



MEGACABLE®

# 2020 ANNUAL REPORT

CONNECTIVITY AND ENTERTAINMENT **FOR THE FUTURE**

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# CORPORATE INFORMATION



# CORPORATE INFORMATION

## ABOUT MEGACABLE

We are a cutting-edge telecommunication services company with operations in 26 states and 360 towns and cities throughout Mexico. We are one of the largest cable telecommunication services providers in the country based on the number of subscribers.

We offer internet, fixed telephony, video and, more recently, mobile services for the mass market, and we provide connectivity solutions, infrastructure services and innovation for the corporate market.

## COMPANY STRUCTURE



### MISSION

To provide entertainment and telecommunication services and logistics, business and residential solutions that exceed the expectations of our customers.

### VISION

To be the best telecommunications company in Mexico.

### VALUES

- Honesty
- Work Commitment
- Service Attitude
- Respect for Individuals
- Efficient Resource Use
- Loyalty

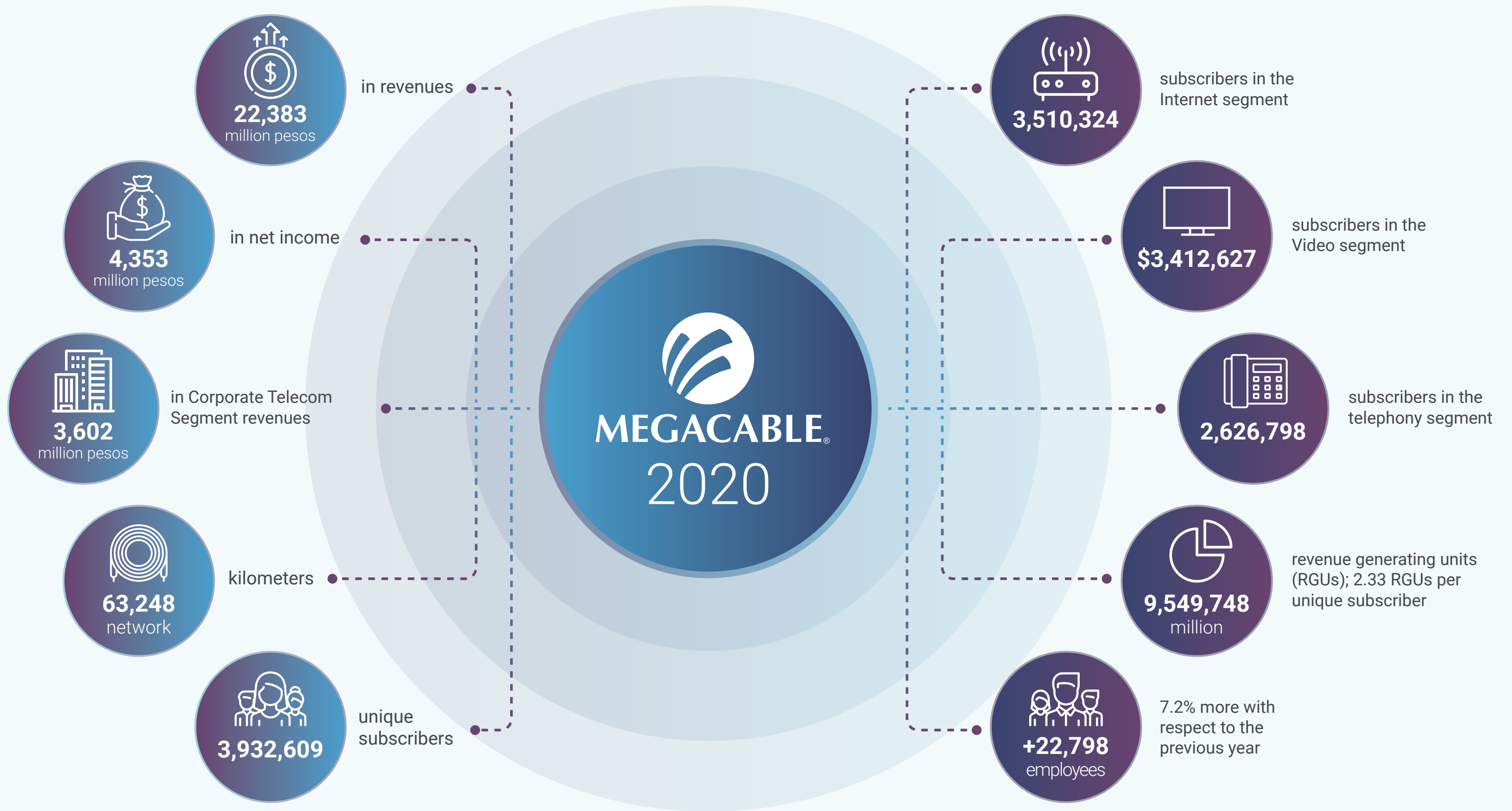
### QUALITY POLICY

To provide convergent video, voice and data services that exceed customer expectations through the use of state-of-the-art technology, the on-going development of human talent, and the promotion of a culture of continuous improvement.

# MEGACABLE 2020 AT A GLANCE



# MEGACABLE 2020 AT A GLANCE



# RESULTS HIGHLIGHTS

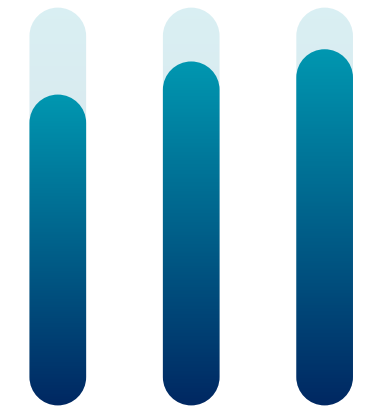
Figures in millions of pesos as of December 31, 2020.

| Audited and Consolidated Financial Results  | 2020     | 2019     | 2020 vs 2019 |
|---|----------|----------|--------------|
| Service Revenues                            | \$22,383 | \$21,615 | 4%           |
| Service Costs                               | \$5,845  | \$5,895  | -1%          |
| OPEX  | \$10,287 | \$9,601  | 7%           |
| Consolidated EBITDA                         | \$11,029 | \$10,257 | 8%           |
| Consolidated EBITDA Margin                  | 49.3%    | 47.5%    |              |
| Adjusted EBITDA for Cable Operations        | \$10,370 | \$9,535  | 9%           |
| Adjusted EBITDA Margin for Cable Operations | 50.9%    | 49.7%    |              |
| Net Profit (Controlling Interest)           | \$4,353  | \$4,290  | 1%           |
| Total Assets                                | \$49,757 | \$43,243 | 15%          |
| Cash and Cash Equivalents                   | \$4,260  | \$2,210  | 93%          |
| Total Liabilities                           | \$15,880 | \$12,293 | 29%          |
| Stockholders' Equity                        | \$33,877 | \$30,950 | 9%           |

| Operating Results                      | 2020      | 2019      | 2020 vs 2019 |
|--|-----------|-----------|--------------|
| Homes Passed                           | 8,955,457 | 8,836,675 | 1%           |
| Network kilometers                     | 63,248    | 62,210    | 2%           |
| Internet Subscribers                   | 3,510,324 | 3,097,628 | 13%          |
| Internet Penetration Rate/Homes Passed | 39.2%     | 35.1%     |              |
| Video Subscribers                      | 3,412,627 | 3,224,798 | 6%           |
| Digital Video Subscribers              | 2,787,483 | 2,614,287 | 7%           |
| Penetration Rate/Internet Subscribers  | 97.22%    | 104.11%   |              |
| Telephony Subscribers                  | 2,626,798 | 2,130,538 | 23%          |
| Penetration Rate/Internet Subscribers  | 74.83%    | 68.78%    |              |
| Unique Subscribers                     | 3,932,609 | 3,628,105 | 8%           |
| Revenue Generating Units               | 9,549,748 | 8,452,963 | 13%          |
| RGUs per unique Subscriber             | 2.43      | 2.33      | 4%           |



## SERVICE REVENUES



2018 19,534  
2019 21,615  
2020 22,383



## CONSOLIDATED EBITDA



2018 9,422  
2019 10,257  
2020 11,029



## RGUS PER UNIQUE SUBSCRIBER



2018 2.21  
2019 2.33  
2020 2.43  
3,593\* 3,628\* 3,933\*



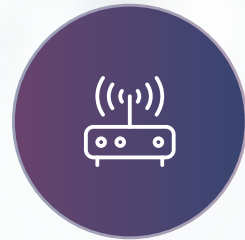
\* Thousands of unique subscribers.

# FINANCIAL INFORMATION BY SEGMENTS

Figures in millions of pesos as of December 31, 2020

Revenue:

## Internet



2019

\$6,622

2020

\$7,206

## Video



2019

\$8,962

2020

\$9,255

## Telephony



2019

\$1,599

2020

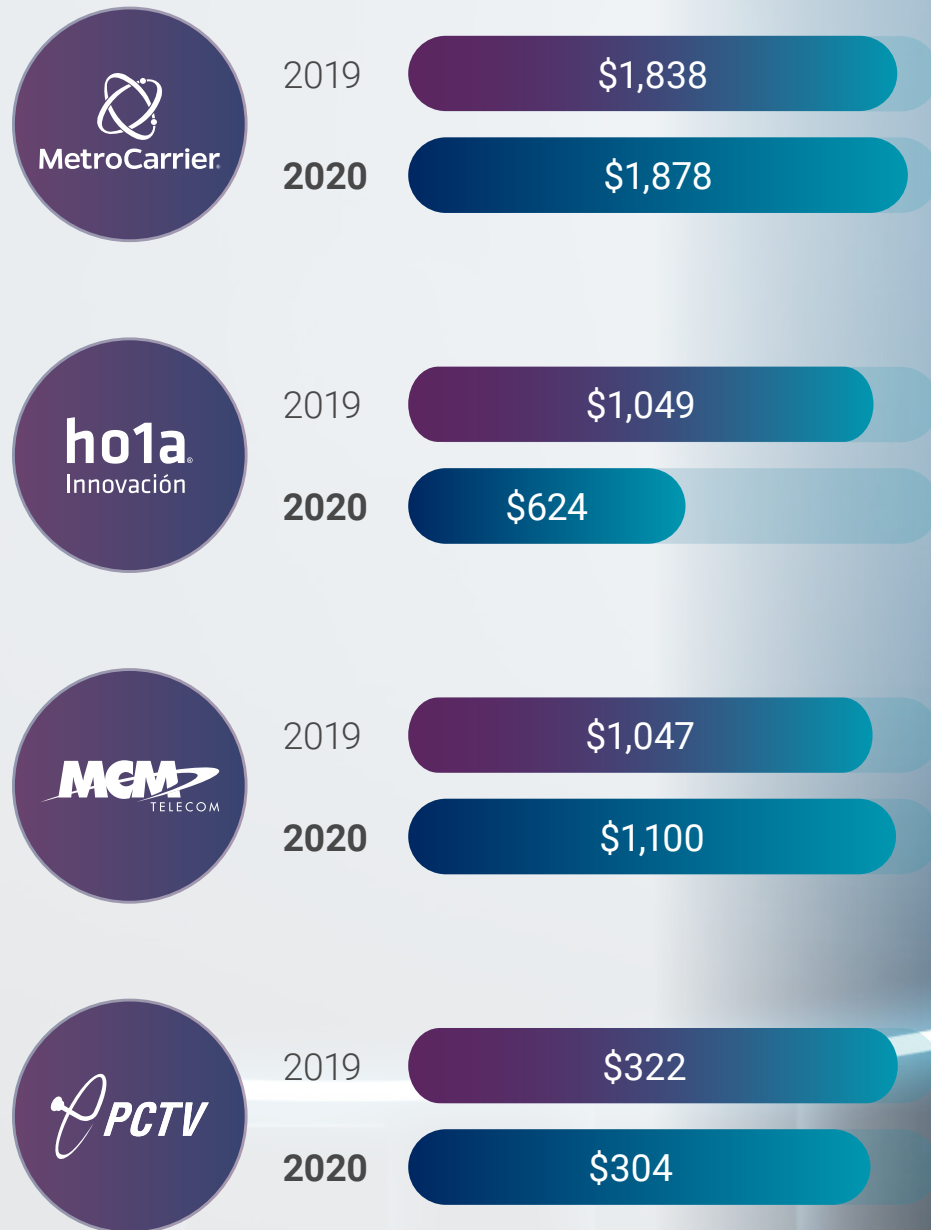
\$1,846



# FINANCIAL INFORMATION BY SEGMENTS

## Corporate Telecom Segment

Revenue:



# COVID-19 ACTION PLAN



## CUSTOMERS



We launched **new payment channels** via our website, banks and convenience stores, among others, to help avoid crowded situations at our offices.



In light of the challenges stemming from the lockdown implemented as a result of COVID-19, we offered **affordable packages** to ensure that our customers remained connected.



We implemented **strict health protocols** for our technicians who visit subscriber households (use of facemasks, face shields, gloves and gel).



## EMPLOYEES



Implementation of **remote working** model.



**Health protocol** at our offices (use of facemasks, sanitizer, etc.).



Implementation of **PCR tests** for employees.



Medical support for employees whose **COVID-19 tests come back positive**.



During each home visit, the head of the household has to sign a letter confirming that **nobody in their home has been infected** by COVID-19.



## COMMUNITY



Through the **At Megacable, We Are With You (En Megacable estamos contigo)** campaign, we provided connectivity to more than 250 social welfare institutions.



We donated **2,500 personal protection equipment kits** to doctors, nurses and support staff who are involved in providing COVID-19 treatment. These kits were sent to **20 hospitals** located in **18 cities** around the country.

# MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS



To the Ordinary Annual Shareholders' Meeting of Megacable Holdings, S.A.B. de C.V.



Dear shareholders,

2020 saw major changes in the way that we live and work , among many other aspects. It was a time to learn, reevaluate strategies and results, and rethink the way we work. At Megacable, we choose to tackle challenges head on, take advantage of opportunities, and plan for the future.

Throughout this time, we showed the world our ability to adapt, become resilient, make quick decisions, and implement any necessary actions. The outstanding work done by our team not only allowed us to continue moving forward, but it also enabled us to capitalize on opportunities, use our technology and infrastructure in the most efficient way possible, and offer the best solutions to our customers. As a result of these actions, we increased both growth and profitability.

The COVID-19 pandemic has created deep-rooted and permanent changes in different markets, which can be clearly seen in the acceleration of trends and changes in the habits, consumer patterns and requirements of our customers. Working from home is here to stay, and this trend will continue to grow, in addition to other online activities, such as entertainment, training, education, and the acquisition of goods and services. There was increased demand for all of these in 2020 despite decreased revenue as a result of the economic crisis. This is how communication, the Internet, and the use of digital platforms have become essential products and services for households and companies no matter their size.

Our business model is underpinned by the best technology, wide ranging coverage, the most attractive entertainment options, and the most efficient platforms, all of which allow us to offer our customers solutions that meet their demands opportunely.

At Megacable, we never stop investing, and, despite the uncertainty that characterized 2020, we accelerated our investment strategy. Thanks to this strategy, we are on the way to connecting 12 cities with a GPON network; we increased our node capacity; we rolled out XView+ based on Android TV (whose launch was planned for February 2021 and was successfully carried out); and we began offering mobile telephony to our market.

*As a result of a smart and well-rounded investment decisions, Megacable is driving differentiation that is underpinned by an innovative vision of the future.*

We implemented health and safety protocols to combat COVID-19, both at our offices and our customer service channels. During home visits, we ensure compliance with all prevention measures, including the use of face masks, face shields, gloves and other personal protection equipment, in addition to requesting the head of the household to sign a letter confirming that nobody in their home has been infected by COVID-19. Furthermore, we rolled out PCR testing for employees, and we provided medical support in the event of a positive test result. Thanks to these steps, our infection rate was extremely low. This was and still is a strong investment in terms of materials, inputs and training, but is something in which we cannot spare, because the most important thing for the Company is the safety of our employees and their families, as well as our subscribers.

By being able to quickly understand the needs of our customers, provide quality services and products, and offer promotions that encompass affordable packages, practically all of our services reported growth, with the exception of some corporate market segments, such as tourism and those related to services such as restaurants and entertainment, which were severely affected by the public health crisis than other sectors. Furthermore, we rolled out new payment channels through our website and other digital mediums, in addition to promote those already existing, such as banks and convenience stores, among other establishments, to reduce the flow of subscribers at our customer service centers. In addition, this year we also saw a lower disconnection rate given the essential nature of our services.

Through the *At Megacable, We Are With You (En Megacable estamos contigo)* campaign, we provided free connectivity to all the social welfare institutions within our footprint, which had a positive impact on numerous communities through social programs.

In terms of the environment, we implemented measures to mitigate the impact that we have by automating processes, reducing travel, implementing programs to replace four-wheeled vehicles with two-wheeled alternatives, and modernizing our air-conditioning and lighting systems in order to decrease electricity use. We also promoted a paperless campaign among our employees and customers, in addition to promoting the recycling at our offices and ensuring that we correctly dispose of any waste, above all, electronics.

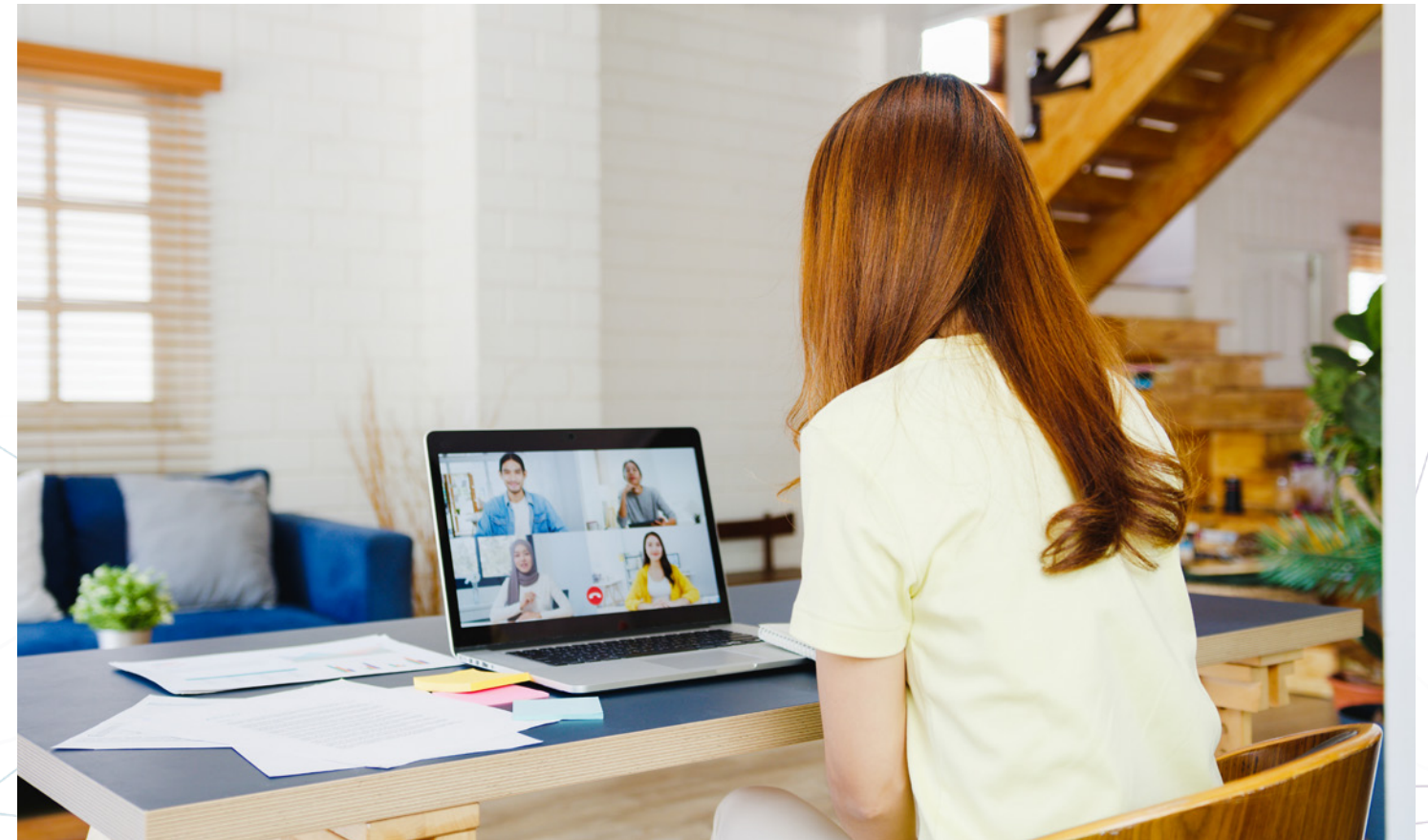
2020 was a challenging year, one that put our vision, business strategy and model to the test; however, it allowed us to consolidate our mission: to continue working, investing and providing the best entertainment and connectivity services in order to consolidate our presence and leadership. Thanks to the professionalism and passion of our employees, the support of our suppliers, and the trust placed in this by our customers and shareholders, we continue to meet our goals. To all of you, I would like to express our deepest gratitude.



**Francisco Javier R. Bours Castelo**  
CHAIRMAN OF THE BOARD OF DIRECTORS

**Manuel Urquijo Beltrán**  
SECRETARY OF THE BOARD OF DIRECTORS

# MESSAGE FROM THE CEO



During 2020, changes that we expected to take place in the medium or long term, took place in a blink, in light of the new challenges stemming from the public health crisis. This emergency had a negative effect on the global economy, while on a domestic level we experienced an economic downturn and a negative GDP growth rate, both of which affected consumption levels; however, the needs of consumers changed, with telecommunications services, among others, becoming a priority.

The main changes were the accelerated adoption, in a matter of days or weeks, of the home office, distance learning remote healthcare, e-commerce, mobility restrictions, a lower use of automobiles and many other trends.

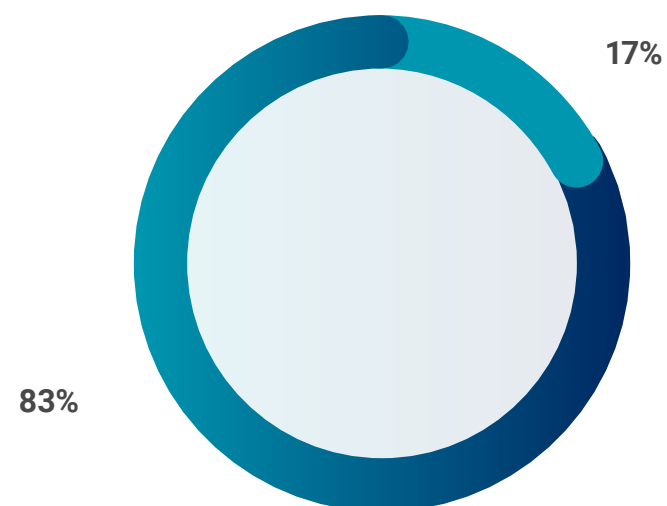
At Megacable, we recorded positive growth in our financial and operational statements for the services we offer the market, and we successfully consolidated major projects. In 2020, we made significant investments that enabled us to offer our customers the best possible connectivity and entertainment services, allowing us to grow and consolidate our position as a fundamental partner, above all motivated by the changes in the daily routine of people given the aforementioned.

To the end of 2020, we had a total of 3,932,609 unique subscribers, an 8% increase in a year-on-year comparison, while Revenue Generating Units (RGU's) grew to more than 9.5 million, a 13% increase compared to 2019. This led to a rate of 2.43 RGU's per unique subscriber.

For Megacable, 2020 was a year of projection and acceleration. The Company's financial results were positive, recording growth of 4% in consolidated revenue compared to 2019, reaching Ps. 22.383 billion.

In terms of results by segment, Internet recorded growth of 9%, stemming from increased demand for this service during lockdown and the Company's competitive offering. The Video segment saw a 3% growth in revenue, while the Telephony segment recorded 15% growth.

### Revenue Breakdown



- Corporate Telecom Market
- Mass Market

Consolidated EBITDA grew by 8% compared to 2019 at a margin of 49.3%, reaching a total of Ps. 11.029 billion; while EBITDA for Cable operations stood at Ps. 10.370 billion, an increase of 9% compared to 2019 at a margin of 50.8%.

In terms of CAPEX, in 2020 we invested a total of Ps. 8.081 billion, 24% more in a year-on-year comparison, which represents 36% of total revenue in 2020 – a historic investment.

One of our major projects during this period was the adoption of GPON technology in twelve cities, offering our customers a newer technology. Approximately half our subscriber base will migrate to this new technology, and our goal is to complete the process in 2021.

Following our infrastructure deployment strategy, we activated optic fiber rings between Guadalajara and Puebla, in addition to applying new border routes using proprietary fiber optic cables.

In 2020, we began installing a submarine cable in the region of Baja California, which will connect this region with the rest of the country, providing video, voice and high-capacity data services. Through this infrastructure deployment process, we have been able to drive improvements in both our data services and grow as a provider to other telecommunications companies, as well as creating huge cost-savings for the Company.

*We invest in new technology that allows us to make our networks even more efficient.*

We also launched our mobile service, which combines our quadruple play offering with positive results and exponential curves. By 2021, we expect to have fully consolidated this business unit.

