>
	<u>310,915</u>	<u>403,177</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 an amount of S/ 36,623,000. Likewise, in December 2020 the Group identified approximately 25 additional positions which will be released during the second quarter of 2021. Severance costs are estimated to be S/ 19,334,000. In April 2021, an incentivized voluntary retirement program was started, with 280 employees having been welcomed for S/106,163,000.

(c) As at 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).

21 OTHER PROVISIONS

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

	As of September 30 2021 S/000	As of December 31 2020 S/000
Litigation and Risks, (c) and Note 32 (b)	558,616	591,430
Decommissioning of Towers, Note 2.20	51,790	45,980
Others (d)	<u>26,033</u>	<u>17,143</u>
	636,439	654,553
Less - Non-Current Portion	(<u>261,128</u>)	(<u>259,231</u>)
Current Portion	<u>375,311</u>	<u>395,322</u>

(b) Item movement is detailed below:

	Litigation and Risks	Decommissioning	Others	Total
	S/000	S/000	S/000	S/000
Balances as of January 1, 2020	579,029	49,906	10,989	639,924
Additions, See Note 32(b)	63,041	5,715	17,081	85,837
Disposals	-	(9,641)	(10,927)	(20,568)
Payments	(50,640)	-	-	(50,640)
As of December 31, 2020	591,430	45,980	17,143	654,553
Additions, See Note 32 (b)	52,192	5,810	27,450	85,452
Disposals	-	-	(18,560)	(18,560)
Payments	(85,006)	-	-	(85,006)
As of September 30, 2021	558,616	51,790	26,033	636,439

(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 at September 30, 2021 and December 31, 2020, as described in Note 32(b).

(d) As of September 30, 2021 and December 31, 2020, "Others" includes a provision for the strengthening of towers as a result of the 962 towers sold. See Note 30(d).

22 DEFERRED INCOME

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

	As of September 30 2021	As of December 31 2020
	S/000	S/000
Grants, (b) and Notes 2.22 and 8(d)	84,811	95,317
Integrate	1,525	2,533
Others	23,325	12,786
109,661	110,636	
Less - Non-Current Portion	(71,636)	(81,359)
Current Portion	<u>38,025</u>	<u>29,277</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 "Comprehensive Broadband Connectivity for development social activity in the northern part of the country."

The balance for this project as of September 30, 2021 and December 31, 2020, amounted to approximately S/ 82,104,000 and S/ 91,320,000, 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 FITEI), 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 at 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 FITEI), 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/ 2,707,000 and S/ 3,997,000 as of September 30, 2021 and December 31, 2020, 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 obligation	stipulated in the respective concession contracts	
Amount	US\$47,626,000	US\$48,849,000	US\$14,718,000

For the six-month period ended September 30, 2021 and 2020, the Company accrued income of S/ 9,899,000 and S/ 19,210,000 respectively. These are presented in the caption "Other operating income and expenses" of the consolidated income statement. See Note 30(a).

23 TRANSACTIONS WITH RELATED ENTITIES

- (a) During the six-month periods ended September 30, 2021 and 2020, the most significant transactions carried out by the Group with related entities were the following:

	<u>As of September 30 2021 S/000</u>	<u>As of September 30 2020 S/000</u>
Revenues with related companies for:		
Rural Traffic Services		
- Internet para Todos S.A.C.	27,729	24,118
Rental of land		
- Telxius Torres Perú S.A.C.	267	464
Other non-recurring income related to:		
Sale of Towers		
- Telxius Torres Perú S.A.C.	-	13,573

	As of September 30 <u>2021</u> S/000	As of September 30 <u>2020</u> S/000
Expenses with related companies for:		
Rural Traffic Services		
- Internet para Todos S.A.C.	(83,479)	(84,037)
Trademark use fee. Note 28(a)		
- Telefónica, S.A. (b)	(84,401)	(77,248)
Internet and fiber optic linking services		
- Telxius Cable Perú S.A.C.	(67,089)	(56,677)
Systems Service		
- Telefónica Global Technology S.A.U.	(40,340)	(42,493)
Leasing of Towers and Sites		
- Telxius Torres Perú S.A.C.	(21,502)	(36,727)
Transfer of Management Capacity, Note 28(a)		
- Telefónica Latinoamérica Holding S.L. (c)	(993)	(7,297)
Transfer of Management Capacity, Note 28(a)		
- Telefónica Hispanoamérica S.A. (c)	(9,054)	-

- (b) The Group has a contract with Telefónica, S.A., whereby it pays a trademark fee equivalent to 1.6% of monthly income, excluding local operations with related companies, unless the previous year had a negative balance when deducting depreciation, amortization, and CAPEX for that year from the operating income.
- (c) As of September 30, 2021, the Group has management capacity transfer contracts with Telefónica Hispanoamérica S.A. As of December 31, 2020, they were held with Telefónica Latinoamérica Holding S.L.

(d) As at September 30, 2021 and December 31, 2020, the Group had the following commercial balances with related entities:

	As of September 30, 2021		As of December 31, 2020	
	Accounts payable	Accounts payable	Accounts payable	Accounts payable
	S/000	S/000	S/000	S/000
Related:				
Internet para Todos S.A.C.	12,498	32,802	18,953	10,576
Telefónica Global Solutions S.L.	18,508	16,019	33,714	17,686
Media Networks Latin América S.A.C.	17,953	35,917	15,972	37,092
Telxius Cable Perú S.A.C.	8,234	37,415	11,817	15,950
Telefónica Global Solutions Perú S.A.C.	5,548	11,572	4,663	13,545
Telefónica Digital España S.L.	4,556	42,724	3,213	27,306
Telefónica Data USA	3,184	919	2,754	803
Telefónica Cybersecurity & Cloud Tech Perú S.A.C.	2,287	71,205	-	14,027
Telefónica Ingeniería de Seguridad S.A. Peru Branch	1,800	10,397	1,534	11,744
Fundación de Telefónica del Perú	1,503	-	1,476	-
Terra Networks Perú S.A.C.	593	-	955	25
Telefónica Latinoamérica Holding S.L.	449	139	397	9,264
Telefónica Servicios Audiovisuales S.A. Sucursal del Perú	84	-	559	13
Telefónica, S.A.	72	111,046	63	19,283
Pegaso Recursos Humanos S.A. de C.V.	-	-	1,458	-
Telefónica Gestión de Tecnología S.A.U.	-	15,080	-	9,317
Telefónica Compras Electrónicas	-	3,103	-	2,440
Telxius Torres Perú S.A.C.	-	-	3,029	2,634
Others	<u>17,583</u>	<u>19,898</u>	<u>22,518</u>	<u>9,378</u>
Commercial accounts receivable and payable				
Related, (See Notes 7 (a) and 19 (a))	<u>94,881</u>	<u>408,236</u>	<u>123,075</u>	<u>201,083</u>

- (e) On September 30, 2020, the Group granted a loan to Telfisa Global B.V. for US \$ 135,000,000 equivalent to S/ 485,325,000 which was collected upon maturity on December 29, 2020. The loan accrued interest of S/ 682,000 at the annual rate fixed of 0.56%, and is presented in the note "Financial income and expenses" of the consolidated income statement. See Note 31(a).

As of September 30, 2021 and December 31, 2020, the Group had an account payable to Telefónica S.A. for an amount of approximately S/8,734,000 and S/7,873,000, corresponding to the fair value of the share options granted by the Parent company in Spain to certain executives of the Group, who may exercise their rights within a maximum term of until 2021. See Note 2.25.

The Group obtained a loan payable from Telefónica Hispanoamérica, S.A. for US \$ 180,000,000 equivalent to S/ 647,820,000, which was paid upon maturity on December 30, 2020 and accrued an interest expense of S/ 10,015,000 at a fixed annual rate of 2.36%. The foregoing is presented in the note "Financial income and expenses" of the consolidated income statement. See Note 31(a).

