TOTAL PLAY TELECOMUNICACIONES, S.A. DE C.V.
AND SUBSIDIARIES
(Subsidiary of Corporación RBS, S.A. de C.V.)

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

TOTAL PLAY TELECOMUNICACIONES, S.A. DE C.V.
AND SUBSIDIARIES
(Subsidiary of Corporación RBS, S.A. de C.V.)

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

INDEX

Contents	Page
Independent auditor's report	1 to 3
Consolidated statements of financial position	4
Consolidated statements of comprehensive income (loss)	5
Consolidated statements of changes in equity	6
Consolidated statements of cash flows	7
Notes to the consolidated financial statements	8 to 54

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors of
Total Play Telecomunicaciones, S.A. de C.V. and Subsidiaries
(Subsidiary of Corporación RBS, S.A. de C.V.)

Opinion

We have audited the accompanying consolidated financial statements of Total Play Telecomunicaciones, S.A. de C.V., and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income (loss), statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Total Play Telecomunicaciones, S.A. de C.V., and its subsidiaries as at December 31, 2019 and 2018, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *"Auditor's responsibilities for the Audit of the Consolidated Financial Statements"* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

As mentioned in Note 22 a) to the consolidated financial statements, on March 2, 2020, the Group, its subsidiary Total Box, S.A. de C.V., Banco Azteca, S.A., as trustee of Fideicomiso (Trust) F/1136 and CI Banco, S.A., carried out a program of issuance of securitized certificates for up to the amount of $5,000,000 (thousands of pesos). On its first issuance, $2,500,000 (thousands of pesos) were placed, the resources to be used for debt substitution bearing an interest rate greater than that of the placement and for working capital. The securitized certificates are traded on the Bolsa Institucional de Valores, S.A. de C.V. (Institutional Stock Exchange, S.A. de C.V. or BIVA for its acronym in Spanish), thereby starting from year ended December 31, 2019 the Company has the obligation to report quarterly financial information to the BIVA and to the Comisión Nacional Bancaria y de Valores (National Banking and Exchange Commission); likewise, the Company is obliged to meet certain corporate and legal obligations in its capacity as Administrator of irrevocable Fideicomiso (Trust) CIB/3370 dated January 30, 2020.

Paseo de la Reforma 295 - 8, Col. Cuauhtémoc, 06500, México, D.F.
Tel: + 52(55) 5980 5200, Fax: + 52(55)5980 5310
www.mazars.mx

Mazars Auditores S. de R.L. de C.V.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion. Reasonable assurance is a high level of assurance but is not guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- **Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.**

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and the significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Mazars Auditores, S. de R.L. de C.V.

CPC Martín Pérez García
Partner

Mexico City,
May 18, 2020.

TOTAL PLAY TELECOMUNICACIONES, S.A. DE C.V. AND SUBSIDIARIES
(Subsidiary of Corporación RBS, S.A. de C.V.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Notes 1 and 2)

Figures expressed in thousands of Mexican pesos

Assets	Notes	December 31 2019	December 31 2018
CURRENT ASSETS:			
Cash and cash equivalents	2i and 3	$ 227,212	$ 47,012
Accounts receivable:			
Customers – Net	2k and 4	2,155,941	1,242,050
Other receivables	2k	39,846	-
Recoverable taxes		1,968,410	1,164,610
Related parties	5	101,415	-
Fiduciary rights	4d	946,901	656,960
Inventories	2l and 6	1,260,484	954,274
Prepaid expenses	2m and 7	142,863	236,726
Derivative financial instruments	2j and 15b	1,975	6,606
Total current assets		6,845,047	4,308,238
NON-CURRENT ASSETS:			
Property, plant and equipment - Net	2n and 8	22,604,821	18,298,628
Right-of-use assets – Net	2r and 9a	3,620,453	-
Trademarks and other assets	2p and 10	1,065,139	177,092
Deferred income tax asset	2t and 14b	321,154	391,399
Total non- current assets		27,611,567	18,867,119
Total assets		$ 34,456,614	$ 23,175,357

Liabilities and Equity	Notes	December 31 2019	December 31 2018
SHORT-TERM LIABILITIES:			
Short-term portion of long-term debt	2s and 11	$ 1,395,401	$ 2,322,705
Lease liabilities	2r and 9	1,453,430	-
Trade payables		3,546,950	4,219,019
Reverse factoring	12	964,739	1,855,966
Other payables	2v	878,197	594,193
Related parties	5	245,644	241,026
Unearned revenue		195,126	365,252
Interest payable		892	99,331
Total short-term liabilities		8,680,379	9,697,492
LONG-TERM LIABILITIES:			
Long-term debt	2s and 11	13,725,543	9,773,591
Lease liabilities	2r and 9d	2,934,517	-
Trade payables		75,315	413,726
Reverse factoring	12	-	713,902
Other payables	2v	279,003	281,453
Employee benefits	2u and 13	34,333	17,387
Total long-term liabilities		17,048,711	11,200,059
Total liabilities		25,729,090	20,897,551
Commitments y contingencies	2v and 17	-	-
EQUITY:	2w, 18 and 19		
Capital stock		2,336,991	2,336,991
Paid-in capital		1,539,398	1,539,398
Contributions for future capital stock increases		5,000,000	-
Retained earnings (losses):			
Legal reserve		183,368	183,368
Prior years		(2,711,056)	(2,477,350)
For the year		662,549	(233,706)
Other comprehensive income		1,716,274	929,105
Total equity		8,727,524	2,277,806
Total liabilities and equity		$ 34,456,614	$ 23,175,357

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

TOTAL PLAY TELECOMUNICACIONES, S.A. DE C.V. AND SUBSIDIARIES
(Subsidiary of Corporación RBS, S.A. de C.V.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Notes 1 and 2)

Figures expressed in thousands of Mexican pesos

	Notes	Years ended December 31, 2019	2018
Revenue from services	2x and 20	$ 14,267,364	$ 10,569,275
Cost of services	2y and 20	(3,506,105)	(2,387,731)
Gross profit		10,761,259	8,181,544
General expenses:			
Network-related	2y and 20	(1,811,861)	(1,910,477)
Sales and administration	2y and 20	(3,434,739)	(3,309,283)
Depreciation and amortization	2n, 8 and 9	(1,773,706)	(1,296,782)
Subscribers acquisition cost	2z and 8	(2,604,808)	(1,836,374)
Other expenses – Net		(55,049)	(34,636)
		(9,680,163)	(8,387,552)
Operating profit (loss)		1,081,096	(206,008)
Financial cost:			
Accrued interest income	2x	56,119	19,413
Change in fair value of financial instruments	15b	(869)	44
Accrued interest payable:			
Accrued interest expense	11	(284,170)	(411,117)
Leases	9	(136,262)	-
Other financial expenses		(54,156)	(103,534)
Foreign exchange gain – Net	2aa	100,094	176,499
		(319,244)	(318,695)
Income (loss) before income tax provisions		761,852	(524,703)
Income tax provisions	2t and 14	(99,303)	290,997
Net income (loss)		662,549	(233,706)
Other comprehensive income:			
Fair value of intangibles	2p	790,000	-
Hedge fair value	15b	(3,717)	6,561
Actuarial losses	2u and 13	(2,155)	(3,283)
Result from foreign subsidiary translation	2aa	3,041	45
		787,169	3,323
Net comprehensive income (loss) for the year	2cc	$ 1,449,718	($ 230,383)

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

TOTAL PLAY TELECOMUNICACIONES, S.A. DE C.V. AND SUBSIDIARIES
(Subsidiary of Corporación RBS, S.A. de C.V.)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Notes 1 and 2)

Figures expressed in thousands of Mexican pesos

					Retained earnings (losses)				
	Notes	Capital stock	Paid-in capital	Contributions for future capital stock increases	Legal reserve	Prior years	For the year	Other comprehen-sive income	Total equity
Balances as of December 31, 2017		$2,336,991	$ 1,539,398	$ -	$ 183,368	($ 1,651,316)	($802,842)	$ 925,782	$ 2,531,381
Adjustment to retained losses from adoption of IFRS 9		-	-	-	-	(23,192)	-	-	(23,192)
Appropriation of prior year net loss		-	-	-	-	(802,842)	802,842	-	-
Comprehensive loss for the year	2cc	-	-	-	-	-	(233,706)	3,323	(230,383)
Balances as of December 31, 2018		$2,336,991	$ 1,539,398	$ -	$ 183,368	($ 2,477,350)	($ 233,706)	$ 929,105	$ 2,277,806
Appropriation of prior year net loss		-	-	-	-	(233,706)	233,706	-	-
Contributions for future capital stock increases	18a	-	-	5,000,000	-	-	-	-	5,000,000
Comprehensive income for the year	2cc	-	-	-	-	-	662,549	787,169	1,449,718
Balances as of December 31, 2019		$2,336,991	$ 1,539,398	$ 5,000,000	$ 183,368	($ 2,711,056)	$ 662,549	$ 1,716,274	$ 8,727,524

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

TOTAL PLAY TELECOMUNICACIONES, S.A. DE C.V. AND SUBSIDIARIES
(Subsidiary of Corporación RBS, S.A. de C.V.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Notes 1, 2 and 3)

Figures expressed in thousands of Mexican pesos

	Years ended December 31, 2019	2018
Operating activities:		
Income (loss) before income tax provision	$ 761,852	($ 524,703)
Items not requiring the use of resources:		
Depreciation and amortization	1,773,706	1,296,782
Subscriber acquisition cost	2,604,808	1,836,374
Employee benefits	14,791	1,274
Items related to investing or financing activities:		
Accrued interest income	(55,250)	(19,457)
Accrued interest expense and other financial transactions	420,432	411,117
Unrealized foreign exchange gain – Net	-	(530)
	5,520,339	3,000,857
Resources (used in) generated by operating activities:		
Customers and unearned revenue	(1,084,017)	(45,101)
Other receivables	(39,846)	2,536
Related parties, net	(96,797)	25,511
Recoverable taxes	(803,800)	(214,788)
Inventories	(306,210)	(343,529)
Prepaid expenses	93,863	(169,316)
Trade payables	(1,010,480)	1,838,013
Other payables	285,509	(74,121)
Paid income taxes	(29,058)	(24,013)
Cash flows generated by operating activities	2,529,503	3,996,049
Investing activities:		
Acquisition of property, plant and equipment	(7,896,255)	(6,561,232)
Other assets	(98,047)	(3,841)
Collected interest	55,250	19,457
Cash flows (used in) investing activities	(7,939,052)	(6,545,616)
Financing activities:		
Contributions for future capital stock increases	5,000,000	-
Loans received	3,024,648	2,125,592
Leasing cash flows	1,150,647	-
Fiduciary rights	(289,941)	(123,150)
Reverse factoring	(1,605,129)	1,901,444
Interest payment	(1,690,476)	(1,363,699)
Net cash flows generated by financing activities	5,589,749	2,540,187
Net increase (decrease) in cash and cash equivalents	180,200	(9,380)
Cash and cash equivalents at the beginning of the year	47,012	56,392
Cash and cash equivalents at the end of the year	$ 227,212	$ 47,012

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

NOTE 1 – DESCRIPTION OF THE GROUP:

a. Entity:

Total Play Telecomunicaciones, S.A. de C.V. ("the Company") was incorporated on May 10, 1989 under Mexican laws. The Company is a 99% direct subsidiary of Corporación RBS, S.A. de C.V (parent company at the last level of consolidation).

The head office of the Company is domiciled at Ave. San Jerónimo 252, Colonia La Otra Banda, 04519, Alcaldía Alvaro Obregón, Mexico City, Mexico.

The Company has no employees and obtains personnel services from its subsidiaries.

b. Activity:

The main businesses activities of the Company and its subsidiaries are:

(i) to install, operate and exploit public telecommunication networks and/or cross-border links, through concession rights granted, as the case may be, by the Mexican Communications and Transportation Secretary (SCT by its acronym in Spanish);

(ii) the sale, distribution, installation, lease and trading of telecommunication devices;

(iii) the operation of the concessions, authorizations or rights granted by the SCT;

(iv) to provide restricted television/audio services, internet access and fixed telephony services.

The Company operation is regulated by the Federal Telecommunications Law (LFT for its Spanish acronym) through the Federal Telecommunications Institute (IFT for its Spanish acronym)

The Company has been granted the following concessions or amendments to the concessions by the Mexican Federal Government:

- October 16, 1995 – concession to operate in the national and international long-distance segments, as well as to provide value added services (the Concession Title). See Note 22b

- December 19, 2005 – basic local telephony services on a national basis, through the amendment of the Concession Title.

- November 6, 2009 – an authorization was added to provide restricted television/audio services through an amendment to the Concession Title.

c. TP Group:

The Company is the controlling shareholder of the following entities, which are domiciled and carry out their activities in Mexico (except Iusatel USA):

Company	Date of incorporation	% of direct or indirect interest		Activity
		2019	2018	
Iusatel USA, Inc. (Iusatel USA)	2001	100%	100%	Participant in the long-distance market in the United States of America.
Tendai, S.A. de C.V.	April 3, 2013	100%	100%	No operations.
Total Box, S.A. de C.V.	March 5, 2014	100%	100%	Lease of decoders.
Gesalm Consultores, S.A. de C.V.	December 11, 2014	100%	100%	Personnel services.
Gesalm Asesores, S.A. de C.V.	December 11, 2014	100%	100%	Personnel services.
Gesalm Servicios, S.A. de C.V.	May 12, 2015	100%	100%	Personnel services.

NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of preparation and presentation of the financial information

The accompanying consolidated financial statements were prepared under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

IFRSs are comprised by the IFRS and by the International Accounting Standards (IAS), their Amendments and Interpretations to both IFRS and IAS (IFRIC and SIC, respectively).