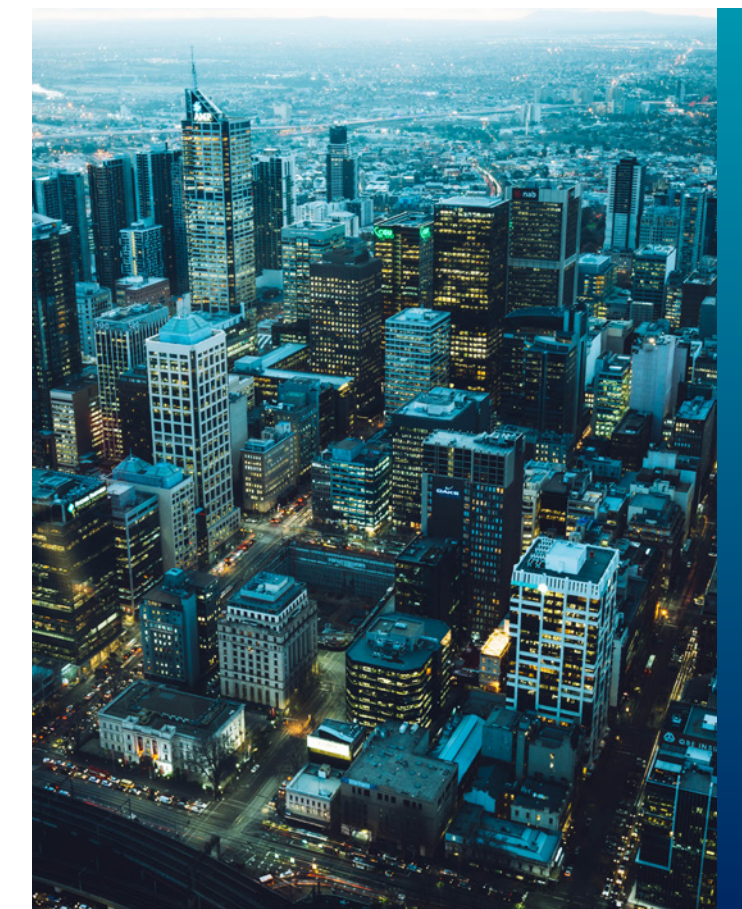
In terms of the video segment, we have been working on developing our XView+ platform, which is based on the Android TV platform, integrating linear content and virtual platforms into one hub, allowing users to easily find what they want to watch. The launch of this platform is scheduled for February 2021 and was carried out successfully.

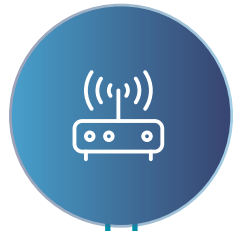
*We continue preparing for the future by making investments that will make a difference in the market.*

### RESULTS BY BUSINESS SEGMENT

At Megacable, we know that the needs of our customers are constantly changing and becoming more and more sophisticated, which is why we strive every single day to drive innovation in our services in order to offer them a better experience.

*Communication services allow our customers to remain at home, work efficiently, and enjoy unique entertainment content.*





## Internet


In light of the new challenges stemming from the pandemic, efficient connectivity is crucial in order to allow people to continue performing the activities that are most important to them. This is why we invest in infrastructure, new technologies, and the quality of our cable service.

*Broadband means education, health, knowledge and communication.*

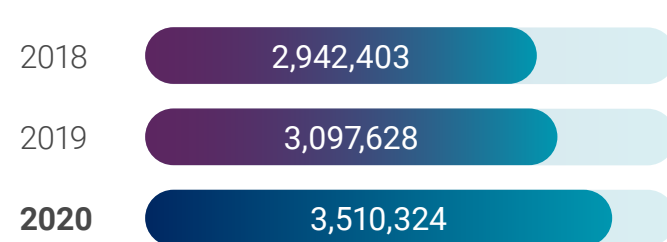
In 2020, we offered packages with speeds of up to 500 MB and 1 GB for the residential market, in response to market demands for greater broadband capacity.

The Internet segment had a total of 3,510,324 subscribers to the end of 2020, representing an increase of 13% with a total of 412,000 new additions.

Annual revenue for this service increased by 9% in a year-on-year comparison, reaching a total of Ps. 7.206 billion.

 **+13% SUBSCRIBERS**  
compared to last year.

### Total Subscribers



During 2020, we worked on a project to migrate 12 cities from HFC networks to networks that are based on GPON technology, offering subscribers a newer technology, which will ensure the Company's capabilities to renew its services in the coming years, according to the evolving needs of the market.



## Video

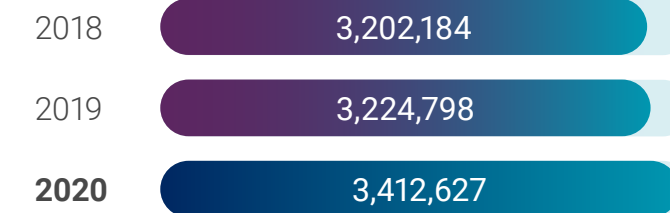
In 2020, we recorded growth in this segment as a result of our competitive offering, which efficiently covers household entertainment needs during lockdown.

Total subscribers in the video segment stood at 3,412,627, an increase of 6% (188,000 net additions) in a year-on-year comparison.

To the end of the year, revenue for this segment increased by 3%, totaling Ps. 9.255 billion.

 **+ 3.4 MILLION**  
subscribers in the video segment.

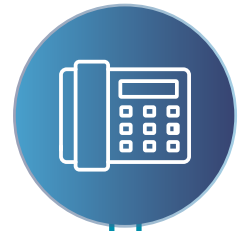
The XView platform, which offers a new way to watch TV through live, interactive and on demand programming, recorded 330,000 net additions during 2020, reaching a total of 1,157,458 subscribers.



In 2020, we started working on XView+, the second generation of this platform, which offers improved user experiences by providing all the content from other platforms that they have subscribed to, such as Netflix, HBO, Amazon Prime and YouTube, among others, in the same place.

Users can search the platform using voice commands in every app, allowing them to find the content they are looking for in a faster and simpler way.

The launch campaign for XView+ was scheduled for February 2021 and was successfully carried out.



## TELEPHONY

The telephony segment also recorded significant gains. In 2020, total subscribers reached 2,626,798, representing an increase of 23%, with more than 496,000 net additions compared to 2019.

Revenue from this segment increased in a year-on-year comparison by 15%, reaching a total of Ps. 1.846 billion in 2020.

Our customers have consistently opted for the triple-play service. To the end of 2020, the subscriber base for the triple-play service stood at 57%, compared to 52% to the end of 2019.

Total Subscribers



**23% GROWTH**

in the number of subscribers in the telephony segment.



## MOBILE SERVICES

We successfully launched *Mega movil* at the end of 2019. During 2020, we rolled out this service in 8 cities, and by the end of the year we had approximately 175,000 subscribers.

*Just one year after it was launched, Mega movil has successfully positioned itself as one of the best mobile options.*

Our mobile data offering has become an important addition for our fixed data subscribers who have access to preferential rates and higher speeds in their fix-service.

We hope that, over the coming years, we will continue increasing the coverage of this service in order to reach more cities.





## CORPORATE TELECOM SEGMENT

In 2020, our Corporate Telecom segment recorded revenue totaling Ps. 3.602 billion, representing a year-on-year decrease of 8%. This was the result of the COVID-19 pandemic which, among other things, led to the postponement or cancellation of investments in new projects for this market, as well as the closure of a great amount of businesses, either temporarily or definitively, during the year.

However, the public health crisis caused by COVID-19 also accelerated the adoption of technologies by companies to allow them to continue operating remotely, which is why our connectivity services became an essential part of their operations. In light of this outlook, in 2020 we focused on investing in and consolidating innovative businesses within the corporate sector.

MetroCarrier, our connectivity service for the corporate market, recorded a 2% increase in 2020, while MCM also posted a 5% growth rate for the same period.

For this market, we offer solutions that provide support to companies that are adopting new forms of remote working. Our integrated service portfolio facilitates business continuity without the need for people to be physically present at an office. We offer efficient and secure connectivity that is underpinned by equipment and connection stability in order to provide the same connection that employees use in their own offices (with access to office network resources, permanent VPN's, monitoring and redundant links).

*Ho1a Innovación*, our division that specializes in developing and adopting information technologies to boost corporate communication, registered total revenue of Ps. 624 million, which represents a decrease of 41% as a result of the extraordinary results posted in 2019 and the economic and social impacts of the COVID-19 public health crisis.

We are aware of the fact that as technology advances so do the risks posed, which is why guaranteeing the integrity of IT systems and the data they contain is of fundamental importance. Through Ho1a, we provide a Security Operations Center (SOC) that monitors the networks and data security 24 hours a day in order to ensure it is protected.

Furthermore, we have forged strategic alliances with companies that include Cisco, Microsoft and Avaya, in order to offer collaborative software (Microsoft Teams, Cisco Webex, Avaya Spaces, Google Workspace) and ensure we provide an integrated service.

In terms of infrastructure, our on-going technological deployment, in addition to new solutions and the improved quality and capacity of our network, has allowed us to position ourselves as the best option within the corporate segment. Furthermore, our submarine cable and the data center services we offer have allowed us to bolster our portfolio and offer companies quality and value-added services.

Our investments in nodes and fiber have driven our growth within the market given the growing importance broadband now plays in both social and economic terms.

We also continued rolling out improvements to our FTTH networks (Fiber To The Home), preparing the ground for the activation of our GPON network in twelve cities and increasing node capacity using HFC technology in the rest of the territories in which Megacable operates .

Furthermore, We continued consolidating our investments in long-distance infrastructure throughout 2020. We built rings from Guadalajara to Puebla, that go through the northern part of the *Bajío* region (Jalisco, Guanajuato, Querétaro and the State of Mexico), and from Guadalajara to Puebla, which pass through the southern part of the *Bajío* region, which encompasses the states of Michoacán, Morelos and Mexico City.

We also increased our border routes through an investment that enabled us to deploy proprietary fiber optics in order to increase the capacity and efficiency of our network. Through this strategy, each state has increased the numbers of highway optic fiber infrastructure kilometers.



*I would like to take this opportunity to thank all our employees, the Board of Directors and the senior management team for their commitment and enthusiasm. I would also like to express my gratitude to our shareholders, suppliers and customers for the trust that they have placed in us.*

Enrique Yamuni Robles  
CEO

Manuel Urquijo Beltrán  
SECRETARY OF THE BOARD OF DIRECTORS

# OUR ESG STRATEGY



## OUR ESG STRATEGY

Our ESG (Environmental, Social and Governance) strategy provides us with the guidelines we need to govern our actions in order to ensure that our operations are more sustainable in the areas of society, the environment and corporate governance. This allows us to achieve our goals as a company at the same time as having a positive impact on society and the environment.



# CORPORATE GOVERNANCE

Our corporate governance is underpinned by standards, principles and procedures that allow us to achieve our goals based on our values and philosophy.

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The experience of the members of our Board of Directors and Senior Management team is clearly reflected in our strategy and decision-making process, allowing us to achieve our goals and safeguard the interests of our shareholders and all our stakeholders.

The Board of Directors is comprised of twelve board members, four of whom are independent.

The members of the Board are appointed by the General Shareholders' Meeting.

**Francisco Javier R. Bours Castelo**  
 CHAIRMAN OF THE BOARD

**Enrique Yamuni Robles**  
 CHIEF EXECUTIVE OFFICER

**Manuel Urquijo Beltrán**  
 SECRETARY OF THE BOARD

**Sergio Jesús Mazón Rubio**  
 MEMBER

**Jesús Enrique Robinson Bours Muñoz**  
 MEMBER

**Juan Bours Martínez**  
 MEMBER

**Arturo Bours Griffith**  
 MEMBER

**José Gerardo Robinson Bours Castelo**  
 MEMBER

**Mario Laborín Gómez**  
 INDEPENDENT MEMBER

**Nicolás Olea Osuna**  
 INDEPENDENT MEMBER

**Claudia Margarita Félix Sandoval**  
 INDEPENDENT MEMBER

**Enrique Ramón Coppel Luken**  
 INDEPENDENT MEMBER

## BOARD OF DIRECTORS' COMMITTEES

### BEST CORPORATE PRACTICES COMMITTEE

Comprised of three independent board members:

**Nicolás Olea Osuna**  
 CHAIRMAN

**Mario Laborín Gómez**  
 MEMBER

**Claudia Margarita Félix Sandoval**  
 MEMBER

**José Gerardo Robinson Bours Castelo**  
 MEMBER

### AUDIT COMMITTEE

Comprised of three independent board members:

**Mario Laborín Gómez**  
 CHAIRMAN

**Sergio Jesús Mazón Rubio**  
 MEMBER

**Nicolás Olea Osuna**  
 MEMBER

**Enrique Ramón Coppel Luken**  
 MEMBER



## MANAGEMENT TEAM

**Enrique Yamuni**  
 CHIEF EXECUTIVE OFFICER

**Raymundo Fernández**  
 DEPUTY CHIEF EXECUTIVE OFFICER

**Luis Antonio Zetter**  
 CHIEF FINANCIAL AND ADMINISTRATIVE OFFICER



## CODE OF ETHICS

At Megacable, we stand out because we act with transparency, integrity and honesty in every single one of our activities.

We have a Code of Ethics that outlines how we, as both an organization and as individuals, must act within the Company and when dealing with our stakeholders, including our customers, suppliers, society and government.

Furthermore, we have developed a range of policies to guarantee compliance with anti-discrimination measures, conflicts of interest, anti-corruption, gender equality and inclusion, among others.

At Megacable, we know that our employees and third parties play a fundamental role in consolidating our culture of ethics, which is why we have a channel through which people can anonymously send an e-mail to report any action that violates or does not comply with our values as a company. All complaints are handled by Senior Management and the Human Resources department.



## ANTI-CORRUPTION CULTURE

We are firmly against any form of corruption, which is why we operate under the highest ethical standards and in full compliance with all applicable anti-corruption legislation.

We have an Anti-corruption Policy that governs the way in which we prevent and sanction any practice or behavior that seeks to obtain an undue advantage.

Furthermore, we strive to promote long-term business relationships, which are always based on respect and which aim to preserve the reputation of the Organization.

In order to ensure that all procurement processes are undertaken in a transparent manner through a fair tender process, we have a Procurement Committee that is comprised of the Administration and Finance Director, the Corporate Procurement Manager, and the Corporate Internal Audit Manager.



## 360° CYBERSECURITY STRATEGY

Cybersecurity is a fundamental matter in the digital era. The increase in cybercrimes and incidents has become a major problem that must be addressed through a strategy and a team that specializes in this area. This is why, at Megacable, we have policies, procedures, certifications and a Cybersecurity Department that is tasked with developing a security framework to safeguard information and protect critical infrastructure, under the premise of identifying security standards and guidelines that can be applied in every area within the Organization.

The following are some of the actions that we have taken that are aligned with the industry-accepted standards that govern our operations:

### Network Security

- Geolocation policies for perimeter equipment.
- Controlled access.

### Malware Protection

- Updated signatures on all devices.

### Analysis & Monitoring

- Current moment and trends.

### Incident Management

- On-time support for reports.
- Detection of anomalies.

### Administration of Privileges

- User profiles.
- Mismanagement reports (lending of ID).

### Off-site Working

- Maintaining same security policies.

### Risk Management Model (Committee)

- Policies and standards.

### Incident Response Plan

We also have an incident response plan that allows us to monitor and detect problems, contain them, and resolve them without affecting our operations. Based on a protocol and working basis, we are capable of resolving any IT security incident that may happen within the Company.

### Response Plan

This plan encompasses 6 general stages that describe how to act in the event of a security incident:



### Payments via Internet

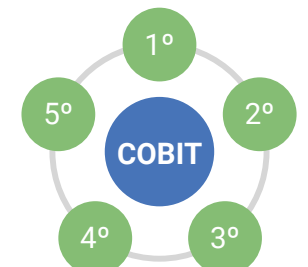
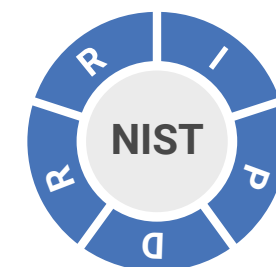
In order to offer security to all our customers who make payments via our website, we have implemented strict security measures that include PCI DSS certification (Payment Card Industry Security Standards Council), focusing on networks, systems and other equipment that can process transactions made using bank cards (credit and debit).

The purpose of PCI-DSS and PA-DSS standards is to demonstrate to credit and debit card processors around the world (such as Visa, Discover and AMEX, among others) that the data is being processed correctly and securely, in addition to stating that their commercial and IT operations can be audited.

### Employee Training

We constantly offer training opportunities to our employees in order to respond to any IT security incident that may arise.

Based on frameworks such as:



# SOCIAL

## EMPLOYEES

In keeping with our values, we strive to have a positive impact on the quality of life of our employees and their families, which is why we work hard to offer them optimal working conditions and attractive benefits.

The talent and professionalism of our team is the driving force behind our company as it has enabled us to position ourselves as a leader within the sector and meet the expectations of our customers.

The work we do is based on four guiding principles:



Attracting **the best talent.**



Increasing **how long our employees stay with us.**



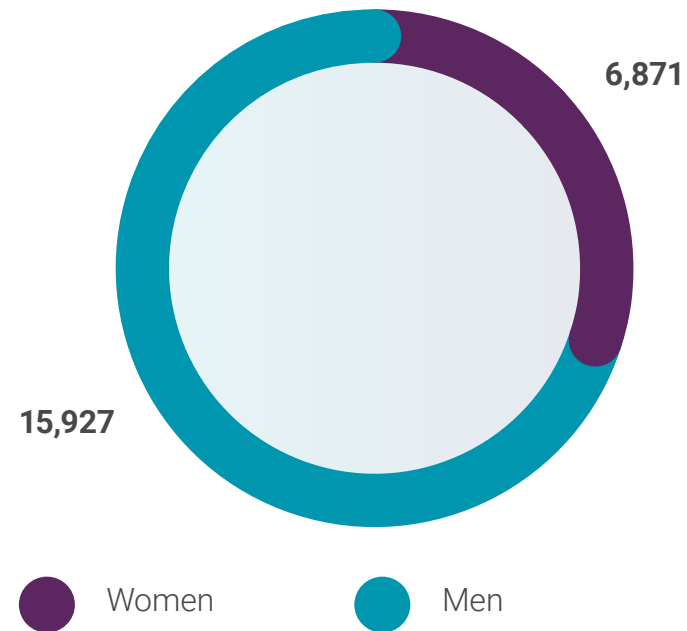
Training employees **to promote a service culture.**



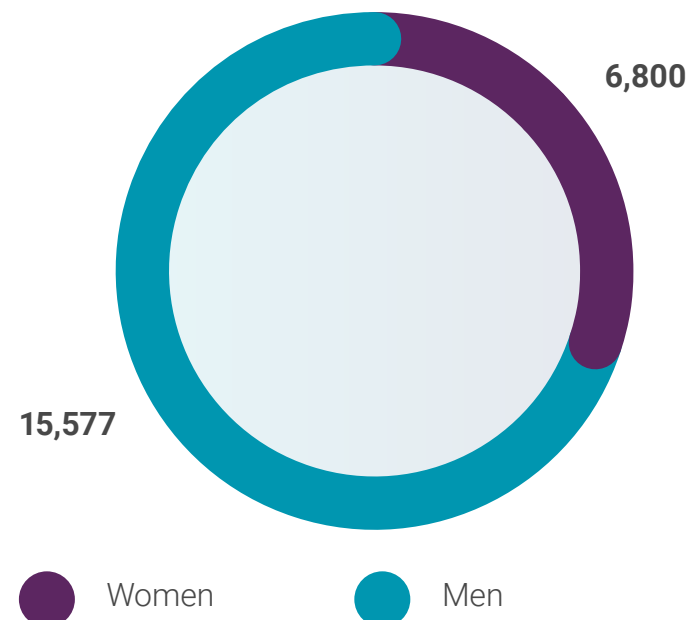
Creating **a more efficient organization.**

*Our team comprises 22,798 direct employees.*

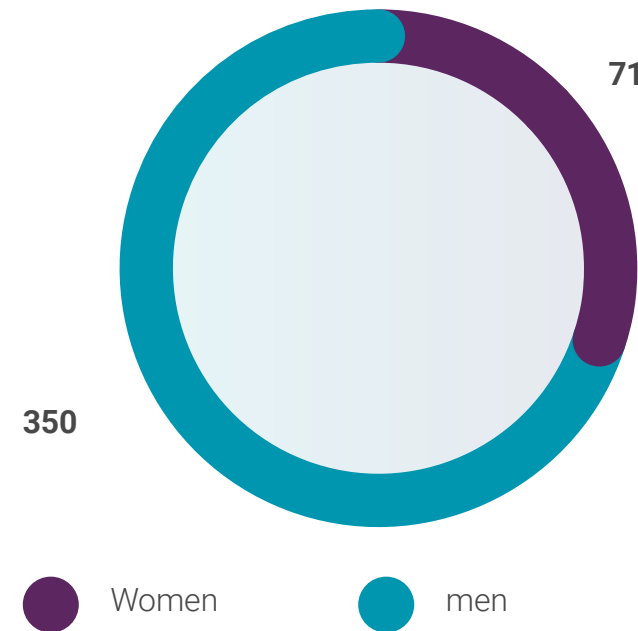
Total Employees



Total Employees with a Full-time Contract



Total Employees with a Part-Time Contract



## Training

We encourage our employees to continue working on their professional and personal development, which is why we offer a wide-ranging training program that not only bolsters new professional skills but also provides personal training opportunities.

Through our human capital development and training program, we offer certifications on how to use new technologies, in addition to providing safety training for our service technicians.

At the beginning of 2020, we implemented a new real-time virtual training model, which has enabled us to standardize the content we offer all our employees, in addition to continuing our employee development program despite the lockdown measures in place as a result of the global pandemic.

In the courses that were offered in a face-to-face format given the nature of their content, all health protocols were followed in order to safeguard the health of our employees.



**18,190 TRAINING**

hours.



**27,063 EMPLOYEES**

trained.



**3 HOURS OF TRAINING**

on average per employee.



**MXN \$5,637,927.12**

invested in training.

The major issues focused on during the training offered in 2020 included: Wi-Fi Diagnostics, New Technologies, Troubleshooting and Routers, among other technical issues.



### Recruitment

Despite the challenging situations we faced during the year, we saw significant increases in recruitment throughout the different divisions within our Company, especially among operations and technical staff.

*We increased our workforce by 7%.*

In order to attract the best possible talent to our Company, we rely on two strategies: the first encompasses external publications including recruitment sites, social networks, print media outlets and educational institutions; the second, which represents a higher percentage of our talent attraction efforts, is our Referral Program, which offers employees the opportunity to refer potential candidates to fill vacancies.

We also encourage internal promotion processes that offer employees access to promotions through a selection process and based on their professional achievements.

It is noteworthy that, during 2020, for every new employee that joined the Company, we complied with the corresponding health protocols to help combat the global pandemic.

Furthermore, we offer induction courses and a program called *Shoulder to Shoulder*, which teams up new employees with an experienced employee to help boost their development within the training process.

### Inclusion

The talent of our employees is the driving force behind Megacable's success, which is why we promote cultural inclusion at both a corporate and a regional level. Through our Code of Ethics and our Non-discrimination Policy, we drive inclusion in every single one of our actions.



Our doors are always open to everyone who wants to work and grow alongside us. For example, we have a system that allows us to analyze the perfect activities for employees who have a disability.

We promote the leadership of women in order to increase their participation in key posts, which is why we have created the *Megacable Women Workshop*, through which we focus on issues such as transformational leadership and emotional intelligence. Furthermore, to mark women's month, we offered a talk entitled *VIOLENCE Can Affect Everyone* in some areas of the Company.