(f) Loans to Staff -

The Group grants loans to its staff and officers for terms of up to 24 months. The interest rates applied are generally below the interest rates existing in the market; however, the other loan terms are substantially the same as those of the market. The balance of the loans to employees was approximately S/ 14,141,000 and S/ 16,620,000 as of September 30, 2021 and December 31, 2020, respectively. The loans are reported in the item "Other accounts receivable, net" of the consolidated statement of financial position. See Note 8(a).

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

Remuneration received by directors and key management personnel amounted to approximately S/ 18,262,000 for the nine-month period ending September 30, 2021 (approximately S/ 26,603,000 for the nine-month period ending September 30, 2020), which include short-term benefits, compensation for time served, and others.

- (h) As of September 30, 2021, the Group maintains current accounts at the Group's financial company, Telfisa Global, BV, for an amount of US \$ 1,941,000 and € 2,000 equivalent to S/ 8,020,000 and S/ 9,000, respectively, which are presented in the item "Cash and cash equivalents." (As at December 31, 2020, the Company held current accounts in Telfisa Global, B.V., for an amount of US \$4,987,000, equivalent to S/ 18,043,000, 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 at September 30, 2021 and December 31, 2020, 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 at September 30, 2021 and December 31, 2020, will be collected and paid in the short term.

24 TAX SITUATION

(a) Deferred Taxes -

The movement of the item is as follows:

	As of 1 January 2020 S/000	Credit (Charge) to profit/loss statement S/000	Credit (charge) to profit/loss to financial statement S/000	Credit (charge) to another comprehensive statement S/000	As of 31 December 2020 S/000	Credit (Charge) the profit/loss statement S/000	Credit (charge) to the profit/loss financial statement S/000	Credit (charge) to another comprehensive statement S/000	As of 30 September 2021 S/000
Deferred Assets / (Liabilities)									
Depreciation	338,231	21,549	(720)	-	359,060	(8,414)	(872)	-	349,774
Estimate for Doubtful									
Accounts	319,303	24,512	-	-	343,815	13,276	-	-	357,091
Provision for Miscellaneous Contingencies	34,822	(607)	-	-	34,215	(217)	-	-	33,998
VAC Bonds	25,125	1,028	-	-	26,153	4,383	-	-	30,536
Staff Expenses	91,172	1,148	(34)	-	92,286	(33,063)	(57)	-	59,166
Provision for Decommissioning									
of Equipment	7,362	(18,416)	-	-	(11,054)	2,200	-	-	(8,854)
Others	34,724	(1,218)	-	-	33,506	(4,276)	-	-	29,230
Lambayeque Project Grant	33,768	5,373	-	-	39,141	2,712	-	-	41,853
Non-Domiciled Expenses	29,566	30,924	-	-	60,490	(9,878)	-	-	50,612
Deterioration of Inventories and Property, Plant, and Equipment	5,583		-	-	7,799	(3,386)	-	-	
	4,413								
Deferred Income from Tower Sales	574	-	-	-	574	-	-	-	-
Finance lease	(6,800)	-	-	-	(6,800)	-	-	-	(6,800)
Other Deferred Income	33	-	-	-	33	-	-	-	-
Payroll Capitalization for									
Plant Construction	(175)	-	-	-	(175)	-	-	-	(175)
Financial Instruments	(377)	202	-	(166)	(341)	-	-	(98)	(439)
Amortization of Software Licenses	(750)	290	181	-	(279)	12,253	(6)	-	11,968
Allocation of Price Paid									
for Fixed Assets	(3,170)	2,374	-	-	(796)	-	-	-	(796)
Cost Attributed to Fixed Assets	(12,345)	-	-	-	(12,345)	-	-	-	(12,345)
IRFS 15	(63,780)	13,310	-	-	(50,470)	(23,357)	-	-	(73,827)
IRFS 16	49,150	15,061	(370)	-	63,841	25,611	-	-	89,452
Administrative Concession	(536,439)	45,925	-	-	(490,514)	34,442	-	-	(456,072)
Deferred Income and Costs-Decos	(154,776)	24,844	-	-	(129,932)	1,440	-	-	(128,492)
Income from Connection Fee	15,516	1,152	-	-	16,668	(2,792)	-	-	13,876
Capitalized Finance Costs	(4,594)	554	-	-	(4,040)	480	-	-	(3,560)
Tax Loss	762	516	-	-	1,278	93,198	-	-	94,476
Total Deferred Assets / (Liabilities), Net	<u>202,485</u>	<u>170,737</u>	<u>(943)</u>	<u>(166)</u>	<u>372,113</u>	<u>104,540</u>	<u>(935)</u>	<u>(98)</u>	<u>475,620</u>

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

	As of September 30 2021 S/000	As of December 31 2020 S/000
Deferred Income Tax Assets:		
Expected Reversal in next 12 Months	36,200	69,156
Expected Reversal after 12 Months	<u>439,420</u>	<u>302,957</u>
Total Deferred Income Tax	<u><u>475,620</u></u>	<u><u>372,113</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 2021 S/000	As of September 30 2020 S/000
Current	524,590	50,972
Deferred	<u>(104,540)</u>	<u>(98,612)</u>
	<u><u>420,050</u></u>	<u><u>(47,640)</u></u>

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

	As of September 30, 2021 S/000		As of September 30 2020 S/000	
		%		%
Results before Income Tax	(599,562)	100.00	(547,983)	100.00
Income Tax According to Tax Rate (income)	(176,871)	29.50	(161,655)	29.50
Tax impact:				
Contingencies and Taxes (Non-Deductibles), Notes 21 y 32(b)	538,637	(89.84)	50,711	(9.25)
Expenses from Prior Years	4,710	(0.79)	1,284	(0.23)
Result in Subsidiary and Associates	1,824	(0.30)	(28)	0.01
Non-Permitted Expenses	21,665	(3.61)	4,246	(0.77)
Derivative Instruments	(15,664)	2.61	1,740	(0.32)
IRD Recovery Evaluation	23,941	(3.99)	27,327	(4.99)
Debt Forgiveness	3,121	(0.52)	4,188	(0.76)
Others, Net	<u>18,687</u>	<u>(3.12)</u>	<u>24,547</u>	<u>(4.48)</u>
Expenses / (Income) for Income Tax	<u><u>420,050</u></u>	<u><u>(70.06)</u></u>	<u><u>(47,640)</u></u>	<u><u>8.71</u></u>

- (e) The Group is subject to the tax regime of Peru. The income tax rate as of September 30, 2021 and December 31, 2020, is 29.50% on taxable income, after deducting the staff profit sharing that is calculated at a rate of 10% on the taxable profit.

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

In accordance with Legislative Decree No. 1261, the withholding of an additional tax on dividends received as of 2017 is 5%, and whose distribution is made as of that date (until 2014, 4.1% and for the periods 2015 and 2016, 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 at September 30, 2021 and December 31, 2020.

As at September 30, 2021, the Group recorded a provision for income tax of S/ 99,714,000 that, net of the payments of tax installments and the other provisions recorded, resulted in a balance of S/ 154,565,000 (S/ 102,339,000 from income tax payable. The foregoing's net effect of tax installment payments and other recorded provisions resulted in a positive balance of S/ 136,886,000 as at December 31, 2020). The balance 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).

In accordance with the requirements of IFRIC 23 uncertainties in the treatment of income tax, the Group maintains provisions for S/ 2,741,915,000 in current Income Tax and S/ 67,656,000 in current long-term Income Tax as of September 30, 2021. These balances show a net increase in the provision as of December 31, 2020 of S/ 461,972,000, as a consequence of the (i) change in the contingency rating related to the carry-over of the balance in favor of fiscal year 1999 in the determination of the annual payment, and the monthly payments on account of income tax for fiscal year 2000, and the consequent adjustment of the provision of S/ 939,549,000; and (ii) rebate of the provision of S/ 477,577,000 registered in the first quarter as a result of the judgment issued by the Constitutional Court in the amparo action initiated by it, see Note 32 (b), (S/ 2,217,840,000 current Income Tax, and S/ 78,380,000 in current long-term Income Tax as of December 31, 2020).

- (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 general sales tax of its Subsidiaries are subject to verification by the Tax Administration.