The preparation of the consolidated financial statements in compliance with the adopted IFRSs requires the use of certain critical accounting estimates. It also requires TP Group's Management to use their judgment when applying TP Group's accounting policies. The areas in which significant judgments and estimates have been made when preparing the consolidated financial statements and their effect, are described in Note 2f.

The 2019 Company's consolidated financial statements were approved by Mr. Alejandro Enrique Rodríguez Sánchez (Chief Financial Officer, TP Group) and by Mr. Gildardo Lara Bayón (Controlling Director, Grupo Salinas) on May 18, 2020. Said consolidated financial statements will be subject to the Board of Directors' and the Stockholders' approval at their upcoming meetings. The Stockholders can modify the financial statements after their issuance in accordance with the Mexican General Corporate Law.

b. Consolidated financial statements

TP Group's consolidated financial statements include the Company's and all of its subsidiaries as of December 31, 2019 and 2018 (see Note 1). The Company controls a subsidiary when it is exposed to or has the right to variable returns derived from its involvement with the subsidiary and has the ability of affecting those returns through its power over the subsidiary. All of the Company's subsidiaries present their financial information for consolidation purposes as of December 31, 2019 and 2018, in compliance with TP Group's policies.

All the operations and balances between the Company and its subsidiaries have been eliminated in consolidation, including unrealized gains and losses in transactions between them. In those cases, in which an unrealized loss arises from an intercompany sale of fixed asset, it is reversed in consolidation, in order to test the related asset for impairment from a consolidated perspective. The reported amounts in the Company's subsidiaries have been adjusted when necessary in order to assure the consistency with TP Group's accounting policies.

The subsidiaries' assets, liabilities and results are included or excluded in consolidation on the date those subsidiaries were acquired and up to the approval date of the disposal plan. Subsidiaries' gains or losses and other items of their comprehensive income, are recognized starting from the date of acquisition and up to the disposal date, as applicable, considering that through the acquisition, control is obtained and it is lost at the time of the disposal.

Likewise, the subsidiaries' financial statements were audited by independent auditors.

c. Functional currency

The consolidated financial statements are presented in Mexican pesos ($), the currency under which the Company and its Mexican subsidiaries have to maintain their accounting records pursuant to Mexican law. Said currency is also the Company's reporting currency and functional currency.

d. Changes in accounting policies from the adoption of new IFRS and Improvements to IFRS

Following are the standards and improvements which may have an effect in TP Group's financial information, in force as of the date of the accompanying consolidated financial statements. TP Group evaluated the effect of these standards and improvements on its consolidated financial statements as detailed in the subsections i and ii.

TP Group initially applied IFRS 16, *Leases*, starting from January 1, 2019. A few other standards became effective since January 1, 2019, but do not have a significant effect on the financial statements of TP Group.

i. Change in the trademark registration model

Starting in year 2019, the Company decided to change the registration model of the TotalPlay trademark ("the Trademark") and change the measurement model in accordance with IAS 38, *Intangible Assets.*

For the determination of fair value, the Company requested an independent and prestigious firm such determination. The measurement followed the following guidelines and was performed in accordance with IFRS 13 *Fair Value Measurement*:

- **The revenue approach was applied, specifically the royalty method. The principle of this method is that the value of the intangible asset is equal to the present value after taxes of the royalties attributable to the ownership of the intangible asset.**
- **The cash flow projection represents the Management best estimate on the set of economic conditions considered to prevail during the future of the business;**
- **It was considered that 87% of total revenue is attributable to the Trademark;**
- **The Trademark usage expectation was for an indefinite period (useful life);**

- **The royalty rate was 0.75, in accordance with a royalty universe related with the business;**
- **The discount rate applied was 13.5% and reflects the risk associated with intangible asset;**
- **To the present value on royalty savings attributable to the Trademark was added the benefit of the tax amortization, considering the income tax rate of 30.0% in Mexico.**

The result of the measurement gave a fair value of $930,000, thereby recognizing an increase in non-current assets and equity for an amount of $790,000 at December 31, 2019.

ii. New standards, interpretations and modifications effective starting from January 1, 2019.

IAS 16, Leases.

IFRS 16, *Leases*, supersedes IAS 17, *Leases*, jointly with three Interpretations (IFRIC 4, *Determining whether an Arrangement Contains a Lease*, SIC 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the substance of transactions involving the legal form of a Lease*).

At the start of a contract, TP Group evaluates if the contract is, or contains, a lease. A contract is, or contains, a lease if conveys the right to control the use of an identified asset for a time period in exchange for a consideration. To evaluate if the contract entails the right to control the use of an identified asset, the TP Group applies the definition of lease included in IFRS 16.

Adoption of this new standard gives as a result that TP Group recognizes an asset for the right-of-use and the corresponding lease liability in respect to all prior operating leases, except for those identified as low value or involve a remaining lease term of less than 12 months starting from the date of initial application.

As lessee

At the start or at the time of an amendment to a contract involving the lease component, TP Group allocates the consideration in the contract to each lease component on the basis of its relative independent prices. However, in the case of property leases, the Group has chosen not to separate the components which are not for lease and account for the lease components and those not being leases as a single lease component.

Subsequently, the right-of-use asset is depreciated applying the linear method starting from the starting date and up to the end of the lease term, unless the lease transfers ownership of the underlying asset to TP Group at the end of the lease term or that the cost of the right-of-use asset reflects that TP Group will exert the purchase option. In such a case, the right-of-use asset shall be depreciated throughout the useful life of the underlying asset, which is determine on the same basis as that of property and equipment. Moreover, the right-of-use asset is periodically reduced for the value impairment loss, if any, and adjusted for certain new measurements of the lease liability.

The lease liability is initially measured at the present value of lease payments outstanding as of the starting date, discounting by applying the implicit interest rate in the lease or, if such rate could not be easily determined, the incremental rate for loans by TP Group. In general, TP Group uses its incremental rate on loans as discount rate.

Lease payments included in the lease liability measurement include the following:

- fixed payments including payments fixed in essence;
- variable lease payments, that depend on an index or rate, initially measured using the index or rate at the start date;
- amounts expected to be paid by lessee as guarantee of the residual value; and the exercise price of a purchase option if TP Group is reasonably sure of exerting such option, the lease payments in an optional renewable period if the Group has the reasonable certainty of exerting the extension option and payments for penalizations brought about by the early termination of the lease unless the Group has the reasonable certainty of not terminating the lease early.

The lease liability is measured at amortized cost using the effective rate method. A new measurement is performed when there is a change in the future lease payments as a byproduct of a change in an index or rate, if there is a change in TP Group´s estimate of the amount expected to be paid under a residual value guarantee, if TP Group changes its evaluation as to whether it will exert, or not, a purchase option, extension or termination, or if there is a payment for fixed lease in essence that has been modified.

For the adoption of the new standard the modified retrospective method has been applied. The previous periods have not been restated.

For contracts valid on the date of initial application, TP Group has chosen to apply the definition of lease of IAS 17 and IFRIC 4 and has not applied IFRS 16 to the agreements or contracts not previously identified as lease in accordance with IAS 17 and IFRIC 4.

TP Group has chosen not to include initial direct costs in measuring the right-of-use asset for those operating leases existing on the date of initial application of IFRS 16, which corresponds to January 1, 2019. As of that date, TP Group has chosen to measure right-of-use assets for an amount equal to the lease liability adjusted for any advance or accrued payments that existed on the date of the of the transaction.

In the transition, for leases previously accounted for as operating with a remaining lease term of less than 12 months and for leases of low value, TP Group has applies the optional exemptions of not recognizing right-of-use assets but to register the lease expense in straight-line during the remaining period.

For those leases previously classified as financial leases, the right-of-use asset and the lease liability shall be measured on the date of initial application at the same amounts under IAS 17, immediately prior to the date of initial application.

In the transition to IFRS 16, the weighted average incremental rate of the loans applied to lease liabilities recognized under IFRS 16 was 11.2%.

TP Group has benefitted from the use of previous experience for determining the lease term when considering the options to extend and consider terminated the lease contracts.

Other modifications, interpretations and improvements to existing standards, effective from 2019 or subsequent years, which could be applicable to TP Group include the following:

- **Annual improvements to IFRSs 2015-2017 cycle;**
- **Prepayment features with negative compensation (Modifications to IFRS 9);**
- **Long-term investments in associates and joint operations (Modifications IAS 28);**
- **Plan modification, reduction or liquidation (Modifications to IAS 19);**
- **IFRIC 23, Uncertainty over Income Tax Treatments.**

These modifications, interpretations and improvements to existing standards do not mean changes in accounting policies and do not have a significant impact on the consolidated financial statements of TP Group.

Annual Improvements to IFRSs 2015-2017 cycle, published in June 2018, provide modifications to certain current standards; the topics dealt with by such modifications are as follows:

Standard	Standard affected	Nature of the amendment
IFRS 3	Business Combinations	An entity must measure at fair-value its previously held interest in a joint operation when it obtains control of the business.
IFRS 11	Joint Arrangements	An entity must not remeasure at fair-value its previously held interest in a joint operation when it obtains joint control of the business.
IAS 12	Income Taxes	Accounting treatment of the tax consequences from a dividend distribution.
IAS 23	Borrowing Costs	Any borrowing costs (interest) originally incurred for developing a qualified asset, must be treated as a part of the general borrowing costs, when substantially all the necessary activities for preparing the asset for use or sale, have been completed.

Likewise, a series of new standards are applicable to annual periods starting after January 1, 2019 and early application is allowed; however, new standards or their modifications have not been early applied by TP Group in preparing these consolidated financial statements.

iii. New standards not yet effective nor have been early adopted by TP Group.

Other standards and modifications not yet effective nor yet early adopted by TP Group include:

- **IFRS 17, *Insurance Contracts;***
- **Business Definition (Modifications to IFRS 3);**
- **Definition of Material (Modifications to IAS 1 and IAS 8);**
- **Conceptual Framework for Presentation of Financial Information.**

It is not expected these modifications would have a significant impact on financial statements in the period of initial application and, therefore, no disclosure has been made.

e. <u>Information by segment</u>

Starting from year ended December 31, 2019, the Company has the obligation to report quarterly information to the Institutional Stock Exchange (BIVA) and to the National Banking and Exchange Commission (CNBV), in its capacity as Administrator of irrevocable Trust number CIB/3370 dated January 30, 2020. (See Note 22a).

Thereby, the Company adopted IFRS 8, *Operating Segments* and condensed financial information related to the business segments operated by TP Group, whose operating results are reviewed for decision-making are presented in Note 21.

Each one of the operating segments are managed separately since each service line requires different technologies and other resources, besides the different marketing approaches.

The measurement policies of TP Group used for reporting segments in accordance with IFRS 8 are the same as those used for the financial statements.

f. Critical accounting estimates and judgments

The preparation of consolidated financial statements, in conformity with IFRS, requires TP Group's Management to make estimates and judgments that affect the assets and liabilities reported in the consolidated financial statements. Actual results may differ from those having been estimated. The consolidated financial statements were prepared at historical cost of acquisition base, and where applicable, at fair value. The main estimates and judgments that have been identified are the following:

(i) Inventory and receivables allowances. TP Group uses estimates to determine the inventory and receivables impairment allowances. Some of the factors considered by TP Group for calculating the inventory allowance are the installations volume and the trends of demand of certain products. Some of the factors considered by TP Group in order to determine the receivables' impairment allowance are the client's risk related to its financial situation, unsecured accounts and the portfolio aging in accordance with the credit conditions set (see Notes 4 and 6 for more detail).

(ii) Property, plant and equipment. TP Group reviews the estimated useful life of property, plant and equipment at the end of each annual period, to determine those assets' depreciation, and useful lives are determined in accordance with technical studies prepared by specialized internal staff but external specialists may also participate. The uncertainty degree from to the useful lives' estimates is related to the changes in the market and the usage of the assets. Likewise, TP Group performs estimates of the recovered equipment value when a user cancels the service.

(iii) Capitalization of cost of loans. TP Group uses its judgment in order to determine: (1) the qualifying assets in which the cost of loans will be capitalized; (2) the starting, suspension and ending periods of the capitalization, (3) the foreign exchange losses that may be capitalized.

(iv) Impairment of long-lived assets. When performing the asset impairment tests, TP Group makes estimates on the value of use allocated to its property, plant and equipment, trademarks, and to cash generating units (CGU), in the case of certain assets. Calculations of the value of use require TP Group to determine the future cash flows that should proceed from the CGUs and the adequate discount rate to calculate the present value. TP Group uses the revenue cash flow projections using estimates of the market conditions, prices, market share and volume of installations.

(v) Leases. At the time of registering its lease contracts under IFRS 16, Management has had to use certain estimates in respect to: (1) the possible contract renewals; (2) the discount rate to determine their present value; and (3) the applications of allowed exceptions.

(vi) Employee benefits. Measurement of the liability for employee benefits is performed by independent specialists based on actuarial calculations. Some of the assumptions that may have an important impact, among other, are: (1) discount rates, (2) expected salary increase rates, and (3) rotation and mortality rates based on recognized tables. A change in the economic, labor or tax conditions could modify the estimates.

(vii) Deferred taxes. TP Group has tax loss carry forwards and certain temporary differences, which are susceptible to be used in the following years. Based on projected revenue and taxable profit TP Group is expected to generate in future years, TP Group's Management has considered that a portion of current tax loss carry forwards and temporary differences will be used before their expiration date and, therefore, it was considered appropriate to account a deferred tax asset from those tax losses and temporary differences.

(viii) Contingencies. TP Group is subject to legal procedures on which the possibility of materialization as a payment obligation is assessed, for which the legal situation as of the date of the estimate and the opinion of TP Group's legal advisors are considered. Such assessments are periodically reviewed and in case that the payment obligation becomes probable, the corresponding liability is accounted for.