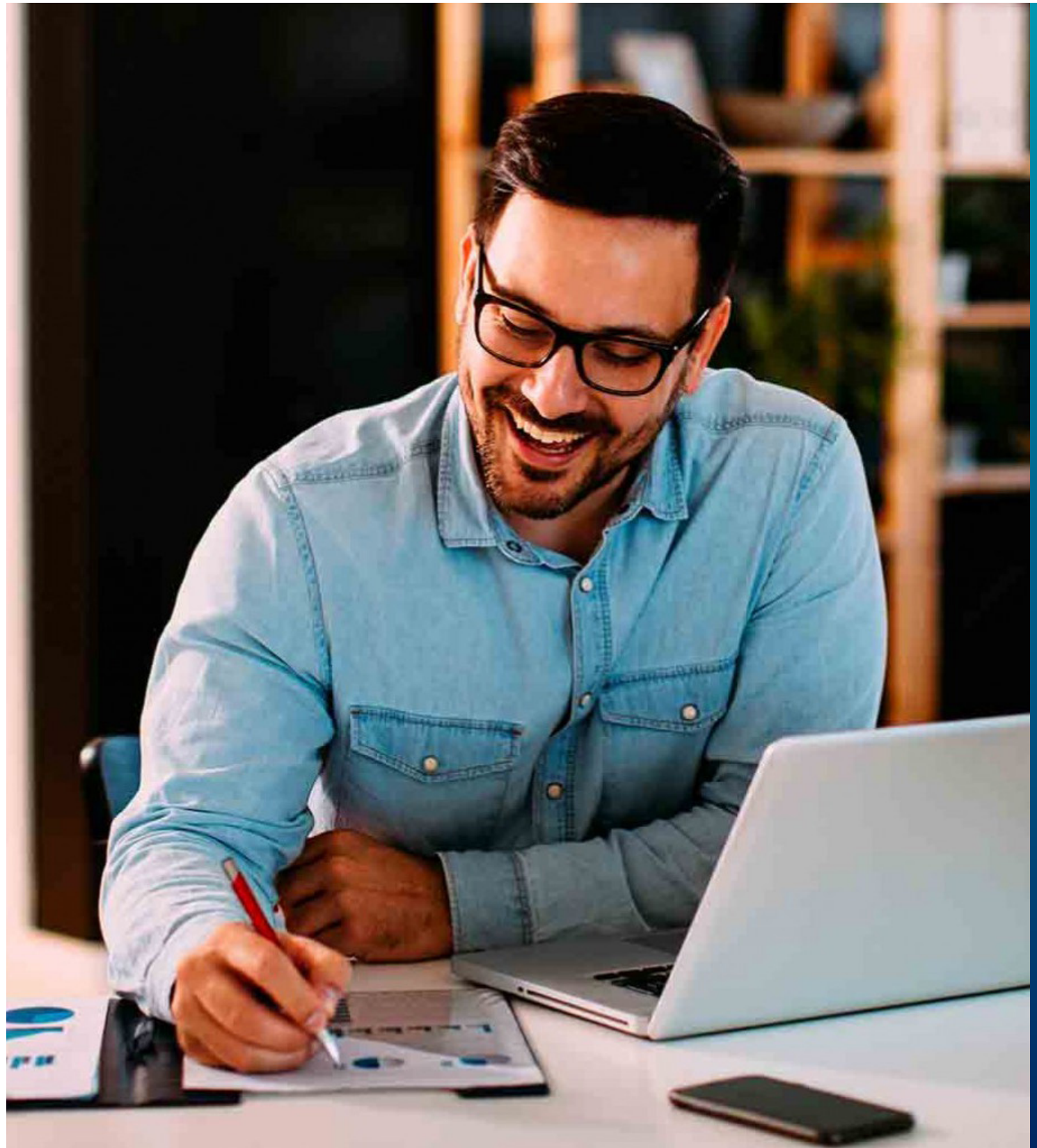
As part of our respect and support for inclusion and the prevention of violence against women, on Monday March 9th we supported our female employees who decided not to come to work as part of the national movement entitled *#UnDíaSinMujeres (#OneDayWithoutWomen)*.

*We offer the same rights, benefits and treatment to all our employees, customers and the people we engage with.*

### Reporting Channel

We have a reporting channel that our employees can use to anonymously report any incidences of assault, theft, late payments, mistreatment or any other issue. These reports are received by the CEO, Deputy CEO and the Human Resource Director, who follow up on any situations reported.





### Performance Evaluation

In order to improve the way in which we work, we have implemented a performance evaluation process that is based on a skills model and allows us to identify our employees' growth and areas of opportunity. This system includes 90° and 360° evaluations, meaning that employees are evaluated by their direct leaders, peers and subordinates. This offers us a more wide-ranging overview of their performance and goal achievement based on a number of different levels.

To celebrate the hard work and loyalty of our employees, we recognize their outstanding performance and their years of service, enabling us to highlight the valuable collaboration of our team members.

Furthermore, we remain in constant communication with our employees through meetings, videos and corporate messages, among others.

### Health and Safety

Given the public health crisis the world is facing as a result of the COVID-19 pandemic, we implemented a prevention campaign to offer all our employees the informative and operational tools that they need to avoid the risk of infection, including memos, talks and personal protection equipment.

From March, we implemented a remote working model that enabled us to continue operating efficiently.

For employees who had to access our facilities, we implemented a prevention protocol that included the use of face masks, sanitizing mats, gel and disinfection arches, in addition to opportunely registering and following up on any employee who presented any suspected symptoms. We also used PCR tests for employees presenting symptoms, testing more than 13,000 people during 2020 and providing medical support in the event any of these results came back positive for COVID-19.

The health and safety of our customers is one of our major priorities, which is why we implemented a strict control protocol in order to safeguard our employees, our customers and their families when carrying out repairs or installations at their homes.

Our technicians must use face masks, face shields, gloves and gel when they enter a customer's home. Additionally, and for the protection of our employees, we request that the client sign a letter stating that nobody in their home has been infected with COVID-19.

As a result of these efforts, we can state that this year our health and safety efforts mostly focused on protecting our employees and customers in light of the COVID-19 public health crisis, leading to the suspension of other programs that we will resume in the future in order to continue offering comprehensive health and safety programs to our employees.



## QUALITY OF LIFE

We promote an environment of collaboration and respect, and we encourage actions that offer our employees optimum working conditions and attractive benefits.

In order to promote a work-life balance among our employees, we modified our working hours - our corporate employees now finish their working day half an hour early, and we also reduced the length of the working day on Fridays.

As part of the benefits that we offer, we have forged 158 partnerships that help improve the quality of life of our employees, 13 more than there were in 2019. These include discounts for education services, healthcare, accommodation, restaurants, sports, transport and entertainment, among others.

We also rolled out vaccination and awareness campaigns on a national scale to help benefit our employees, including flu vaccinations and information about how to prevent breast cancer.

At Megacable, we also focus on psychological and social risk factors that affect our employees, which is why we operate under standards that promote an optimum working environment for all our employees. To achieve this, we are in the process of becoming NOM-35 certified.



## COMMUNITY ENGAGEMENT

As a result of the challenges stemming from the COVID-19 pandemic, our priority is and will continue to be offering people the services they need to continue their activities remotely. This is why we rolled out the *At Megacable, We Are With You* campaign, through which we offer connectivity to more than 250 social welfare institutions, including children's homes, shelters and retirement homes located in 74 cities around the country. Additionally, we provide telecommunications service to institutions like the Red Cross and volunteer fire brigades in our communities.

*More than 7,000 people were benefited through At Megacable, We Are With You campaign.*

As an act of solidarity with medical, nursing and support staff involved in treating patients with COVID-19, we also donated 2,500 personal protection equipment kits that were distributed to 20 regional public hospitals located in 18 cities around the country, including in Mexico City, León, Veracruz, Morelia, Guadalajara, Colima, Tepic, Hermosillo, Puebla and Tuxtla Gutiérrez, among others.

Each kit included KN95 face masks, surgical caps, disposable coveralls, protective glasses, and gloves, helping protect all our healthcare workers.

We also supported Small and Medium-sized Enterprises facing problems as a result of the pandemic by launching our **Reactivate with Megacable** (*Reactíivate con Megacable*) campaign, offered internet, fixed telephony and mobile telephony packages at very accessible prices, with special discounts and in some cases debt cancellation.

As part of our efforts to involve our suppliers in our commitment to the community, we have asked them to sign a contract in which they confirm that they do not use any materials that are the result of slavery or drug trafficking, in keeping with our principles and values.



## ENVIRONMENT

At Megacable, we are aware that the future of our planet depends greatly on what we do to protect it today, which is why we promote a culture that safeguards natural resources and promotes environmental conservation through a number of different initiatives:

- **Life without Plastic:** We have eliminated single use plastics, and we encourage our employees to use metal or polycarbonate containers that can be used on a daily basis.
- **Sustainable Disposal of Batteries:** We collect batteries and send them to a company specializing in hazardous waste in order to reduce the impact they have on the environment.

We implemented a paper recycling campaign in conjunction with the *Te Lo Compro* recycling company. We collect all the paper that can no longer be used, such as files that are no longer in use, folders, dividers, newspapers and flyers, among others. Our employees are involved in this campaign, depositing paper waste into the designated containers found within each area.

For every container collected by *Te Lo Compro*, we receive rewards such as vouchers for pizza, coffee or movie tickets that are given to employees at our corporate offices through prize draws and competitions.

The automation of our processes has also enabled us to reduce our environmental impact by decreasing travel. We have also implemented a program to replace four-wheeled vehicles with two-wheeled alternatives in order to reduce the pollution generated by our operations.

Furthermore, we have modernized our air-conditioning and lighting systems to decrease the amount of electricity we use; we have promoted a paperless campaign among our employees; we recycle waste at our offices; and we ensure that all waste is correctly disposed of.



# CONSOLIDATED FINANCIAL STATEMENTS



- Opinion
- Basis for opinion
- Key Audit Matters
- Evaluation of the goodwill impairment test
- Other information
- Responsibilities of Management and those Charged with Governance of the Consolidated Financial Statements
- Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

# INDEPENDENT AUDITOR'S REPORT

*(Translation from Spanish Language Original)*

To the Board of Directors and Shareholders

Megacable Holdings, S.A.B. de C.V.

*(In thousands of Mexican Pesos)*

## Opinion

We have audited the consolidated financial statements of Megacable Holdings, S.A.B. de C.V. and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, the consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and notes, including a summary of significant accounting policies, and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Megacable Holdings, S.A.B. de C.V. and subsidiaries as at December 31, 2020 and 2019, and its consolidated results and its consolidated cash flows for the years then ended, in accordance with International Financial Reports Standards (IFRS).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' 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 consolidated financial statements in Mexico, and we have fulfilled our 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.

## Key Audit Matters

Key Audit Matters (KAM) are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Evaluation of the goodwill impairment test

See note 11 to the consolidated financial statements

### The Key Audit Matter

The goodwill as at December 31, 2020 was \$4,378,397, and represented 8.8% of the Group's total consolidated assets as at that date, of which \$4,054,576 corresponded to the following Cash Generating Units (CGU): \$1,242,205 to the Bajío CGU; \$1,104,865 to the Central CGU, \$693,805 to the Southeast CGU, \$429,492 to the Pacific CGU, \$318,640 to the Michoacán CGU and \$265,569 to the Western CGU.

The Group analyzes the impairment of goodwill due to the occurrence of internal or external impairment indicators, or at least once a year.

We have identified the goodwill impairment test evaluation of these six CGUs as a key matter in our audit because the recovery value determination involves significant judgments. Specifically, the assumptions of the long-term growth rate, discount rate and reasonableness of cash flow projections used to calculate the recoverable value of CGUs are complex and any minor change to these assumptions would represent a significant impact. The recovery value has been determined through the value in use.

### How our matter was addressed in our audit

The main procedures we performed to address this key audit matter included the following:

We performed a sensitivity analysis on the long-term growth rate and discount rate assumptions to assess their impact on determining the recovery value of the CGUs mentioned above.

We evaluated the long-term growth rates projected by the Group for these CGUs, comparing the growth assumptions with publicly available information.

We compared the Group's historical cash flow projections with current results to assess the Group's ability to make projections. We also involved our valuation specialists, who assisted us with:

- Evaluating the discount rate used in the valuation, when comparing it with a range of discount rate that was estimated independently using public information available for comparable entities; and
- Calculating the recovery value of the CGUs mentioned above, using the Group's cash flow projections and previously evaluated and using the discount rate calculated independently, and compare the results with the estimates made by the Group.

## Other information

Management is responsible for the other information. The other information comprises the information included in the Group's Annual Report for the year ended December 31, 2020, which must be submitted to the National Banking and Securities Commission and the Mexican Stock Exchange ("the Annual Report") but does not include the consolidated financial statements and our auditor's report thereon. We expect that the Annual Report will be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information as it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, when we read the Annual Report, we conclude that there is a material misstatement of this other information, we are required to report that fact to those responsible for the entity's governance.

## Responsibilities of Management and those Charged with Governance of the Consolidated Financial Statements

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

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

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

## Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, we conclude 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are, therefore, the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**KPMG Cárdenas Dosal, S. C.**

**Jorge O. Pérez Zermeño**

Guadalajara, Jalisco  
April 27, 2021



**Megacable Holdings, S.A.B. de C.V. and subsidiaries**

**Consolidated Statement of Financial Position**

December 31, 2020 and 2019

(Thousands of Mexican pesos)

These financial statements have been translated from Spanish, the original language and for the convenience of foreign/ English-speaking readers

|  | Note      | 2020              | 2019              |
|--|-----------|-------------------|-------------------|
| <b>ASSETS</b>                                  |           |                   |                   |
| Current assets:                                |           |                   |                   |
| Cash and cash equivalents                      | 5         | \$ 4,259,590      | 2,210,065         |
| Accounts receivable, net                       | 6         | 1,705,690         | 1,858,819         |
| Value added tax and others                     |           | 779,937           | 755,212           |
| Inventories, net                               | 7         | 435,539           | 471,246           |
| Prepayments                                    | 8         | 251,581           | 380,494           |
| <b>Total current assets</b>                    |           | <b>7,432,337</b>  | <b>5,675,836</b>  |
| Non-current assets:                            |           |                   |                   |
| Prepayments                                    | 8         | 2,012,974         | -                 |
| Property, networks and equipment, net          | 10        | 31,558,147        | 29,459,866        |
| Right-of-use assets                            | 17        | 2,574,121         | 1,715,658         |
| Related parties                                | 25        | 978,473           | 1,151,542         |
| Goodwill, net                                  | 11        | 4,378,397         | 4,378,397         |
| Other intangible assets, net                   | 12        | 106,298           | 231,906           |
| Other assets                                   | 26        | 716,260           | 629,562           |
| <b>Total non-current assets</b>                |           | <b>42,324,670</b> | <b>37,566,931</b> |
| <b>Total assets</b>                            |           | <b>49,757,007</b> | <b>43,242,767</b> |
| <b>LIABILITIES</b>                             |           |                   |                   |
| Current liabilities:                           |           |                   |                   |
| Banknotes payable                              | 14        | 459               | 79,922            |
| Current portion of lease liabilities           | 17        | 1,291,230         | 132,652           |
| Suppliers                                      |           | 3,240,961         | 1,436,412         |
| Other accounts payable and accrued liabilities | 15        | 1,726,274         | 916,060           |
| Income tax                                     |           | 42,087            | -                 |
| Related parties                                | 17 and 25 | 100,149           | 275,534           |
| <b>Total current liabilities</b>               |           | <b>6,401,160</b>  | <b>2,840,580</b>  |

|   | Note      | 2020                 | 2019              |
|---|-----------|----------------------|-------------------|
| Non-current liabilities:                            |           |                      |                   |
| Banknotes payable                                   | 14        | 6,358,954            | 6,427,847         |
| Long-term lease liabilities, net of current portion | 17        | 231,510              | 266,963           |
| Related parties                                     | 17 and 25 | 729,085              | 735,400           |
| Employee benefits                                   | 16        | 203,285              | 277,707           |
| Deferred income tax                                 | 20        | 1,955,997            | 1,744,334         |
| <b>Total non-current liabilities</b>                |           | <b>9,478,831</b>     | <b>9,452,251</b>  |
| <b>Total liabilities</b>                            |           | <b>15,879,991</b>    | <b>12,292,831</b> |
| <b>EQUITY</b>                                       |           |                      |                   |
| Controlling interest: 18                            |           |                      |                   |
| Capital stock                                       |           | 910,244              | 910,244           |
| Additional paid in capital                          |           | 2,117,560            | 2,117,560         |
| Reserve for the repurchase of shares                |           | 322,560              | 272,712           |
| Retained earnings                                   |           | 28,673,790           | 25,836,106        |
| Legal reserve                                       |           | 493,808              | 492,412           |
| Other comprehensive income                          |           | (33,870)             | (16,391)          |
| <b>Controlling interest</b>                         |           | <b>32,484,092</b>    | <b>29,612,643</b> |
| Non-controlling interest                            |           | 1,392,924            | 1,337,293         |
| <b>Total equity</b>                                 |           | <b>33,877,016</b>    | <b>30,949,936</b> |
| <b>Total liabilities and equity</b>                 |           | <b>\$ 49,757,007</b> | <b>43,242,767</b> |

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

  
**Lic. Enrique Yamuni Robles**  
 CHIEF EXECUTIVE OFFICER

  
**C.P. Luis Antonio Zetter Zermeño**  
 CHIEF FINANCE AND ADMINISTRATION OFFICER



**Megacable Holdings, S.A.B. de C.V. and subsidiaries**

**Consolidated Statements of Comprehensive Income**

Years ended December 31, 2020 and 2019

(Thousands of Mexican pesos)

These financial statements have been translated from Spanish, the original language and for the convenience of foreign/English-speaking readers

|   | Note      | 2020              | 2019              |
|---|-----------|-------------------|-------------------|
| Service revenues  | 28        | \$ 22,383,030     | 21,615,210        |
| Cost of services  | 21 and 28 | 10,107,417        | 9,661,093         |
| <b>Gross profit</b>   |           | <b>12,275,613</b> | <b>11,954,117</b> |
| Selling expenses  | 21 and 28 | 5,307,074         | 5,266,548         |
| Administrative expenses   | 21 and 28 | 517,754           | 514,132           |
| Expected credit loss  | 6 and 21  | 111,224           | 53,639            |
| Other income, net   | 22 and 28 | 77,811            | 43,260            |
| <b>Operating income</b>   |           | <b>6,417,372</b>  | <b>6,163,058</b>  |
| Finance income  | 23 and 25 | 145,993           | 311,086           |
| Finance costs   | 23 and 25 | (615,114)         | (700,938)         |
| <b>Finance costs, net</b>   |           | <b>(469,121)</b>  | <b>(389,852)</b>  |
| Impairment of other permanent investment  | 26        | (88,500)          | -                 |
| <b>Income before income tax</b>   |           | <b>5,859,751</b>  | <b>5,773,206</b>  |
| Income tax  | 20        | (1,335,496)       | (1,320,611)       |
| <b>Net profit</b>   |           | <b>4,524,255</b>  | <b>4,452,595</b>  |
| Other comprehensive income:<br>Items that will not be reclassified to profit or loss:<br>Remeasurement of post-employment benefit obligations |           | (17,479)          | (18,184)          |
| <b>Comprehensive income, net</b>  |           | <b>4,506,776</b>  | <b>4,434,411</b>  |

|  | Note | 2020                | 2019             |
|--|------|---------------------|------------------|
| Net income attributable to:  |      |                     |                  |
| Company shareholders   |      | 4,353,365           | 4,290,211        |
| Non-controlling interest   |      | 170,890             | 162,384          |
| <b>Net profit</b>  |      | <b>4,524,255</b>    | <b>4,452,595</b> |
| Comprehensive income attributable to:                              |      |                     |                  |
| Company shareholders   |      | 4,335,886           | 4,272,027        |
| Non-controlling interest   |      | 170,890             | 162,384          |
| <b>Comprehensive income</b>  |      | <b>\$ 4,506,776</b> | <b>4,434,411</b> |
| Basic and diluted earnings per share:                              |      |                     |                  |
| Attributable earnings per common share of the controlling interest | 19   | 2.53                | 2.49             |
| Profit per Ordinary Share Certificate (CPO)                        | 19   | 5.06                | 4.98             |

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

  
**Lic. Enrique Yamuni Robles**  
 CHIEF EXECUTIVE OFFICER

  
**C.P. Luis Antonio Zetter Zermeño**  
 CHIEF FINANCE AND ADMINISTRATION OFFICER

**Megacable Holdings, S.A.B. de C.V. and subsidiaries**

**Consolidated Statements of Changes in Stockholders' Equity**

Years ended December 31, 2020 and 2019

(Thousands of Mexican pesos)

These financial statements have been translated from Spanish, the original language and for the convenience of foreign/English-speaking readers

|                                     | Note 18 | Share capital | Net premium on placement of shares | Provision for repurchase of shares | Retained earnings | Legal reserve | Other comprehensive income | Total controlling interest of share capital | Non-controlling interest | Total equity |
|-------------------------------------|---------|---------------|------------------------------------|------------------------------------|-------------------|---------------|----------------------------|---|--------------------------|--------------|
| Balance at December 31, 2018        | \$      | 910,244       | 2,117,560                          | 294,612                            | 23,462,826        | 488,832       | 21,520                     | 27,295,594                                  | 1,345,027                | 28,640,621   |
| Charges to the legal reserve        |         | -             | -                                  | -                                  | (3,580)           | 3,580         | -                          | -   | -                        | -            |
| Purchase and sale of own shares     |         | -             | -                                  | (21,900)                           | (58,530)          | -             | -                          | (80,430)                                    | -                        | (80,430)     |
| Redemption of minority shareholders |         | -             | -                                  | -                                  | -                 | -             | -                          | -   | (126,218)                | (126,218)    |
| Dividends                           |         | -             | -                                  | -                                  | (1,874,548)       | -             | -                          | (1,874,548)                                 | (43,900)                 | (1,918,448)  |
| Ori effect of IAS 19                |         | -             | -                                  | -                                  | 19,727            | -             | (19,727)                   | -   | -                        | -            |
| Comprehensive income                |         | -             | -                                  | -                                  | 4,290,211         | -             | (18,184)                   | 4,272,027                                   | 162,384                  | 4,434,411    |
| Balance at December 31, 2019        |         | 910,244       | 2,117,560                          | 272,712                            | 25,836,106        | 492,412       | (16,391)                   | 29,612,643                                  | 1,337,293                | 30,949,936   |
| Charges to the legal reserve        |         | -             | -                                  | -                                  | (1,396)           | 1,396         | -                          | -   | -                        | -            |
| Purchase and sale of own shares     |         | -             | -                                  | 49,848                             | -                 | -             | -                          | 49,848                                      | -                        | 49,848       |
| Redemption of minority shareholders |         | -             | -                                  | -                                  | -                 | -             | -                          | -   | (25,070)                 | (25,070)     |
| Dividends                           |         | -             | -                                  | -                                  | (1,529,359)       | -             | -                          | (1,529,359)                                 | (90,189)                 | (1,619,548)  |
| Ori effect of IAS 19                |         | -             | -                                  | -                                  | 15,074            | -             | -                          | 15,074                                      | -                        | 15,074       |
| Comprehensive income                |         | -             | -                                  | -                                  | 4,353,365         | -             | (17,479)                   | 4,335,886                                   | 170,890                  | 4,506,776    |
| Balance at December 31, 2020        | \$      | 910,244       | 2,117,560                          | 322,560                            | 28,673,790        | 493,808       | (33,870)                   | 32,484,092                                  | 1,392,924                | 33,877,016   |

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

  
**Lic. Enrique Yamuni Robles**  
 CHIEF EXECUTIVE OFFICER

  
**C.P. Luis Antonio Zetter Zermeño**  
 CHIEF FINANCE AND ADMINISTRATION OFFICER

**Megacable Holdings, S.A.B. de C.V. and subsidiaries**

**Consolidated Statements of Cash Flows**

Years ended December 31 2020 and 2019

(Thousands of Mexican pesos)

These financial statements have been translated from Spanish, the original language and for the convenience of foreign/ English-speaking readers

|   | 2020         | 2019        |
|---|--------------|-------------|
| Operating activities:                           | \$ 4,524,255 | 4,452,595   |
| Net profit                                      |              |             |
| Items related to investment activities:         |              |             |
| Allowance for credit losses                     | 111,224      | 53,639      |
| Depreciation                                    | 4,318,172    | 3,561,523   |
| Depreciation of leases                          | 139,146      | 302,925     |
| Amortization                                    | 232,168      | 272,257     |
| Loss on sale of property, system, and equipment | 448,732      | 14,448      |
| Interest income                                 | (145,993)    | (311,086)   |
| Allowance for obsolete inventories              | 6,304        | 11,717      |
| Impairment of other permanent investment        | 88,500       | -           |
| Income tax                                      | 1,335,496    | 1,320,611   |
| Items related to financing activities:          |              |             |
| Interest expense                                | 571,719      | 661,807     |
| Unrealized exchange rate fluctuations           | (7,636)      | 2,290       |
| Subtotal  | 11,622,087   | 10,342,726  |
| Changes in working capital:                     |              |             |
| Accounts receivable                             | 42,263       | (141,806)   |
| Value added tax and others                      | (24,725)     | (346,217)   |
| Related parties, net                            | 131,748      | 247,077     |
| Inventories                                     | 29,403       | (51,928)    |
| Prepayments                                     | 128,913      | (12,764)    |
| Suppliers                                       | 1,802,766    | (468,893)   |
| Other accounts payable                          | 836,700      | (39,264)    |
| Employee benefits                               | (74,422)     | 51,544      |
| Net cash flows from operating activities        | 14,494,733   | 9,580,475   |
| Paid employee profit-sharing                    | (28,778)     | (24,676)    |
| Income tax                                      | (1,079,454)  | (2,428,963) |
| Net cash from operating activities              | 13,386,501   | 7,126,836   |

|  | 2020         | 2019        |
|--|--------------|-------------|
| Investing activities:  |              |             |
| Prepayments  | (2,007,401)  | -           |
| Amounts collected on loans to related parties                | 205,454      | 162,688     |
| Proceeds from the sale of property, networks, and equipment  | 16,919       | 12,217      |
| Acquisition of machinery, furniture, and equipment           | (5,322,435)  | (7,220,855) |
| Lease acquisitions   | -            | (155,550)   |
| Other non-current assets                                     | (278,051)    | 30,227      |
| Decrease in intangible assets                                | 125,608      | (166,184)   |
| Acquisition of intangible                                    | -            | (266,731)   |
| Contribution to other permanent investments                  | (129,315)    | (139,738)   |
| Interest income  | 145,993      | 309,311     |
| Net cash flows from investing activities                     | (7,243,228)  | (7,434,615) |
| Financing activities:  |              |             |
| Bank loans received  | -            | 6,415,109   |
| Loans granted to related parties                             | (100,359)    | (194,447)   |
| Repayment of bank loans                                      | (148,440)    | (3,808,716) |
| Payment of finance lease liabilities                         | (1,735,265)  | (409,115)   |
| Dividend payments  | (1,619,548)  | (1,918,448) |
| Minority shareholder redemptions                             | (25,070)     | (144,402)   |
| Minority shareholder contributions                           | (2,405)      | -           |
| Purchase and sale of own shares                              | 49,848       | (80,430)    |
| Interest expense   | (516,081)    | (661,807)   |
| Net cash flows from financing activities                     | (4,097,320)  | (802,256)   |
| Net increase (net decrease) in cash and cash equivalents     | 2,045,953    | (1,110,035) |
| Cash and cash equivalents:                                   |              |             |
| At the beginning of the year                                 | 2,210,065    | 3,330,216   |
| Unrealized exchange fluctuation of cash and cash equivalents | 3,572        | (10,116)    |
| At the end of the year                                       | \$ 4,259,590 | 2,210,065   |

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

  
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 CHIEF EXECUTIVE OFFICER

  
**C.P. Luis Antonio Zetter Zermeño**  
 CHIEF FINANCE AND ADMINISTRATION OFFICER

## Megacable Holdings, S.A.B. de C.V. and Subsidiaries

### Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Thousands of Mexican Pesos)

These financial statements have been translated from Spanish, the original language and for the convenience of foreign/English-speaking readers.