These subsidiaries are:

	<u>Period</u>
Servicios Globales de Telecomunicaciones S.A.C.	2017 to 2021
Telefónica Multimedia S.A.C.	2017 to January 2018 (*)
Star Global Com S.A.C.	2017 to January 2018 (*)

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

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 be incurred. 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 at September 30, 2021 and December 31, 2020.

- (h) As of September 30, 2021 and December 31, 2020, the item "Other accounts payable" includes other taxes for approximately S/ 39,461,000 and S/ 28,392,000 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 National Telecommunications (PRONATEL)	MTC	1.0	Income invoiced and received for services carriers and final telephony.
Contributions for supervision services	OSIPTEL	0.5	Revenue invoiced and received by various services of telecommunications.
Trade exploitation rate of Service	MTC	0.5	Service subject to concession and/or authorization.

The amount recorded as an expense for these items amounts to approximately S/ 69,724,000 and S/ 66,543,000 for the nine-month periods ending September 30, 2021 and 2020, respectively, and are included in the item "General and administrative expenses" of the consolidated profit or loss statement. See Note 29(a).

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

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

During 2018, Legislative Decrees Nos. 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 producing the income have occurred and the right to it is not subject to a suspension.

- *Restriction on 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 (Standard 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 matters:

- *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 a 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.

25 EQUITY

(a) Issued Capital -

As at September 30, 2021 and December 31, 2020, 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.

The capital structure issued as at September 30, 2021 and December 31, 2020, is composed of the following percentages of share classes:

	As of September 30 2021 %	As of December 31 2020 %
Class B		
Telefónica Hispanoamérica, S.A.	98.939	98.939
Other minor shareholders	1,055	1,055
Class C	0.006	0.006
	<u>100.000</u>	<u>100.000</u>

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

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

(b) Issue premiums -

These correspond to the incorporation resulting from the merger by the absorption of Telefónica Móviles Perú Holding SAA 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 annual profit, 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 that the Company declares as prescribed. It also includes freely available reserves.

The legal reserve as of September 30, 2021 and December 31, 2020, amounts to S/ 575,230,000.

d) Other equity reserves -

These correspond mainly to net profits and losses due to changes in the estimated market value of the derivative financial instruments of cash flow hedges. The change in value is initially reflected in equity, and subsequently affects the profit and loss statement as per how it is influenced by the underlying hedge. During the nine-month period ending September 30, 2021 and 2020, the unrealized loss generated by the valuation of hedging derivatives amounts to S/ 413,000 and S/ 7,000, respectively. The net loss of its tax effect amounts to S/ 315,000 (S/ 18,000 for the nine-month period ended September 30, 2020). See Note 17.2(d).

26 FIXED BUSINESS INCOME

The table below presents the breakdown of this item:

	As of September 30 <u>2021</u> S/000	As of September 30 <u>2020</u> S/000
Services	2,102,236	2,110,397
Data + IT	306,375	367,899
Wholesale	122,424	125,813
Handsets	54,915	57,799
Others	<u>41,131</u>	<u>41,855</u>
	<u>2,627,081</u>	<u>2,703,763</u>

27 MOBILE BUSINESS INCOME

The table below presents the breakdown of this item:

	As of September 30 <u>2021</u> S/000	As of September 30 <u>2020</u> S/000
Postpaid	1,263,433	1,223,377
Handsets	723,251	445,433
Prepaid	436,962	407,805
Wholesale	108,569	111,417
Others	<u>47,272</u>	<u>9,983</u>
	<u>2,579,487</u>	<u>2,198,015</u>

28 GENERAL AND ADMINISTRATIVE EXPENSES

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

	As of September 30 2021 S/000	As of September 30 2020 S/000
Services Provided by Third Parties (c)	2,580,055	2,364,814
Taxes and Royalties (b)	121,694	139,034
Provision for Doubtful Accounts and for Impairment of Inventories, Notes 7 (d), 8(f) and 10(c), Net of Recoveries	291,588	415,934
Fee for Brand Use and Transfer of Management Capacity, Note 23(a)	94,448	84,545
Miscellaneous Management Charges	21,292	18,816
	<u>3,109,077</u>	<u>3,023,143</u>

(b) The item "Taxes and royalties" corresponds mainly to payments to OSIPTEL and MTC, Note 24(h).

(c) Third-party services include:

	As of September 30 2021 S/000	As of September 30 2020 S/000
Fees, Commissions and Services	1,146,319	1,000,414
Television Signals and Circuits	507,686	467,633
Maintenance and Repair	275,967	256,525
Interconnection and Correspondent Expenses	189,596	196,611
Capacity Services	127,076	120,267
Basic Services	96,730	98,362
Value Added Services	18,158	17,925
Advertising	70,606	59,599
Rentals	23,793	25,987
Transportation and Storage	17,622	20,759
Roaming Expenses	12,551	9,255
Others	93,951	91,477
	<u>2,580,055</u>	<u>2,364,814</u>

29 PERSONNEL EXPENSES

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

	As of September 30 2021 S/000	As of September 30 2020 S/000
Compensation	386,563	398,173
Restructuring Expenses, Note 20 (b)	106,163	37,132
Social Security and Welfare	49,482	42,554
Compensation for Time of Service	28,664	29,239
Employee Shareholding	(2,776)	4,284
Other Staff Expenses	15,645	9,969
Payroll Capitalization for Plant Construction	(42,005)	(41,250)
	<u>541,736</u>	<u>480,101</u>

(b) The Group had 3,696 employees as of September 30, 2021 (4,165 as of December 31, 2020).

30 OTHER OPERATING INCOME AND EXPENSES

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

	As of September 30 2021 S/000	As of September 30 2020 S/000
Other operating income		
Gain on Disposal of Assets (c) and (e)	19,853	5,806
Government Grants, Notes 8 (d) and 22 (b)	9,899	19,210
Claims Reimbursement	-	3,260
Others	10,414	34,666
	<u>40,166</u>	<u>62,942</u>
Other Operating Expenses		
Other Provisions (b)	(23,799)	(24,139)
Others	(14,956)	(6,658)
	<u>(38,755)</u>	<u>(30,797)</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 at September 30, 2021 and 2020, asset sales produced a net profit, whose composition is detailed below:

	As of September 30 2021 S/000	As of September 30 2020 S/000
Net Profit from Disposal of Assets (e)		
Income from Asset Sales	58,095	17,267
Net Cost of Assets Sold	(38,242)	(11,461)
	<u>19,853</u>	<u>5,806</u>

(d) In 2020, a cost is recognized from the sale of towers in 2019, which amounted to S/ 767,000.

(e) In January 2021, the sale of Telefónica Cloud Tech Peru S.A.C. (TCTP) was completed in Peru for S/ 41,941,000, which includes the assets related to this business line. The net profit from this operation was S/ 11,953,000.

31 INCOME AND FINANCIAL EXPENSES

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

	As of September 30 2021 <u>S/000</u>	As of September 30 2020 <u>S/000</u>
Financial income		
Interest on Accounts Receivable	4,402	37,940
Interest on Time Deposits	646	3,035
Profit on Disposal of Financial Investments	23,199	-
Others	<u>53</u>	<u>83</u>
	<u>28,300</u>	<u>41,058</u>
Financial Expenses		
Interest on Bonds and Commercial Papers	(156,614)	(128,951)
Lease Interest	(35,569)	(32,511)
Interest on Other Debts	(2,349)	(11,518)
Loss from Financial Instruments for Interest Rate Coverage	(17,778)	(17,286)
Others	<u>(34,639)</u>	<u>(44,990)</u>
	<u>(253,079)</u>	<u>(262,919)</u>
Net Exchange Differences		
Net Loss from Net Exchange Differences	(136,093)	(95,382)
Net Income from Exchange Differences Related to Derivative Financial Instruments	<u>148,747</u>	<u>82,427</u>
	<u>12,654</u>	<u>(12,955)</u>

32 COMMITMENTS AND CONTINGENCIES

(a) Commitments -

Surety Letters

The Group maintains letters of guarantee obtained for its normal commercial activity and guarantees for the different processes of awarding tenders in concessions and spectra with third parties. As of September 30, 2021, these surety letters amount to approximately S/ 1,927,812,000 and US \$83,525,000 (S/ 1,866,211,000 and US \$ 90,558,000 as of December 31, 2020)

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 2.25, 15, and 18.