(ix) Revenue from contracts with customers. In the process of applying TP Group´s accounting policies, Management has performed the following judgments that have had the most significant effects on the figures recognized in the financial statements: (1) determination of performance obligations; (2) the timing in which a revenue must be recognized based on the fulfillment of performance obligations; (3) the average time of equipment installation; (4) cancellations percentage; and (5) registration of the consideration as agent or principal.

g. <u>Consolidated statement of comprehensive income (loss)</u>

TP Group presents the consolidated comprehensive income (loss) in a single statement denominated "Consolidated statement of comprehensive income (loss)", which includes those items comprising net loss and other comprehensive income (OCI).

The expenditures shown in TP Group's consolidated statements of comprehensive income (loss) are presented in a combined manner, since the grouping of costs and expenses allows knowing the different levels of income (loss). Additionally, TP Group presents the operating profit (loss) in its consolidated statements of comprehensive income (loss), since such presentation is a common disclosure practice in the industry that TP Group operates in.

h. <u>Consolidated statements of cash flows</u>

Consolidated statements of cash flows have been prepared by using the indirect method which consists in presenting firstly the income or loss before tax provisions and then the changes in working capital, investment activities and lastly, financing activities.

i. <u>Cash and cash equivalents</u>

Cash and cash equivalents consist of petty cash funds, bank deposits and high-liquidity investments which may be easily converted into cash and which are subject to a small risk of changes in their value.

j. **Financial instruments**

Recognition, initial measurement and de-recognition
Financial assets and liabilities are recognized when TP Group is part of the contractual clauses of a financial instrument.

Financial assets are de-recognized when the contractual rights to the cash flows of a financial asset expire, or when the financial asset and all the substantial risks and rewards have been transferred.

A financial liability is de-recognized when the obligation is extinguished, discharged, canceled or due. Financial assets and financial liabilities are subsequently measured as described below.

An equity instrument like any contract that brings out a residual participation in Company´s assets, after having deducted all of its liabilities, that is, in net assets.

Classification and initial measurement of financial assets
Except for accounts receivable from customers, which do not contain a significant financing component and are measured at the price of the transaction in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted by the transaction costs (in case that this applies).

Financial assets that are not designated, such as hedging instruments, are classified in the following three categories for measurement purposes:

- **Amortized cost.**
- **Fair value through profit or loss (FVTPL).**
- **Fair value through other comprehensive income (FVTOCI).**

The abovementioned classification is determined by considering the following:

- **The entity's business model for the management of the financial asset.**
- **The contractual features of the financial assets cash flows.**

All revenues and expenses related with financial assets are recognized in the income statement and presented as part of financial income, financial expenses or other financial operations, except for the impairment of accounts receivable from customers, which is presented under operating expenses.

Subsequent measurement of financial assets

Financial assets at amortized cost
Financial assets are measured at their amortized cost if those assets meet the following conditions (and are not FVTPL designated):

- **They are kept into a business model with the objective of holding the financial assets and to collect its contractual cash flows.**
- **The contractual terms of the financial assets lead to cash flows that are only payments of principal and interest on the outstanding balance.**

If the financial asset fair value at the initial recognition date differs from the price of the transaction, the instrument is recognized by adjusting it and differing the difference between both values. Afterwards the deferred difference is recognized in the income statement to the extent that a change arises that implies a change in the financial instrument value.

After the initial recognition, these assets are measured at their amortized cost by using the effective interest rate method. The discount is omitted when the discount effect is immaterial. Cash and cash equivalents, receivables from related parties, and most of other accounts receivable are located under this financial instruments category.

Financial assets at fair value through profit and loss (FVTPL)
Financial assets held within a business model different to “holding for collection” or “held to collect and to sell” are categorized at fair value with changes in results. Moreover, aside from the business model, financial assets whose contractual cash flows are not only principal and interest payments are recorded at FVTPL. All derivative financial instruments fall into this category, except those designated and effective as hedge instruments, for which hedge accounting requirements are applied (see below).

The assets qualifying in this category are measured at fair value with the gains or losses recognized in results. Fair value of financial assets in this category are determined by reference to transactions on an active market or using a valuation technique when an active market does not exist.

Financial assets at fair value through other comprehensive income (FVOCI) TP Group accounts for financial assets at FVOCI if said assets comply with the following conditions:

- They are held under a business model with a goal of ´held to collect’ the associated cash flows, and sell, and

- The financial assets contractual terms result in cash flows that are only principal and interest payments of the outstanding amount.

Any gain or loss recorded in other comprehensive income (OCI) will be recycled when the related asset is de-recognized.

For years ended December 31, 2019 and 2018, TP Group held financial assets measured at FVOCI for $1,975 and $6,606, respectively.

Impairment of financial assets
The impairment requirements under IFRS 9 use more future information in order to recognize expected credit losses and said requirements are comprised under the ‘expected credit loss (EPC) model’. This replaces the ‘incurred loss model’ under IAS 39. The instruments under the scope of the new requirements include loans and other financial assets of debt type measured at amortized cost and at FVOCI, accounts receivable from clients, recognized assets from contracts with clients measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) which are measured at FVTPL.

Recognition of credit losses no longer depends on TP Group identifying a credit loss event. Instead, TP Group considers a wider range of information when assessing the credit risk and measures the expected credit losses, including past events, current conditions, as well as reasonable and backed up forecasts that affect the expected recovery of the instrument’s future cash flows. When applying this approach, a distinction is made between:

- Financial instruments whose credit quality has not deteriorated significantly since their initial recognition or with a low credit risk (‘Stage 1’), and
- Financial instruments whose credit quality has deteriorated significantly since their initial recognition or whose credit risk is not low (‘Stage 2’).

The Stage 3 would consider financial assets with a strong evidence of impairment as of the reporting date.

The 'twelve month expected credit loss' is recognized for the first category, while the 'asset's lifetime expected credit loss' is recognized for the second category.

The measurement of the expected credit loss is determined through a weighted estimate of the default probability during the expected lifetime of the financial instrument.

Accounts receivable from clients and other receivables and assets from contracts with clients
TP Group uses a simplified approach to register accounts receivable from customers and other receivables, as well as the assets of contracts with customers, and recognizes the impairment allowance as the expected credit losses during the lifetime of the instrument. These are expected deficits in contractual cash flows, considering the potential default at any time during the life of the financial instrument. TP Group uses its historical experience, external indicators and forecasted information to calculate the expected credit losses through a provision matrix. TP Group assesses impairment of accounts receivable from customers on a collective basis, by grouping the portfolio based on the number of days overdue, since the receivables groups share similar credit risk characteristics.

Classification and subsequent measurement of financial liabilities
Financial liabilities of TP Group include financial debt, suppliers, related parties and other accounts payable.

Financial liabilities are measured initially at fair value and, as applicable, are adjusted for transaction costs, unless TP Group would have designated a financial liability at fair value with changes in results.

Subsequently, financial liabilities are measured at amortized cost by using the effective interest rate method, except for financial liabilities held for trading or that have been designated at fair value through profit or loss, which are kept in the books at fair value with gains or losses recognized in profit or loss (that are not derivative financial instruments designated and effective as hedging instruments).

All the charges related with interest and, if applicable, any change in fair value of an instrument is reported in income and are included under 'interest expense'.

Derivative financial instruments and hedge accounting
As at December 31, 2019 and 2018, TP Group have financial instruments qualified as hedges.

Derivative financial instruments are accounted for at FVTPL, except for those derivatives designated as hedging instruments in the cash flow hedge relationships, which require a specific accounting treatment. In order to qualify for hedge accounting, the hedge relationship must comply with all of the following:

- There is an economic relationship between the hedged item and the hedging instrument,

- The effect of the credit risk does not dominate the changes of value resulting from said economic relationship, and

- The hedge index in the hedge relationships is the same as the resulting from dividing the amount of the hedged item that the entity is really hedging by the amount of the hedging instrument that the entity really uses to hedge said amount of the hedged item.

All the derivative instruments used in the hedge accounting are initially recognized at fair value and subsequently reported at fair value in the statement of financial position. As long as the hedge is effective, changes in fair value of the derivatives designated as hedges in the cash flow hedging operations are recognized under other comprehensive income and included in other equity components.

Any ineffectiveness in the hedging relationship is immediately recognized in results. At the time that the hedged item affects the results, any gain or loss previously recorded in OCI is reclassified from equity to results and presented as a reclassification within OCI. However, if a non-financial asset or liability is recognized as a result of the hedged transaction, gains or losses previously recognized in OCI are included in the initial measurement of the hedged item.

If a forecasted transaction is not expected to occur, any gain or loss recognized in the OCI is immediately transferred to profit and loss. If the hedge relationship ceases to comply with the effectivity conditions, the hedge accounting is discontinued, and the related gain or loss is kept in the equity accounts until the forecasted transaction occurs.

Classification and measurement of equity instruments

In accordance with ISA 32, the issuer of a financial instrument shall classify it in its entirety or in each of its component parts, at the time of initial recognition, as an equity instrument, in accordance with the economic essence of the contractual agreement and with the definitions of financial liability, financial asset and equity instrument.

An instrument shall be of equity if, and only if, it complies with the following:

a. The instrument does not incorporate the contractual obligation of: (i) deliver cash or other financial asset to another entity; or (ii) exchange financial assets or liabilities with another entity under terms potentially unfavorable to the issuer.

b. If the instrument will or may be liquidated with the equity instruments owned by the issuer, it is (i) a non derivative instrument; or (ii) a derivative that will be liquidated only by the issuer through the exchange of a fixed amount in cash or other financial asset for a fixed amount of equity instruments of its own.

k. Accounts receivable from customers and other receivables

i. Accounts receivable from customers

Accounts receivable from customers represent the collection rights stemming from sale of telecommunication services provided in the normal course of the operations of TP Group. These assets are initially valued at the fair value of the agreed upon consideration; subsequently, they are adjusted for the estimated changes in the fair value at which they will be recovered, as a result of the accorded deductions and the recoverability estimates. When it is expected to collect them within a one-year period or less from the date of closing (or in the normal cycle of operations of the business in case the cycle exceeds this period), they are presented as current assets. In the event on non-compliance with the foregoing, they are presented as non-current assets.

The increases and reductions of the estimates of recoverability are determined based on measurement studies and applied to income when determined and presented as part of the cost in the consolidated statement of comprehensive income (loss).

The allowance for doubtful accounts represents the probable loss inherent to all accounts receivable due to the historic trends of accounts receivable.

Those accounts in foreign currency are measured at the exchange rate prevailing at the end of the accounting period.

ii. Other receivables

The other receivables refer mainly to advances for expenses, recoverable taxes and sundry debtors. Assets under this category are presented as current assets, except if they are expected to be recovered in a lapse higher than twelve months from the date of report, in which case they are classified as non-current assets.

l. Inventories

Inventories are accounted for at their acquisition cost and are measured by using the weighted-average cost method, without exceeding their net realizable value. The inventory obsolescence is assessed on a periodical basis and in case it arises, a charge is accounted for in the statement of comprehensive income (loss).

m. Advance payments

Prepaid expenses represent benefits for which the risks inherent in the assets to be acquired or the services to be received are not yet transferred to TP Group.

n. Property, plant and equipment

TP Group´s Management decided to change the recording to the revaluation model for the fiber optic and decoders, since it is considered it reflects their value in a better way, and consequently, as of December 31, 2017 those items are shown at their fair value, as determined by independent appraisers.

The average annual depreciation rates used by TP Group for years 2019 and 2018 are the following:

	2019 (%)	2018 (%)
Communications equipment	10.0	10.0
Fiber optic	4.0	4.0
Decoders	12.5	12.5
Installation expenses	20.0	20.0
Computers	33.0	33.0
Vehicles	25.0	25.0
Constructions	5.0	5.0
Furniture and fixtures	10.0	10.0

o. Borrowing costs

Costs from borrowings directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the time period necessary to complete and prepare the asset to its intended use or sale. Other borrowing costs are charged to income when accrued and are reported under caption “interest expense” (see Notes 8 and 11). For the years ended December 31, 2019 and 2018, TP Group capitalized borrowing costs which amounted to $1,307,867 and $1,022,724, respectively.

p. Intangible assets

Trademarks
Trademarks represent the acquired rights to exploit certain intellectual property (names, logos, etc.).

During year ended December 31, 2019, the Company adopted the revaluation method for the Trademark, in accordance with the description in Note 2d(i), generating an increase in non-current assets and equity for $790,000.

Concessions
Those costs related to the acquisition of concessions rights from the Mexican government to provide long-distance services and the lease of links through a public telephony network have been capitalized and are included under caption “Trademarks and other assets”. Such costs are amortized by using the straight-line method during the initial term of each concession. The Mexican government requires TP Group to comply with certain specific provisions stated in each concession title. As at December 31, 2019 and 2018, TP Group has fulfilled all of those requirements.

q. Long-lived assets assessment

TP Group periodically assesses the recoverability of its tangible and intangible long-lived assets, to identify the existence of circumstances indicating that their carrying values exceed their value of use.

In order to perform the impairment tests, assets are grouped to the lowest level for which there is an adequate independent cash inflow (cash generating units or CGU). As a result, assets are individually tested for impairment and some are tested at a CGU level.

Those CGUs to which goodwill, intangible assets with indefinite life and intangible assets not available for use are tested for impairment at least once a year. The rest of the individual assets or CGUs are tested for impairment if any event or changes in the circumstances indicate that the carrying amount may not be recovered.

An impairment loss is accounted for in the amount for which the assets’ carrying amount exceeds its recovery value, which in turn corresponds to the higher amount between fair value less selling expenses and the value of use. To determine the value of use, Management estimates the expected future cash flows of each CGU and determines a discount rate to calculate the present value of such cash flows. Data used when performing the impairment test are directly linked to TP Group’s most recent authorized budget, adjusted when necessary to exclude the effects of future reorganizations and asset improvements. Discount factors are individually determined for each CGU and reflect their respective risk profiles as assessed by Management.