## (1) Group information-

Megacable Holdings, S.A.B. de C.V. (the "Company" or "Group") is a variable capital company incorporated under Mexican law, as well as its subsidiary Mega Cable, S.A. de C.V. (Mega Cable). The Group is controlled indirectly by the Bours and Mazón Families and the Trust held with Mexican development bank Nacional Financiera, S.N.C. The subsidiary Mega Cable also controls a group of companies engaged in the installation, operation, maintenance, and use of Public Telecommunications networks that distribute cable television, internet and telephone signal systems, and business solutions provided for the business segment. The Group is listed on the Mexican Stock Exchange and has a presence in more than 26 states across Mexico. The Group has determined that its normal cycle of operations starts on January 1 and ends on December 31 of each year.

The Group's headquarters are located at Av. Lázaro Cárdenas 1694, Col. Del Fresno, Zip Code 44900 in Guadalajara, Jalisco, Mexico.

The accompanying consolidated financial statements include the Group's figures, including joint ventures and associates, as at December 31, 2020 and 2019, in which the Group exercises significant influence and control, respectively. (See Note 2b)

### Telecommunications Reform

On June 11, 2013, the Official Gazette of the Federation published the Decree reforming and adding various provisions to Articles 6, 7, 27, 28, 73, 78, 95, and 105 of the Mexican Constitution regarding "Telecommunications," which establishes the obligation for Congress to issue the single Legal Order on regulatory convergence for the use, operation, and exploitation of the radioelectric spectrum, telecommunications networks, as well as the provision of broadcasting and telecommunication services.

The Federal Telecommunications Institute (IFT or "Institute") was created on September 10, 2013, and the Decree issuing the Federal Telecommunications and Broadcasting Act (the "Law") was published in the Official Gazette of the Federation on July 14, 2014, along with the amendment and repeal of various Telecommunications and Broadcasting provisions. The Decree entered into force on August 13, 2014.

In compliance with the Eighth Transitory Article, Section III of the constitutional amendments decree, the IFT Plenary in its V Extraordinary Meeting approved the resolution on preponderance and established various measures for the Preponderant Economic Agents (PEA) in the telecommunications and broadcasting sectors, respectively, to keep from affecting free trade and competition, through Agreement P/IFT/EXT/060314/76, which affected the Group with the corresponding measure and asymmetric interconnection charges for calls ending in the network of the PEA in telecommunication services TELCEL/TELMEX/TELNOR.

Furthermore, said Resolution established, in Appendix 3, the measures that allow an effective unbundling of the local PEA network so that other telecommunication companies can access the physical, technical and logical means of connection between any terminal point of the public telecommunications network and the access point to the local network belonging

to said agent. Thus, on February 27, 2018, through Agreement P/IFT/270218/130, the final plan for the implementation of functional separation of the PEA was approved, which, after changes approved by the Authority, had a September 30, 2019 deadline for migration of personnel, transfer of resources and transfer of network and infrastructure elements, thus giving rise to the functional separation of Telmex and Telnor.

Consequently, through the implementation of the final functional separation plan and the application of different measures imposed on the PEA, on March 4, 2020, the IFT approved the concession titles for Red Nacional Última Milla, S.A.P.I de C.V. and Red Última Milla del Noroeste, S.A.P.I de C.V, companies created to provide services for the PEA's telecommunications wholesale division. Thus, as of March 6 of said year, these companies began operations independently from Telmex and Telnor.

In accordance with the Preponderance Resolution and the Law, the Institute Plenary has adopted different general Administrative Provisions and resolutions, including the Minimal Technical Conditions and Cost Models used to determine the Interconnection rates annually since 2015, and the applicable rate for 2021 was published in 2020. Similarly, the reference offers of the Preponderant Economic Agent in the telecommunications sector, which include Wholesale Services of Dedicated Links, Infrastructure Sharing and Local Loop Unbundling, as well as the Measures imposed biannually to the PEA and the approval of different cost models, allow to determine the prices for the services of Dedicated Links, Unbundling and Sharing Infrastructure, which allow MEGA CABLE to request and/or dispute rates in the services offered, as well as the use of the available infrastructure of TELMEX and TELNOR and Red Nacional Última Milla, S.A.P.I de C.V. and Red Última Milla del Noroeste, S.A.P.I de C.V.

As for the Group, in January 2016, MEGA CABLE was granted a single concession title which considers national coverage within its content, valid of 30 years, which allows the provision of any type of technically-feasible telecommunications service, allowed by the infrastructure to be provided in any part of the Mexican territory (and only requesting, where appropriate, the necessary radio spectrum). This title establishes the obligations corresponding to the dealers, such as: registering the services that they intend to provide; information on passive and active infrastructure, transmission media and rights of way; coverage programs, investment, quality and coverage commitments; not engaging in discriminatory practices; establishing and publishing a Code of Business Practices; having parental control regarding programming directed at children and adolescents; providing information to the IFT and allowing verification at the facilities; filing the audited financial statements, and others.

### Legal Framework - Regulatory Interconnection of Networks with Other Operators 2020 and 2019.

Since 2015, the dispute over interconnection rates has been performed mechanically and with prior knowledge of the terms of the resolution issued by the IFT, since in the last quarter of each year, the Institute publishes the interconnection rates to be applied the following year. Therefore, the applicable rates were interconnection disagreements between operators were established during 2020 and 2019:

| <b>Operators Other Than Preponderant Operators</b>                                |                  |                  |
|---|------------------|------------------|
| <b>Line item</b>  | <b>2020 Rate</b> | <b>2019 Rate</b> |
| For termination of local service to mobile users under the "caller pays" modality | \$ 0.099287      | 0.112623         |
| For termination of short messages by mobile users                                 | 0.016518         | 0.015379         |
| For termination of local service used by fixed users                              | 0.003721         | 0.003360         |
| For termination of short messages by fixed users                                  | 0.012662         | 0.012370         |
| For origination services for local service by fixed users                         | \$ N/A           | N/A              |
| For transit services  | N/A              | N/A              |

In 2019, the obligation that TELCEL/TELMEX/TELNOR as part of the PEA should no longer charge the Group for the termination services on the network of said Preponderant Economic Agent was no longer in effect; however, the asymmetric rates continued to prevail.

Therefore, for the year 2020 in relation to 2019, the following Interconnection rates with the PEA applied:

| <b>Line item</b>  | <b>2020 Rate</b> | <b>2019 Rate</b> |
|---|------------------|------------------|
| For termination of local service to mobile users under the "caller pays" modality | \$ 0.025771      | 0.028313         |
| For termination of short messages by mobile users                                 | 0.008723         | 0.009241         |
| For origination services for local service by fixed users                         | 0.004088         | 0.003535         |
| For transit services on mobile networks   | 0.001884         | 0.001551         |
| For termination of local service used by fixed users                              | 0.003331         | 0.003151         |
| For fixed network transit services  | 0.004441         | 0.004465         |

The operators that asked the IFT to resolve disputes regarding interconnection rates for 2020 with MEGA CABLE were:

***AT&T, Total Play, Telmex - Telnor, Telcel, Starsatel, Pegaso, Maxcom, Marcatel, IENTC, Grupo Televisa, Axtel, Avantel.***

These disputes related to obtaining the interconnection charges are based on Article 129 of the Law, which establishes that no later than by July 15 of each year, the concessionaires must file with the Institute, the dispute corresponding to the interconnection charges applicable to the following year. Should they fail to do so, they will not be able to apply the charges under the resolution the following year.

The Institute resolved the applicable rates for fiscal year 2020 based on the total cost model that a company could avoid in the long term if it stopped providing the relevant interconnection service but continued to provide the rest of the services, besides allowing the recovery of common costs through allocation of costs and for fiscal year 2019 based on cost models with a Long-Term Average Incremental Cost approach, used to determine the update, taking into account the service demand

information, the prices of the inputs used, the weighted-average cost of capital, the exchange rate and the inflation based on the expected average for 2019, which resulted in an impact for the Group as a consequence of the financial increase regarding the considerations for interconnection services paid by MEGA CABLE, for the operators disputing such rates for that annuity, as indicated in the preceding paragraph, since, the latter ends with a greater number of minutes in the networks of other companies, due to the larger amount of subscribers it has. This impact will depend on the monthly number of minutes MEGA CABLE ends in the network of each company during 2019. Among the operators other than PEA for the marginal cost of the termination rates, no significant changes are represented regarding income or expenses.

MEGA CABLE asked the Telecommunications operators listed below to negotiate new interconnection conditions and also negotiated interconnection disagreements for 2020 with the IFT for this same list of operators and signed Interconnection Agreements in accordance with the resolutions issued by the Institute between January 1, and December 31, 2020.

***AT&T, Total Play, Telmex - Telnor, Telcel, Starsatel, Pegaso, Maxcom, Marcatel, IENTC, Grupo Televisa, Axtel, Avantel.***

In order to obtain access to the rates resolved by the Institute, the company must obtain a resolution by this authority to support the rate for the year in question, in the understanding that said resolution is subject to tax. In other words, it gives rise to the obligation for the corresponding concessionaires regarding its application and compliance. The legal grounds supporting the Interconnection disputes are found in Article 129 of the Law, which states the dispute process mechanisms and the deadlines pending resolution by the Institute. MEGA CABLE applies the rates established in the Interconnection Agreements as long as the operators do not request the application of the new rates in accordance with the Interconnection Agreements.

#### **SIGNAL RETRANSMISSION**

MEGA CABLE continues to be bound to the obligation to retransmit, free of charge, the open broadcast signal rights held by TELEVISIA, IMAGEN and TV AZTECA on the network within its coverage areas, as well as Federal Public Institution signals.

In multiprogrammed signals, the obligation is limited to retransmit those with the highest-rated audiences, with the exception of Federal Public Institutions to which the obligation for retransmission does apply.

Regarding all the processes described in the preceding paragraphs of this note, the conclusion, at the date of issue of the consolidated financial statements, is that there is no material impact on the Group's financial position.

#### **(2) Summary of significant accounting policies-**

The Company has consistently applied the following accounting policies to the consolidated financial statements and have been applied constantly by the Company, unless otherwise specified:

**(a) Basis of preparation and authorization-**

The Group's consolidated financial statements as at December 31, 2020 and 2019 and for the years then ended have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). IFRS include: i) International Financial Reporting Standards ("IFRS"); ii) International Accounting Standards ("IAS"); iii) Interpretations by the International Accounting Standard Committee ("IASC"); and iv) Interpretations by the Standard Interpretations Committee ("SIC"). The consolidated financial statements have been prepared on a historical cost basis.

The preparation of the consolidated financial statements in accordance with IFRS requires that certain critical accounting estimates be made. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Changes in assumptions could potentially have a material impact on the consolidated financial statements for the period. Management considers that the assumptions are appropriate. The areas that require a higher degree of judgment or complexity, or the areas in which the estimates and assumptions are important for the consolidated financial statements are disclosed in Note 4.

**(b) Consolidation and investments in joint arrangements and shares-**

**a) Subsidiaries**

Subsidiaries are all the entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When the Group's interest in subsidiaries is less than 100%, the interest attributed to external shareholders is reflected as non-controlling interest.

Subsidiaries are consolidated from the date they are controlled by the Group and cease to be consolidated when said control is lost. For the purposes of consolidation, the Group consolidates three subsidiaries over which it has control with a 51% share.

The Group uses the purchase method of accounting to recognize its business acquisitions. The consideration paid for the acquisition of a subsidiary is based on the fair value of the net assets transferred, the liabilities assumed, and the capital issued by the Group. The consideration for an acquisition also includes the fair value of those contingent amounts to be collected or paid as part of the agreement. Acquisition-related costs are recognized as expenses as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are generally initially recognized at their fair values at the acquisition date. The Group recognizes the non-controlling interest in the acquired entity either at fair value at the acquisition date or at the proportional value of the identifiable net assets of the acquired entity.

If the business combination is presented in stages, the book value of the acquirer's previous interest in the acquiree at the acquisition date is adjusted to the fair value at the acquisition date, and any differences are recognized in profit or loss.

The excess of the consideration transferred, the non-controlling interest in the acquired entity, and the fair value of any previous participation (if applicable) of the Group in the acquired entity (if applicable) over the fair value of the assets

identifiable net of the acquired entity is recognized as goodwill. If such comparison gives rise to an advantageous purchase, such as a purchase at a bargain price, the difference is recognized directly in the consolidated statement of comprehensive income.

Any contingent consideration to be paid by the Group is recognized at its fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration recognized as an asset or liability are recognized in accordance with IAS 39 either in income or in comprehensive income. The contingent consideration that is classified as capital does not require adjustment, and its subsequent settlement is recorded in equity.

Transactions, balances, and unrealized profits or losses resulting from operations between Group companies have been eliminated. The accounting policies applied by the subsidiaries have been modified to ensure their consistency with the accounting policies adopted by the Group, where necessary.

The companies listed below are those over which the Group has control and that are included in the consolidated financial statements (all subsidiaries are variable capital companies, except for Liderazgo Empresarial en Tecnologías de la Información, Servicios Especiales Turandot, and Werther Administración Integral, which are equity firms):

| Subsidiary  | Shareholding |       | Corporate Purpose   |
|---|--------------|-------|---|
|   | 2020         | 2019  |   |
| Mega Cable  | 99.99        | 99.99 | Holder and lessor of infrastructure to subsidiaries.  |
| Telefonía por Cable   | 99.99        | 99.99 | Operations in the cable systems of Sinaloa, Sonora, Occidente (West), Centro (Central Mexico), the Gulf (Golfo) region, Chiapas, the State of Mexico, León, and Los Cabos, among others.                |
| MCM Holding (MCM)   | 99.99        | 99.99 | Local telephone services in Mexico City, Guadalajara, and Monterrey.  |
| Liderazgo Empresarial en Tecnologías de la Información (Ho1a) | 99.99        | 99.99 | The holding company and its subsidiaries are engaged in the provision of installation services and the sale of communication services in Mexico City, Guadalajara, Monterrey, and Cancún, among others. |
| Productora y Comercializadora de Televisión (PCTV)            | 81.98        | 81.98 | Purchase and sale of national and international television signals, sale of television ads and advertising spaces, and the production and co-production of programs.                                    |
| Myc Red   | 51.00        | 51.00 | Operations in the cable systems primarily in Sahuayo and Jiquilpan, Michoacán.  |
| TV Cable del Golfo  | 99.99        | 99.99 | Technical staff services.   |
| Servicios Técnicos de Visión por Cable                        | 99.99        | 99.99 | Technical staff services.   |
| Mega Ventas   | 99.99        | 99.99 | Sales staff services.   |

| Subsidiary  | Shareholding |       | Corporate Purpose   |
|---|--------------|-------|---|
|   | 2020         | 2019  |   |
| Servicios de Administración y Operación               | 99.00        | 99.00 | Administrative staff services.  |
| Tele Asesores   | 99.00        | 99.00 | Administrative staff services.  |
| Entretenimiento Satelital                             | 95.00        | 95.00 | Operation of the "video rola" channel.  |
| Servicios Especiales Turandot                         | 97.66        | 97.66 | Leasing of equipment and infrastructure for the provision of telephone services.                      |
| Werther Administración Integral                       | 99.83        | 99.83 | Leasing of equipment and infrastructure for the provision of telephone services.                      |
| Corporativo de Comunicación y Redes de GDL            | 51.00        | 51.00 | Leasing of equipment and infrastructure for the provision of cable, internet, and telephone services. |
| Servicio y Equipo en Telefonía, Internet y Televisión | 51.00        | 51.00 | Holder of the subscriber rights for the Michoacán and Zacatecas systems, among others.                |

**b) Changes in ownership interest in subsidiaries without loss of control**

The Group recognizes transactions with non-controlling shareholders as transactions between Group shareholders. When acquiring non-controlling interest, the difference between the consideration paid and the interest acquired in the subsidiary measured at its book value is recorded in equity. Profits or losses on the disposal of an interest in a subsidiary that does not imply loss of control by the Group, are also recognized in equity.

**c) Disposal of subsidiaries**

When the Group loses control of an entity, any interest retained in said entity is measured at its fair value and the effect is recognized in profit or loss. Subsequently, said fair value is considered the initial book value for purposes of recognizing the retained interest in an associate, joint venture, or financial asset, as applicable. In like manner, the amounts previously recognized in other comprehensive income in relation to that entity are canceled as if the Group had directly disposed of the respective assets or liabilities. This means that the amounts previously recognized in other comprehensive income are reclassified to income for the year.

**d) Joint venture**

The Group applies IFRS 11 to all of its joint arrangements. Under IFRS 11, investments in joint arrangements are classified as joint operations or joint ventures depending on each investor's contractual rights and obligations. The Group has analyzed the nature of its joint arrangements and determined that they are joint ventures. Interest in joint ventures are recognized using the equity method.

Under the equity method, interest in joint ventures is initially recognized at cost and subsequently adjusted to recognize the Group's share of post-acquisition profits and losses, as well as movements in other comprehensive income. When the Group's interest in the loss of a joint venture equals or exceeds its interest in the joint venture (including any long-term interest that is substantially part of the Group's net investment in the joint venture), the Group does not recognize any additional losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between Group companies and their joint ventures are eliminated to the extent of the Group's interest in the joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed, where necessary, so as to ensure consistency with the policies adopted by the Group.

The Group, as well as investors Televisa and Telefónica jointly invested in Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C. V. (GTAC).

**(c) Disclosure of changes in accounting policies-**

The Group adopted the following standards for the first time beginning on January 1, 2020:

The Group has initially adopted Definition of a Business (Amendments to IFRS 3) and Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) from 1 January 2020. A number of other new standards are also effective from 1 January 2020 but they do not have a material effect on the Group's financial statements.

**(d) Financial information by segments-**

The financial information by operating segments is presented in a way that is consistent with the information included in the internal reports provided to the Group's highest operational decision-making authority. This highest authority is responsible for allocating resources and assessing the performance of the Group's operating segments and is exercised by the Board of Directors made up of the management team at the C-Suite level (based at the Guadalajara facilities).

These segments are managed independently (massive and business) since the services provided and the markets they serve are different. The Group performs its activities through various subsidiary companies. See Note 28.

**(e) Foreign currency transactions and balances-**

Foreign currency transactions are translated into functional currency using the exchange rates in force on the date the transaction was carried out or the exchange rate in effect on the valuation date when the line items are revalued. Profits and losses from exchange rate fluctuations that result either from the liquidation of such transactions or from the conversion of monetary assets and liabilities denominated in foreign currency at the exchange rates at year-end, are recognized in the statement of comprehensive income. Profits and losses from exchange rate fluctuations are recognized in finance income/expenses.

### **Functional and presentation currency**

Since the Company and its subsidiaries use the Mexican peso as both their functional and presentation currency, there was no need to apply a translation process.

### **(f) Cash and cash equivalents-**

In the consolidated cash flow statement, cash and cash equivalents include cash on hand, bank deposits on demand, and other short-term highly liquid investments with an original maturity of three months or less. Short-term investments are made through banking institutions, which consist of government debt financial instruments such as low-risk Treasury Certificates (CETES) with moderate returns. As at December 31, 2020 and 2019, the respective maturities of these investments are 28 days. See Note 5.

### **(g) Prepayments-**

Prepayments represent disbursements (fees) made by the Group where the benefits and risks inherent in the goods to be acquired or the services to be received have not been transferred. Prepayments are recorded at cost and presented under the consolidated statement of financial position under the prepayments and other assets caption. See Note 8.

### **(h) Accounts receivable-**

Accounts receivable represent collection rights owed by customers and are originated by services provided by the Group in the normal course of business. If accounts receivable are expected to be recovered in a year or less, they are classified as current assets; otherwise, they are presented as non-current assets.

Accounts receivable are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method, less the estimate of credit losses, if applicable. The estimate of expected credit losses is determined considering the probability of default and the severity of the loss of accounts receivable based on historical experience, current conditions and reasonable forecasts that are observed in their behaviors. The amount of the estimate for credit losses is the difference between the carrying amount recognized and the estimated amount to be recovered. See Note 6.

### **(i) Financial assets and liabilities-**

Financial assets-

In accordance with the adoption of IFRS 9 *Financial Instruments*, the Company classifies and measures its financial assets based on the business model the Company uses to manage its financial assets, as well as the characteristics of the contractual cash flows of said assets. In this manner, financial assets can be measured at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management decides on the initial classification of its financial assets at the time of initial recognition. The purchase and sale of financial assets are recognized on the settlement date.

Financial assets are derecognized when the right to receive the related cash flows has expired or is transferred and the Company has transferred substantially all the risks and benefits derived from its ownership, as well as control of the financial asset.

#### i. Financial assets at amortized cost

Financial assets at amortized costs are those that i) are kept within a business model whose objective is to hold said assets to collect the contractual cash flows and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that represent only payments for principal and interest on the on the outstanding principal.

#### ii. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those whose business model is based on obtaining contractual cash flows and selling financial assets, in addition to their contractual conditions giving rise, on specific dates, to contractual cash flows that represent only payments for principal and interest on outstanding principal. As at December 31, 2020 and 2019, the Company does not hold financial assets to be measured at their fair value through other comprehensive income.

#### iii. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss, in addition to those described in paragraph i of this section, are those that do not meet the characteristics to be measured at amortized cost or at fair value through other comprehensive results, since they i) have a business model that differs from those that seek to obtain contractual cash flows, or obtain contractual cash flows and sell financial assets, or ii) the cash flows they generate are not limited to payments of principal and interest on the outstanding principal.

Despite the classifications above, the Company may make the following irrevocable choices on initial recognition of a financial asset:

a. Present subsequent changes in the fair value of a capital instrument in other comprehensive income, as long as said investment (over which it has no significant influence, joint control or control) is not retained for trading purposes, or is a consideration contingent recognized as the result of a business combination.

b. Designate a debt instrument that meets the criteria to be subsequently measured at amortized cost or fair value through other comprehensive income, to be measured at fair value through income, if doing so eliminates or significantly reduces an accounting asymmetry that would arise from the measurement of assets or liabilities or the recognition of gains and losses on them on different bases.



As at December 31, 2020 and 2019, the Company has not made any of the irrevocable appointments described above.

#### Financial liabilities—

##### i. Initial measurement and recognition

Financial liabilities—including accounts payable—are initially recognized when these liabilities are issued or assumed, both contractually.

Unless they are an account payable without a material financing component, financial liabilities are initially measured and recognized at their fair value plus, in the case of financial liabilities not measured at fair value with changes in it, carried through comprehensive income, the transaction costs directly attributable to its acquisition or issue, when they are subsequently measured at amortized cost.

Financial liabilities are initially recognized at fair value and subsequently measured at their amortized cost.

##### ii. Derecognition

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability is recognized at fair value based on the new terms and conditions.

At the time of derecognition of a financial liability, the difference between the carrying amount of the extinguished financial liability and the consideration paid (including non-cash assets transferred or liabilities assumed) is recognized in profit and loss.

#### **(j) Offsetting of financial instruments-**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to set off the amounts and the intention to either to settle them on a net basis or to realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or counterparty.

#### **(k) Impairment of financial assets measured at amortized cost-**

The Company uses the impairment model based on expected credit losses, applicable to the financial assets subject to such evaluation. The expected credit losses on these financial assets are estimated from the origin of the asset on each reporting date, taking as a reference the historical experience of the Company's credit losses, adjusted for factors that are specific to the debtors or groups of debtors, the general economic conditions and an evaluation of both the current direction and the forecast of future conditions.

Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulties, failure to pay or late payment of interest, the likelihood of bankruptcy or financial reorganization, as well as when observable data indicates that there is a measurable decrease in estimated future cash flows, such as changes in economic conditions correlated to non-payments.

For the loans and receivables category, the amount of the loss is the difference between the book value of the assets and the present value of the estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the original effective interest rate of the financial asset. The book value of the asset is decreased, and the amount of the loss is recognized in the consolidated income statement. If a loan or investment held to maturity has a variable interest rate, the discount rate to measure any impairment loss is the current effective interest rate defined by the contract. The Group can measure impairment on the basis of the fair value of a financial instrument using its observable market price.