The future minimum payments, as per non-cancelable operating leases, as of September 30, 2021 and December 31, 2020, 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):

	As of September 30 2021 S/000	As of December 31 2020 S/000
Less Than One Year	2,664	9,336
Between One Year and Less Than 3 Years	-	-
	<u>2,664</u>	<u>9,336</u>

(b) Contingencies -

In the normal course of its operations, the Group has been subject to various tax, civil, labor, administrative, and regulatory and customs claims, which are recorded and disclosed in accordance with International Financial Reporting Standards. See Note 2.19.

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) Fiscal year 1998 -

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 TF, dated October 3, 2011, notified the Company of Intendancy Resolution No. 0150150001023, which contemplated an amount of S/ 69,386,327 in favor of the Company.

The Company filed an appeal against the decision before the Tax Court as it did not agree with the balance in favor determined by SUNAT. The Tax Court hearing the aforementioned appeal 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) the TC 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

Intendancy 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 (TCR) 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 by means of which SUNAT, in compliance with the TCR 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) [TPI =International Preferential Treatment]. 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. An appeal for cassation was filed against the judgment of the Superior Chamber, by virtue of which the Supreme Court declared the nullity of the aforementioned resolution at the end of the DCP and ordered that the Superior Court issue a new judgment, and confirmed the challenge to the TPI in a definitive and favorable manner for the Company.

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 a cassation appeal. The appeals were declared admissible. Since December 1, 2020, the oral report is still pending rescheduling.

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 March 29, 2021, the Surety Letter was renewed for the sum of S/ 359,065,459 corresponding to the 2021-2022 period.

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 complaint filed by SUNAT requesting partial nullity of TCR 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 finding in favor of the lawsuit was notified. As such, on November 11, 2019, Intendancy Resolution No. 0150160000145 was communicated, and by means of which SUNAT now proceeds to rectify the balance in favor of the 1998 Income Tax.

On May 14, 2013, we were notified with a contentious-administrative claim filed by SUNAT requesting the partial nullification of TCR No. 974-5-2012, to the extent that, ruling in our favor, it decided to revoke the objections due to exchange differences from 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 claim was declared unfounded in the first instance and confirmed by the Superior Chamber on March 21, 2016, for which SUNAT filed a cassation appeal. On January 14, 2020, the votes were notified and reflected the following: three supreme members voted declaring SUNAT's cassation unfounded and, consequently, the claim unfounded; one member voted for the annulment of the resolution of the Superior Court; and one voted in favor of SUNAT's cassation, and thus consequently, its claim was founded. On October 23, 2020, final decision hearing was held. By means of resolution of March 31, 2021, the casting vote was notified, which sided with the majority vote and consequently,

SUNAT's appeal was declared unfounded. On May 19, 2021, the conclusion and finalization of the proceedings was ordered.

(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. As such on April 4, 2012, the Company requested the statute of limitations for the aforementioned fiscal year. On May 4, 2012, SUNAT, by virtue of Intendancy Resolution No. 011-020-0000323/SUNAT, notified that the statute of limitations for the fiscal year in question be declared.

(c) Fiscal years 2000 and 2001 -

On December 29, 2010, The Tax Court, by means of TCR No. 17044-8-2010, (and later clarified by TCR No. 1853-8-2011, notified on February 11, 2011) gave notification of finalizing 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 challenges 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, a judgment was issued in the first instance, through which the claim was partially founded, protecting the claim of full jurisdiction over the objections to (i) financial charges; (ii) provision for doubtful collections; and (iii) indoor public telephones. Conversely, our claims regarding the objections of (i) disposal of assets due to transfer of assets to Telefónica Móviles S.A.C. - Reorganization- and (ii) costs of fixed assets deducted off-the-books as overhead expenses were declared unfounded. The ruling was appealed by TdP, SUNAT, and the Tax Court.

However, the meaning of the ruling, as a consequence of the analysis carried out and ratified by the legal opinion of the external advisers in charge of the process, is that the initial provision provided by the Company should be maintained.

Subsequently, the higher body partially confirmed the ruling that declared the claim partially founded regarding to the objections to deductions for financial charges and provision for doubtful collection, and furthermore partially confirmed the objection to the documents that do not support expenses. In the case of the objection referred to the provision of doubtful collection, the Court validated the collection management carried out by the Company only with regard to the telephone receipt as long as the indication of the pending debt is recorded. The Court rejected the rest of the collection procedures carried out and ordered that all receipts sent be reviewed again. Furthermore, it upheld the issues that did not protect our challenges 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. Once the oral report was made on July 11, 2019, the votes of the supreme members were notified. The Supreme Court ruled in favor of SUNAT in terms of the objections to Overhead, Simple Reorganization and Financial Charges, and in favor of the Company regarding the objection to the TPI, whilst no quorum was obtained regarding the objection to the DCP. Subsequently, after having made the two oral reports before the voting 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 declared the DCP 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.

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, as it was resolved in favorable terms for the Company. Regarding the DCP appeal, the qualification of the case remains remote.

During the aforementioned proceedings, the Company obtained a partial precautionary measure pursuant to which the suspension of the effects of the disputed resolutions was ordered with respect to the following objections: (1) CF, (2) DCP and, (3) TPI.

On May 7, 2021, our Surety Letter was renewed for the amount of S/ 763,421,534 corresponding to the 2021-2022 period.

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

On October 24, 2011, the Company filed an appeal before the Tax Court against the aforementioned Intendancy Resolution. SUNAT conditioned the admissibility of the same appeal on the prior payment by the Company for the amount of S/ 1,627,950,109. Subsequently, 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.

On November 30, 2011, the Company filed a complaint before the Tax Court against the admissibility requirement that SUNAT had required to admit the appeal mentioned in the preceding paragraph. While the aforementioned appeal is in process, SUNAT notified the Company of a Coercive Execution Resolution for the amount of S/ 134,353,008, which the Company has also questioned.

The Company (notwithstanding the payment of S/ 134,353,008 under protest) appealed to the Tax Court (in complaint) regarding the aforementioned Coercive Execution Resolution because it understood that the request made by SUNAT lacked legal basis. On January 27, 2012, the Complaint Appeal filed by the Company was resolved (in favor of the Company) with the Tax Court stating that there was no coercively enforceable debt.

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

On April 1, 2013, the Company was notified with Intendancy Resolution No. 0150150001203 (replaced by a Resolution of the same number notified on April 3, 2013, which in turn was modified by Intendancy Resolution No. 0150190000041, notified on April 4, 2013) by means of which SUNAT complied 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 resolution, the Tax Court upheld the declaration on the Intendancy Resolution issued. On October 7, 2013, the Company submitted a request for clarification, considering that it is not possible to determine the Income Tax for the year 2000; while Chamber 11 of the Tax Court still has a case determination pending related to payments on account of the year 2000.

On November 6, 2013, the Company was notified with TCR No. 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, by means of which SUNAT complied with the provisions of the Tax Court. Demonstrating discord with that stated in the aforementioned resolution, on July 22, 2015, SUNAT filed an appeal, which was adjudicated by Resolution No. 1323-3-2017, which provides that for the settlement of this fiscal year such payment can proceed after resolving the case regarding payments on account and in the cases of the return of payments made by coercive collection.

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

On January 6, 2014, the Company was notified of TCR No. 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 claim. As such, the court admitted the claim for processing. On December 14, 2020, the oral hearing was conducted in the first instance. The the issuance of the decision 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 remote.