CGU impairment losses reduce first the carrying amount of any goodwill assigned to the related CGU. The remaining impairment loss is split pro rata between the long-lived assets of the CGU. Except goodwill, all the assets are subsequently assessed in order to confirm that any impairment loss previously recognized no longer exists. An impairment charge may be reverted if the CGU recoverable value exceeds carrying amount.

Impairment test
For the impairment annual test, working capital assets, fixed assets, concessions and other intangibles were considered as a single CGU, considering that TP Group has its own assets to operate independently as an going concern and generates economic cash flows and its own financial information, which allows its analysis individually.

The technique used in order to determine the recoverable value is the fair value less the disposal costs.

As at December 31, 2019 and 2018, TP Group does not present impairment in its assets with indefinite and definite lives.

r. Leased assets

Accounting policy applied starting from January 1, 2019.

See Note 2d(i).

Policy applied until December 31, 2018.

Capital leases
The economic property of the leased asset is transferred to the lessee if the latter assumes substantially all the risks and rewards related to the property of the leased asset. The corresponding asset is recognized in the statement of financial position as an asset and a liability for the same amount, which is the lower between the fair value of the leased asset and lease payments at present value. Payments are distributed in two parts: the financial cost and the reduction of the debt. Said financial cost will be distributed in the period of the lease in a manner that a constant interest rate for each period on the outstanding debt.

Operating leases
Payments for an operating lease are accounted for as expenses based on the straight-line method through the lease term. Associated costs such as maintenance and insurance are charged to income as incurred.

s. Financial debt

Financial debt is initially accounted for fair value net of any operating expense directly attributable to the issue of the instrument. Liabilities that accrue interest are subsequently valued at amortized cost, by using the effective interest rate method, which ensures that any interest expense during the period through completion of the payments resulting in a constant rate on the outstanding liability in the statement of financial position. Interest expense includes initial transaction costs and premiums paid at the time of amortization, as well as any interest or coupon payable while the liability remains outstanding.

t. Income taxes

IAS 12 "Income taxes" states that the tax incurred should be determined based on the tax rules in force and it is recorded in profit or loss of the period to which it is attributable. The effects of deferred taxes consist in applying the applicable tax rate to those temporary differences between the assets and liabilities carrying amounts and their tax values which are expected to materialize

in the future, related to: (i) deductible and taxable temporary differences, (ii) the amounts of tax loss carry forwards, and (iii) unused tax credits.

A deferred income tax asset is only recognized if it is probable that there will be future taxable income to be offset against to. The deferred income tax liability derived from investments in subsidiaries and associates is recognized, except when the reversal of the related temporary differences can be controlled by TP Group and is probable that the temporary difference will not be reverted in the foreseeable future.

Assets and liabilities from deferred taxes are only offset when TP Group has the right and intention to offset the assets and liabilities from taxes of the same tax authority.

Deferred income tax assets are accounted for as long as it is probable that they may be used against future taxable income. This is determined based on projections of TP Group of the future operating results, adjusted by significant items which are reconciled with the tax result and by the limits of use of tax losses or other unused tax credits. Liabilities from deferred taxes are entirely always accounted for.

The current tax for the year is determined in accordance with the tax rules in force.

The effect of changes in tax rates on the deferred taxes is accounted for in profit or loss of the period in which such changes are approved.

u. <u>Employee benefits</u>

Liabilities from benefits granted to the employees of TP Group are determined as follows:

(i) Short-term benefits to employees are accounted for as expenses in profit or loss of the period and their liabilities are expressed at their face value.

(ii) Retirement benefits under the defined benefits scheme require actuarial assumptions in order to measure the acquired obligations and the expense corresponding to each period, and it is also possible to obtain actuarial gains or losses. They are measured by applying the projected credit unit method, considering the present value of the obligation at the date of the consolidated statement of financial position.

(iii) The interest rate used to discount post-employment benefits must be determined by using as reference the market rate of high-quality corporate bonds in absolute terms in a deep market or, that failing, by using as reference the market rate of government-issued bonds.

v. <u>Provisions, contingent liabilities and contingent assets</u>

Provisions are accounted for when present obligations, resulting from a past event, probably will lead to a cash outflow of TP Group and the amounts can be estimated with some reliability. The time or the amount of such outflow can be yet uncertain. A present obligation rises from the presence of some legal or constructive commitment resulting from past events, e.g.: product warranties granted, legal controversies or onerous contracts.

Restructuring provisions are only accounted for if a restructuring formal plan has been developed or implemented and, management has announced, at least, the main characteristics of the plan to the those affected persons or has begun the plan implementation. No future operating losses are recognized.

Provisions are measured by the estimated required expense to settle the present obligation, in light of the most reliable available evidence as of the date of the report, including the risks –and uncertainties associated to the current obligation. When there are a number of similar obligations, the possibility that an expense is required for settling them is determined by considering them as a whole. Provisions are discounted at their present value in cases in which the value of the money in time is material.

Any reimbursement that TP Group considers that is going to be collected from a third party in relation with an obligation, is considered as a separate asset. However, such assets will not exceed the amount of the related provision.

In cases where it is considered a small probable or remote outflow of economic resources as a result of the current obligations, no liability is recognized unless a business combination is on course. In a business combination, contingent liabilities are recognized as of the acquisition date if a present obligation arises from past events and fair value can be reliably measured, even if the resources outflow is not probable. Subsequently, they are measured considering the higher amount between a comparable provision as previously described and the recognized amount as of the acquisition date, less any amortization.

w. Equity

Capital stock represents the face value of outstanding shares.

Paid-in capital includes any premium received from a capital stock issue. Any transaction cost is reduced from the paid-in capital, net from any related income tax benefit.

Retained earnings include all current and prior years' earnings, decreased by losses and transfers to other equity accounts.

All transactions with the controlling entity's stockholders are accounted separately in equity.

Dividend distributions payable to the stockholders are charged against retained earnings and are included in "other payables" when dividends have been declared but remain unpaid as of the date of the report. As at December 31, 2019 and 2018, no dividends have been declared.

Under caption "other comprehensive income" are recorded all the changes in equity which do not represent contributions by or distributions to the stockholders and that are part of comprehensive income (loss).

x. Revenue Recognition for contracts with clients and other income

Revenue from telecommunication services derive from the contracts executed between TP Group and clients.

In certain cases, TP Group incurs in a number of incremental costs in order to obtain said contracts, e.g.: commissions paid to the sales force or third-party agents. When the period of the contract exceeds one year, those costs are capitalized, otherwise the IFRS 15 practical approach is applied and expensed as incurred.

For revenue recognition purposes, TP Group follows a five-step process:

(i) Identify the contract(s) with the customer;
(ii) Identify the performance obligations in the contract;
(iii) Determine the transaction price;
(iv) Allocate the transaction price to the performance obligations;
(v) Recognize revenue when (or as) each performance obligation is satisfied.

TP Group recognizes the contract liabilities when a payment is received before the performance obligation is satisfied and those amounts are presented as 'Contract liabilities' in the statement of financial position. Similarly, if TP Group satisfies a performance obligation before payment is received, it is recognized either a contract asset or an account receivable in the consolidated statement of financial position, depending on whether something else than just the passage of time is required before payment is enforceable

Revenue recognition is based on information generated by the billing systems, which include individual data such as the type of package/type of service rendered, billing fees, and other conditions agreed with the clients.

Revenue is recognized as follows:

- Restricted television and audio service, internet access and fixed telephony service – the related revenue is recognized when the service has been provided based on contracts with the subscribers.
- Dedicated links leasing – revenue is recognized when the service has been provided to the lessee based on the leased capacity.

- Interconnection of calls and long-distance service – these services are billed to other operators after both services were terminated in TP Group´s network and are recognized when the service has been provided. Interconnection rates are regulated by the Mexican Federal Telecommunications Institute (IFT by its acronym in Spanish).

Double and triple play revenues.
Double and triple play contracts offered to clients are basically bundles of internet access, fixed telephony and pay television services, which can be adjusted to the needs and taste of the subscriber; said contracts are comprised by a number of packages that range depending on: megabits offered, number of T.V. channels, number of TVs connected and number of telephone lines.

Reconnection fees.
Reconnection fees arise when the subscriber does not pay on time and wants to regain the service; these fees are stipulated in the related contract.

Internet access revenues.
Internet agreements rule the provision of symmetric or asymmetric internet access through fiber optic; symmetric internet is when the download and upload speeds are the same and the asymmetric internet is when there is a gap between the download and upload speeds.

Dedicated internet access is a fixed-bandwidth connection between two points which is available 24/7; its download and upload capacities are the same and are assigned to a single client.

The provision of internet access symmetric or asymmetric, the installation fees and the cession of the equipment for the provided television service, are all considered a single performance obligation since the service to be provided depends entirely on the installation of the equipment in the place designated by the client, since such equipment runs exclusively on hardware and software of TP Group.

Business-oriented services.
Dedicated internet access is a fixed-bandwidth connection between two points which is available 24/7; its download and upload capacities are the same and are assigned to a single client.

LAN to LAN agreements set the conditions for the service that makes it possible for customers to create a logical Local Area Network (LAN) structure between geographically separate sites, based in an Internet Protocol (IP). This allows the client to have absolute control and security of the information.

An IP network agreement is a communication network that uses IP to send and receive data packets between one or more computers. Multiprotocol Label Switching (MPLS) is a routing technique in telecommunication networks, it may be used to route different kinds of traffic, including voice traffic and IP packages.

A cloud services agreement refers to Internet services provision where the client can store information as e-mail, files, etc., and can remotely access it from any site.

Interconnection and long distance revenue
The interconnection service consists in the physical and functional connection between the networks of different telecommunications carriers, in order to allow their users to communicate with each other or to access other services.

Long distance services stem from the connection of a telephonic line located in Mexico and another one in a foreign jurisdiction. Applicable tariffs are dependent on the contract with the customer and location of the recipient of the phone call.

Advertising Services.
Advertising service consists mainly in agreements through which TP Group is obligated to transmit certain advertising material of its clients in different media (movie theaters, pay T.V. channels, newspapers, etc.) in exchange of advertising of TP Group transmitted through the client's own infrastructure.

Interest Revenue.
Interest revenue is accounted for considering the effective interest rate applicable to principal pending amortization during the corresponding accrual period.

Liability for contracts with clients.
Revenue already collected for services not yet provided to the customer is deferred until such services are provided. As at December 31, 2019 and 2018, unearned revenue amounted to $195,126 and $365,252, respectively, and are presented in the statement of financial position under the caption "unearned revenue".

Revenue is integrated as shown in Note 20.

y. <u>Costs and expenses</u>

Costs (with the exception of the subscribers acquisition cost) and operating expenses are recognized as accrued, immediately under the assumption of disbursements which will not generate future economic benefits or when they do not fulfill the necessary requirements to register them accounting-wise as an asset.

Costs and expenses are comprised as shown in Note 20.

z. <u>Subscriber acquisition cost</u>

This item represents the disbursements necessary to install the restricted television or audio service, as well as the dedicated links in order to start providing services to customers and is mainly comprised by the following costs: (i) fiber optic, (ii) installation materials (external plant), (iii) set-top boxes, and (iv) labor cost of the installation.

At the time of the installation such disbursements are capitalized and subsequently amortized during the expected service life-spam of the subscriber (five years). If service is cancelled, the unamortized portion less the amount of the recovered equipment is charged to profit or loss of the period.

aa. Foreign currency transactions

i. **Balances and transactions in foreign currencies. Transactions in foreign currency are accounted for by using the exchange rates prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Mexican pesos by using the exchange rates prevailing at the date of realization or valuation at the date of the consolidated statement of financial position; differences arising are recognized in the consolidated statement of comprehensive income (loss) as foreign exchange gains or losses. Non-monetary captions are not translated at the closing exchange rate of the period and are measured at historical cost (converted using the exchange rates at the date of the operation), except for non-monetary captions measured at fair value which are converted applying the rates of exchange at the date in which fair value was determined.**

ii. **Foreign operations. In the financial statements of TP Group, all assets, liabilities and operations of Iusatel USA, Inc. carried out with a functional currency different to the Mexican peso (presentation currency of the Group) are converted to pesos at the time of consolidation. The functional currency of Iusatel USA, Inc. remained without changes during the reporting period. At the time of consolidation, assets and liabilities have been converted to pesos at the closing exchange rate at the date of the report. Revenue and expenses have been converted to the currency of presentation of TP Group at an average rate of exchange during the period of the report. Foreign exchange differences are charged/credited to other items of comprehensive income and are recognized as effect from conversion within other equity accounts. At the time of disposing of a foreign operation, the conversion effects recognized in equity are reclassified and recognized as part of the gain or loss in the disposal.**

Note 16 shows the foreign exchange position, as well as the exchange rates used in the translation of those balances.

bb. Fair value calculation

TP Group determines the fair value of certain financial instruments, such as derivatives and some components of property, plant and equipment as of the date of reporting the financial statements. The detail of the fair value of financial instruments and of some components of non-financial assets is included in the following notes:

- **Critical accounting estimates and judgments – Note 2f**
- **Property, plant and equipment - Note 8**
- **Financial instruments (including those accounted for at amortized cost) - Note 15**

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date. Fair value measurement assumes a transaction to sell an asset or to transfer a liability takes place:

- **In the principal market for the asset or liability; or**

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

Fair value measurement of an asset or liability is determined by using those inputs that a market participant would use at the time of making an offer for the asset or liability, assuming that those participants act in their own economic interest.

Fair value calculation of a non-financial asset takes into account the ability of the market participants to generate economic benefits derived from the asset's best and greater use or through the sale to other market participant that could make the best and greater use of the asset.