If, in a later period, the amount of the impairment loss decreases and said decrease is objectively related to an event that occurred after the date on which the impairment was recognized (such as an improvement in the credit quality of the debtor), the reversal of the impairment loss previously recognized is recognized in the consolidated statement of comprehensive income.

#### **(l) Inventories-**

The inventory is basically made up of consumable operating material and some spare parts that are used to guarantee the adequate maintenance of the cable signal system (network) in the normal course of business. Important spare parts and permanent maintenance equipment, which the Group expects to use for more than one period, and that could only be used in connection with a fixed asset, are recognized as part of the property, networks, and equipment line item. Inventories are recorded at acquisition cost or at their net realizable value, whichever is less. The cost is determined using the average cost method. The net realization value is the estimated sale price in the normal course of business less the corresponding variable selling costs. See Note 7.

#### **(m) Property, networks, and equipment-**

Property, networks and equipment are expressed at historical costs, less depreciation. Historical cost includes the expenses that are directly attributable to the acquisition of said assets. See Note 10.

Costs related to a line item incurred subsequent to initial recognition are capitalized, as part of that item or a separate item, as appropriate, only when it is probable that future economic benefits will flow to the Group and that it is able to reliably measure the cost. It should be noted that the Group builds most of its cable system networks and facilities and the internal costs, such as labor costs in construction projects and directly associated redistribution and adaptation expenses so that the asset is in place and in the conditions necessary for that work are capitalized when they generate future economic benefits. Thus, new customer connections costs in the mass cable market are capitalized as part of fixed assets, considering as cost of connection the cost of materials and labor incurred while extending the network to the customer's home.

The book value of the components replaced is derecognized. Maintenance and repair expenses related to daily property, networks and equipment services are recognized in the consolidated statement of comprehensive income at the time they are incurred.

Land is not depreciated. Depreciation of the remaining properties, networks and equipment is systematically determined on the value of the assets, on a straight-line basis, which is applied to the cost of the assets without including their residual value and considering their useful lives expected by Management, which are as follows:

| Asset Description  | Depreciation rate 2020 | Depreciation rate 2019 | Estimated useful life 2020 | Estimated useful life 2019 |
|--|------------------------|------------------------|----------------------------|----------------------------|
| Land   | N/A                    | N/A                    | -                          | -                          |
| Buildings  | 2.5%                   | 2.5%                   | 40                         | 40                         |
| <i>Network and technical equipment for signal distribution</i> |                        |                        |                            |                            |
| Networks   | 6.64%                  | 6.64%                  | 15                         | 15                         |
| Converters   | 10.00%                 | 10.00%                 | 10                         | 10                         |
| Equipment  | 6.65%                  | 6.65%                  | 15                         | 15                         |
| Cable modems   | 10.00%                 | 10.00%                 | 10                         | 10                         |
| Laboratory equipment   | 7.11%                  | 7.11%                  | 14                         | 14                         |
| Furniture and office equipment                                 | 5.67%                  | 5.67%                  | 18                         | 18                         |
| Computer equipment   | 12.50%                 | 12.50%                 | 8                          | 8                          |
| Transportation equipment                                       | 11.11%                 | 11.11%                 | 9                          | 9                          |
| Leasehold improvements   | 5.67%                  | 5.67%                  | 18                         | 18                         |
| Telecommunications equipment                                   | 5.67%                  | 5.67%                  | 18                         | 18                         |
| <i>Other</i>   |                        |                        |                            |                            |
| Tools and equipment  | 8.33%                  | 8.33%                  | 12                         | 12                         |

Leasehold improvements are depreciated over the term of the respective operating lease agreements. The residual values and useful lives of the assets are reviewed and adjusted, if necessary, on the closing date of each year.

The value of property, networks and equipment is reviewed when there are indicators of impairment in the value of said assets. When the recovery value, which is the higher between the sale price and its use value (which is the present value of future cash flows) is less than the net book value, the difference is recognized as an impairment loss. For the years ended December 31, 2020 and 2019, there were no indicators of impairment. See Note 2o).

**(n) Goodwill and intangible assets-**

**a) Goodwill**

Goodwill arises from the acquisition of subsidiaries and represents the consideration transferred in excess of the Group's interest in the net fair value of the acquired entity's net identifiable assets, liabilities and contingent liabilities of the acquired entity and the fair value of the non-controlling interest in the acquired entity.

Goodwill on acquisitions of subsidiaries is included in intangible assets and is recognized at cost deducting accumulated impairment losses, which are not reversed.

For impairment testing purposes, goodwill acquired in a business combination is allocated to each Cash Generating Unit (CGU) or groups of cash generating units, which are expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill has been assigned represents the lowest level within the entity to which goodwill is controlled for internal management purposes. Goodwill is controlled at the operating segment level.

Goodwill impairment reviews are carried out annually or more frequently if events or changes in circumstances indicate possible impairment. The book value of goodwill is compared to the recoverable amount, which is the highest value between the value in use and the fair value less costs of sale. Any impairment is recognized immediately as an expense and is not subsequently reversed.

As at December 31, 2020 and 2019, no impairment losses were recognized in goodwill. See Note 11.

**b) Customer bases**

Intangible assets acquired during 2019 that were not in a business combination were recorded at acquisition cost. Intangible assets acquired in a business combination are valued at their fair value at the date of purchase. The main intangible assets recognized by the acquisitions is the subscriber portfolio, which according to the study carried out has a useful life of approximately four years. They are amortized on a straight-line basis. See Note 12.

**b) Trademarks and patents**

Trademarks and patents acquired individually are recognized at historical cost. Trademarks and patents acquired through business combinations are recognized at their fair value at the date of acquisition. Trademarks and patents have a defined

useful life and are recorded at cost less their accumulated impairment and amortization. Amortization is calculated on a straight-line basis to distribute the cost of trademarks and patents based on their expected useful lives of 20 years. See Note 12.

**(o) Impairment of non-financial assets-**

Assets that have an indefinite useful life, for example, goodwill, are not subject to amortization and are subject to annual impairment tests.

Assets subject to amortization are tested for impairment when events or circumstances occur that indicate that their book value may not be recovered.

Impairment losses correspond to the amount by which the book value of the asset exceeds its recovery value. The recovery value of the assets is the greater between the fair value of the asset less the estimated costs for its sale and its value in use. For the purposes of impairment tests, assets are grouped at the smallest levels at which they generate identifiable cash flows (cash-generating units).

**(p) Suppliers and other accounts payable-**

Accounts payable are payment obligations with suppliers for the purchase of goods or services acquired in the Group's normal course of business. When they are expected to be paid in a period of one year or less from the closing date, they are presented under current liabilities. If they do not comply with the aforementioned, they are presented under non-current liabilities.

Accounts payable are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

**(q) Bank loans-**

Loans are initially recognized at their fair value, net of costs incurred in the transaction. These loans are subsequently recorded at amortized cost; any difference between the funds received (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income during the loan period using the effective interest method.

Fees for maintaining current credit lines are capitalized as advance payments for services to obtain liquidity and are amortized over the term of the agreement.

**(r) Provisions-**

Provisions are recognized when the Group has a legal obligation, present or assumed, as a result of past events, when the use of cash flows will probably be required to settle the obligation and when the amount can be reliably estimated.

**(s) Current and deferred income tax-**

Income tax expenses include current and deferred taxes. Income tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly under other comprehensive income lines items or in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. Current-year income tax is recorded as a short-term liability net of prepayments made during the year.

Current-year income tax payable is calculated according to tax laws approved or substantially approved as of the date of the consolidated statement of financial position. Management periodically evaluates the position assumed in relation to its tax returns regarding situations in which the tax laws are subject to interpretation.

The Group then recognizes the necessary provisions based on the amounts it expects to pay to the Mexican Tax Administration Office ("Secretaría de Administración Tributaria", acronym in Spanish).

Deferred income tax is determined based on the asset and liability method, on temporary differences arising from tax bases of assets and liabilities and their respective carrying amounts. However, deferred income taxes arising from the initial recognition of an asset or a liability in a transaction that does not correspond to a business combination, which at the time of the transaction does not affect either the accounting or tax profit or loss is not recorded or recognized if they arise from the initial recognition of goodwill. Deferred income tax is determined using the tax rates and laws that have been enacted as of the date of the statement of financial position and that are expected to be applicable when the deferred tax asset is realized or the tax liability is settled. See Note 20.

Deferred tax asset is only recognized to the extent that it is probable that future taxable profit will be available against which the temporary liabilities can be utilized.

Deferred income tax is generated on the basis of temporary differences in investments in joint ventures and subsidiaries, except when the possibility that temporary differences will be reversed is under the Group's control and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax balances related to assets and liabilities are offset when there is a legal right to offset current tax assets with current tax liabilities and when deferred income tax assets and liabilities are related to the same tax authority or the same tax entity or different tax entities where there is the intention to settle the balances on a net basis.

**(t) Employee benefits-**

**a) Defined benefit plans:**

A benefit plan is defined as an amount of pension benefit that an employee will receive in retirement, usually dependent on one or more factors such as age, years of service, and compensation.

The liability recognized in the consolidated statement of financial position with respect to established benefit plans is the present value of the established benefit obligation at the date of the consolidated statement of financial position. The established benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the established benefit obligations is determined by discounting the estimated future cash flows using the discount rates that are denominated in the currency in which the benefits will be paid, and which have maturities that approximate the terms of the liability for pensions.

Actuarial gains and losses generated by adjustments and changes in actuarial assumptions are recorded directly in equity under other comprehensive income in the year in which they occur.

The Group determines the net financial expense (income) by applying the discount rate to the net established benefit liability (asset).

Past service costs are immediately recognized in the income statement.

Seniority premiums

Group companies have established a plan as required by the Federal Labor Act (LFT, acronym in Spanish) with respect to which Group companies that have personnel are bound to pay their workers and they are entitled to receive seniority premiums at the end of the employment relationship after 15 years of service.

The liability or asset recognized in the consolidated statement of financial position with respect to seniority premiums is classified as established benefits and is the present value of the established benefit obligation as of the date of the consolidated statement of financial position. The established benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of established benefit obligations is determined by discounting the estimated cash flows using the interest rates of government bonds denominated in the same currency in which the benefits will be paid and which have maturity terms that approximate the terms of the pension obligation.

Remeasurements arising from adjustments based on experience and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognized immediately in profit or loss, unless changes in the pension plan are subject to the employee continuing to work for a specific period of time (the period granting the right).

**b) Defined contribution plans:**

Pension plans

The subsidiary Tele Asesores, S.A. de C.V., has an established contribution plan, through which the Company pays fixed contributions to an independent fund. The Company has no legal or assumed obligations to pay additional contributions if the fund does not maintain sufficient assets to pay all employee benefits related to current or past services. Contributions are recognized as employee benefit expenses on the date the contribution obligation is due.

**c) Employee profit sharing**

The Group recognizes a liability and an expense for bonuses and employee profit sharing based on a calculation that takes into account the tax profit after certain adjustments. The Group recognizes a provision when it is contractually bound to do so or when there is a past practice that generates an assumed obligation.

**(u) Capital stock-**

Capital stock, the net premium in the placement of shares, the legal reserve, and retained earnings are expressed at historical cost. Common shares are classified as capital.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction from the amount received, net of tax.

**a) Net premium for placement of shares**

The net premium for placement of shares represents the excess difference between the payment for the subscribed shares and the nominal value thereof.

**b) Legal reserve**

In accordance with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. The legal reserve may be capitalized but may not be distributed to the shareholders unless the Group is dissolved. Also, the legal reserve must be replenished if it is reduced for any reason.

**c) Provision for repurchase of shares**

When a Group entity purchases shares issued by the Company (repurchased shares), the consideration paid, including the costs directly attributable to said acquisition (net of taxes) is recognized as a decrease in the Group's equity until the shares are canceled or reissued. When such shares are reissued, the consideration received, including the incremental costs directly attributable to the transaction (net of taxes), are recognized in the Group's equity.

**(v) Leases-**

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

**I. As a lessee**

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made on or before the commencement date, plus initial direct costs incurred and an estimate of costs of dismantling and removing the underlying asset or restoring the underlying asset or the site in which it is located, less the lease incentives received.

Subsequently, the right-of-use asset is depreciated using the straight-line method from the commencement date and until the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group at the end of the lease term or that the cost of the right-of-use asset reflects that the Group is going to exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as that of property and equipment. In addition, the right-of-use asset is periodically reduced for impairment losses, if any, and adjusted for certain new measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that have not been paid on the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental rate for Group loans. In general, the Group uses its incremental loan rate as the discount rate.

The Group determines its incremental loan rate by obtaining interest rates from different external financing sources and makes certain adjustments to reflect the lease terms and the type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments including fixed payments in substance
- variable lease payments, which depend on an index or a rate, initially measured using the index or rate on the commencement date
- amounts the lessee expects to pay as residual value guarantees and
- the exercise price of a call option that the Group is reasonably certain of exercising that option, the lease payments in an optional renewal period if the Group is reasonably certain of exercising an extension option, and

the payments for penalties derived from early termination of the lease unless the Group is reasonably certain not to terminate the lease early.

The lease liability is measured at amortized cost using the effective interest method. A new measurement is made when there is a change in future lease payments as a result of a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be paid under a residual value guarantee, if the Group changes the assessment of whether or not a purchase, extension or termination option will be exercised, or whether there is a fixed lease payment in substance that has been modified.

When a new measurement of the lease liability is carried out in this manner, the corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment properties in property, plant and equipment and lease liabilities in loans and obligations in the statement of financial position.

**Short-term leases and leases of low-value assets**

The Group has chosen not to recognize right-of-use assets and lease liabilities for the leases of low-value assets and short-term leases, including some information technology (IT) equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis throughout the term of the lease.

At the beginning or at the time of modification of a contract that contains a lease component, the Group distributes the consideration in the contract to each lease component on the basis of their independent relative prices.

When the Group acts as lessor, it determines whether each lease is a financial or an operating lease at the beginning of the lease.

To classify each lease, the Group makes a general assessment of whether or not the lease transfers substantially all the risks and rewards inherent to the ownership of the underlying asset. If this is the case, the lease is a financial lease; if not, it is an operating lease.

As part of this evaluation, the Group considers certain indicators such as whether the lease covers most of the financial life of the asset.

**Fair value measurement**

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

**(w) Borrowing costs-**

Borrowing costs for general and specific loans attributable to the acquisition, construction, or production of a qualifying asset that necessarily takes a substantial period of time (12 months) to get ready for its intended use or sale are capitalized as part of the cost of the asset. Interest earned on temporary investments of the specific loan funds for the acquisition of qualifying assets is deducted from the eligible costs to be capitalized.

The rest of the costs derived from the loans are recognized when incurred or accrued in the income statement.

**(x) Revenue recognition-**

Revenue derived from the provision of services in the Group's normal course of business is recognized in amount of fair value of the consideration received or receivable. Revenue is presented net of bonuses and discounts and after eliminating intercompany sales. The Group recognizes revenue when the parties to the contract have approved the contract, the entity can identify the rights of each party with respect to the goods or services to be transferred, the contract has a commercial basis and can be measured reliably, it is probable that the economic benefits will flow to the entity in the future, and the specific criteria for each type of activity are met, which are described below.

Revenue is recognized based on the nature of the commitment, within the transactions recognized by the Group, when acting as a principal, since the Group can satisfy the performance obligation to provide the specified good or service to the customer on its own through the different Group companies and controls the specified good or service before it is transferred to the customer.

The services are provided in bundled packages and the transaction price is distributed using the independent relative selling price among the following performance obligations identified:

*Cable television signal services*

Cable television signal services are basically represented by monthly payments, as well as installation fees and other related charges. Monthly service payments are recognized as revenue over time as the services are provided and during the term of the contract. The services are deemed to have been provided when the Group transfers control over the service to a customer, which occurs when the cable television signal is transmitted. Other service revenues are recognized after the services are accepted by the customer.

*Internet services*

Internet signal service is basically represented by monthly payments, as well as installation fees and other related charges. Monthly service payments are recognized as revenue over time as the services are provided and during the term of the contract. The services are deemed to have been provided when the Group transfers control over the service to a customer, which occurs when the internet signal is transmitted. Installation and other related service charges are recognized as revenue as the customer uses the services received.

*Digital telephone services*

Telephone service revenue is represented by the monthly rent of said service. Monthly service payments for local calls are recognized as revenue over time as the services are provided and during the term of the contract. The services are deemed to have been provided when the Group transfers control over the service to a customer.

Revenue from the sale of communication systems is recognized in the income statement when control of the goods has been transferred to the buyer and the seller retains no significant control over the goods.

*Discounts*

The Group's cable television, internet, and digital telephone signal service revenues are reduced through discounts that are granted to subscribers who contract "packages (Triple Pack, Double Pack)", which the Group grants its customers to position itself in the market and to encourage the contracting of a larger number of services by subscribers as well as attracting new ones.

Discounts are recognized as a decrease in revenue when the services have been provided, which is over time during the term of the contract.

*Installations for cable, internet, and telephone subscribers*

The Group recognizes revenues from primary installations for cable, internet and/or telephone subscribers, through the average life of subscriptions, without considering this a separate performance obligation, which is determined by management based on the average age of subscribers.

*Revenue from the sale of goods*

The Group sells equipment and goods. The sale price of the goods is determined based on a fixed price agreed between the parties. The Group recognizes revenue from the sale of goods at the time control of the goods is transferred and there is no unfulfilled obligation that may affect the customer's acceptance of the product.

*Advertising revenue*

Advertising revenue is recognized when the services are provided, which is at a specific point in time. The services are deemed to have been provided when the Group transfers control over the service to a customer, which occurs when the TV spots are broadcast or the printed media is published.

*Significant terms of payment*

Based on its activities, the Group has determined two terms of payment related to most of its operations.

*Mass market*

In the case of mass market (which refers to customers in the Cable TV, Internet, and Digital Telephone segments) the payment period is within the first ten days after the monthly cut-off date established in each subscriber's contract.

*Business market*

In the case of the business market, Company receives the corresponding consideration on a monthly basis, in accordance with the amounts agreed to by both parties. The payment period for the services depends on the negotiations carried out between the Group and Customer, which in no case will be more than 36 months.

The Group recognizes a contract liability when it has an unconditional right to receive a consideration before transferring control over a good and/or customer service. When payment is received, the amount is recognized in trade advances and it must be derecognized (and recognized as revenue) upon transferring control over the goods or services to the customer.

Receivable or payable amounts to customers related to long-term projects in process are recognized as current assets and liabilities, whichever the case may be, without offsetting the balances between these accounts. These accounts include collections made, costs incurred, and profits and losses recognized.

*Interest*

Interest income is recognized using the effective interest method. Interest income are earned mainly from loans granted to related parties and it is recognized in profit or loss using the effective interest method. When a loan or account receivable is impaired, its book value is adjusted to its recoverable amount, which is determined by discounting the estimated future cash flow at the original effective interest rate of the instrument. Interest income on impaired loans or accounts receivable is recognized using the original effective interest rate.

Based on the payment conditions that maintained with both mass market and business market customers, the Group expects that the period between time that control of the goods or service is transferred and the time the customer pays will be less than one year. Therefore, there was no need to adjust the transaction price due to the effects of a significant financing component.

**(y) Pending performance obligations-**

The following table shows the pending performance obligations resulting from long-term business market contracts that are partially or totally unmet and are determined based on the agreed price of the monthly payments for the number of months pending at the end of the year:

|              | 2021         | 2022      | 2023    |
|--------------|--------------|-----------|---------|
| Metrocarrier | \$ 1,515,784 | 1,401,654 | 989,721 |
| Ho1a         | 123,949      | 35,001    | -       |

The Group expects that 40% of the total amount of the transaction allocated of unpaid contracts as at December 31, 2020 will be recognized as revenue during 2021. The remaining 60% will be recognized in 2022 and 2023. The amount disclosed above does not include the variable consideration derived from the fact that they are immaterial. This revenue is recognized over time on a monthly basis.

The Group does not disclose the information regarding its outstanding obligations for the mass market since the contracts entered into by the Group in this segment establish compulsory terms of less than 12 months.

During 2020 and 2019, no revenue was recognized from performance obligations that were partially or totally satisfied in previous years.

**(z) Customer contract costs (commissions)-**

Management recognizes costs that are directly related to obtaining or fulfilling a contract as assets, since it considers that these may be recovered. The costs to obtain a contract (sales commissions paid to employees) are determined considering that they can be directly related to a specific contract, are recoverable, and can be reliably quantified. Amortization is recognized based on the useful life of each subscription (three years).

An impairment loss is recognized in net profit or loss for the period when the book value of the asset exceeds the unrecognized amount of the consideration the entity expects to receive in exchange for providing the associated goods or services, less the remaining costs that relate directly to providing those goods or services and that have not been recognized as expenses.

**(aa) Earnings per share-**

Net earnings per share are calculated by dividing the profit for the year attributable to controlling interest by the weighted average number of ordinary shares outstanding during the year. As at December 31, 2020 and 2019, there are no dilution components of earnings; therefore, diluted earnings per share are not calculated or disclosed since it is the same amount as the basic earnings per share. See Note 19.

**(bb) Distribution of dividends-**

Dividends distributed to the Group's shareholders are recognized in the consolidated financial statements as a liability in the period in which they are approved by the Group's shareholders.

**(cc) Finance income and finance costs-**

The Group's finance income and finance costs include the following:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- interest income or expense recognized using the effective interest method.
- the amortized cost of the financial liability.

**(3) Financial risk management-**

**a) Financial risk factors**

The Group has exposure to a variety of financial risks, such as market risk (which includes exchange rate risk, interest rate risk and price risk), credit risk, and liquidity risk. The Group's risk management plan aims to minimize the potential negative effects resulting from the unpredictability of the markets on the Group's financial performance.

Both the Group's management and the Finance Department are responsible for managing the financial risk in accordance with the policies approved by the Board of Directors. The Group identifies, evaluates, and covers financial risks in close cooperation with its operating units. The Board of Directors has issued general policies related to the management of financial risks, as well as policies on specific risks, such as foreign currency risk, interest rate risk, the use of derivative and non-derivative financial instruments, and the investment of surplus funds.

i. Market risk

Market risk is exposure to an adverse change in the value of financial instruments caused by market factors, including changes in interest rates, foreign exchange rates, and inflation rates.

The Group is exposed to market risks derived from variations in the interest rate, exchange rate and inflation rate. Risk management activities are monitored by the Risk Management Committee and reported to the Executive Committee.

ii. Currency risk

Since all of the Group's income is obtained from the local market and the transactions are denominated in Mexican pesos, the Company's operating activities do not expose to the exchange risk derived from various foreign currencies. Foreign exchange risk arises from financing activities as a result of exposure of the Mexican peso against the U.S. dollar, due to operations with programmers and suppliers expressed in that currency.

Management has established a policy that requires Group companies to manage exchange rate risk with respect to their functional currency. Group companies must hedge their exchange rate risk exposure through the Group's Treasury. Currency rate risk arises when future commercial and financing transactions and recognized assets and liabilities are held in a currency other than the entity's functional currency.

As a risk management policy, the Group maintains an immediate realization investment account in U.S. dollars that seeks to cover its anticipated cash flows for the next 12 months (mainly due to bank and supplier liabilities) to reduce its exchange rate risk.

However, the Group is carrying out the following activities to reduce its exchange rate risk:

Negotiation with providers to convert consumable values to pesos (pesify). Two years ago, the Group began negotiating with its suppliers to translate the value of contracts to pesos to the extent possible. Consequently, certain programmers have changed their rates to pesos to ensure that everyone has greater certainty of business in terms of costs and that their channels continue to be included in the programming. The Group has also negotiated with technology suppliers so that maintenance involving labor is denominated in Mexican pesos. As a general result, the Group lowered its exposition rates from 12% or 13% of operating expenses to 5% or 6%. In the same way, the three-year Maintenance contract with Cisco de México for 21 million dollars was transferred to pesos and is valid from April 2020 to March 2023.

If as at December 31, 2020 and 2019 the Mexican peso had been devalued 10% in relation to the U.S. dollar, and the other variables had remained constant, the profit for the year after taxes would have dropped by \$195,491 and \$11,846, respectively, primarily as a result of the profits/losses in the translation of bank loans and accounts payable to suppliers who perform their transactions in U.S. dollars.

As at December 31, 2020 and 2019, the Company had the following monetary assets and liabilities in thousands of U.S. dollars:



|              | 2020       | 2019     |
|--------------|------------|----------|
| Assets       | \$ 122,006 | 34,292   |
| Liabilities  | (23,963)   | (28,015) |
| Net position | \$ 98,043  | 6,277    |

The exchange rates used in the different translation processes in relation to the reporting currency as at December 31, 2020 and 2019 are as follows:

|                          | Currency    | Exchange rate |         |
|--------------------------|-------------|---------------|---------|
|                          |             | 2020          | 2019    |
| United States of America | U.S. dollar | \$ 19.9352    | 18.8727 |

iii. Price risk

The Group is not exposed to price risk for the costs of the services it provides, since they are not subject to market indices. In like manner, there were no relevant changes to the prices of the supplies acquired for the provision of the service during 2020 and 2019.

iv. Cash flow risk related to the interest rate

The interest rate risk for the Group arises from its long-term loans. Variable rate loans expose the Group to interest rate risk on its cash flows, which is partially offset by government debt financial instruments such as low-risk Treasury Certificates (CETES) with moderate returns.