On February 24, 2014, SUNAT communicated Coactive Resolution No. 0110070101757 by means of which the coercive collection procedure was revoked, although without ruling on the payment made by the Company. On April 23, 2014, two briefs were submitted to the coercive executor requesting the return of S/ 134,353,008 (paid in January 2012) and S/ 150,842,142 (paid in November and December 2013). On May 8, 2014, the coercive executor gave notification of Coactive Resolutions No. 0110070109273 and No. 0110070109274 whereby the same forwarded the files to the Supervision Department of SUNAT in order to evaluate and adjudicate on the request made by the Company. On June 17, 2014, the Company submitted two Complaint Appeals before the Tax Court so that the Court ordered the coercive executor to return the amounts paid. On July 3, 2014, the Tax Court communicated TCR No. 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 for 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 confirm, 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 Chamber (3 votes against, and 1 in favor). On July 24, 2018,

the hearing took place in the Supreme Court. On May 25, 2021, we were notified with the supreme resolution, by which the claim was declared unfounded. Given that the resolution issued by the Supreme Court contains insurmountable defects, on June 2, 2021, the Company filed an appeal for annulment.

Although a response to the motion for annulment is still pending, the Company reassessed its contingencies, taking into account the resolution issued by the Supreme Court, so the rating has shifted from remote to probable.

(d) Amparo action derived from IR 2000-2001 -

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

Indeed, SUNAT by Intendency Resolution No. 0150190000041 decided to continue the collection of Determination Resolutions No. 0120030008377, 0120030008382, 0120030008383, 0120030008378, 0120030008388, 0120030008380, 0120030008385, 0120030008312, 0120030008386, 0120030008379, 0120030008387, 0120030008384 and 0120030008381, and Fine Resolutions No. 0120020008152, 0120020008160, 0120020008157, 0120020008161, 0120020008150, 0120020008154, 0120020008158, 0120020008162, 0120020008151, 0120020008155 and 0120020008159, for the sum of S/ 2,163,333,920 (updated on April 1, 2013). This amount includes 73 percent interest and capitalized interest (under the application of Article 33 of the Tax Code) of which a percentage corresponds to interest accrued within the legal term and other interest accrued in the time lapse in excess of the adjudication's legal term. By means of the amparo the Company is questioning the interest accrued during the time in which the Tax Court has exceeded the deadline for resolving the abovementioned 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 complaint was filed on August 29, 2016. On January 23, 2017, the case was referred to the First Chamber of the Constitutional Court. On January 6, 2021, the hearing was held before the plenary session. On February 22, 2021, the judgment that declared the claim founded, and consequently ordered SUNAT to recalculate the interests outside the legal period that both the tax administration and the Tax Court had to resolve the challenges presented by the Company. On March 31, 2021, the nullity of the ruling and the request for disqualification presented by SUNAT were notified.

On March 31, 2021, the Constitutional Court declared the appeal for annulment inadmissible, as well as the request for disqualification presented by SUNAT. As a result, the process concluded.

(e) Payments on Account for year 2000:

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

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

quantified.

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

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

On June 15, 2012, the Tax Court communicated Resolution No. 06671-11-2012, expanded by Resolution No. 08037-11-2012, by means of which it adjudicated on the appeal filed by the Company, stating: (1) that it is appropriate that SUNAT re-settles the adjudications on the fines provided that 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, while 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 IR No. 0150150001202 by means of which SUNAT complied with the Tax Court provisions.

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

On June 26, 2015, the Company was notified with Intendancy Resolution No. 0150150001362, by means of which SUNAT complied with the Tax Court provisions.

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

As TCR No. 02569-11-2015 was not in accordance with the law, on June 8, 2015 the Company filed a contentious-administrative action against SUNAT and the Tax Court. We requested the annulment of the aforementioned TCR for the alleged compliance to the provisions of TCR No. 06671-11-2012 of May 3, 2012, regarding the 1999 income tax balance, which must be applied for payments on account for the 2000 fiscal year. On 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 was held 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 the first and second instances declared inadmissible. 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 TCR No. 2569-11-2015. On March 09, 2021, the Surety

Letter was renewed for the sum of S/ 41,545,928, corresponding to the 2021-2022 period.

Despite the pending issuance of the final resolution by the Supreme Court, the Company reassessed its contingencies following the resolution issued by the Supreme Court regarding TCR No. N13365-3-2013 of September 23, 2013. The Company thus changed the rating from remote to probable.

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

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

In effect, SUNAT, by means of Intendancy Resolution No. 015150001202, decided to continue with the collection of Resolutions of Determination Nos. 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 exception for that non-exhaustion of the administrative proceeding was protected, and thus the proceedings were concluded. Said decision was appealed by TDP and on June 27, 2014, the nullity of Resolution No. 13 was declared and the decision was revoked, declaring the exception of lack of exhaustion of the administrative proceedings without basis, and ordering the process to continue. On November 12, 2014, a first instance judgment was issued that partially declared the lawsuit founded, which was subsequently revoked by the Superior Court, who declared the Amparo Process inadmissible. An appeal for Constitutional Remedy was filed, and granted on November 9, 2015. On January 11, 2016, the file entered the Second Chamber of the Constitutional Court. On November 11, 2019, the Oral Report was carried out before the Plenary of the Constitutional Court. The issuance of ruling is still pending.

On February 19, 2015, we requested a precautionary measure ordering the suspension of collection of late payment interest, as recognized in the ruling of first instance. The same precautionary measure was rejected in the first and second instances, as it was considered 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.

As 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 TCR No. 04831-9-2012, notified on May 7, 2012, finalized the administrative procedure corresponding to the aforementioned fiscal year.

By means of the aforementioned Resolution, the Tax Court: (1) revoked the deduction related to the exchange difference considering that this is an accounting result to which the principle of causality is not applied; (2) revoked the deduction related to financial interests, and orders SUNAT to perform a new review of the documentation supporting the Cash Flow Statement, as well as third party reports submitted by the Company. Regarding the foregoing, on June 18, 2014 SUNAT, issued a request seeking information which the Company filed on September 17, 2014; (3) with respect to the DCP, upheld a part of the deduction, as it considers that the Company was obliged to present

the information that supports the entire DCP even though SUNAT only required a sample; and (4) only recognized the termination notifications as valid collection management, thus, ordering SUNAT to carry out a new review. It should be noted that, unlike that resolved in the file for the years 2000 and 2001, the Tax Court does not recognize that the DCP that was modified in 2001 may be deducted in 2002 for being greater than 12 months. Likewise, the TC confirmed the objections 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 TCR No. 04831-9-2012 insofar as it confirms the objections to: (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 claim 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. Since December 1, 2020, the oral report is still pending rescheduling.

In the opinion of Management and its legal advisors, there are legal arguments that indicate that the contingency must be classified as remote with respect to the objections to: (i) non-business expenses - judicial deposits, (ii) provision for doubtful collection, and (iii) indoor public telephones. 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 this regard, the Company made the payment corresponding to the determination made by SUNAT, except for the case related to the General Sales Tax of 2001 (for which the Tax Court ruled in favor of the Company). Regarding the General Sales Tax for 2002, by means of TCF No. 04831-9-2012, the Tax Court upheld the deductions made for this item.

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

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 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 for the Company. In response to the fact that the rulings issued by the Supreme Court have violated constitutional rights, the Company initiated five amparo 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 appeal was submitted, and subsequently granted on December 10, 2020. To date, a ruling on the appeal is still pending.

It should be noted that a precautionary measure was requested to suspend the effects of the resolution of the contentious-administrative process. On January 22, 2019, the appeal presented by SUNAT was granted, pending resolution. On September 25, 2020, the Surety Letter was presented for the amount of S/ 9,500,000 corresponding to the 2020-2021 period. However, in January 2021, the court, whilst contravening the express norm of the Constitutional Procedural Code, erroneously declared the cessation of the precautionary measure. The Company filed an appeal against the aforementioned resolution. To date, the file has entered the Superior Court for the appeal to be resolved.

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

Regarding fiscal year 2004, on January 22, 2013, the Company received notice of the judgment issued in the first instance that declared the claim to be unfounded in all aspects. Said ruling was confirmed by the second instance. On July 20, 2018, the Supreme Court ruled that the appeal filed by the tax administration is justified. In this process, the Supreme Court has adhered to the same criteria for the 2002 financial year, and consequently qualified the provision of satellite capacity as a service provided in Peruvian territory, and therefore, it is on the onus of the provider to pay the tax, and that Company withholds the same. On August 16, 2019, the compliance to the Tax Court Resolution was notified (as ordered by the Supreme Court).