TP Group uses measurement techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All the assets and liabilities, for which measurement or disclosures of their fair value are made, are categorized into the fair value hierarchy described below, based on the lowest level input that is significant to the entire measurement:

- **Level 1- Quoted market prices (unadjusted) in active markets for identical assets or liabilities.**

- **Level 2- Inputs other tan quoted market prices included in Level 1 that are observable, either directly or indirectly.**

- **Level 3- Unobservable inputs for the asset or liability.**

For those assets and liabilities recurrently measured in consolidated financial statements at their fair value. TP Group determines if transfers between levels have been deemed to have occurred through a review of their categorization at the end of the reporting date (based on the lowest significant input for the fair value measurement).

For the measurement of significant assets and liabilities, such as property, plant and equipment, assets held for sale and contingent considerations, independent experts are hired. Criteria for the selection of independent experts considers their market knowledge, reputation, Independence and professional due care.

cc. <u>Comprehensive income (loss)</u>

Comprehensive income (loss) includes TP Group's net income and any other effect which, due to specific accounting standards, is accounted for in "other comprehensive results" and which does not represent an increase, decrease or distribution of capital stock.

Comprehensive income (loss) caption included in the consolidated statement of changes in equity is the result of TP Group's performance during the year.

dd. Earnings (loss) per share

Basic earnings (loss) per ordinary share is determined dividing earnings (loss) by the weighted average of outstanding ordinary shares during the year. The diluted earnings (loss) per share is determined by adjusting net earnings (loss) and ordinary shares, under the assumption that commitments of the entity will be performed to issue or exchange its own shares. Basic earnings (loss) is equal to the diluted earnings (loss) since no transactions exist that could potentially dilute the earnings (loss).

The earnings (loss) per share were determined dividing income (loss) for the period by the weighted average of outstanding shares, as shown below.

	2019	2018
Numerator:		
Net income (loss)	$ 662,549	($ 233,706)
Denominator:		
Weighted avg. of shares – basic	20,661,275	20,661,275
Dilutive effect of unpaid shares	464,947	464,947
Dilutive effect of contributions for future capital stock increases	33,930,379	-
Weighted avg. of shares – diluted	55,056,601	21,126,222
Basic earnings (loss) per share	$ 0.03	($ 0.01)
Diluted earnings (loss) per share	$ 0.01	($ 0.01)

NOTE 3 – CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are integrated as follows:

	December 31, 2019	2018
Petty cash funds	$ 977	$ 594
Checking accounts	47,369	44,555
Short-term investments	178,866	1,863
Total cash and cash equivalents	$ 227,212	$ 47,012

NOTE 4 – ACCOUNTS RECEIVABLE FROM CUSTOMERS:

a. Accounts receivable are integrated in the following manner:

	December 31, 2019	2018
Restricted television and audio subscribers	$ 2,339,497	$ 1,496,202
Telecommunications operators	32,030	8,714
Other	45,222	949
Gross balance	2,416,749	1,505,865
Expected credit loss reserve	(260,808)	(263,815)
Total accounts receivable from customers – net	$ 2,155,941	$ 1,242,050

b. **Receivables gross balance ageing:**

	December 31, 2019	December 31, 2018
Up to 30 days	$ 999,755	$ 830,621
From 31 to 60 days	132,570	194,903
From 61 to 90 days	62,592	101,306
From 91 to 120 days	222,582	45,023
More than 121 days	999,250	334,012
Gross balance	$ 2,416,749	$ 1,505,865

c. **Movements of the expected credit loss reserve:**

	Years ended December 31, 2019	Years ended December 31, 2018
Beginning balance	$ 263,815	$ 230,292
Increases	244,750	271,713
Write-offs	(247,757)	(238,190)
Ending balance	$ 260,808	$ 263,815

d. **Portfolio securitization. On May 25, 2017 an *"irrevocable administrative and source of payment master trust agreement"* was entered into, identified with number 1136 (F/1136 or Master Trust) and created under Mexican laws, between the Company, Total Box, S.A. de C.V. (Total Box) as Trustors), the Company as Administrator and Banco Azteca, S.A., Fiduciary Division, as Trustee of the Master Trust (Fiduciary). The Master Trust was amended and fully redrafted on November 8, 2019.**

The main purposes of the Master Trust are the following: (i) receive the contribution of Collection Rights of the Company and Total Box, and receive and administer the resources resulting from the collection; (ii) assign the Collection Rights to each "Securities Portfolio" in accordance with the allocation criteria (iii) assign the "Free Rights" to the "Individual Funds" created for carrying out new issues, as instructed by the Technical Committee; (iv) transfer "Collection Rights" to other trusts and/or vehicles, previous authorization by the Technical Committee to, among other purposes, carry out financing operations by means of securitizations (public or private); and (v) as the case may be, and with previous authorizations, carry out one or more Securities issues.

The equity of the Master Trust is comprised by the following assets: (i) Collection Rights; (ii) amounts received by the Fiduciary as a consequence of the payment of the Collection Rights; (iii) liquid amounts and cash received by the Fiduciary of the Master Trust as a consequence of the payment or exertion of Collection Rights or as a consequence of issues carried out; (iv) cash available in the accounts of the Master Trust, or, resulting from the Collection Rights; (v) interests and returns of cash or resulting from the Collection Rights; (vi) securities acquired by the Fiduciary for investing cash; (vii) any fixed asset, tangible or intangible, or rights affecting the equity of the Master Trust for the latter´s purposes. The assets representing the net equity contributed to the Master Trust are registered as "fiduciary rights" in the statement of financial position.

As part of its activities, the Master Trust has granted loans to TP Group as shown in Note 11.

In like manner, at December 31, 2019 and 2018, Collection Rights contributed by TP Group to the Master Trust amounted to $14,794,138 and $10,513,836, respectively.

NOTE 5 – RELATED PARTIES:

a. Balances:

Accounts receivable and payable to related parties are shown below:

	December 31 2019		December 31 2018	
Accounts receivable:				
Grupo Elektra, S.A. de C.V. and subsidiaries (GEKT)	$	101,085	$	-
Others		330		-
Total accounts receivable from related parties	$	101,415	$	-
Accounts payable:				
Totalsec, S.A. de C.V. (Totalsec)	$	91,198	$	62,005
Procesos BOFF, S. de R.L. de C.V. (BOFF)		60,250		27,137
TV Azteca, S.A.B. de C.V. and subsidiaries (TVA)		30,887		63,554
UPAX GS, S.A. de C.V. (UPAX)		23,208		14,345
Selabe Diseños, S.A. de C.V. (Selabe)		19,862		-
Servicios de Asesoría en Medios de Comunicación GS, S.A. de C.V.		15,677		16,342
Adamantium Private Security Services, S. de R.L. de C.V. (Adamantium)		4,394		2,510
Grupo Elektra, S.A.B. de C.V. and subsidiaries (GEKT)		-		53,566
Others		168		1,567
Total accounts payable to related parties	$	245,644	$	241,026

b. Transactions:

Additionally, the following operations with related parties have been included in the consolidated statement of comprehensive income (loss):

	Years ended December 31, 2019		Years ended December 31, 2018	
Revenues	$	388,764	$	88,249
Costs		70,588		39,338
Operating expenses		514,001		216,892
Interest expense		87,048		30,727
Fixed assets acquisitions		161,559		136,033
Unearned revenues		4,197		335,759

Transactions with Grupo Salinas companies

TP Group provides fixed telephony services, internet and link rent to GEKT and TVA.

In turn, services received by TP Group from the Grupo Salinas' companies are:

- **GEKT – leasing and administrative services.**
- **TVA – advertising and leasing.**
- **Adamantium – surveillance and security.**
- **BOFF, S. de R.L. de C.V. – administrative services.**
- **Totalsec – information security services.**
- **UPAX – marketing, polls, market research, among other services.**
- **Selabe – administrative services.**

NOTE 6 – INVENTORIES:

a. Inventories were comprised as follows:

	December 31, 2019	December 31, 2018
Set-top boxes	$ 694,292	$ 601,795
Installation materials warehouse	605,921	366,444
Set-top boxes under capital leases	-	13,697
Gross balance	1,300,213	981,936
Obsolescence allowance	(39,729)	(27,662)
Total inventories – net	$ 1,260,484	$ 954,274

b. The movements of the obsolescence allowance were as follows:

	December 31, 2019	December 31, 2018
Beginning balance	$ 27,662	$ 15,808
Increases	12,067	11,995
Write-offs	-	(141)
Ending balance	$ 39,729	$ 27,662

NOTE 7 – ADVANCE PAYMENTS:

This item was integrated as follows:

	December 31, 2019	December 31, 2018
Prepaid maintenance	$ 33,246	$ 60,094
Guaranty deposits	31,606	22,294
Prepaid insurance	23,585	10,191
Fees paid in advance	17,625	-
Prepaid advertising	14,538	34,557
Telephony services	10,873	13,852
Monitoring services	10,225	32,074
Prepaid rents	1,165	9,458
Prepaid interest	-	28,177
Other	-	26,029
Total prepaid expenses	$ 142,863	$ 236,726

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT - NET:

a. At December 31, property, plant and equipment – net, consisted of the following:

	December 31, 2019	December 31, 2018
Fiber optic	$ 9,413,124	$ 6,957,172
Installation expenses	6,662,692	4,239,635
Telecommunications equipment	6,121,211	5,831,931
Decoders	4,916,415	4,766,274
Software licenses	1,550,080	1,234,459
Machinery and laboratory equipment	814,755	708,433
Computers	701,496	710,403
Vehicles	222,411	244,282
Leasehold improvements	157,968	136,867
Furniture and fixtures	127,251	113,888
Gross depreciable balance	30,687,403	24,943,344
Accumulated depreciation	(8,545,519)	(7,017,346)
Net depreciable balance	22,141,884	17,925,998
Land	6,408	6,633
Projects in-progress	456,529	365,997
Total property, plant and equipment, net	$ 22,604,821	$ 18,298,628

TP Group has guaranteed the tax credit mentioned in Note 17b with certain of these assets amounting up to $645,764.

The carrying value of property, plant and equipment are subject to an annual impairment test (Note 2q).

b. The reconciliation of balances for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Beginning balance	$ 18,298,628	$ 13,847,828
Purchases, net of disposals	7,896,255	6,561,232
Transfer of rights-of-use (adoption of IAS 16)	(1,107,136)	-
Capitalized borrowing costs	1,307,867	1,022,724
Depreciation and acquisition cost of subscribers	(3,790,793)	(3,133,156)
Ending balance	$ 22,604,821	$ 18,298,628

c. Depreciation expense is integrated as follows:

	Years Ended December 31 2019	2018
Depreciation and amortization	$ 1,773,706	$ 1,296,782
Subscribers acquisition cost	2,604,808	1,836,374
	$ 4,378,514	$ 3,133,156

NOTE 9 – LEASES (RIGHTS-OF-USE AND LEASE LIABILITIES)

a. As a result of the adoption of IFRS 16, as at December 31, 2019 the rights-of-use were comprised as follows:

	December 31 2019	2018
Decoding equipment	$ 2,323,339	$ -
Property	1,585,790	-
Communication equipment	474,537	-
Furniture and fixtures	170,674	-
Leasehold improvements	165,681	-
Vehicles	109,072	-
Computers	79,696	-
Machinery and equipment	35,292	-
Other	97,495	-
Gross balance	5,041,576	-
Accumulated depreciation	(1,421,123)	-
Net balance	$ 3,620,453	$ -

b. The reconciliation of the balance is the following:

	Years ended December 31 2019	2018
Beginning balances	$ -	$ -
Transfer of property, plant and equipment (adoption of IFRS 16)	3,101,038	-
Remeasurement by adoption of IFRS 16	1,107,136	-
Depreciation for the year	(587,721)	-
Ending balances	$ 3,620,453	$ -

c. The disbursements related to lease under IFRS 16 were the following:

	Years ended December 31 2019	2018
Depreciation	$ 587,721	$ -
Accrued interest expense	136,262	-
Charges registered directly in costs or expenses	605,105	-
Ending balances	$ 1,329,088	$ -
Charges directly recorded in results:		
Costs	$ 303,609	$ 370,804
Expenses	301,496	541,200
	$ 605,105	$ 912,004

d. Maturities of long-term liabilities for leases at December 31, 2019 were the following:

Year	Amount
2021	$ 1,060,479
2022	829,189
2023	634,777
2024	110,021
2025 and thereafter	300,051
	$ 2,934,517

NOTE 10 – TRADEMARKS AND OTHER ASSETS – NET:

Trademarks and other assets – net, are integrated as follows:

	December 31 2019	2018
Trademarks (a)	$ 930,000	$ 140,000
Guaranty deposits	37,889	37,092
Advertising (b)	36,871	-
Professional fees (b)	33,003	-
Maintenance (b)	14,650	-
Other (b)	12,726	-
Total trademarks and other assets – net	$ 1,065,139	$ 177,092

a. The carrying amount of the trademarks and the concession rights is subject to annual impairment tests (Note 2q).

b. Correspond to advance payments covering a period greater than 12 months.