The Group analyzes its exposure to interest rate risk dynamically. Various situations are simulated taking into account the positions regarding refinancing, renewal of existing positions, alternative financing and coverage. Based on these scenarios, the Group calculates the impact on profit or loss of a defined movement in interest rates. In each simulation, the same movement defined in interest rates is used for all currencies. These simulations are only performed in the case of obligations that represent the main positions that generate interest.

Based on the simulations carried out at variable rates, the impact on profit after taxes as at December 31, 2020 and 2019 due to a 1% movement would generate a maximum increase or a decrease of \$29,056 and \$30,758, respectively. Simulations are prepared quarterly to verify that the maximum potential loss is within the limit established by Management.

As at December 31, 2020 and 2019, the Group has fixed rate and variable rate loans.

b) Credit risk

Credit risk is managed at the Group level, including the credit risk of receivables; however, each company is responsible for analyzing the credit risk of each customer before offering payments, delivery terms, and other conditions. Credit risk arises from cash and cash equivalents, and deposits in banks and financial institutions, as well as credit exposure to customers, which include outstanding balances of accounts receivable and agreed transactions.

Regarding banks and financial institutions, only institutions with a solid operating track record and that have an excellent reputation in the market are accepted. In the case of the portfolio, the credit risk is limited, since the amounts to be recovered basically refer to the monthly payments of the services provided and the fact that there is no significant concentration of the portfolio due to the large number of subscribers comprising it. Irrespective of the above, the portfolio department assesses the customers' creditworthiness, taking into account their financial position (personal bank statements, credit cards, and others) and past experience, among other factors. Credit limits are generally established in accordance with the limits set by the Board of Directors based on the historical information available on the behavior of the portfolio and, where appropriate, of certain internal and/or external ratings. The use of credit limits is monitored on a regular basis.

The credit limits were not exceeded during the reporting period and Management does not expect the Group to incur any losses due to its performance.

Lastly, the maximum exposure to credit risk is limited to the carrying amount of each of account receivable (see table below). Consequently, the Group does not have a significant concentration of credit risk.

Creditworthiness of financial assets

|                            | 2020       | 2019    |
|----------------------------|------------|---------|
| Accounts receivable:       |            |         |
| Group 1                    | \$ 678,792 | 674,343 |
| Group 2                    | 125,971    | 101,450 |
| Total of trade receivables | \$ 804,763 | 775,793 |

Related parties

|                            | 2020       | 2019         |
|----------------------------|------------|--------------|
| Group 1                    | \$ -       | \$ -         |
| Group 2                    | 978,473    | 1,151,542    |
| Total of trade receivables | \$ 978,473 | \$ 1,151,542 |

Group 1 - New customers - existing/related parties (less than 6 months).

Group 2 - Existing customers/related parties (more than 6 months).

|  | 2020         | 2019         |
|--|--------------|--------------|
| Cash in banks and bank deposits short-term               | \$ 4,259,590 | \$ 2,210,065 |
| Maximum creditworthiness, with minimum credit risk (AAA) | \$ 4,259,590 | \$ 2,210,065 |

### c) Liquidity risk

The Group's cash flow projections are prepared by its operating entities, and the information is consolidated by the Group's Management and Finance teams. The Group's Management and Finance teams oversee the updating of the projections regarding liquidity requirements to ensure that there is sufficient cash to meet operational needs and permanently maintain sufficient margins on undrawn lines of credit, in such a way that the Group does not fail to comply with its credit limits or line of credit covenants. Said projections consider debt financing plans, compliance with covenants, compliance with financial reasons based on internal financial information and, where appropriate, applicable regulatory requirements.

The cash surplus held by the Group and the surplus balances that exceed the cash required for working capital are transferred to the Group Treasury, which invests the cash surplus in time deposits and negotiable securities, selecting instruments with appropriate maturities or with sufficient liquidity to provide sufficient margins. Cash surpluses may be invested in expanding the facilities generating cash flows, with prior authorization from the Board of Directors.

The table below shows the analysis of the Group's financial liabilities classified based on the period between the date of the consolidated statement of financial position and the date of maturity (including unearned interest). The following table has been prepared on the basis of undiscounted cash flows, from the first date that the Group will be required to pay.

| As at December 31, 2020                      | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years |
|--|------------------|-----------------------|-----------------------|
| Bank loans                                   | \$ 459           | 2,905,646             | 3,453,308             |
| Interest in banking institutions not accrued | 453,058          | 623,772               | 432,605               |
| Lease liabilities                            | 1,291,230        | 231,510               | -                     |
| Suppliers                                    | 3,240,961        | -                     | -                     |
| Related parties                              | 100,149          | 218,684               | 510,401               |
| Interest collected from related parties      | 8,933            | 24,523                | 66,552                |
| Other accounts payable                       | 1,726,274        | -                     | -                     |
|  | \$ 6,821,064     | 4,004,135             | 4,462,866             |

| As at December 31, 2019                      | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years |
|--|------------------|-----------------------|-----------------------|
| Bank loans                                   | \$ 79,922        | 1,945,532             | 4,482,315             |
| Interest in banking institutions not accrued | 516,754          | 786,590               | 436,921               |
| Lease liabilities                            | 132,652          | 266,963               | -                     |
| Suppliers                                    | 1,436,412        | -                     | -                     |
| Related parties                              | 275,534          | 353,972               | 381,428               |
| Interest collected from related parties      | 39,262           | 94,851                | 89,828                |
| Other accounts payable                       | 916,060          | -                     | -                     |
|  | \$ 3,396,596     | 3,447,908             | 5,390,492             |

The maturity analysis applies only to financial instruments and therefore, does not include the entity's non-financial liabilities, such as tax liabilities.

### d) Capital risk management

The Group's objectives in relation to capital risk management are to safeguard its ability to continue as a going concern, provide shareholder returns and benefits to other stakeholders, and maintain an optimal capital structure to reduce costs.

In order to maintain or adjust the capital structure, the Group may vary the amount of dividends to be paid to shareholders, carry out a capital reduction, issue new shares or sell assets, and reduce debt.

Like other entities in the industry, the Group monitors its capital structure based on its leverage ratio. This financial ratio is calculated by dividing total liabilities by total capital according to the consolidated statement of financial position.

During 2020 and 2019, the Group's strategy was to maintain its leverage ratio within the range of 0 to 3.00.

The credit rating regarding the Group's overall ability to meet financial obligations has been maintained throughout the period. The leverage ratio as at December 31, 2020 and 2019 is as follows:

|                   | 2020          | 2019       |
|-------------------|---------------|------------|
| Total liabilities | \$ 15,879,991 | 12,292,831 |
| Total equity      | 33,877,016    | 30,949,936 |
| Leverage ratio    | 0.47          | 0.40       |

#### e) Fair value estimation

The different levels of financial instruments have been defined as follows:

- Unadjusted quoted prices in active markets for identical asset or liability (level 1).

Assets and liabilities measured at fair value for disclosure purposes, within this hierarchy are related-party receivables and payables and bank loans (level 2). Information other than quoted prices included in level 1 that can be confirmed for the asset or liability, either directly (such as prices) or indirectly (that is, derived from prices) (level 2).

- Information about the asset or liability that is not based on data that can be confirmed in an active market (that is, unobservable data) (level 3).

The fair value of financial instruments traded in an active market is based on the market prices at the date of the consolidated statement of financial position. A market is understood as an asset with quoted prices that are normally available in an exchange, among negotiators, brokers, industry group, price services or a regulatory agency, and those prices represent real and recurring transactions in the market on the basis of free competition. The market price used in the financial assets held by the Group is the current offer price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market information when it is available and place the least possible confidence in the entity's specific estimates. If all the relevant variables to establish the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more relevant variables are not based on observable market information, the instrument is included in level 3.

Specific valuation techniques for financial instruments include:

- Market listing prices or trading prices of similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine the fair value of other financial instruments.

The book value of assets and liabilities measured at amortized cost as at December 31, 2020 and 2019 resembles the fair value, derived from the fact that their realization period is less than one year, except for those presented under the long-term that are described in Notes 13, 14, and 25.

The book value of trade receivables, other accounts receivable, suppliers and other accounts payable is similar to fair value, since it would be the amount payable in the short term.

#### (4) Critical accounting estimates and judgments-

The estimates and judgments used are continuously evaluated and are based on historical experience and other factors, including the expectation of the occurrence of future events that are considered reasonable under current circumstances.

##### a) Critical accounting estimates and judgments

The Group makes estimates and judgments regarding the future. The resulting accounting estimates, by definition, will seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the book values of assets and liabilities during the following year are as follows:

##### Accounting judgments:

##### b) Concessions granted by the government

The provision of the aforementioned services is carried out through concessions granted free of charge by the competent authority in the regions indicated in Note 28 c) for a period of 30 years, which at the end of their validity will be consolidated into a single concession.

In January 2016, MEGA CABLE was granted a unique concession title for national coverage, with a 30-year validity, which allows the Group to provide any type of telecommunications services with the technical feasibility permitted by its infrastructure (limited only to having to request the radio spectrum required, as appropriate) anywhere in Mexico. Said model establishes the corresponding obligations such as, registering the services that it intends to provide; providing information on its passive and active infrastructure, rights of way and transmission media; coverage programs, and

investment, quality and coverage commitments; refrain from engaging in discriminatory practices; establish and publish its Code of Business Practices; provide parental control for programming aimed at children and adolescents; provide information to the IFT allow it to inspect its premises; and present audited financial statements.

The concessions that expired before January 2016 have been renewed. The entities holding concession titles include: Mega Cable, Megacable Comunicaciones de México, Servicio y Equipos en Telefonía, Internet y TV, and Myc Red. For the purposes of its accounting treatment, the Group has evaluated that said titles do not fall within the scope of IFRIC 12, *Service concession agreements* since rates are registered with the government, but there is no residual value that must be returned to the government.

As at December 31, 2020 the Group has the following concessions in force:

| Year | Beginning | Expiration | Number of concessions for: |          |
|------|-----------|------------|----------------------------|----------|
|      |           |            | 30 years                   | 10 years |
|      | 2013      | 2023       |                            | 5        |
|      | 2014      | 2024       |                            | 4        |
|      | 1995      | 2025       | 18                         |          |
|      | 1996      | 2026       | 31                         |          |
|      | 1997      | 2027       | 3                          |          |
|      | 1998      | 2028       | 21                         |          |
|      | 1999      | 2029       | 2                          |          |
|      | 2000      | 2030       | 16                         |          |
|      | 2007      | 2037       | 4                          |          |
|      | 2008      | 2038       | 8                          |          |
|      | 2009      | 2039       | 3                          |          |
|      | 2010      | 2040       | 2                          |          |
|      | 2011      | 2041       | 3                          |          |
|      | 2013      | 2043       | 6                          |          |
|      | 2014      | 2044       | 4                          |          |
|      | 2016      | 2046       | 2                          |          |

The main characteristics of the concessions granted before 2017 that are still in force are as follows:

- i. General
  - Purpose and services: the concessionaire agrees to install, operate, and use the Network and provide the services indicated in the concession.
  - The services are provided through affiliates, associates, or subsidiaries, as long as the authority is satisfied with the fact that said companies have the necessary financial, legal, and technical capacity to provide the services.

- Subscription or transfer of shares: it is an obligation to present to the authority, no later than 30 April of each year, a list of its main shareholders and respective share percentages.
  - Appointment of a technical manager and legal representative.
- ii. Provisions applicable to the services
    - Quality of services: continuous and efficient provision of services.
    - Quality control and measurement equipment: the concessionaire shall take the necessary steps to ensure the precision and reliability of the equipment for quality measurement purposes.
    - Code of commercial practices: the concessionaire must prepare a code to describe the services it provides and the billing methodology and application of the corresponding rates.
    - Emergency services: the concessionaire must present an action plan to prevent the interruption of services in the event of an act of God or force majeure.
    - Modernization of the network: the concessionaire must keep its Network updated with the latest technological advances.
  - iii. Verification and information
    - Information: the concessionaire must deliver the audited financial statements of its company within 150 calendar days following the closing of the corresponding year.
    - Information on the network installation: the concessionaire must file quarterly progress reports on the installation of the network.
    - Accounting information: the concessionaire must provide accounting information by service, region, function, and components of its Network.
  - iv. Commitments
    - The concessionaire agrees to install with its own infrastructure, during the first three or five years, each of the stages of the coverage program indicated in the concession title.
    - Term to start providing the service: the concessionaire must start to provide the service referred to in the concession no later than 365 calendar days after the date the concession is granted; however, an extension may be granted that is equal to half the term.
    - As at December 31, 2020 and 2019, the Group has complied with all these disclosed commitments and the regulatory aspects to which it is subject.

v. Renewal

- As of January 2016, all concession titles that expire will be adhered to the aforementioned single concession title, as the Group provides the services on a continuous basis. The validity of the single concession is 30 years from June 4, 2015, which will be renewable, in accordance with the provisions of Article 113 of the Federal Telecommunications Broadcasting Act, which indicates concessions on public telecommunications networks, and which may be extended up to periods equal to those originally established. In order to obtain an extension, concessionaires must have complied with the conditions established in the concession that it wishes to have extended, and apply for the extension during the year in which the last fifth of the term of the concession begins, and accept the new conditions established by the authority in accordance with this Act and other applicable provisions. The IFT will issue its resolution within 180 calendar days.

vi. Guarantees

- In January and June of each year, respectively, the concessionaire must contract a performance bond for the obligations contracted in each concession with a surety institution authorized by the Ministry of Finance and Public Credit (SHCP) for an amount equal to 4,000 days of the general minimum wage in force in the Federal District for the year to be guaranteed. The Federal Treasury must be the intended beneficiary of the performance bond. The guarantee must be updated annually in accordance with the CPI.

The withdrawal of any of the Group's concessions would have a significant adverse effect on its activities reported in the financial position and operating results, which would be directly reflected in operating income and costs, and possibly a reserve for impairment of its assets by ceasing to generate cash flows.

**c) Consolidation of entities in which the Group holds than 51% of shares**

Management considers that the Group has control with 51% of the voting rights. The Company is the majority shareholder with 51% of the shares, while the other shareholders individually do not own more than 40% of the equity. There is no record of shareholders who form a group to exercise their voting rights jointly. The total non-controlling interest as at December 31, 2020 and 2019 is \$170,890 and \$162,384, respectively.

The determining factors that establish such control are related to the power that is exercised over the subsidiaries, the right to obtain variable returns and the combination of these two factors, which results in the ability to exercise said power to influence the returns from such investments. The Group has power over its subsidiaries since it has rights that allow it to direct the relevant activities; that is, activities that significantly affect the investee's returns.

Its power arises from the voting rights granted by the shares it holds in each investment, which in all cases represent 51% of the total shares. In all cases, the rest of the shares are divided among several shareholders and in this sense, it is

important to mention that there are no contractual agreements in which strategic alliances of any kind are established between the rest of the shareholders with voting rights, nor is there any precedent of such agreements.

The Group's interest in each one of its subsidiaries in all cases expose it, and grant it the right to obtain variable returns from its involvement in such companies, where it also has decision-making rights that directly influence obtaining the aforementioned returns. There are no legal or any type of barriers that prevent the Group from exercising its rights, and on the contrary, there are established practical mechanisms that allow the exercise of such rights when so determined by Management.

In most cases, the Board of Directors is comprised of the same number of members of the Group and the rest of the shareholders, although one of the directors of the rest of the shareholders does not have a vote. The Group also appoints the chair and treasurer within the board, and in the shareholders' meeting—the supreme corporate body of the company—, it still has the majority of votes, which allows it to make decisions about the relevant activities of the subsidiaries without the need for consent from the rest of the parties. The resolutions adopted in the meeting are final and do not require additional or subsequent approval by the Board of Directors, as long as the same shareholding percentage is maintained.

Details on the relevant totals of assets, liabilities and consolidated results of these subsidiaries are provided in Note 9.

Accounting Estimates:

**d) Goodwill impairment estimate**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy described in Note 2o). The recoverable amounts of the Cash Generating Units (CGU) have been determined based on calculations of their values in use. These calculations require the use of estimates (See Note 11).

In 2020 and 2019, there were no impairment effects in any of the CGUs and the most sensitive variables in the calculations are the discount rate and the gross operating margin.

If the estimated cost of capital used to determine the discount rate before taxes applied to the Company's CGUs had been 10% higher than Management's estimate, it would not give rise to a goodwill impairment.

The discount rates in pesos and in nominal terms in Mexico used by the Company as of December 31, 2020 and 2019 are 8.60% and 11.72%, respectively, it is estimated through the Weighted Average Cost of Capital ("WACC"), and 5-year flows were discounted.

**e) Income tax**

The Group is subject to the payment of income tax. Significant judgments are required to recognize current and deferred income tax. There are many transactions and calculations for which the tax computation is uncertain. In the event that

a tax audit process is initiated, the Group would recognize a liability for those matters observed in the tax audits if it considers that it is probable that an additional tax to the original current tax will be determined. Should the final result of these processes produce a result other than the estimated liability, the differences would be recognized in the current and/or deferred income tax for the year.

Based on the simulations performed, the impact on the pretax income due to a 5% movement would give rise to a maximum increase or decrease of \$66,775 in 2020 with \$66,031 in 2019. Simulations are periodically prepared to verify that the maximum potential loss is within the limit established by Management.

The determination of the final tax calculation may be uncertain due to the complexity and judgments required to handle certain transactions. When the final result of this situation is different from the amounts that were initially recorded, the differences will impact the current and deferred income tax on assets and liabilities in the period in which it is determined. At the 2020 and 2019 year-end closing, the Group does not have uncertain tax positions.

#### **f) Allowance for impairment of accounts receivable**

The methodology the Group applied to determine the balance of this estimate is described in Note 2k).

If the allowance for bad debts as at December 31, 2020 and 2019 is modified by 10% above and/or below the estimates made by Management, the Group would have increased and/or decreased said estimate at December 31, 2020 and 2019 by \$26,511 and \$23,740, respectively, and the operating results would have been affected and/or benefited by the same amount.

#### **g) Allowance for obsolete inventories**

The Group's Management has an allowance for inventories with different kinds of defects and for slow-moving inventories. The goods that cannot be used for its own operation include products that will expire in the next few months, that have a broken label or a label in bad condition, or products in poor conditions. This allowance is determined based on the age and monitoring reports prepared by Management regarding said products.

#### **h) Estimated useful lives and residual values of property, networks and equipment**

The Group prepares the estimated useful lives of its property, networks and equipment to determine the depreciation expense to be recognized in a reporting period. The useful life of these assets is calculated at the time the asset is acquired, based on past experience with similar assets and taking into account anticipated technological changes or changes of any other nature. If technological changes occur faster than foreseen or in a different way than anticipated, the useful lives assigned to these assets may need to be shortened. This would result in the recognition of a higher depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of an impairment charge to reflect the reduction in the value of assets. The Group reviews the assets annually to see if they show signs of impairment, or when certain events or circumstances indicate that the book value

may not be recovered throughout the remaining life of the assets. Should there be indicators of impairment, the Company conducts a study to determine the value in use of the assets. As at December 31, 2020 and 2019, there were no indicators of impairment.

#### **i) Pension plan benefits**

The present value of pension plan obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used to determine the net cost (income) for pensions include the discount rate. Any change in these assumptions will have an impact on the book value of the pension plan obligations.

As at December 31, 2020 and 2019, the Group used the zero coupon government bond curve of 6.50% and 7.50%, respectively, for the discount rate.

If the discount rate used as at December 31, 2020 and 2019 had been different by 1%, from the estimates made by Management, the book value of the obligations for pension plans would have been lower by approximately \$15,926 and \$21,756, respectively.

Other premises used to estimate pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

#### **j) Fair value measurement**

The Group applies the guidelines in IFRS 13, *Fair value measurements* ("IFRS 13") to measure the fair value of financial assets and liabilities recognized or disclosed at fair value. IFRS 13 does not require additional fair values other than those already required or permitted by other IFRS, and it does not intend to establish valuation standards or affect valuation practices outside of the financial report. Under IFRS, the fair value represents the "Sale Price" that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the valuation date, considering the credit risk of the counterparty in the valuation.

The selling price concept is based on the assumption that there is a market and market participants for the specific asset or liability. When there is no market and/or participants to form the market, IFRS 13 establishes a hierarchy of fair value for the input data of the valuation techniques used to determine the fair value. The highest priority hierarchy is that of unadjusted quoted prices in an active market for identical assets or liabilities (measurement level 1) and the lowest priority is that of calculations dealing with significant but unobservable input data (measurement level 3).

The three hierarchy levels are as follows:

- (1) Level 1 data are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group has the ability to trade at the measurement date.
- (2) Level 2 are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

(3) Level 3 are inputs for the asset or liability that are not based on observable market data.

The fair value of assets for disposal, along with unobservable input data, are estimated by specialized independent firms hired for each asset.

#### k) Fair value of derivative financial instruments

The fair values of derivative instruments that are traded in recognized markets are determined based on the prices issued by these markets. In cases in which the instruments are traded on the over-the-counter market, the fair value of the financial instruments is estimated based on recognized technical valuation models in the financial field, mainly using that of expected future flows discounted at present value and based on market information available at the valuation date.

To measure the fair values the Group has used conditions and assumptions based primarily on TIIE 28 rate structures, Mexican Interbank Interest Rate (TIIE) levels, and exchange rates under the MXN/USD parity available at the valuation date.

The Company has performed the effectiveness tests required to comply with hedge accounting, which are in the ranges allowed by IFRS.

#### l) Revenue recognition

Determination of whether service revenues are recognized over time or at a specific time.

#### m) Leases

Determining whether an arrangement contains a lease.

### (5) Cash and cash equivalents-

Cash and cash equivalents are described as follows:

|                               | 2020                | 2019             |
|-------------------------------|---------------------|------------------|
| Cash and cash in banks        | \$ 1,517,505        | 1,822,596        |
| Readily marketable securities | 2,742,085           | 387,469          |
| <b>Total</b>                  | <b>\$ 4,259,590</b> | <b>2,210,065</b> |

As at December 31, 2020 and 2019, the Company has no cash and cash equivalents subject to restrictions on their availability.

### (6) Accounts receivable, net-

An analysis of this caption is as follows:

|                             | 2020                | 2019             |
|-----------------------------|---------------------|------------------|
| Customers                   | \$ 1,780,656        | 1,889,190        |
| Sundry debtors              | 265,845             | 207,025          |
|                             | 2,046,501           | 2,096,215        |
| Allowance for credit losses | (340,811)           | (237,396)        |
| <b>Total</b>                | <b>\$ 1,705,690</b> | <b>1,858,819</b> |

As at December 31, 2020 and 2019, in general the amounts of accounts receivable fully comply with the contractual terms.

The following information related to customer contracts is as follows:

|                 | Business market |           | Mass market |        | Other   |        |
|-----------------|-----------------|-----------|-------------|--------|---------|--------|
|                 | 2020            | 2019      | 2020        | 2019   | 2020    | 2019   |
| Opening balance | \$ 1,804,826    | 1,357,054 | 48,989      | 85,323 | 35,375  | 52,838 |
| Closing balance | \$ 1,551,068    | 1,804,826 | 116,452     | 48,989 | 113,136 | 35,375 |

As at December 31, 2020 and 2019, the Company has liabilities for contracts with customers as follows:

|                 | Business market |         | Mass market |         |
|-----------------|-----------------|---------|-------------|---------|
|                 | 2020            | 2019    | 2020        | 2019    |
| Opening balance | \$ 139,060      | 265,667 | 47,813      | 129,070 |
| Closing balance | \$ 685,392      | 139,060 | 67,256      | 47,813  |

The book value of the Group's accounts receivable and other accounts receivable are primarily denominated in Mexican pesos.

Accounts receivable that are more than 180 days old are analyzed as follows:

|                    | 2020       | 2019    |
|--------------------|------------|---------|
| More than 180 days | \$ 420,238 | 254,101 |

The movement of the allowance for credit losses is as follows:

|                                      | 2020       | 2019     |
|--------------------------------------|------------|----------|
| Balance at the beginning of the year | \$ 237,396 | 196,532  |
| Increase                             | 111,224    | 53,639   |
| Charges                              | (7,809)    | (12,775) |
| Balance at the end of the year       | \$ 340,811 | 237,396  |

The increase in the allowance for impaired accounts receivable is included in operating expenses in the "selling expenses" account in the statement of comprehensive income (see Note 21). Amounts charged to the provision are generally written off when there are no expectations of additional cash recovery. Other accounts receivable items and other accounts receivable are not impaired.

The maximum exposure to credit risk at the reporting date is the book value of each class of accounts receivable mentioned above. The Group does not request collateral in guarantee.