Disputing the compliance of the Company to Tax Court Resolution for tax year 2004, on November 14, 2019, a new administrative contentious process was presented. 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, thus contravening the right to due administrative procedure. On December 31, 2019, the Court admitted the lawsuit filed by the Company. On April 22, 2020, the responses of SUNAT and the TC were notified, as well as the exception of failure to exhaust the administrative remedy filed by SUNAT. The oral report in the first instance has been scheduled for May 17, 2022.

In view of the fact that the supreme resolution contained deficiencies that affect the constitutional rights of the Company, an amparo 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, and to which the Company has likewise subsequently responded. On September 10, 2019, the oral report was heard in the first instance. The decision is still pending.

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

Subsequently, payment of the amount of S/ 24,864,916 was made. Additionally, on October 29, 2019, we filed an appeal against Intendence Resolution No. 0150600000143, notified on October 7, 2019, by means of which the provisions of the Tax Court are complied with.

As the appeal filed by the Company before the Tax Court was ruled on unfavorably, on July 6, 2021, a second lawsuit was filed against the Fulfillment TCR (2) regarding the point that provides that interest be suspended by applying article 33 of the Tax Code, and its clarification to the extent that it establishes that the application of interest is not suspended for the period of the judicial process to which SUNAT subjected us. To date, the scheduling of the oral hearing is still pending.

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

Insofar as the 2003 Fiscal year, on February 4, 2019, a 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 compliance TCR (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 at 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. The claim was admitted for processing. SUNAT responded to the claim and filed a *res judicata* exception, which was declared unfounded. An oral hearing has been scheduled for November 11, 2021. On June 17, 2021, we were notified with the legal report presented by SUNAT which argues the alleged lack of interest in acting by Telefónica. An oral hearing has been scheduled for November 11, 2021.

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, the precautionary request was rejected as the claim was declared inadmissible, which the Superior Court also upheld.

In view of the fact that the supreme resolution contained deficiencies that affect the constitutional rights of the Company, an amparo 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. On November 9, 2020, the Company filed an appeal against the judgment of first instance that declared the claim unfounded, which was upheld. Thus far, a date is yet to be set for the oral report.

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

Against the TCR of compliance for the 1999-2000 fiscal year, the Company on February 5, 2020, presented a new administrative contentious process. On April 28, 2020, the *res judicata* objection filed by SUNAT and the response to the claim filed by SUNAT and the TC were notified. The objection presented by SUNAT was declared inadmissible. The oral report in the first instance was scheduled for November 9, 2021.

In parallel, as the supreme resolution ordering the issuance of the TCR on compliance contains deficiencies that affect the Company's constitutional rights, an amparo protection process has been initiated. On October 28, 2019, the claim was admitted for processing. A preliminary hearing in the first instance has been scheduled for November 11, 2021.

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

Regarding fiscal year 2001, the Company filed a new contentious claim, which was admitted on June 17, 2020; the same contentious-administrative claim was admitted for processing. On July 29, 2020, the objection of res judicata and SUNAT's answer were notified, as well as the TC's response to the claim. The oral report was scheduled for October 25, 2021.

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

In response to the fact that the supreme resolution contained deficiencies that affect the constitutional rights of the Company, an amparo process was initiated. The same was admitted for processing on March 11, 2020. On October 9, 2020, SUNAT responded to the lawsuit. On May 13, 2021, the oral hearing was heard in the first instance. The ruling is still pending.

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

On the other hand, in 2008, SUNAT observed operations with a non-domiciled provider and under the argument that the Company was making withholdings on said provider, issued fine resolutions, which were challenged within the time limits granted by law. Thus, on August 11, 2021 and August 27, 2021, we were notified with TCR Nos. 05980-1-2021 and 05985-11-2021 by means of which the Tax Court revokes the resolutions of Intendancy that confirmed the values the Company challenged.

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

The Intendancy Resolutions resolving the claims presented for the years 2003 to 2010 by the Company were notified by SUNAT between 2008 and 2017. Disagreeing with that adjudicated by SUNAT, appeals were filed on which the Tax Court must rule. 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.

On the other hand, regarding Income Tax payments, on August 31, 2021, we were notified with TCR No. 07061-3-2021 which revokes that appealed insofar as the modification of the coefficients applied to determine payments on account and the recognition of excess payments made in March to May. Consequently, SUNAT must issue a compliance resolution.

The same occurred with the General Sales Tax for 2004 (the ruling of the Court was notified on November 14, 2018). As such, we are awaiting a new settlement.

Furthermore, regarding the Income Tax for fiscal year 2004, dated August 23, 2021, we were notified with the TCR No. 06587-9-2021, that voids that appealed insofar as the objection to the provision for doubtful collection that was not the subject of the sample verified by the Tax Administration. In addition, the Tax Administration confirms the challenges to financial charges, amortization of activated maintenance expenses and TPI. However, it annuls the reparations of expenses for exceptional charges, extraordinary and incentive gratifications granted to an employee, among others. This being the case, SUNAT is to issue the corresponding Intendancy resolution, through which the provisions of the Tax Court are complied with.

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 VAT 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 filed by the Company was admitted for processing. On August 19, 2019, the Court considered the claim as responded to by the Company and the Tax Court. On August 19, 2020, the oral hearing was carried out. The issuance of the judgment of 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 TCR 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 report was carried out in the first instance and on June 11, 2020, we were notified of the ruling that partially upheld the claim insofar as the objections to compensation expenses without substantiation and amortization of intangibles. Furthermore, the ruling declared the claim to be unfounded in relation to the DCP objections and modification of the coefficient. On June 30, 2020, the appeals filed by the parties were admitted. On November 19, 2020, the hearing of the case in second instance was held. On December 31, 2020, the hearing judgment that declared SUNAT's claim founded, solely insofar as the reparation of compensation without reliable substantiation was notified. The judgment declared in favor of the Company, declaring the DCP (sampling) and amortization of intangibles as unfounded. On January 18, 2021, the Company filed a cassation appeal against the unfavorable objection. The cassation appeal is yet to be ruled on.

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

The Company disputes the nullity of TCR No. 1858-1-2019 by means of which the IR No. 0150140013079 is confirmed, thus declaring the claim made against DR Nos. 012-003-0072541 to 012-003-0072552 and MR Nos. 012-002-0028443 to 012-002-0028454 as unfounded, and which were issued for the VAT 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. On April 21, 2021, the oral report was undertaken. To date, the ruling is still pending.

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, such criterion will be applied to the processes and procedures in documentary procedure as 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 Company disputes the nullity of the TCR No. 7453-4-2019, questioning the VAT of the year 2009, and is challenging the following appeals: (i) statute of limitations of the period of commencement of the faculty of collection, and (ii) the 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. On August 25, 2021, the oral hearing was carried out. A ruling 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.

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 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.

Subsequently, on November 17, 2020, we were notified with Intendancy Resolution No. 0150150002575 by means of which the provisions of the TCR No. 04088-4-2020 are complied with.

In view of this, on December 4, 2020, we made the payment of the amount amounting to S/ 1,932,798 corresponding to the Determination Resolutions and Fine Resolutions for the periods of the months of March, July to September, November, and December.

Subsequently, we were notified with the Intendancy Resolution No. 0150140015914 declaring the appeal filed on September 3, 2020 unfounded. Consequently, the corresponding appeal was filed. As a result, on September 6, 2021, the Company was notified with TCR No. 07428-4-2021, which confirms the appealed Intendancy resolution. Consequently, on September 20, we made the payment of the amount S / 521,959.

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 find the corresponding resolutions in accordance with the legal regulations in force in Peru and, in others, it has paid the assessments received.