NOTE 11 – FINANCIAL DEBT:

As of December 31, TP Group had the following outstanding financings:

	December 31, 2019		
	Short-term	Long-term	Total
a. Universidad ICEL, S.C. (ICEL)	$ -	$ 2,537,000	$ 2,537,000
b. FGS Bridge, S.A.P.I. de C.V. (FGS)	1,992	2,025,685	2,027,677
c. Fideicomiso 1135 (F/1135)	500,000	1,250,000	1,750,000
d. Capiprom, S.A. P.I. de C.V. (Capiprom)	111,640	942,500	1,054,140
e. Banco del Bajío, S.A. Institución de Banca Múltiple (Bajío)	30,000	957,500	987,500
f. Postulando Ideas, S.A. de C.V. (PI)	-	889,085	889,085
g. Sentir Común México SOFOM, S.A. de C.V. (Sentir Común)	27,091	772,909	800,000
h. Negocios y Visión en Marcha, S.A. de C.V. (NVM)	-	646,434	646,434
i. QH Productos Estructurados, S.A.P.I. (QH)	102,019	660,887	762,906
j. Desarrollo JNG Coyoacán, S.A. de C.V. (DJC)	-	713,962	713,962
k. Interpretaciones Económicas, S.A. de C.V. (IE)	-	670,254	670,254
l. Desarrollo JNG Azcapotzalco, S.A. de C.V. (DJA)	-	659,530	659,530
m. Inmobiliaria Ciudad del Sol Guadalajara, S.A. de C.V. (ICSG)	-	620,735	620,735
n. Banco Invex, S.A. Institución de Banca Múltiple (Invex)	175,000	437,500	612,500
o. Banco Monex, S.A. Institución de Banca Múltiple (Monex)	300,000	-	300,000
p. Arrendadora Internacional Azteca, S.A. de C.V. (AIA)	148,709	-	148,709
Transaction costs	(1,050)	(58,438)	(59,488)
Total debt recognized at amortized cost	$ 1,395,401	$ 13,725,543	$15,120,944

	December 31, 2018		
	Short-term	Long-term	Total
d. Capiprom	$ 763,320	$ 3,496,680	$ 4,260,000
b. FGS	400,389	2,191,281	2,591,670
c. F/1135	472,556	1,177,444	1,650,000
q. Unifin Financiera, S.A.B. de C.V. (Unifin)	249,272	697,669	946,941
r. The Export and Import Bank of China (Eximbank of China)	137,838	613,473	751,311
i. QH	-	715,000	715,000
p. AIA	211,231	383,963	595,194
g. Sentir Común	-	300,000	300,000
Analistas en Recursos Globales, S.A.P.I. de C.V.	72,627	94,798	167,425
Hewlett Packard Operations México, S. de R.L. de C.V.	36,382	83,302	119,684
Valor Agregado en Arrendamiento, S.A. de C.V.	-	46,458	46,458
Rendago, S.A. de C.V.	2,564	12,703	15,267
Transaction costs	(23,474)	(39,180)	(62,654)
Total debt recognized at amortized cost	$ 2,322,705	$ 9,773,591	$12,096,296

Maturities of long-term portions are the following:

Year	Face Value	Transaction costs	Amortized cost
2021	$ 4,759,890	($ 41,886)	$ 4,718,004
2022	571,705	(7,811)	563,894
2023	514,205	(5,332)	508,873
2024	7,747,090	(2,428)	7,744,662
2025 and thereafter	191,091	(981)	190,110
	$ 13,783,981	($ 58,438)	$ 13,725,543

The following table summarizes features of the principal loans:

	Creditor	Principal at 31/12/19	Initial Date	Maturity Date	Annual Interest Rate	Comments
a.	ICEL	$ 2,537,000	20/09/19	19/09/23	TIIE[1] + 340 bps[2]	
b.	FGS	2,027,677	27/06/19	30/06/25	TIIE[1] + 655 bps[2]	
		1,100,000	21/11/19	27/07/23	TIIE[1] + 400 bps[2]	
c.	F/1135	500,000	20/09/19	21/08/20	TIIE[1] + 400 bps[2]	
		150,000	26/09/19	29/04/22	TIIE[1] + 400 bps[2]	
d.	Capiprom	942,500	27/06/19	30/06/26	TIIE[1] + 600 bps[2]	
		111,640	01/11/19	01/10/20	10%	
e.	Bajío	987,500	21/07/19	21/06/24	TIIE[1] + 225 bps[2]	
f.	PI	889.085	24/12/19	23/12/24	TIIE[1] + 390 bps[2]	
g.	Sentir Común	800,000	17/08/18	01/08/25	TIIE[1] + 400 bps[2]	
h.	NVM	646,434	24/12/19	23/12/24	TIIE[1] + 390 bps[2]	
		400,000	20/06/18	31/05/24	TIIE[1] + 650 bps[2]	
i.	QH	315,000	15/10/18	31/05/24	TIIE[1] + 650 bps[2]	
		47,906	07/11/19	29/10/20	y 8%	
j.	DJC	713,962	24/12/19	23/12/24	TIIE[1] + 390 bps[2]	
k.	IE	670,254	24/12/19	23/12/24	TIIE[1] + 390 bps[2]	
l.	DJA	659,530	24/12/19	23/12/24	TIIE[1] + 390 bps[2]	
m.	ICSG	620,735	24/12/19	23/12/24	TIIE[1] + 390 bps[2]	
n.	Invex	612,500	12/03/19	08/09/23	14%	
o.	Monex	300,000	23/12/19	23/03/20	TIIE[1] + 200 bps[2]	
p.	AIA	148,709	31/12/18	31/12/20	TIIE[1] + 500 bps[2]	

	Creditor	Principal at 31/12/18	Initial Date	Maturity Date	Annual Interest Rate	Comments
		$ 1,200,000	25/05/2017	30/04/2023	TIIE[1] + 600 bps[2]	Guaranty: payment rights.
		1,500,000	25/05/2017	30/04/2023	TIIE[1] + 600 bps[2]	Guaranty: payment rights.
d.	Capiprom	1,200,000	07/12/2017	30/04/2023	TIIE[1] + 600 bps[2]	Guaranty: payment rights.
		300,000	11/05/2018	30/04/2023	TIIE[1] + 600 bps[2]	Guaranty: payment rights.
		60,000		31/07/2019	10%	
b.	FGS	2,291,670	25/05/2017	30/04/2023	TIIE[1] + 655 bps[2]	Guaranty: payment rights.
		300,000	09/11/2017	30/04/2023	TIIE[1] + 655 bps[2]	Guaranty: payment rights.
		850,000	15/08/2018	25/04/2021	TIIE[1] + 500 bps[2]	Guaranty: payment rights.
c.	F/1135	500,000	25/04/2018	23/12/2020	TIIE[1] + 350 bps[2]	Guaranty: payment rights.
		300,000	18/10/2017	22/07/2020	TIIE[1] + 500 bps[2]	Guaranty: payment rights.
q.	Unifin	946,941	13/06/2017	48 months at signing of each annex	Fixed	Financial lease.
r.	Eximbank de China	751,311	14/08/2015	20/03/2019	LIBOR 6 months + 500 bps[2]	Some covenants were not met at December 31, 2018.
i.	QH	400,000	20/06/2018	31/05/2024	TIIE[1] + 650 bps[2]	
		300,000	15/11/2018	31/05/2024	TIIE[1] + 600 bps[2]	
		110,000	31/12/2016	01/12/2020	TIIE[1] + 550 bps[2]	
p.	AIA	96,621	31/12/2018	31/12/2020	TIIE[1] + 550 bps[2]	
		55,000	28/12/2018	31/12/2020	TIIE[1] + 550 bps[2]	
		337,579	06/01/2015	06/01/2021	9% - 12%	Capitalizable lease.
g.	Sentir Común	300,000	17/08/2018	31/08/2025	TIIE[1] + 350 bps[2]	

[1] TIIE: Equilibirium bank interest rate
[2] bps: Base points

NOTE 12 – REVERSE FACTORING:

As a financing alternative, TP Group offers its suppliers to enter into factoring credit facility, through which the intermediary liquidates to the supplier the debt originally contracted by TP Group, less the accorded discount. At the same time, TP Group pays the debt to the intermediary at its nominal value, but in a period extended in time.

At December 31, the following table shows liabilities resulting from factoring operations with suppliers:

	December 31, 2019		
	Short-term	Long-term	Total
FGS (a)	$ 555,618	$ -	$ 555,618
Greensill Capital (UK) Limited (Greensill) (b)	346,989	-	346,989
AIA (c)	62,132	-	62,132
	$ 964,739	$ -	$ 964,739

	December 31, 2018		
	Short-term	Long-term	Total
FGS (a)	$ 1,353,397	$ -	$ 1,353,397
Eximbank of China (d)	-	711,962	711,962
Greensill (b)	390,215	1,940	392,155
AIA (c)	112,354	-	112,354
	$ 1,855,966	$ 713,902	$ 2,569,868

a. FGS:

- **The Company and FGS have agreed to offer Company´s suppliers a financing scheme consisting under a reverse factoring facility.**
- **Through this mechanism, FGS acquires from Company´s supplier the Credit Right in favor of such supplier and borne by the Company. Through this action, such Credit Right is transmitted to FGS without any reserve nor limitation, and FGS accepts to pay the supplier the value of the documents transferred less a discount rate and a collection fee.**
- **The parties accept that Company pays directly to FGS the documents transmitted at face value.**
- **In like manner, a maximum of transmittals is provided, so that through a revolving nature, an undefined number of concrete and individual operations are carried out.**

b. Greensill:

- **The Company has a factoring facility for suppliers with Greensill, whose maturity is December 20, 2020.**

c. AIA:

- **On February 1, 2016, AIA and the Company entered into a Discount Framework Contract of notes through which it is offered a factoring program to suppliers as a means of financing, and certain points were established described below.**
- **Once the respective Notes Discount Contract is formalized between AIA and Company´s supplier, AIA will acquire the Collection Rights in favor of the supplier.**

- The acquisition made by AIA is a discount, but the Company is compelled to pay AIA the Collection Rights on the maturity dates at face value.
- AIA will only acquire the Collection Rights with a maturity date not exceeding 90 calendar days starting from the date of issue of such Collection Rights.

d. Eximbank of China:

The Company had a long-term factoring facility for suppliers, whose balance at December 31, 2018 amounted to $711,962; on November 29 the Company decided to pay the outstanding balance with this entity, which maturity was 2020.

NOTE 13 – EMPLOYEE BENEFITS:

a. Liability for employee benefits:

The liabilities derived from employee benefits and other remunerations to personnel recognized in the consolidated statements of financial position are comprised as follows:

	December 31, 2019		
	Seniority premium	Legal compensation	Total
Defined benefits obligation (DBO)	$ 11,464	$ 22,869	$ 34,333
Plan assets	-	-	-
Unamortized items	-	-	-
Net projected liability	$ 11,464	$ 22,869	$ 34,333

	December 31, 2018		
	Seniority premium	Legal compensation	Total
Defined benefits obligation (DBO)	$ 5,835	$ 11,552	$ 17,387
Plan assets	-	-	-
Unamortized items	-	-	-
Net projected liability	$ 5,835	$ 11,552	$ 17,387

b. Adjusted net cost for the period:

Expense for the period accounted for consists on the following:

	Year ended December 31, 2019		
	Seniority premium	Legal compensation	Total
Current services labor cost	$ 3,661	$ 6,991	$ 10,652
Financial cost	519	995	1,514
Seniority recognition	1,229	2,149	3,378
Immediate actuarial recognition	218	1,936	2,154
Total	$ 5,627	$ 12,071	$ 17,698

	Year ended December 31, 2018		
	Seniority premium	Legal compensation	Total
Current services labor cost	$ 3,192	$ 6,454	$ 9,646
Financial cost	322	653	975
Seniority recognition	1,338	1,945	3,283
Advanced reductions and liquidations	-	-	-
Immediate actuarial recognition	(3,195)	(5,813)	(9,008)
Total	$ 1,657	$ 3,239	$ 4,896

c. Reconciliation of the DBO balance:

	Year ended December 31	
	2019	2018
DBO beginning balance	$ 17,387	$ 12,829
Current services labor cost	10,652	9,646
Financial cost	1,514	975
Actuarial (gains) losses for the period	9,247	(918)
Seniority recognition	3,378	(5,145)
Benefits paid against provision	(7,845)	-
DBO ending balance	$ 34,333	$ 17,387

d. Main assumptions:

The main assumptions used in the calculation of the net cost for the period were the following:

Nominal annual rates:	2019	2018
Minimum salary	5.00%	4.00%
Career salary	5.80%	5.80%
Discount	8.00%	8.90%
Average working life expectancy	15 years	15 years

e. Sensitivity analysis:

In accordance with the provisions of the applicable standard, a sensitivity analysis is shown in respect to the discount rate applied for carrying out the actuarial valuation, that is, the impact the Company has in the obligation for defined benefits (ODB) by having a change of +/- 1% in the discount rate:

	7.00%	8.00%	9.00%
Seniority premium	$ 13,482	$ 11,464	$ 10,022
Legal compensation	28,214	22,869	18,777
	$ 41,696	$ 34,333	$ 28,799

NOTE 14 – INCOME TAXES:

The provision for taxes on income (income tax or IT) for years ended December 31, 2019 and 2018, is the following:

	Year ended December 31 2019	2018
Income tax provision:		
Incurred	($ 29,058)	($ 24,013)
Deferred	(70,245)	315,010
	($ 99,303)	$ 290,997

a. Incurred income tax:

Income tax rate was 30.00% for years ended December 31, 2019 and 2018. For years ended December 31, 2019 and 2018, the Company generated tax losses that amounted to ($665,560) and ($1,121,042) nominal, respectively.

For year ended December 31, 2019, the Company´s subsidiaries generated tax profits for $96,859 and tax losses for ($408,300). For year ended December 31, 2018, the Company´s subsidiaries reported tax profits for $80,045 and tax losses for ($373,637).

b. Deferred income tax:

Tax loss carry forwards and temporary differences that TP Group recognized in the calculation of deferred income tax were the following:

	December 31 2019	2018
Tax loss carry forwards	$ 5,876,179	$ 4,627,300
Allowance for impairment of accounts receivable and allowance for obsolete inventories	300,536	291,477
Accounts payable	277,030	389,102
Employee benefits	34,332	17,388
Leases	(1,344,690)	-
Property, plant and equipment	(1,794,521)	(1,654,772)
Tax loss carry forwards and temporary differences	3,348,866	3,670,495
Income tax rate	30.00%	30.00%
Net deferred tax asset	1,004,660	1,101,148
Measurement allowance	(683,506)	(709,749)
	$ 321,154	$ 391,399

As of December 31, 2019 and 2018, TP Group´s Management decided to partially recognize the deferred tax asset since the realization of such deferred tax assets is dependent, first, on the generation of sufficient taxable profit before the expiration of the tax loss carry forwards; consequently, the balance of the tax asset was adjusted to the taxable profit expected to be generated in the following years (Note 2t).