The book value of customers and other accounts receivable that are denominated in U.S. dollars are as follows:

|                          | 2020     | 2019  |
|--------------------------|----------|-------|
| U.S. dollars (thousands) | \$ 4,755 | 5,772 |

## (7) Inventories-

An analysis of inventories is as follows:

|  | 2020       | 2019     |
|--|------------|----------|
| Materials and equipment for company operations | \$ 523,028 | 545,626  |
| Allowance for obsolete inventories             | (87,489)   | (74,380) |
| Total  | \$ 435,539 | 471,246  |

Movements in the obsolete inventory valuation are as follows:

|                                      | 2020   | 2019     |
|--------------------------------------|--------|----------|
| Balance at the beginning of the year | 74,380 | 95,692   |
| Increase                             | 6,304  | 11,717   |
| Charges or cancellations             | 6,805  | (33,029) |
| Balance at the end of the year       | 87,489 | 74,380   |

## (8) Prepayments-

Prepayments are comprised as follows:

|                                  | 2020      | 2019    |
|----------------------------------|-----------|---------|
| Property, networks and equipment | 1,636,395 | -       |
| Services                         | 432,343   | 54,432  |
| Others                           | 195,817   | 326,062 |
| Total prepayments                | 2,264,555 | 380,494 |
| Less current prepayments         | 251,581   | 380,494 |
| Long-term prepayments (*)        | 2,012,974 | -       |

(\*) The advance payments granted correspond mainly to the construction of fiber infrastructure with GPON technology, which consists mainly of an FTTH network (Fiber To The Home), which will be implemented in the main cities where the Group has a presence. See note 24.

## (9) Investments in joint ventures-

Investment in joint ventures and other permanent investments is as follows:

| Subsidiary   | Interest |        | Corporate Purpose   |
|--|----------|--------|---|
|  | 2020     | 2019   |   |
| Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C. V. (joint venture) (1) | 33.33%   | 33.33% | Concessionaire of the rights to operate the dark fiber owned by the Federal Electricity Commission. |



(1) The joint venture presented below has a share capital consisting solely of ordinary shares, which the Group directly owns. Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C. V. (GTAC) obtained a 20-year lease (through a bidding process) for a pair of fiber optic wires maintained by the Federal Electricity Commission and a concession to operate a public telecommunications network in Mexico. The concession will expire in 2030.

Nature of joint venture investment as at December 31, 2020 and 2019.

| Entity Name   | Place of Business | Interest % | Nature of the Relationship | Measurement method |
|---|-------------------|------------|----------------------------|--------------------|
| Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C.V. | Mexico City       | 33.33      | Trunk capacity supplier    | Equity method      |

Summarized Statement of Financial Position:

|  | Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C.V. |                  |
|--|---|------------------|
|  | 2020  | 2019             |
| <b>Current</b>   |   |                  |
| Cash and cash equivalents                              | \$ 68,614   | 33,375           |
| Other current assets                                   | 320,586   | 554,305          |
| <b>Total current assets</b>                            | <b>389,200</b>  | <b>587,680</b>   |
| Other current liabilities (including accounts payable) | 124,704   | 82,774           |
| <b>Total current liabilities</b>                       | <b>124,704</b>  | <b>82,774</b>    |
| <b>Long-term</b>                                       |   |                  |
| Assets   | 1,558,223   | 1,410,054        |
| Other liabilities - Total long-term liabilities        | 2,574,583   | 2,802,525        |
| <b>Net liabilities</b>                                 | <b>\$ (751,864)</b>   | <b>(887,565)</b> |

Summarized Statement of Comprehensive Income:

|                                   |                   |                  |
|-----------------------------------|-------------------|------------------|
| Income                            | 330,065           | 310,355          |
| Depreciation and amortization     | (12,211)          | (17,526)         |
| Expenses                          | (326,119)         | (296,137)        |
| Finance income                    | 358,631           | 86,462           |
| Finance expenses                  | (214,666)         | (276,085)        |
| <b>Total comprehensive income</b> | <b>\$ 135,700</b> | <b>(192,931)</b> |

As at December 31, 2020 and 2019, the Group recorded the losses of the joint venture until its investment was valued at zero. The unrecognized losses from its participation in GTAC amounted to \$45,233 and \$64,310, as at December 31, 2020 and 2019, respectively; and the unrecognized accumulated losses amount to \$250,621 and \$295,855 as at December 31, 2020 and 2019, respectively.

The Group has the following subsidiaries in which it participates with 51% and they are included in the consolidation (all are variable capital companies) as at December 31, 2020 and 2019.

| Entity Name  | Place of Business | Nature of the Business | Portion of ordinary shares held by shareholders (%) | Portion of ordinary shares held by the Group (%) | Portion of ordinary shares held by non-controlling interest | Portion of preferred shares held by the Group (%) |
|--|-------------------|------------------------|---|--|---|---|
| Myc Red  | Michoacán         | Cable system operator  | 51  | 51   | 49  | -   |
| Servicio y Equipo en Telefonía Internet y Televisión | Michoacán         | Cable system operator  | 51  | 51   | 49  | -   |
| Corporativo de Comunicación y Redes de GDL           | Michoacán         | Fixed asset leasing    | 51  | 51   | 49  | -   |

All subsidiary companies are included in the consolidation. The portion of voting rights in subsidiary companies held directly by the shareholder does not differ from the portion of ordinary shares held. Management considers that the Group has control with 51% of the voting rights. The Group is the majority shareholder with 51% of shares, while the other shareholders individually do not own more than 40% of the capital. There is no record of shareholders who form a group to exercise their vote jointly. The total non-controlling interest in 2020 and 2019 was \$170,890 and \$162,384, respectively and in stockholders' equity in 2020 and 2019 is \$1,392,924 and \$1,337,293, respectively. The summarized financial information for each subsidiary that has non-controlling interests that are material to the Group is as follows.

Summarized Statement of Financial Position as at December 31, 2020 and 2019 (all are variable capital companies):

|  | Myc Red          |                | Servicio y Equipo en Telefonía Internet y Televisión |                  | Corporativo de Comunicación y Redes de GDL |                  |
|--|------------------|----------------|--|------------------|--|------------------|
|  | 2020             | 2019           | 2020   | 2019             | 2020                                       | 2019             |
| <b>Short-term</b>                                |                  |                |  |                  |  |                  |
| Assets   | \$ 33,709        | 11,546         | 519,046  | 209,574          | 594,163                                    | 1,145,893        |
| Liabilities                                      | (46,018)         | (19,223)       | (850,649)  | (509,511)        | (115,941)                                  | (28,649)         |
| <b>Total short-term net assets (liabilities)</b> | <b>(12,309)</b>  | <b>(7,677)</b> | <b>(331,603)</b>                                     | <b>(299,937)</b> | <b>478,222</b>                             | <b>1,117,244</b> |
| <b>Long-term</b>                                 |                  |                |  |                  |  |                  |
| Assets   | 77,651           | 65,202         | 789,475  | 562,760          | 965,698                                    | 220,370          |
| Liabilities                                      | (4,502)          | (3,026)        | (35,697)   | (24,682)         | (52,940)                                   | (61,414)         |
| <b>Total long-term assets, net</b>               | <b>73,149</b>    | <b>62,176</b>  | <b>753,778</b>                                       | <b>538,078</b>   | <b>912,758</b>                             | <b>158,956</b>   |
| <b>Assets, net</b>                               | <b>\$ 60,840</b> | <b>54,499</b>  | <b>422,175</b>                                       | <b>238,141</b>   | <b>1,390,980</b>                           | <b>1,276,200</b> |

Summarized Income Statement for the period ended December 31, 2020 and 2019 (all are variable capital companies):

|                                   | Myc Red         |              | Servicio y Equipo en Telefonía Internet y Televisión |                 | Corporativo de Comunicación y Redes de GDL |               |
|-----------------------------------|-----------------|--------------|--|-----------------|--|---------------|
|                                   | 2020            | 2019         | 2020   | 2019            | 2020                                       | 2019          |
| Income                            | \$ 94,378       | 76,797       | 1,007,324  | 918,410         | 70,377                                     | 77,211        |
| Pretax profit (loss)              | 7,880           | 5,783        | 266,652  | (62,106)        | 313,504                                    | 49,528        |
| Tax expense, net                  | (1,539)         | (1,311)      | (80,326)   | (27,058)        | (12,010)                                   | (19,291)      |
| <b>Total comprehensive income</b> | <b>\$ 6,341</b> | <b>4,472</b> | <b>186,326</b>                                       | <b>(89,164)</b> | <b>301,494</b>                             | <b>30,237</b> |

The information above represents the amount before eliminations between related parties.

As at December 31, 2020 and 2019, none of these subsidiaries has any commitments or contingent liabilities that could affect the figures.

**(10) Property, networks and equipment-**

An analysis of properties, networks and equipment is as follows:

| As at December 31, 2020                     | Land       | Buildings | Network and technical signal and distribution equipment | Office furniture, equipment and computers | Transportation equipment | Leasehold improvements | Telecommunications equipment | Projects in process, tools and equipment | Total        |
|---|------------|-----------|---|---|--------------------------|------------------------|------------------------------|--|--------------|
| Initial net balance as at December 31, 2019 | \$ 124,332 | 104,374   | 25,817,406  | 249,077                                   | 571,550                  | 133,934                | 99,787                       | 2,359,406                                | 29,459,866   |
| Additions                                   | 24,043     | 167,568   | 6,909,328   | 118,706                                   | 137,385                  | 49,445                 | 29                           | 346,581                                  | 7,753,085    |
| Withdrawals                                 | -          | -         | (1,421,905)   | (802)                                     | (48,421)                 | -                      | -                            | (35)                                     | (1,471,163)  |
| Depreciation charge                         | -          | (7,052)   | (3,924,083)   | (93,173)                                  | (64,680)                 | (43,627)               | (9,151)                      | (41,875)                                 | (4,183,641)  |
| Net ending book balance                     | 148,375    | 264,890   | 27,380,746  | 273,808                                   | 595,834                  | 139,752                | 90,665                       | 2,664,077                                | 31,558,147   |
| Cost  | 148,375    | 342,383   | 49,971,134  | 1,579,845                                 | 1,036,784                | 518,333                | 151,575                      | 3,112,232                                | 56,860,661   |
| Depreciation                                | -          | (77,493)  | (22,590,388)  | (1,306,037)                               | (440,950)                | (378,581)              | (60,910)                     | (448,155)                                | (25,302,514) |
| Net ending balance as at December 31, 2020  | \$ 148,375 | 264,890   | 27,380,746  | 273,808                                   | 595,834                  | 139,752                | 90,665                       | 2,664,077                                | 31,558,147   |

| As at December 31, 2019                     | Land       | Buildings | Network and technical signal and distribution equipment | Office furniture, equipment and computers | Transportation equipment | Leasehold improvements | Telecommunications equipment | Projects in process, tools and equipment | Total        |
|---|------------|-----------|---|---|--------------------------|------------------------|------------------------------|--|--------------|
| Initial net balance as at December 31, 2018 | 109,864    | 108,584   | 23,913,199  | 229,391                                   | 575,614                  | 121,254                | 108,810                      | 1,957,743                                | 27,124,459   |
| Finance lease reclassification              | -          | -         | (1,323,925)   | -   | -                        | -                      | -                            | -  | (1,323,925)  |
| Net initial balance as at January 1, 2019   | 109,864    | 108,584   | 22,589,274  | 229,391                                   | 575,614                  | 121,254                | 108,810                      | 1,957,743                                | 25,800,534   |
| Additions                                   | 14,468     | 562       | 6,772,214   | 117,766                                   | 119,025                  | 53,872                 | 167                          | 436,102                                  | 7,514,176    |
| Withdrawals                                 | -          | -         | (240,452)   | (54)                                      | (52,743)                 | -                      | -                            | (72)                                     | (293,321)    |
| Depreciation charge                         | -          | (4,772)   | (3,303,630)   | (98,026)                                  | (70,346)                 | (41,192)               | (9,190)                      | (34,367)                                 | (3,561,523)  |
| Net ending book balance                     | 124,332    | 104,374   | 25,817,406  | 249,077                                   | 571,550                  | 133,934                | 99,787                       | 2,359,406                                | 29,459,866   |
| Cost  | 124,332    | 174,852   | 44,753,596  | 1,461,941                                 | 947,819                  | 468,888                | 151,546                      | 2,765,687                                | 50,848,661   |
| Accumulated depreciation                    | -          | (70,478)  | (18,936,190)  | (1,212,864)                               | (376,269)                | (334,954)              | (51,759)                     | (406,281)                                | (21,388,795) |
| Net ending balance as at December 31, 2019  | \$ 124,332 | 104,374   | 25,817,406  | 249,077                                   | 571,550                  | 133,934                | 99,787                       | 2,359,406                                | 29,459,866   |

- a) Depreciation expense for the years ended December 31, 2020 and 2019 totaled \$4,274,545 and \$3,561,523, respectively, of which an amount of \$3,847,091 and \$3,191,175, respectively, was recorded under the cost of services line item, and the complement of \$427,454 and \$370,348, respectively, was recorded in selling and administrative expenses.
- (\*) On May 1, 2019, through its subsidiary Telefonía por Cable, S.A. de C.V. as a buyer, the Group entered into an asset purchase-sale agreement and assignment of rights with Axtel, S.A.B. de C.V., for intangible assets and fixed assets of the FTTH (Fiber To The Home) at \$1,150,000 plus value added tax where the customer list was purchased for \$266,731 as an intangible asset (see Note 12) and fixed assets for \$883,269.
- b) A list of finance leases, net of depreciation reclassified to January 1, 2019 is as follows:

| Right-of-use assets  | Reclassification at January 1, 2019 |
|--|-------------------------------------|
| Network and technical equipment for signal distribution, net | \$ 1,323,925                        |

- c) Due to the increase in the frequency of new cable subscribers in 2020 and 2019, the Group capitalized connection costs in the network asset for \$1,049,020 and \$889,077 (materials and labor necessary to physically extend and connect the Network to the new customer homes), respectively.

## (11) Goodwill-

An analysis of goodwill as at December 31, 2020 and 2019 is as follows:

| Balances as at December 31, 2020 and 2019 | Acotel       | TCO     | IMATEL  | IRA     | SIGETEL | Other     | Total     |
|---|--------------|---------|---------|---------|---------|-----------|-----------|
| Net opening balance                       | \$ 2,296,815 | 381,098 | 331,811 | 240,378 | 54,893  | 1,073,402 | 4,378,397 |
| Accumulated impairment                    | -            | -       | -       | -       | -       | -         | -         |
| Net book value                            | \$ 2,296,815 | 381,098 | 331,811 | 240,378 | 54,893  | 1,073,402 | 4,378,397 |

### Goodwill impairment tests:

Management reviews business performance based on geography and type of business. Geographical areas have been identified as the states in Mexico where the Group has a presence. In all geographic areas, the Group maintains cable, telephone, and internet services. Goodwill is analyzed by Management at the geographic area level for the mass (Cable, Telephone, and Internet) and business (Metrocarrier) markets. A summary of the goodwill allocation for each geographic area is as follows:

| As at December 31, 2020 and 2019 | Beginning balance | Additions | Ending balance |
|----------------------------------|-------------------|-----------|----------------|
| North                            | \$ 134,645        | -         | 134,645        |
| West                             | 265,569           | -         | 265,569        |
| Pacific                          | 429,492           | -         | 429,492        |
| Southeast                        | 693,805           | -         | 693,805        |
| TCO                              | 318,640           | -         | 318,640        |
| Bajío                            | 1,242,205         | -         | 1,242,205      |
| Center                           | 1,104,865         | -         | 1,104,865      |
| Gulf                             | 86,511            | -         | 86,511         |
| Metrocarrier                     | 102,665           | -         | 102,665        |
| Total                            | \$ 4,378,397      | -         | 4,378,397      |

The recoverable amount of all Cash Generating Units (CGU) is determined based on value in use calculations. These calculations use the projections of pretax cash flows based on financial budgets approved by Management that cover a five-year period. Cash flows that exceed the five-year period are extrapolated using the estimated growth rates mentioned below. Growth rates do not exceed the long-term average growth rate for the telecommunications business in which the CGU operates.

The recovery values of each of the CGUs as at December 31, 2020 and 2019 are as follows:

| As at December 31, 2020 and 2019 | 2020         | 2019       |
|----------------------------------|--------------|------------|
| North                            | \$ 8,256,051 | 3,786,492  |
| West                             | 18,186,356   | 11,033,666 |
| Pacific                          | 24,363,197   | 10,515,700 |
| Southeast                        | 12,328,603   | 6,945,119  |
| TCO                              | 4,828,351    | 2,346,677  |
| Bajío                            | 12,808,836   | 7,556,697  |
| Center                           | 8,932,200    | 5,347,628  |
| Gulf                             | 7,640,187    | 3,698,643  |
| Metrocarrier                     | 11,123,821   | 6,985,090  |

The key assumptions used in the 2020 and 2019 value in use calculations are as follows:

| 2020         | % of gross margin | Growth rate | Discount rate |
|--------------|-------------------|-------------|---------------|
| North        | 53.0%             | 11.6%       | 8.60%         |
| West         | 46.1%             | 10.7%       | 8.60%         |
| Pacific      | 55.6%             | 9.5%        | 8.60%         |
| Southeast    | 49.2%             | 11.4%       | 8.60%         |
| TCO          | 51.6%             | 10.6%       | 8.60%         |
| Bajío        | 49.4%             | 10.4%       | 8.60%         |
| Center       | 45.1%             | 13.7%       | 8.60%         |
| Gulf         | 49.8%             | 12.2%       | 8.60%         |
| Metrocarrier | 37.1%             | 10.0%       | 8.60%         |

| 2019         | % of gross margin | Growth rate | Discount rate |
|--------------|-------------------|-------------|---------------|
| North        | 54.2%             | 8.6%        | 11.72%        |
| West         | 47.5%             | 9.0%        | 11.72%        |
| Pacific      | 48.8%             | 7.6%        | 11.72%        |
| Southeast    | 50.3%             | 9.2%        | 11.72%        |
| TCO          | 51.6%             | 8.0%        | 11.72%        |
| Bajío        | 50.4%             | 9.0%        | 11.72%        |
| Center       | 50.8%             | 9.5%        | 11.72%        |
| Gulf         | 49.2%             | 7.7%        | 11.72%        |
| Metrocarrier | 32.0%             | 10.0%       | 11.72%        |

These assumptions have been used in the analysis of each CGU within the operating segment.

Management determined the budgeted gross margins based on past results and its expectations of market development. The weighted average growth rates used are consistent with the projections included in the industry reports. The discount rates used are pre-taxes and reflect the specific risks related to the relevant geographic areas.

Sales volume is the weighted average rate of annual growth over a five-year forecast period. It is based on past performance and Management's expectations of market development.

The sale price is the weighted average rate of annual growth over the five-year forecast. It is based on current industry trends and includes long-term inflation forecasts.

## (12) Other intangible assets, net-

An analysis of intangible assets is as follows:

|                                  | 2020         | 2019        |
|----------------------------------|--------------|-------------|
| With defined life:               |              |             |
| Customer base (i)                | \$ 2,028,815 | 2,028,815   |
| Accumulated amortization         | (1,922,535)  | (1,796,943) |
|                                  | 106,280      | 231,872     |
| With defined life:               |              |             |
| Trademarks and patents, net (ii) | 18           | 34          |
| Total                            | \$ 106,298   | 231,906     |

i) Corresponds to the cost of acquisitions of portfolio/subscribers with a useful life of four years. The movements in the net customer base is as follows:

|                         |    |           |
|-------------------------|----|-----------|
| Net customer base:      |    |           |
| As at January 1, 2019   | \$ | 64,745    |
| Additions (*)           |    | 266,731   |
| Customer base deletions |    | (4,623)   |
| Amortization            |    | (94,981)  |
| As at December 31, 2019 |    | 231,872   |
| Amortization            |    | (125,592) |
| As at December 31, 2020 | \$ | 106,280   |

(\*) On May 1, 2019, through its subsidiary Telefonía por Cable, S.A. de C.V. as buyer, and Mega Cable, S.A. de C.V, the Group entered into an asset purchase and sale and assignment of rights agreement with Axtel, S.A.B. de C.V., for FTTH (Fiber To The Home) intangible assets and fixed assets valued at \$1,150,000 plus value added tax where they purchased the customer list for \$266,731 as an intangible asset and fixed assets.

Amortization is calculated based on the straight-line method, considering the estimated life of the assets, which is four years. As at December 31, 2020 and 2019, it was recorded in the cost of services as \$125,592 and \$94,981, respectively.

- ii) Refers to the trademark registration title of "Video Rola música para tus ojos" (music for your eyes) and its design, granted by the Mexican Institute of Industrial Property (renewable according to applicable legal provisions) and which is applied to entertainment through video and elaboration of the same, discs, cassettes and videos covered in this class. It is amortized at the annual rate of 5%.

Brands and patents:

|                         |    |         |
|-------------------------|----|---------|
| As at January 1, 2019   | \$ | 6,503   |
| Deletions, net          |    | (6,469) |
| As at December 31, 2019 |    | 34      |
| Deletions, net          |    | (16)    |
| As at December 31, 2020 | \$ | 18      |

**(13) Financial instruments by category-**

|  | 2020                          |           | 2019                          |           |
|--|-------------------------------|-----------|-------------------------------|-----------|
|  | Loans and accounts receivable |           | Loans and accounts receivable |           |
| Assets according to the statement of financial position: |                               |           |                               |           |
| Accounts receivable, net                                 | \$                            | 1,705,690 |                               | 1,858,819 |
| Related parties  |                               | 978,473   |                               | 1,151,542 |
| Cash and cash equivalents                                |                               | 4,259,590 |                               | 2,210,065 |
| Total  | \$                            | 6,943,753 |                               | 5,220,426 |

|   | 2020                                    |            | 2019                                    |           |
|---|---|------------|---|-----------|
|   | Financial liabilities at amortized cost |            | Financial liabilities at amortized cost |           |
| Liabilities according to statement of financial position:   |   |            |   |           |
| Bank loans  | \$                                      | 6,359,413  |   | 6,507,769 |
| Suppliers   |   | 3,240,961  |   | 1,436,412 |
| Related parties   |   | 829,234    |   | 1,010,934 |
| Other accounts payable, excluding non-financial liabilities |   | 1,726,274  |   | 916,060   |
| Total   | \$                                      | 12,155,882 |   | 9,871,175 |

As of December 31, 2020 and 2019, the Company has derivative financial instruments, recorded in assets under sundry debtors for \$2,060 and \$133, respectively with current options.

**(14) Bank loans-**

Bank loans are integrated as follows:

|  | 2020         | 2019      |
|--|--------------|-----------|
| Unsecured loan from Scotiabank Inverlat, S.A. a full-service banking institution, on July 25, 2019, for \$3,000,000 (nominal), comprising two withdrawals, one for \$2,000,000 with a fixed monthly interest rate of 7.88% and another for \$1,000,000 with a monthly interest rate of at the TIIE plus 0.28 percentage points, and a July 29, 2024 maturity date. (1) | \$ 2,960,863 | 2,982,609 |
| Unsecured loan from BBVA Bancomer, S.A., a full-service banking institution, on July 25, 2019, for \$1,500,000 (nominal), with a monthly fixed interest rate of 7.89%, and a July 29, 2024 maturity date. (1)  | 1,479,399    | 1,499,707 |
| Unsecured loan from BBVA Bancomer, S.A., a full-service banking institution, on July 25, 2019, for \$1,000,000 (nominal), with a monthly interest rate of TIIE plus 0.28 percentage points and a July 29, 2022 maturity date. Only \$975,000 were drawn from this loan. (1)  | 961,609      | 958,548   |
| Unsecured loan from Banco Santander, S.A., a full-service banking institution, on July 25, 2019, for \$500,000 (nominal), with a monthly interest rate of TIIE plus 0.28 percentage points and a July 29, 2022 maturity date. (1)  | 465,735      | 474,281   |
| Unsecured loan from Banco Nacional de México, S.A., a full-service banking institution, on July 25, 2019, for \$500,000 (nominal), with a monthly interest rate of TIIE plus 0.28 percentage points and a July 25, 2022 maturity date. (1)   | 491,348      | 499,965   |
| Total on the next page   | \$ 6,358,954 | 6,415,110 |

|  | 2020                | 2019             |
|--|---------------------|------------------|
| Total from the last page   | \$ 6,358,954        | 6,415,110        |
| Line of credit up to the principal sum of \$8,080 (USD 460,000) with Banco Banamex, S.A., a full service banking institution, contracted on January 22, 2016 and maturing on January 22, 2021, with a Libor rate plus 1.8 basis points.  | 459                 | 2,170            |
| Loan available on demand in a single payment from Banco Banamex, S.A., a full service banking institution, for a maximum amount of \$90,000, signed on March 9, 2016, with a monthly TIIE interest rate plus an applicable margin of 0.75 percentage points, and a March 9, 2020 maturity date.  | -                   | 5,625            |
| Loan available on demand in a single payment from Santander, S.A., a full service banking institution, for a maximum amount of \$190,000, with a monthly TIIE interest rate plus an applicable margin of 0.40 percentage points, and a December 19, 2020 maturity date.  | -                   | 63,333           |
| Unsecured loan for \$45,000 with Scotiabank Inverlat, S.A., a full service banking institution, for the acquisition of assets signed on April 11, 2017. Of which a first amount of \$20,000 was withdrawn on 11 April 2017, plus a second withdrawal for \$5,000 on May 17, 2017; plus a third withdrawal for \$20,000 on July 11, 2017; effective for 60 months, and accruing monthly interest at the TIIE rate plus 2 percentage points due in April 2022, which is paid in advance on 11 November 2020. | -                   | 21,531           |
| <b>Total bank loans</b>  | <b>6,359,413</b>    | <b>6,507,769</b> |
| Minus - Short-term portion of long-term bank loans   | 459                 | 79,922           |
| <b>Bank loans with maturities greater than one year</b>  | <b>\$ 6,358,954</b> | <b>6,427,847</b> |

1) On July 25, 2019, Mega Cable, S.A. de C.V. as an accredited subsidiary and Megacable Holdings, S.A.B. de C.V., Telefonía por Cable S.A. de C.V., Servicios Especiales Turandot, S.A.P.I de C.V., and Werther Administración Integral, S.A.P.I. de C.V., as joint and several obligors, took out loans with Scotiabank Inverlat, S. A. for \$2,000,000 and \$1,000,000, BBVA Bancomer, S.A. for \$1,500,000 and \$975,000, Banco Santander, S.A. for \$500,000, and Banco Nacional de México, S. A. for \$500,000. These contracts mature on July 29, 2022 and July 29, 2024.