With regard to:

a) 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. Disagreeing with the decision, an appeal was presented 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 deductions related to: (i) Interconnection expenses; (ii) management fee; and, (iii) doubtful collection provision for the months of February to June, August and October to December, and revoked the deductions related to depreciation not accepted for fixed assets transferred to the equity block, and loss due to exchange differences. On July 13, 2020, the Tax Court notified us of TCR 2275-5-2020, by means of which it declared null the appeal made by the Tax Administration regarding the Nortel Analog 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 a ruling again. Regarding the challenges to the Financial Charges and Overhead, the Supreme Court has adjudicated favorably to SUNAT. On September 30, 2019, the new proceedings judgment was issued, declaring the deductions unfounded for unaccepted depreciations and DCP, and that the deduction for the withdrawal of majority shareholder assets (Red Nortel) is inadmissible. 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. Since December 4, 2020, the oral report is still pending rescheduling.

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 aforementioned appeals have been declared null and void. As such, according to the analysis carried out, and as per with the evaluation of the external advisors, 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 presented by Móviles for the Income Tax and General Sales Tax for the 2001 fiscal year. Disagreeing with the decision, an appeal was presented before the Tax Court.

The Tax Court notified Moviles on January 20, 2017, with TCR No. 11549-2-2016, by means of which the appeal file was adjudicated. This TCR upheld the objections, with the exception of (i) the Management fee; and, (ii) the amortization of intangibles, which were dismissed. 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. Likewise, we have been notified with the Intendancy Resolution No. 0150150002773 which declares the refund requests submitted for overpayments as inadmissible. However, the Company complied with presenting the corresponding Appeal.

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. On November 20, 2020, the oral hearing was held in the first instance. To date, the ruling 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 TCR in court as, on May 3, the ruling was notified 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. A ruling is yet to be made on the admission of the cassation appeal.

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

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

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

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

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

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

Subsequently, on December 2, 2020, we were notified with Intendancy Resolution No. 0150150002588, by means of which the Tax Administration, in supposed compliance with the Tax Court Resolution No. 12003-8-2016, has reinstated the Tax Income, payments on account from January to December 2002, as well as the General Sales Tax for the periods of February, May, September to December 2002, and also the fine resolutions.

However, as we do not agree with that indicated by SUNAT, we have complied with presenting the corresponding appeal, which is pending Tax Court action.

Furthermore, we have initiated an action of amparo. We seek to stop the computing of interests that exceed the legal deadlines that the administration has to determine the repayments and fines of the Income Tax of the 2002 fiscal year. On January 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. On December 29, 2020, the appeals filed by the parties were admitted. On October 14, 2021, the hearing of the case in second instance was held, pending the issuance of the corresponding sentence.

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 dismissed 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. On January 11, 2021, the oral report was held in the second instance. On January 31, 2021, the 7th Contentious Chamber issued the judgment of second instance, in which it declared the nullity of the judgment of first instance that decided to declare the SUNAT claim founded in all its aspects. The oral report was held on July 8, 2021. A ruling 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 remote.

On October 24, 2018, SUNAT challenged TCR 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 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 case, we consider that the contingency rating of this case is remote.

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

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

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

Regarding the objections that were sustained by the TC: 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, TCR No. 10997-1-2017 was challenged in court. On March 11, 2019, the ruling of first instance was deemed as invalid regarding the claim on the modifications to the DCP; the expenses registered for the granting of a line-of-credit contract, Account 671110; depreciation of the cost of assets and calculation of late interest between December 25, 2006 and March 15, 2007; and inadmissible regarding the modification of the coefficient of payments on account. Furthermore, the challenge to the capitalization of interest for the period between December 25, 2006 and March 15, 2007 was declared invalid.

On August 27, 2019, the judgment upheld the claim for the modification of the DCP only insofar as the telephone receipts. As such, on September 17 and 18, 2019, the parties filed appeals, which were submitted to the Supreme Court on September 23, 2019. Since March 18, 2021, the oral report before the Supreme Court has been pending rescheduling.

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 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 4, 2020.

Subsequently, on October 1, 2020, we were notified with Intendancy Resolution No. 0150140015607, whereby the Tax Administration, in supposed compliance with the Tax Court Resolution No. 10982-9-2019, has declared the appeal filed by MÓVILES against Fine Resolution No. 012-002-0015547 unfounded. Said Resolution was issued for the alleged offense contained in number 1 of article 178 of the Tax Code, regarding the General Sales Tax for the period of June, 2004.

As we do not agree with the aforementioned, on October 21, 2020, we filed a corresponding appeal, which was resolved by TCR No. 03230-9-2021 that declared our appeal unfounded. Consequently, SUNAT issued Intendancy Resolution No. 0150150002940 that complies with the provisions of the Tax Court in TCR No. 10982-9-2019. However, as we do not agree with the provisions, we have submitted the corresponding appeal.

On March 12, 2020, we were notified with a new lawsuit from SUNAT which focuses 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. On August 12, 2021, the Court declared our objection of failure to exhaust the administrative remedy as founded and, consequently, the process was filed. To date, the process has concluded.

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 contract account 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 remote.

Furthermore, we have initiated an action of amparo. We seek to stop the computing the interests that exceed the legal deadlines that the administration has to determine the modifications and fines for the Income Tax of the 2004 fiscal year. By means of Resolution No. 01 of June 13, 2018, the claim was admitted for processing. On 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. The very same was admitted on October 1, 2020. On April 8, 2021, the oral report was held in the Superior Court. On April 26, 2021, a ruling notified that the Superior Court had declared the exception of lack of exhaustion of the administrative remedy filed by SUNAT as founded and, consequently, the claim was inadmissible and all the proceedings were annulled. On May 10, 2021, we filed an appeal for constitutional grievance in order for the Constitutional Court to rule on our claim.

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.

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

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

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

TM challenges Tax Court Resolution No. 5018-1-2019 through which the IR of 2003 is disputed, challenging the following objections: (i) objection to account 634003 "Maintenance and repair of equipment and cabins", (ii) objection to account 635001 "Office real estate rental", (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 VAT February and March 2003, (vi) Improper calculation of default interest, (vii) Objections to expense accounts 621002, and (viii) Inapplicability of interest for justified delay. The claim was filed on October 30, 2019 and admitted on November 11, 2019. The first instance oral report was set for February 15, 2021. The claim filed by the Company has been declared unfounded. On October 12, 2021, we filed the corresponding appeal, which is pending granting.

TM challenges Tax Court Resolution No. 7639-9-2010 through which the VAT of the year 2010 is questioned regarding the following challenges: (i) Prescription regarding the commencement period for the power of collection of DR Nos. 012-003-0076597 to 012-003-0076608, and MR No. 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 accepted on May 7, 2020. On June 19, 2020, we appeared before the TC process, and SUNAT presented its response. On October 1, 2021, the oral report was held.

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 TCR No. 6575-10-2019. On January 24, 2020, we submitted our response to the lawsuit. On June 10, 2021, the oral report was carried out. The issuance of the corresponding ruling 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.

Additionally, TM disputes the invalidity of Tax Court Resolution No. 6575-10-2019 by means of which the 2003 IR and VAT 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. Subsequently, on March 2, 2021, we were notified with Intendancy Resolution No. 0150150002700 by means of which the Tax Administration is supposedly in compliance with the Resolution of the Tax Court. However, as we do not agree with the provisions of SUNAT, on March 23, 2021 we presented an appeal, which is pending its due attention. 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. On June 10, 2021, the oral report was carried out. The issuance of the corresponding ruling 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.

Regarding the 2009 fiscal year, on February 27, 2020, we were notified with TCR No. 12147-4-2019. On this occasion, the Tax Court decided to raise the following objections: (i) Expenses accrued in the year invoiced and/or received extemporaneously, (ii) Roaming services substantiated by payment vouchers received extemporaneously, and (iii) Deduction not accepted for untimely operations; accrued in accordance with IAS, while maintaining the following objections: (i) Unsubstantiated credit notes linked to El Pacífico Peruano - Suiza Cia - others, (ii) ITF expenses that do not comply with the principle of causality, and, also, (iii) Incidence of challenges made in TM SAC due to 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 remedy presented by SUNAT is pending a ruling. On September 09, 2020, the oral submission was heard. A ruling 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, regarding the 2004 fiscal year, Telefónica Móviles disputes the partial nullity of TCR No. 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 Nos. 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); and (iii) Default interest. On May 24, 2020, we filed an administrative contentious lawsuit, which has been admitted for processing. On August 19, 2020, the oral hearing was carried out. A ruling 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.