Inflation-restated tax loss carry forwards as of December 31, 2019 are as follows:

Taxes Loses Year of origin	Tax loss carry forwards	Final year for use
2011	$ 1,015,901	2021
2013	171,023	2023
2014	126,464	2024
2015	161,958	2025
2016	1,326,785	2026
2017	453,767	2027
2018	1,546,422	2028
2019	1,073,859	2029
	5,876,179	

The reconciliation between the income tax nominal rate and the effective rate is the following:

	Years ended December 31	
	2019	2018
	%	%
Nominal income tax rate	30.00	30.00
Effect on the tax incurred:		
Difference between carrying amount and tax depreciation	(101,68)	109.65
Difference in tax and accounting treatment of revenues	(5.91)	21.85
Deduction of paid statutory profit-sharing	(0.16)	0.13
Non-deductible expenses	15.13	(37.49)
Expected credit loss reserve	1.13	(4.13)
Annual inflation adjustment	22.38	(38.85)
Effect on deferred tax:		
Temporary items	52.14	(25.42)
Effective IT rate	13.03	55.74

NOTE 15 – FINANCIAL INSTRUMENTS:

a) Fair value

Fair value of financial instruments was determined by TP Group using information available in the market and other valuation techniques that require Management´s judgment. Moreover, the use of different assumptions and valuation methods can have a material effect on the estimated amounts of fair value.

Financial instruments which, after their initial accounting, are quantified at their fair value are grouped in Levels from 1 to 3 based on the degree to which fair value is observed, as shown below:

- Level 1 – valuation based on prices quoted in the market (unadjusted) for identical assets or liabilities;
- Level 2 – valuation with indicators other than the quoted prices included in Level 1, but include observable indicators for an asset or liability, either directly (quoted prices) or indirectly (derivations of these prices); and
- Level 3 – valuation techniques are applied that include indicators for assets and liabilities that are not based on observable market information (unobservable indicators).

As at December 31, 2019 and 2018, financial assets and liabilities are classified as follows:

	Amortized Cost	FVTPL	FVOCI	Total
As of December 31, 2019				
Financial Assets:				
Cash and cash equivalents	$ 227,212	$ -	$ -	$ 227,212
Customers	2,155,941	-	-	2,155,941
Derivative financial instruments designated as hedges	-	(869)	2,844	1,975
	$ 2,383,153	$ (869)	$ 2,844	$ 2,385,128
Financial Liabilities:				
Total financial debt (short and long term)	$15,120,944	$ -	$ -	$15,120,944
Interest payable	892	-	-	892
Short and long-term lease liabilities	4,387,947			4,387,947
Trade payables	3,546,950	-	-	3,546,950
Reverse factoring	964,739			964,739
Other payables	878,197	-	-	878,197
Related parties	245,644	-	-	245,644
	$25,145,313	$ -	$ -	$25,145,313

	Amortized Cost	FVTPL	FVOCI	Total
As of December 31, 2018				
Financial Assets:				
Cash and cash equivalents	$ 47,012	$ -	$ -	$ 47,012
Customers	1,242,050	-	-	1,242,050
Derivative financial instruments designated as hedges	-	44	6,562	6,606
	$ 1,289,062	$ 44	$ 6,562	$ 1,295,668
Financial Liabilities:				
Total financial debt (short and long term)	$12,096,296	$ -	$ -	$12,096,296
Interest payable	99,331	-	-	99,331
Trade payables	4,219,019	-	-	4,219,019
Reverse factoring	2,569,868	-	-	2,569,868
Other payables	594,193	-	-	594,193
Related parties	241,026	-	-	241,026
	$19,819,733	$ -	$ -	$19,819,733

b) Hedging activities and derivatives

i. Derivatives not designated as hedges

TP Group uses foreign currency loans and foreign currency purchases/sales, in order to manage some of the risks related to their transactions mainly market risks as exchange rates and interest rates. Installment purchases/sales of foreign currency are not designated as cash flow hedges, and they are agreed for periods consistent with the foreign exchange risk exposure of the related transactions, generally between 1 to 24 months.

ii. Cash flow hedges

Non-dominant credit risk

The credit risk of counterparts does not have a material influence on the Fair Value of Derivative Financial Instruments. The rating of both Financial Entities and the most recent of the Company are the following:

Company	Rating	Agency
Banco Monex, S.A.	AA -	Fitch Ratings
Corporación Actinver, S.A.B de C.V.	AA -	Fitch Ratings
Total Play Comunicaciones, S.A. de C.V.	AA	HR Ratings

Foreign exchange risk

Installment purchases of foreign currency, measured at fair value with changes through other comprehensive income, are designated as hedges of the cash flows from expected sales in U.S. dollars. These expected transactions are highly probable and comprise a high percentage of the total expected purchases in U.S. dollars.

Although TP Group has other installment purchases/sales of foreign currencies with the intention of mitigating the foreign exchange risk of expected purchases and sales, these other agreements are not designated as hedges and are consequently measured at fair value through profit and loss.

The balances of installment purchases/sales of foreign currency vary depending on the level of expected sales and purchases in foreign currency and on foreign exchange rates.

	December 31, 2019		
Derivative Instruments:	Asset	Liability	Net
Bonus swap (IRS)	$ 6,191	$ -	$ 6,191
Foreign exchange options (FX options)	-	4,214	(4,214)
Interest rate hedge (rate CAP)	-	2	(2)
Mark-to market at the closing period	$ 6,191	$ 4,216	$ 1,975

	December 31, 2018		
Derivative Instruments:	Asset	Liability	Net
Bonus swap (IRS)	$ 7,802	$ -	$ 7,802
Foreign exchange options (FX options)	3,460	-	3,460
Interest rate hedge (rate CAP)	-	4,656	(4,656)
Mark-to market at the closing period	$ 11,262	$ 4,656	$ 6,606

The terms of the installment purchases/sales of foreign currency match with the highly probable expected transactions. Consequently, there is no inefficiency to be recognized in the income statement.

Cash flow hedges of expected future purchases during 2019 and 2018, were assessed as highly efficient and an unrealized gain of $2,844 and $4,205 was recorded in OCI.

The amount transferred during 2019 and 2018 from OCI to the carrying value of the hedged elements was ($869) and $44 respectively and shown in Note 15a. It is expected that some of the amounts included in OCI as of December 31, 2019 become due and affect the income statement during 2020.

NOTE 16 – FINANCIAL RISK MANAGEMENT:

Activities with financial instruments presume the assumption or transfer of one or various types of risks by the entities that trade with them. The main risks associated with financial instruments are:

- **Credit risk: likelihood that one of the parties to the financial instrument contract fails to meet its contractual obligations due to reasons of insolvency or inability to pay and results in a financial loss for the other party.**

- **Market risk: likelihood that losses are generated in the value of the positions maintained, as a result of changes in the market prices of financial instruments. In turn, it includes three types of risks:**

  - **Interest rate risk: this arises as a consequence of variations in market interest rates.**
  - **Foreign exchange rate risk: this arises as a consequence of variations in exchange rates between currencies.**
  - **Price risk: this arises as a consequence of changes in market prices, due to specific factors of the instrument itself, or due to factors that affect all instruments traded on a concrete market.**

- **Liquidity risk: likelihood that an entity cannot meet its payment commitments or, in order to meet them, it has to resort to obtaining funds in encumbering conditions or placing its image and reputation at risk.**

a. **Credit risk management – it is caused mainly by liquid funds and trade accounts receivable for providing telecommunication services.**

   TP Group's policy is to operate with banks and financial institutions with the highest credit ratings granted by credit rating agencies to reduce the possibility of counterparty non-performance. With respect to trade accounts receivable, TP Group grants commercial credit to companies or government entities that are financially sound, have a good reputation in the market, and many of them are recurring customers.

   TP Group periodically reviews the financial condition of its clients and does not believe that a significant risk from credit concentration of its portfolio could turn into a loss. In order to minimize a loss, TP Group discontinues service provided to its customers when the ageing of the past due balance exceeds certain limit. Also, it considers that the allowance for impairment covers in appropriate manner the potential credit risk, which represents the calculation of the expected losses from impairment of its receivables. As at December 31, 2019 and 2018, the amount of receivables with an ageing higher than 120 days amounted to $999,250 and $334,012, respectively. The aforementioned amounts include receivables

due from government institutions, which recurrently present delays in their payments, without representing this a loss for TP Group and consequently, Management considered that the impairment allowance needed not to be increased.

b. Market risk management

i. Interest rate risk – As described in Note 11, TP Group has obtained loans bearing interest at variable rates (28-day TIIE), therefore it is exposed to fluctuations of the mentioned rates. As at December 31, 2019 and 2018, TP Group had partial hedges to cover said fluctuations. Consequently, if the variable interest rates had strengthened/weakened by 10% maintaining the remaining variables unchanged, the net loss for the current year would have decreased/increased by $109,982 as a result of a lower/higher interest expense.

ii. Foreign exchange risk – TP Group carries out transactions in foreign currencies, therefore, it is exposed to fluctuations in the different currencies those transactions are operated. As at December 31, 2019 and 2018, it had no hedging instruments against foreign exchange risk.

As at December 31, 2019 and 2018 and May 18, 2020 (date of issue of these consolidated financial statements), the exchange rates for the U.S. dollar were $18.8642, $19.6512, and $23.6032, respectively. As at December 31, 2019 and 2018, TP Group had the following U.S. dollar denominated assets and liabilities:

	December 31,	
	2019	2018
Monetary assets	E.U. $ 71,122	E.U. $ 15,322
Monetary liabilities	(150,852)	(250,916)
Net monetary short position in U.S. dollars	(E.U. $ 79,730)	(E.U. $ 235,594)
Equivalent in Mexican pesos	($ 1,504,043)	($ 4,629,705)

As at December 31, 2019, TP Group has a net short position in U.S. dollars, consequently if the Mexican peso had been strengthened/weakened 10% against the U.S. dollar and the rest of the variables had remained unchanged, the net loss for the current year would have increased (decreased) by $150,404 as a result of the loss/gain in the translation of monetary assets and liabilities denominated in U.S. dollars not hedged.

In addition to the increase of the exchange rate against the US dollar, at May 18, 2020, the foreign currency position has increased by 25% in respect to December 31, 2019. Even though TP Group has contracted some foreign exchange hedges, it does not have hedged 100% of liabilities in foreign currency, reason for having incurred foreign exchange losses at May 18, 2020.

c. Liquidity risk – TP Group has established appropriate policies to mitigate the liquidity risk through: (i) the follow-up on working capital; (ii) the review of its actual and projected cash flows; and (iii) the reconciliation of profiles of maturities of its financial assets and liabilities. These actions allow TP Group's Management to manage short and long-term financing requirements by maintaining cash reserves or credit facilities available.

NOTE 17 – COMMITMENTS AND CONTINGENCIES:

As of December 31, 2019, TP Group had the following commitments:

a. Commitments derived from financial debt.

Under some credit contracts some assets of the Company have been granted in guarantee of the credits described in Note 11.

b. Tax credit

On December 3, 2015 the Mexican Internal Revenue Service (SAT for its acronym in Spanish) issued notification no. 900-04-05-2015-52432 through which it was determined a tax claim amounting to $645,764 corresponding to income tax for the year 2011, allegedly failed, plus inflation-restatement, surcharges and penalties.

SAT points out: (i) that the Company has not proved the strict indispensability of certain commissions and advances from commercializing telecommunications services; (ii) that it rejects the deduction for tax purposes of travel expenses, administrative services, and uncollectable receivables from a reorganization procedure.

On January 19, 2016 the Company interposed a resource of appeal before the corresponding authority (*Administración de lo Contencioso de Grandes Contribuyentes –Administration of Large Taxpayer Disputes*). Subsequently, during April and May 2016, the Company delivered a series of additional evidence in its favor. On June 16, 2016 the appeal was resolved, confirming the tax credit imposed and on August 19, 2016 the Company filed a claim of nullity (*demanda de nulidad*); said claim was admitted on September 6, 2017 by the Federal Court of Tax and Administrative Justice (*Tribunal Federal de Justicia Fiscal y Administrativa*).

On November 28, 2017, the Company filed a direct 'amparo' trial. The Company is waiting for the resolution of the Mexican tax authorities and the Company's external advisors consider that it is probable that the process will result in a nullity trial (*juicio de nulidad*).

In court session held on February 7, 2020, the judges of the Sixth Collegiate Court determined to withdraw the sentencing project, for the purpose of remitting the file to the Second Chamber of the Supreme Court of Justice of the Nation, since the Ministry of Finance and Public Credit ("Hacienda") asked the Supreme Court to assert jurisdiction when appraising that the matter is important and transcendent. Currently, the matter is pending determination as to whether the matter is asserted in the terms so requested.

The challenged amount is duly guaranteed through the administrative seizure of several assets of the Company, which was expressly accepted by the tax authorities, and they were ordered the final suspension of the administrative procedure of execution.

c. Labor contingencies

Some of the Company´s subsidiaries are involved in legal procedures for labor disputes of a lesser quantitative importance. In opinion of TP Group's external legal advisors, these disputes do not represent a relevant contingency that may materially affect TP Group since they arise from the ordinary course of business.

d. **Related party transactions**

In accordance with Mexican Income Tax Law, those entities carrying out transactions with their related parties are subject to certain limitations and to some fiscal obligations related to the agreed prices, since they must be similar to prices used with independent parties in comparable operations.

In case that a review of the prices by the Mexican tax authorities results in a rejection of the amounts under review, they could seek, in addition to the omitted tax plus interest, penalties that could represent 100% of the updated amount of the omitted taxes.

NOTE 18 – EQUITY:

a. **Contributed capital**

Shares of the Company's capital stock are fully voting and of free subscription, and may be acquired by any person or corporation, local or foreign, as long as the applicable legal regulations regarding foreign investment are met.

For the years ended December 31, 2019 and 2018, the shares and capital stock of the Company had no movements and is integrated as follows:

	December 31	
	2019	2018
Number of outstanding shares:		
Fixed capital stock	11,000	11,000
Variable capital stock	21,115,222	21,115,222
Unpaid shares	(464,947)	(464,947)
Fully paid and subscribed outstanding shares	20,661,275	20,661,275
Capital stock amount:		
Fixed capital stock	$ 200	$ 200
Variable capital stock	2,378,463	2,378,463
Unpaid capital stock	(52,372)	(52,372)
Inflation restatement	10,700	10,700
Fully paid and subscribed capital stock	$ 2,336,991	$ 2,336,991

On March 27, 2019, a General Shareholders' Meeting was held and resolved a contribution for future capital stock increase in the amount of $5,000,000.

b. **Earned capital**

Under Mexican law, net income for the year is subject to the legal provision requiring that at least 5% of net income be appropriated to increase the legal reserve until that reserve equals one-fifth of total capital stock. The balance of the legal reserve may not be distributed to the stockholders but may be used to reduce accumulated losses or be converted to capital stock.

c. <u>Distribution of earnings</u>

As of December 31, 2019, the balance of "Net Tax Income Account" (CUFIN by its acronym in Spanish) was $3,703,609. Starting from 2014 earnings generated and distributed to the stockholders are subject to a 10% income tax withholding, as long as they do not come from CUFIN. Dividends paid that come from income previously taxed by Income Tax, will not be subject to any withholding or additional tax payment prior to December 31, 2013.

The Company has certain restrictions on dividend payments due to covenants under its credit agreements.

d. <u>Capital stock reductions</u>

As of December 31, 2019, the inflation-restated balance of the "restated contributed capital account" (CUCA for its acronym in Spanish) amounted to $4,019,136. In case of a reimbursement or capital decreases in favor of the stockholders, the excess of that reimbursement over this amount will be treated as distributed earnings for tax purposes.

Likewise, in the event that equity should exceed the balance of the CUCA, the spread will be considered as dividend or distributed earnings subject to the payment of income tax. If the earnings referred to above are paid out of the CUFIN, there will be no corporate tax payable due to the capital decrease or reimbursement. Otherwise, it should be treated as dividends or earnings distribution, as provided in Mexican Income Tax Law.

NOTA 19 – EQUITY MANAGEMENT:

The purposes of TP Group when managing its consolidated equity are the following:

- **To protect its ability to continue as a going concern.**
- **To provide its stockholders an attractive return on their investment.**
- **To keep an optimal structure minimizing its cost.**

In order to meet the mentioned objectives, TP Group constantly monitors their different business units to ensure that they keep the expected profitability. However, TP Group may change the dividends to be paid to its stockholders, issue new shares or monetize its assets to reduce its debt.

TP Group monitors the adjusted equity to net debt with financial cost. This ratio results from dividing net financial debt by equity. In turn, net financial debt is defined as the total short and long-term financial debt in the statement of financial position less cash and cash equivalents.

The adjusted equity to debt ratio as of December 31, 2019 and 2018 was determined as follows:

	2019	2018
Total financial debt		
Short-term	$ 1,395,401	$ 2,322,705
Long-term	13,725,543	9,773,591
Cash and cash equivalents	(227,212)	(47,012)
Net debt	$ 14,893,732	$ 12,049,284
Total equity	$ 8,727,524	$ 2,277,806
Ratio	1.71x	5.29x

The change in the 2019 financial ratio was due to: (i) having received a $5,000,000 contribution for future capital stock increases (see Note 18a), and (ii) 2019 comprehensive net income.

NOTE 20 – REVENUE, COSTS AND EXPENSES BY NATURE:

The TP Group presents consolidated revenue, costs and expenses by their function; however, IFRS require disclosing additional information regarding the nature of said items.

For the years ended December 31, 2019 and 2018 consolidated revenue, costs and expenses according to their nature are as follows:

	Years ended December 31	
	2019	2018
Revenues from services provided to third parties:		
Pay television and audio, fixed telephony and internet Access	$ 9,352,737	$ 6,590,493
Business-oriented services	4,144,850	3,668,895
Activation and installation fees	114,639	51,158
Advertising	110,163	78,922
Interconnection and long-distance fees	35,254	37,783
Other	120,956	82,305
Total revenues from services provided to third parties	13,878,599	10,509,556
Revenues from services provided to related parties:		
Rent of dedicated links and pay restricted television/audio	371,701	31,210
Subleasing	9,620	-
Advertising	5,400	28,509
Other	2,044	-
Total revenue from services provided to related parties	388,765	59,719
Total revenue	$ 14,267,364	$ 10,569,275

	Years ended December 31	
	2019	2018
Cost of services received from third parties:		
Content	($ 1,553,366)	($ 1,056,032)
Commissions	(677,536)	(535,995)
Cost of sales of equipment	(363,064)	-
Rent of dedicated links	(303,609)	(370,804)
Reserve of expected credit loss	(244,750)	(271,713)
Licences and software	(126,186)	-
Monitoring	(102,930)	-
Interconnection and long-distance fees	(58,597)	(66,866)
Other	(5,479)	(46,983)
Total cost of services received from third parties	(3,435,517)	(2,348,393)
Cost of services received from related parties:		
Monitoring	(32,987)	-
Content	(27,000)	(24,000)
Commissions	(10,600)	-
Other	(1)	(15,338)
Total cost of services received from related parties	(70,588)	(39,338)
Total costs	($ 3,506,105)	($ 2,387,731)

	Years ended December 31	
	2019	2018
Network expenses with third parties:		
Personnel services	($ 885,201)	($ 735,305)
Maintenance	(413,277)	(434,853)
Leases	(202,674)	(412,462)
Rights, duties and taxes	(80,110)	(156,170)
Electric power	(48,099)	(32,132)
Security	(42,627)	(17,196)
Fuel	(34,203)	(30,699)
Professional fees	(25,003)	(17,163)
Telephony and data	(20,466)	-
Insurance and bonds	(19,143)	(16,024)
Cleaning	(12,739)	-
Travel expenses	(12,250)	-
Other	(16,069)	(58,473)
Total network expenses with third parties	($ 1,811,861)	($ 1,910,477)
General expenses with third parties:		
Personnel	($ 1,767,157)	($ 1,856,546)
Advertising	(440,789)	(518,590)
Professional fees	(183,480)	(76,844)
Office, warehouse and points of sale maintenance	(110,866)	(118,075)
Call center	(103,090)	(86,405)
Leases	(98,822)	(92,357)
Collection service	(92,699)	(72,096)
Freight	(34,463)	-
Warehouse handling	(18,870)	-
Other	(70,502)	(181,213)
Total general expenses with third parties	($ 2,920,738)	($ 3,002,126)
General expenses with related parties		
Administrative services	($ 283,140)	($ 159,887)
Advertising	(145,764)	(79,799)
Security	(32,879)	(19,428)
Professional fees	(13,729)	(2,212)
Maintenance	(11,033)	-
Insurance	(7,087)	-
Licences and software	(4,073)	-
Leases	-	(36,381)
Other	(16,296)	(9,450)
Total general expenses with related parties	(514,001)	(307,157)
Total general expenses	($ 3,434,739)	($ 3,309,283)

NOTE 21 – INFORMATION BY SEGMENTS:

Management of TP Group identifies two major service lines as operating segments (see Note 2e). These operating segments are supervised by those making strategic decisions, which are made taking as a basis the adjusted operating results of the segment:

a. <u>TotalPlay Residential</u>. Offers a state-of-the-art IPTV system (*Internet Protocol TV*) and is commercialized through the *Double Play* or *Triple Play* packages. The main services offered consist of:

- Linear Television. The customer is provided with a decoder of state-of-the-art technology and a Wi-fi Extender. Among the additional services at no cost: VOA (*Video on Demand*), parental control and *Anytime* (up to seven days deferral of certain channels);
- Internet. Provided by a FTTH network (*Fiber to-the home*) of fiber optic unique in Mexico (*backbone* of 200 gigabits), which allows having high speed and quality.
- Apps contents. The Company has internally developed a TV interface for its users, allowing the integration of popular apps, offering its subscribers all services under the same platform.
- Telephony. In addition to the traditional service, from a mobil app, customers may have worldwide coverage as if they were calling or receiving calls on their fixed line.

b. <u>TotalPlay Empresarial (for businesses)</u>. Offers telecommunication solutions and Information Technologies to resolve connectivity issues for better improving operations and business processes of private sector entities and public sector institutions. Among the main solutions:

- Planes empresariales (plans for businesses). With high speed internet (symmetrical or asymmetric), telephony and value-added services.
- Plans with backup included. Dedicated internet, LAN (*Local Area Network*) to LAN, MPLS (*Multiprotocol Label Switching*), management portal for business services, among other.
- Cloud-base solutions such as G-Suite, virtual servers, fleets, video surveillance, and safe navigation. These solutions offer a secure network, available, private and competitive.
- Comprehensive technological solutions for: video surveillance, corporate and branches, and security, under a managed services model.

The table below presents the information by segments for years ended December 31, 2019 and 2018:

	Year ended December 31, 2019			
	Totalplay Residential	Totalplay Empresarial	Corporate and other	Consolidated
Revenue from services	$ 9,456,689	$ 4,691,636	$ 119,039	$ 14,267,364
Cost of services	(2,312,826)	(1,155,549)	(37,730)	(3,506,105)
Operating expenses	(2,437,520)	(1,030,422)	(1,778,658)	(5,246,600)
Depreciation and amortization, financial cost and other	(3,097,160)	(245,637)	(1,553,275)	(4,896,072)
Net income	$ 1,609,183	$ 2,260,028	($3,250,624)	$ 618,587

	At December 31, 2019			
Customers	$ 481,646	$ 1,619,248	$ 55,047	$ 2,155,941
Property, plant and equipment – Net	14,982,919	7,433,299	188,603	22,604,821
Right-of-use assets – Net	2,399,707	1,190,538	28,208	3,620,453

	Year ended December 31, 2018			
	Totalplay Residential	Totalplay Empresarial	Corporate and other	Consolidated
Revenue from services	$ 6,805,993	$ 3,681,431	$ 81,851	$ 10,569,275
Cost of services	(1,834,885)	(528,565)	(24,281)	(2,387,731)
Operating expenses	(2,435,400)	(1,162,672)	(1,621,688)	(5,219,760)
Depreciation and amortization, financial cost and other	(1,777,574)	(58,800)	(1,359,116)	(3,195,490)
Net income	$ 758,134	$ 1,931,394	($2,923,234)	($ 233,706)

	At December 31, 2018			
Customers	$ 339,799	$ 886,552	$ 15,699	$ 1,242,050
Property, plant and equipment – Net	11,783,242	6,373,676	141,710	18,298,628
Right-of-use assets – Net	-	-	-	-

NOTE 22 – SUBSEQUENT EVENTS:

a. Debt issue. On March 2, 2020, the Company, its subsidiary Total BOX, S.A. de C.V., BAZ as fiduciary of Fideicomiso (Trust) F/1136 and CI Banco, S.A., carried out the issue of securitized certificates up to an amount of $5,000,000. On its first issue, a total of $2,500,000 were placed at an annual interest rate of 9.70%; in its first period, the resources will be used for debt substitution bearing an interest rate greater than that placed and for working capital. The securitized certificates are traded on the Bolsa Institucional de Valores, S.A. de C.V. (the Institutional Stock Exchange – BIVA), thus the Company is subject to comply with certain corporate, legal and financial information obligations.

b. Concession rights renewal. On March 25, 2020, the Company informed that the Federal Telecommunications Institute had renewed the concessions rights to operate and exploit a public telecommunications network, for a term of 30 years, from October 16, 2025 through October 16, 2055.

c. Capiprom loan. On April 13, 2020, the Company entered into a loan contract with Capiprom for $1,560,000 at an annual interest rate equivalent to TIIE at 28 days plus 375 basis points. The resources so obtained will be used to substitute debt bearing a higher interest rate.

d. COVID-19. On January 30, 2020, the World Health Organization ("OMS") announced a global health emergency due to the new strain of coronavirus originated in the province of Wuhan, China ("the COVID-10 outbreak") and for the risks for the international community for having spread beyond its site of origin. In March 2020, the OMS classified the COVID-19 as pandemic, based on the rapid growth of the global exposure.

   The impact of the COVID-19 outbreak continues developing as of the date of the audited financial statements. In consequence, it is uncertain the full magnitude the pandemic will have on the financial condition, liquidity and future operating results of the Company. Management is actively monitoring is financial condition, its liquidity, its operations, its suppliers, the industry and its personnel. Given the daily evolution of the COVID-19 outbreak and the global response to contain its dissemination, Management does not have the elements to estimate the effects in 2020 on the financial situation, results of operation, or liquidity of the Company.

The COVID-19 outbreak could have an adverse prolonged impact on the economic and market conditions and could trigger a period of global economic slowdown, which could affect the value of Company´s assets, such as its intangible assets.

Despite the fact that Management cannot estimate the impact of the COVID-19 outbreak as at the date of these audited financial statements, it could have a negative effect on the financial position, results of operation and liquidity of the Company for year 2020.

* * *