Regarding the same financial year, we were notified with TCR No. 02663-1-2020 that declares the appeal unfounded insofar as the request for the statute of limitations; and, in addition, upholds the Intendancy Resolution regarding the objection 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 probable.

On the other hand, we have been notified with TCR No. 07509-4-2021 that voids the challenges to a lower amount and undue deduction of interconnection, depreciation, and / or amortization expenses for which it does not substantiate the start of operations or the useful life of the asset, among others. It also upholds the challenges to the depreciation and/or amortization corresponding to the cost of sales of equipment and charges to the income accounts for unsubstantiated credit notes.

As such, SUNAT is obligated to issue a new Intendancy resolution in compliance with the provisions of the aforementioned TCR.

Finally, for fiscal year 2005, we were notified with the TCR No. 01849-1-2020 that resolves: (i) uphold the objection and rule in favor of 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. In this regard, on October 16, 2020, we filed a contentious administrative claim. Since March 31, 2021, the claim is still to be admitted for processing.

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 the other hand, regarding the same TCR No. 01849-1-2020 for fiscal year 2005, on October 21, 2020, we were notified with the contentious-administrative lawsuit filed by SUNAT, which disputes the objection to the doubtful collection provision that was not the subject of the sample. The oral report in the first instance has been scheduled for January 13, 2022.

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.

Likewise, on October 4, 2021, the Tax Court notified of TCR No. 08157-4-2021, which nullifies various objections such as unaccepted tax depreciation expenses referring to fixed assets for which it does not substantiate the operations commencement date nor the useful life of the asset, unaccepted financial charges recorded (account 67110 - Interests Telefónica Debt for provision of swap interest), deduction not accepted for return of challenged CPP provisions and donations, among others. Likewise, it orders that, for the balance of previous years, SUNAT must comply with the 2004 ruling.

Therefore, it is appropriate for SUNAT to issue an intendence resolution by virtue of the provisions of the Tax Court in the aforementioned TCR.

Moreover, in relation to fiscal year 2009, on October 23, 2020, we filed a contentious administrative claim against TCR No. 2663-1-2020, which unfavorably ruled against the Company in terms of the following objections: (i) prescription; (ii) excess recreational expenses that are not deductible according to Income Tax regulations; (iii) pro rata tax credit; (iv) compensation; (v) fine resolutions. The claim is still to be admitted for processing.

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.

For fiscal year 2013, SUNAT issued determination resolutions and fine resolutions on the grounds that the Company had not complied with substantiating various expenses, therefore the corresponding challenge was filed. However, on September 22, 2021, SUNAT issued Intendancy Resolution No. 0150140016168 that declares the claim resource partially founded. SUNAT nullifies the duplication of an objection. Faced with this, the Company filed an appeal.

Finally, in relation to fiscal year 2002, on October 6, 2021, we filed a contentious administrative claim against TCR No. 5586-4-2021, which ruled unfavorably for the Company, the following objections (i) Expense for " Depreciation and undue amortization "by allegedly not having accounted for the cost value; (ii) Expenses for payments for telephone sales commission services, returns and related reclassifications, included under the "Retail Package Commission" expense; (iii) Expenses for payments for various services, returns and related re-classifications, included under the expense "Services rendered by third parties - deduction for INTERCON"; (iv) Maintenance and repair of equipment and cabins (S / 1,370,996); (v) Other repairs confirmed by the TCR, only insofar as that confirmed in each repair: Various local fees, Local Validity and others, Fixed monthly charge, Deductions requested, VAT on expenses that do not comply with causality. Said claim is yet to be admitted for processing.

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

f) Mobile Royalties -

On February 27, 2012, the MTC notified the Company of the settlement of the annual payment of the mobile royalties for using the radioelectric spectrum corresponding to that year as per the

General Regime, arguing that the Special Regime, to which Telefónica Móviles was subject at the time, was no longer applicable given its temporary nature.

As a 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. Furthermore, for the years 2015 and 2016, the Company filed claims before the MTC, which are pending determination by the Tax Court.

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

Regarding the mobile canon 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 years 2015 and 2016 which were not made as a precautionary measure was obtained in the procedure of Bureaucratic Barriers, and as a consequence of the definitive determination from INDECOPI.

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

On January 27, 2017, the Company responded to the aforementioned requirement stating that (i) as at 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, due to this, start a procedure stop the concession, Telefónica proceeded to pay the 2015 and 2016 periods for amounts amounting to S/ 50,787,968 and S/ 52,107,136.

On September 24, 2020, the Supreme Court declared the MTC's cassation appeal founded, and consequently the judgment of the Superior Court was overruled. On February 3, 2021, the judgment of the Superior Court declared the claim as unfounded. On February 18, 2021, we learned that the MTC filed a cassation appeal (we have not yet been notified). The file has been in the Supreme Court since July 12, 2021.

Company Management and its internal and external legal advisors estimate that there are legal arguments to indicate that the final determination issued in the contentious-administrative process promoted by the MTC against the INDECOPI decision will be favorable. If so, 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, SUNAT has notified of various resolutions for alleged omissions regarding income tax.

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

Regarding the Income Tax for the year 2012 for Multimedia, on June 17, 2015, SUNAT issued Determination Resolutions No. 012-003-0059229 to 0059241 and Fine Resolutions No. 012-002-0025995 to 0025997. The main remedy undertaken by SUNAT corresponds to the expenses that are supported with documentation and that were received after the presentation of the sworn statement. Disagreeing with the stipulations of the Determination and Fine Resolutions, the Subsidiary filed a Claim Appeal. On January 22, 2016, SUNAT communicated Intendancy Resolution No. 0150140012250, by means of which the aforementioned Claim Appeal was declared invalid. As such, an appeal was filed with the TC, which was resolved through TCR No. 3752-3-2020, and 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.

Subsequently, on December 1, 2020, the Company was notified with Intendancy Resolution No. 0150150002586 issued in compliance with what was resolved by the Tax Court in Resolution No. 03752-3-2020. However, as we do not agree with that stated by SUNAT, we have filed an appeal.

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.

Finally, with respect to fiscal year 2012, on December 11, 2020, we filed a contentious-administrative claim against TCR No. 3752-3-2020 that ruled against the interests of the Company in terms of the following objections: (i) income improperly considered as deferred and that accrued in 2012; (ii) provision for expenses not accepted as they have not been substantiated; (iii) late payment interest on account from March to December 2013; and (iv) fine resolutions regarding IR 2012 and its payments on account. On December 11, 2020, the court accepted the claim for processing. The oral report in the first instance has been scheduled for January 18, 2022.

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, Tax Court Resolution No. 149-4-2019 is disputed as it confirms IR No. 0150140014378, thereby declaring 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. On November 2, 2020, the judgment of first instance declared our claim founded and consequently the TCR null. As such, the payment of late interest due to modification of the coefficient is not applicable. However, the Superior Court reversed the judgment of first instance, by virtue of the SUNAT appeal, and declared our claim unfounded. On January 12, 2021, we filed a cassation appeal against said judgment, which is pending acceptance.

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.

Finally, regarding the 2007 financial year, on October 21, 2020 we were notified with a contentious-administrative claim filed by SUNAT through which it discusses the objections of financial expense for execution of the letter of guarantee and expenses for payment of metallic promotion 2005-2006-2007. On April 21, 2021, we attended the proceedings. On October 1, 2021, the oral report was held.

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.

In relation to the processes detailed above, as of September 30, 2021, as set forth in Notes 2.20 and 2.21, the Company has recorded the necessary provisions for cases considered probable. There are no possible contingents (S/ 721,219,000 as of December 31, 2020). 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.

Furthermore, 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 stated in Note 2.20, the Company had registered the required provisions, leaving as a possible contingency an amount of S/ 668,035,000 (S/ 567,148,000 as at December 31, 2020). 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.

33 SUBSEQUENT EVENTS

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