In relation to the loans indicated in the previous paragraph, the Group determined an effective interest rate in 2020 of 7.88%, 6.88%, 7.89% and for the last three 6.88%, respectively, on which the financial cost of said loan is recorded. In like manner, the fair value for all loans is \$6,808,329, which was determined by using the discount rate at fixed market value and TIIE plus 0.28% percentage points, and is within level 2 in the fair value hierarchies.

In relation to the loans indicated in the previous paragraph, the Group determined an effective interest rate in 2019 of 7.88%, 7.84%, 7.89% and for the last three 7.84%, respectively, on which the financial cost of said loan is recorded. In like manner, the fair value for all loans is \$6,404,319, which was determined by using the discount rate at fixed market value and TIIE plus 0.28% percentage points, and is within level 2 in the fair value hierarchies.

The current loan agreements establish different obligations to do and not do for Megacable Holdings and its subsidiaries, including limitations to: (a) merge or consolidate with third parties; (b) sell, transfer or lease some of its assets, except in the case of a cash transaction; (c) certain investments; (d) the amount of indebtedness; (e) certain dividend payments or distributions of the capital stock of Megacable Holdings or its subsidiaries, or the purchase, redemption or other acquisition of the capital stock of any of its subsidiaries; (f) enter into hedging contracts, unless they help mitigate certain risks or acquire benefits; and (g) changes in accounting, as well as requiring Megacable Holdings and subsidiaries to comply with certain financial ratios, including a consolidated leverage rate not greater than 3.00 and a consolidated interest coverage rate greater than 3.50.

The exposure of the Group's loans to changes in interest rates and contractual dates is as follows:

|                                | 2020                | 2019             |
|--------------------------------|---------------------|------------------|
| Less than 6 months             | \$ 459              | 16,589           |
| From 6 to 12 months            | -                   | 63,333           |
| More than 1 year up to 5 years | 6,358,954           | 6,427,847        |
|                                | <b>\$ 6,359,413</b> | <b>6,507,769</b> |

The book value and fair value of the long-term loans is as follows:

|       | Book value   |           | Fair value |           |
|-------|--------------|-----------|------------|-----------|
|       | 2020         | 2019      | 2020       | 2019      |
| Loans | \$ 6,358,954 | 6,427,847 | 6,808,329  | 6,404,319 |

Fair values are based on discounted cash flows using the discount rate calculated by Management and are within level 2 in the fair value hierarchies.

The book value of the Group's loans are denominated in pesos, except for the following:

|                          | 2020  | 2019 |
|--------------------------|-------|------|
| U.S. dollars (thousands) | \$ 23 | 115  |

### (15) Other accounts payable and accrued liabilities-

The other accounts payable and accumulated liabilities are integrated as follows:

|  | 2020                | 2019           |
|--|---------------------|----------------|
| Benefits payable                                   | \$ 112,698          | 108,612        |
| Miscellaneous creditors and other accounts payable | 487,971             | 336,926        |
| Accrued income (1)                                 | 752,649             | 186,873        |
| Provisions   | 326,437             | 239,197        |
| Employee participation in profits                  | 46,519              | 44,452         |
| <b>Total</b>                                       | <b>\$ 1,726,274</b> | <b>916,060</b> |

- (1) In the period from December 2019 to December 2020, the Company entered into several contracts whereby the irrevocable right to use fiber optics for the conduction of telecommunications signals is granted. These have terms ranging from 10 to 15 years, mainly with the companies Telecom, S.A.P.I. de C.V. and AT&T Comunicaciones Digitales, S. de R.L de C.V. (AT&T) as well as the rental of data center space with AT&T for a term of 10 years. The sum of the consideration for said contracts amounts to approximately 800 million pesos distributed in the indicated periods.

### (16) Employee benefits-

The value of the obligations for acquired benefits is as follows:

|                     | 2020              | 2019           |
|---------------------|-------------------|----------------|
| Seniority premiums  | \$ 183,583        | 191,633        |
| Retirement benefits | 19,702            | 86,074         |
| <b>Total</b>        | <b>\$ 203,285</b> | <b>277,707</b> |

The net cost for the period of the years ended December 31, 2020 and 2019, is as follows:

|                     | 2020               | 2019          |
|---------------------|--------------------|---------------|
| Seniority premiums  | \$ (8,319)         | 40,676        |
| Retirement benefits | (5,920)            | 10,868        |
| <b>Total</b>        | <b>\$ (14,239)</b> | <b>51,544</b> |

#### a) Seniority premium

The economic assumptions in nominal and real terms used were:

|                      | 2020  | 2019  |
|----------------------|-------|-------|
| Discount rate        | 6.50% | 7.50% |
| Inflation rate       | 3.50% | 3.50% |
| Salary increase rate | 4.50% | 4.50% |

The net cost of the period is integrated as follows:

|  | 2020              | 2019          |
|--|-------------------|---------------|
| Labor cost                                 | \$ (55,813)       | 20,331        |
| Actuarial losses (gains) recognized in OCI | 13,203            | 7,933         |
| Finance cost                               | 34,291            | 12,412        |
| <b>Net period cost</b>                     | <b>\$ (8,319)</b> | <b>40,676</b> |

The amount included as a liability in the consolidated statements of financial position is integrated as follows:

|  | 2020              | 2019           |
|--|-------------------|----------------|
| Defined benefit obligations  | \$ 183,583        | 191,633        |
| <b>Liabilities in the consolidated statement of financial position</b> | <b>\$ 183,583</b> | <b>191,633</b> |



The movement of the established benefit obligation was as follows:

|  | 2020       | 2019    |
|--|------------|---------|
| Initial balance at January 1,                    | \$ 191,633 | 150,957 |
| Labor cost                                       | (55,813)   | 20,331  |
| Finance cost                                     | 13,203     | 12,412  |
| Remeasurement:<br>(Gains) losses from experience | 34,560     | 7,933   |
| Final balance at December 31                     | \$ 183,583 | 191,633 |

b) Retirement benefits

The economic assumptions in nominal and real terms used were:

|                      | 2020  | 2019  |
|----------------------|-------|-------|
| Discount rate        | 6.50% | 7.50% |
| Inflation rate       | 3.50% | 3.50% |
| Salary increase rate | 4.50% | 4.75% |

The net cost of the period is integrated as follows:

|                                    | 2020       | 2019   |
|------------------------------------|------------|--------|
| Labor cost                         | \$ (7,210) | 367    |
| Plan improvements or modifications | 146        | 8,456  |
| Finance cost                       | 1,144      | 2,045  |
| Net period cost                    | \$ (5,920) | 10,868 |

The amount included as a liability in the consolidated statements of financial position is integrated as follows:

|   | 2020      | 2019   |
|---|-----------|--------|
| Defined benefit obligations                                     | \$ 19,702 | 86,074 |
| Liabilities in the consolidated statement of financial position | \$ 19,702 | 86,074 |

The movement of the established benefit obligation was as follows:

|   | 2020      | 2019   |
|---|-----------|--------|
| Initial balance at January 1,                                     | \$ 86,074 | 75,206 |
| Labor cost  | (7,210)   | 366    |
| Finance cost  | 1,144     | 2,045  |
| Remeasurement:<br>Losses from experience                          | 146       | 8,457  |
| Other movements for remeasurements and/or past service labor cost | (60,452)  | -      |
| Final balance at December 31                                      | \$ 19,702 | 86,074 |

Within subsidiary Tele Asesores, S.A. de C.V., there is a plan asset for \$ 85,960.

The sensitivity analysis of the main assumptions of established benefit obligations were as follows:

|               | Impact on established benefit obligations |                      |
|---------------|---|----------------------|
|               | Change of assumption                      | Change in obligation |
| Discount rate | +1%                                       | Decreases by 5.48%   |
| Discount rate | -1%                                       | Increases by 6.78%   |

The weighted average duration of the established benefit obligation is 8.01 years.

c) Pension plan

Management has a ten-year pension plan based on annual contributions. These contributions are managed in the Sura Investment Management México account. The annual contributions made during 2020 and 2019 were \$8,291 and \$8,798, respectively.

Pursuant to the provisions of the plan, employees who meet the following are eligible to participate in the plan: be an employee with an indefinite-term individual employment contract, be an executive-level employee with three or more years of pensionable service at the date of implementation of the plan, stay in the company for a minimum period of five years after the date of implementation of the plan, determine the percentage of savings that will be allocated to the long-term savings vehicle, as well as the designation of its contingent beneficiaries for delivery of the benefits. The period of pensionable service will be considered in years and complete months of uninterrupted services from the time employees are hired and through their

retirement, death or declaration of total or permanent disability dates. The retirement date will be the first day of the month immediately after the day they turn 65. The defined contribution must be a minimum equivalent to 1% of the salary established to this end. The company will match employee contributions. Employees may apply for early retirement (60 years), or continue working after they turn 65, as long as these exceptions are authorized by the Pension Plan Committee.

### (17) Lease assets (right-of-use) and lease liabilities-

The Group has entered into various operating lease agreements for buildings in which it operates some of offices, customer service centers (CSC) and warehouses. The terms stipulated in these contracts fluctuate mainly between one and 10 years and most contain automatic renewal options. The minimum amounts to be paid are adjusted primarily according to the CPI and all are in pesos. The Group is subject to sublease agreement restrictions in certain cases.

The Company leases minimum IT equipment under one- to three-year contracts. These leases are short-term and/or low-value item leases. The Group has decided not to recognize the right-of-use assets and liabilities for these leases.

Information on leases for which the Company is a lessee is presented below.

#### Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are comprised of the following:

|                              | Network and technical signal distribution equipment, net | Building (offices, warehouses and CSC) | Total     |
|------------------------------|--|--|-----------|
| Balance at January 1, 2020   | \$ 1,337,512   | 378,146                                | 1,715,658 |
| Additions                    | 1,048,360  | 83,781                                 | 1,132,141 |
| Annual depreciation          | (134,532)  | (139,146)                              | (273,678) |
| Balance at December 31, 2020 | \$ 2,251,340   | 322,781                                | 2,574,121 |

Short-term and long-term lease liabilities are as follows:

|   | 2020<br>Current | 2020<br>Noncurrent | 2019<br>Current | 2019<br>Noncurrent |
|---|-----------------|--------------------|-----------------|--------------------|
| Individual leasing contract in pesos of Network and technical equipment for signal distribution signed with BBVA Bancomer, S.A. Multiple Banking Institution, on November 27, 2020, for \$581,743, expiring on November 1, 2021, payable as of January 1, 2021 through 11 monthly installments, accruing monthly interest at a fixed rate of 6.50%. (1) | \$ 674,822      | -                  | -               | -                  |
| Individual leasing contract in pesos of Network and technical equipment for signal distribution signed with BBVA Bancomer, S.A. Multiple Banking Institution, on November 27, 2020, for \$423,769, expiring on December 1, 2021, payable as of January 1, 2021 through 12 monthly installments, accruing monthly interest at a fixed rate of 6.50%. (1) | 491,572         | -                  | -               | -                  |
| Total leases with related parties   | 100,149         | 729,085            | 275,534         | 735,400            |
| Total office, warehouse, and CIS leases   | 124,836         | 231,510            | 132,652         | 266,963            |
| Total lease liabilities   | 1,391,379       | 960,595            | 408,186         | 1,002,363          |
| Less leases with related parties (2) (note 25)  | 100,149         | 729,085            | 275,534         | 735,400            |
| Total lease liabilities per the statement of financial position   | \$1,291,230     | 231,510            | 132,652         | 266,963            |

1) On November 27, 2020, Telefonía por Cable, S.A. de C.V., as well as Megacable Holdings, S.A.B. de C.V. and Mega Cable, S.A. de C.V., as joint obligors, signed two financial leasing contracts in pesos with BBVA Bancomer, S.A. for \$ 581,743 and \$ 423,769, said contracts expire on November 1, 2021 and December 1, 2021, respectively, the total minimum payments will be less than a year.

As for the contracts indicated in the previous paragraph, the Group determined an effective interest rate in 2020 of 6.50% since they started to be paid as of January 1, 2021 in 11 and 12 monthly installments, respectively. Also, the fair value for the contracts is \$1,166,394 and they are within level 2 in the fair value hierarchies.

On March 17, 2020, Telefonía por Cable, S.A. de C.V., as well as Megacable Holdings, S.A.B. de C.V. and Mega Cable, S.A. de C.V., as joint obligors, signed a financial lease contract in pesos with BBVA Bancomer, S.A. for \$1,300,000, payable as of May 1, 2020 through 8 monthly installments and accrued monthly interest at a fixed rate of 7.52%, which expired and was settled on December 1, 2020.

2) Network leasing and technical equipment for signal distribution (contracted before 2018)

On June 30, 2011, the subsidiary Mega Cable, S.A. de C.V. (MEGA), entered into a capacity provision agreement for high-capacity telecommunications services with Grupo de Telecomunicaciones de Alta Capacidad S.A.P.I. de C.V. (GTAC), which was granted a Concession Title by the Secretariat of Communications and Transportation (SCT) to install, operate and use a public telecommunications network, provide conveyance emission services, transmission of signals to concessionaires of public telecommunications networks, which is valid for 20 years and may be renewed in whole or in part.

These concessions cover the Pacific, Central and Gulf areas in Mexico, so MEGA will be making advance annual payments in the amount of \$41,400 from July 2013 to 2029, for use of the trunk capacity until 2029; said payments are so that GTAC can maintain and repair the public network.

Following is a breakdown of the liability and payments, as well as the maturities of the financial lease that began in 2019, which liability is recorded in the Related parties Note (see Note 25).

Future minimum payments are summarized as follows:

|                                    | 2020       | 2019      |
|------------------------------------|------------|-----------|
| Up to 1 year                       | \$ 100,149 | 210,767   |
| More than 1 year and up to 5 years | 433,409    | 474,181   |
| More than 5 years                  | 295,676    | 325,986   |
|                                    | \$ 829,234 | 1,010,934 |

A breakdown of the payment reconciliation is as follows:

|                        | 2020         | 2019      |
|------------------------|--------------|-----------|
| Total financial lease: |              |           |
| As at January 1        | \$ 1,010,934 | 1,037,164 |
| Increments             | 42,846       | 155,550   |
| Payments               | (224,546)    | (181,780) |
|                        | \$ 829,234   | 1,010,934 |

Amounts recognized in the income statement Building (offices, warehouses and CSC):

| Leases under IFRS 16           | 2019       |
|--------------------------------|------------|
| Interest on lease liabilities  | \$ 135,075 |
| Interest on income from leases | 63,076     |

Total cash outflows for leasing (offices, warehouses and CSC) during 2020 y 2019 were of \$189,792 and \$202,570, respectively.

**(18) Equity-**

a. The exhibited share capital and the number of shares are as follows:

|  | Number of Series "A" Shares |         |
|--|-----------------------------|---------|
|  | Variable                    | Amount  |
| Share capital as at December 31, 2020 and 2019 | \$ 1,721,355,673            | 910,244 |

The shares representing the Group's capital stock issued and outstanding are fully paid, without par value.

As at December 31, 2020 and 2019, there were 1,721,355,673 shares outstanding.

Series "A" shares have the following characteristics: they grant voting rights only in ordinary shareholders' meetings and have the same preference in the distribution of Group profits.

The reconciliation of the outstanding shares at the beginning and end of the year is as follows:

|   | 2020                 | 2019          |
|---|----------------------|---------------|
|   | <b>Common shares</b> |               |
| As at January 1                                 | \$ 1,718,780,521     | 1,720,888,407 |
| Movement in the year, (purchases) net sales (i) | (1,295,152)          | (2,107,886)   |
| As at December 31                               | 1,720,075,673        | 1,718,780,521 |
| Treasury shares                                 | 1,280,000            | 2,575,152     |
| Total subscribed shares                         | \$ 1,721,355,673     | 1,721,355,673 |

As at December 31, 2020 and 2019, the Group owned 1,280,000 and 2,575,152 series "A" shares (treasury shares), respectively.

In the periods ended December 31, 2020 and 2019, no expenses were incurred in issuing, placing and registering shares.

Repurchase of shares

Ordinary Participation Certificates (CPO, acronym in Spanish) are registered securities representing the provisional right on the returns and other benefits of titles or assets integrated in an irrevocable trust issued by the Group to be listed on the Mexican Stock Exchange, one CPO is equivalent to two series "A" shares.

- i. During the year ended December 31, 2020, the Group purchased 640,00 Ordinary Participation Certificates (CPOs), which are equivalent to 1,280,000 shares of the variable portion of series "A" shares. The amount for said purchase was \$43,529

During the year ended December 31, 2020, the Group sold 1,287,576 CPOs, equivalent to 2,575,152 shares of the variable portion of series "A" shares, for \$93,377

The result of the operations mentioned in the two paragraphs above generated an effect of net sales of CPOs for 647,576, equal to 1,295,152 shares of the variable portion of series "A" shares, these operations represent 0.07% of the total shares, resulting in a net movement of \$49,848.

- ii. During the year ended December 31, 2019, the Group purchased 1,287,576 Ordinary Participation Certificates (CPOs), which are equivalent to 2,575,152 shares of the variable portion of series "A" shares. The amount for said purchase was \$103,452.

During the year ended December 31, 2019, the Group sold 233,633 CPOs, equivalent to 467,266 shares of the variable portion of series "A" shares, for \$20,241.

The result of the operations mentioned in the two paragraphs above generated an effect of net purchases of CPOs for 1,053,943, equal to 2,107,886 shares of the variable portion of series "A" shares, these operations represent 0.12% of the total shares, resulting in a net movement of (\$83,211).

Dividends

At the Ordinary Shareholders' Meetings held in 2020, the Company's shareholders agreed to decree dividends by cash payment via bank transfer for a net amount of \$1,529,359. Said dividend represented a dividend per share of \$0.89 per series "A" share and \$1.78, per "CPO" equal to two series "A" shares.

At the Ordinary Shareholders' Meetings of the subsidiaries, Corporativo de Comunicación y Redes de Gdl, S.A. de C.V. and MCM Holdings, S.A. de C.V., declared dividends of por \$90,160 and \$29, respectively, corresponding to the minority shareholders of both companies.

At the Ordinary Shareholders' Meetings held in 2019, the Company's shareholders agreed to decree dividends by payment by bank transfer for a net amount of \$1,875,602. Said dividend represented a dividend per share of \$1.09 per series "A" shares and \$2.18, per "CPO" equal to two series "A" shares.

The Ordinary Shareholders' Meeting held in 2019 by the subsidiary, Corporativo de Comunicación y Redes de Gdl, S.A. de C.V. and Entretenimiento Satelital S. A. de C. V., declared dividends of \$63,689 and \$1,945 corresponding to minority shareholders of both companies.

Reimbursement of minority shareholders

At the Ordinary Shareholder Meetings of subsidiary Productora y Comercializadora de Televisión S.A. de C.V., a reimbursement of shares for \$ 25,070 corresponding to minority shareholders was made.

- b. The balances of the fiscal accounts of the Company's equity (Megacable Holdings) are:

|                                     | 2020         | 2019      |
|-------------------------------------|--------------|-----------|
| Capital contribution account (CUCA) | \$ 5,091,876 | 4,936,381 |
| Net taxed profits account (CUFIN)   | 200,110      | 191,302   |

- c. Tax provisions related to equity:

The profit for the year is subject to the legal provision that requires that at least 5% of the profit for each year be used to increase the legal reserve until it is equal to one fifth of the amount of paid-in capital.

In October 2013, the Mexican Congress and Senate approved the issuance of a new Income Tax Act (LISR) that entered into force on January 1, 2014. Among other aspects, this Law establishes a 10% profits tax generated as of 2014 on dividends paid to residents abroad and individuals.

In the event of a capital reduction, the procedures established by the Income Tax Act (LISR) provide that any surplus of equity over the balances of the contributed capital accounts be given the same tax treatment as that applicable to dividends.

## (19) Earnings per share-

Net profit per share results from the division of net profit for the year by the weighted average of the Company's outstanding shares during the year, excluding the common shares acquired by the Company and held as treasury shares.

|                                      | 2020         | 2019      |
|--------------------------------------|--------------|-----------|
| Profit from the controlling interest | \$ 4,353,365 | 4,290,211 |
| Weighted average shares              | \$ 1,721,356 | 1,721,356 |
| Ordinary earnings per share (pesos)  | \$ 2.53      | 2.49      |
| Earnings per CPO <sup>(1)</sup>      | \$ 5.06      | 4.98      |

(1) It should be noted that a CPO corresponds to two series "A" shares

## (20) Income tax-

### Income Tax (LISR)

The Income Tax Act that entered into force on January 1, 2014 establishes that the applicable income tax rate for 2014 and subsequent years is 30% on the taxable profit.

For investors in the Real Estate Companies (SIBRAS) regime, the 2014 Tax Reform raises the probability of paying the tax for the profit generated by their contributions to said entities. As at December 31, 2018, the Group had a short-term liability of \$945,000, however, during the month of July 2019, a payment of \$1,170,638 was made, \$788,574 of which covered the restated tax plus \$382,064 for surcharges.

a) Profits tax are comprised as follows:

|                     | 2020           | 2019        |
|---------------------|----------------|-------------|
| Current income tax  | \$ (1,123,833) | (1,214,943) |
| Deferred income tax | (211,663)      | (105,668)   |
| Total               | \$ (1,335,496) | (1,320,611) |

b) The reconciliation between the current and effective rates of the consolidated income tax are analyzed as follows:

|  | 2020         | 2019      |
|--|--------------|-----------|
| Earnings before profits tax                                  | \$ 5,859,751 | 5,773,206 |
| Current rate   | 30%          | 30%       |
| Income tax at the current legal rate                         | 1,757,925    | 1,731,962 |
| More (less) effect on the income tax of the following items: |              |           |
| Annual adjustment for inflation, net                         | (96,655)     | (58,755)  |
| Non-deductibles  | 67,320       | 84,914    |
| Infrastructure tax deduction                                 | \$ (393,094) | (437,510) |
|  | (1,335,496)  | 1,320,611 |
| Effective rate   | 23%          | 23%       |

c) The deferred income tax balance is integrated as follows:

|                                       | 2020           | 2019        |
|---------------------------------------|----------------|-------------|
| <u>Deferred tax asset</u>             |                |             |
| Tax loss carryforwards                | \$ 412,183     | 410,728     |
| Intangible assets                     | 414,206        | 448,276     |
| Estimate of credit losses             | 102,243        | 71,219      |
| Inventory reserve                     | 18,103         | 22,314      |
| Labor obligations                     | 25,906         | 40,519      |
| Provisions                            | 152,416        | 165,702     |
| Trade advances                        | 239,818        | 11,695      |
|                                       | \$ 1,364,875   | 1,170,453   |
| <u>Deferred income tax</u>            |                |             |
| Property, networks and equipment, net | \$ (2,399,517) | (2,712,573) |
| Advance payments                      | (254,610)      | (100,784)   |
| Right-of-use lease, net               | (666,745)      | (101,430)   |
|                                       | \$ (3,320,872) | (2,914,787) |
| Total of profits tax deferred, net    | \$ (1,955,997) | (1,744,334) |

d) The movement of deferred tax assets and liabilities in the year is as follows:

| Deferred tax asset:                       | Property, networks and equipment | Tax loss carryforwards | Intangible Assets | Bad debt reserve | Labor obligations and others | Total     |
|---|----------------------------------|------------------------|-------------------|------------------|------------------------------|-----------|
| As at January 1, 2019                     | \$ 33,279                        | 104,714                | 481,895           | 64,601           | 195,880                      | 880,369   |
| Credited (charged) to Statement of income | (33,279)                         | 306,014                | (33,619)          | 6,618            | 44,350                       | 290,084   |
| As at December 31, 2019                   | -                                | 410,728                | 448,276           | 71,219           | 240,230                      | 1,170,453 |
| Credited (charged) to Statement of income | -                                | 1,455                  | (34,070)          | 31,024           | 196,013                      | 194,422   |
| As at December 31, 2020                   | \$ -                             | 412,183                | 414,206           | 102,243          | 436,243                      | 1,364,875 |

| Deferred income tax liability:             | Property, networks and equipment | Inventories and others | Total       |
|--|----------------------------------|------------------------|-------------|
| As at January 1, 2019                      | \$ (2,509,400)                   | (220,971)              | (2,730,371) |
| (Charged) credited to the income statement | (203,173)                        | 18,757                 | (184,416)   |
| As at December 31, 2019                    | (2,712,573)                      | (202,214)              | (2,914,787) |
| (Charged) credited to the income statement | 313,056                          | (719,141)              | (406,085)   |
| As at December 31, 2020                    | \$ (2,399,517)                   | (921,355)              | (3,320,872) |

The Group does not recognize deferred taxes for the purposes of deferred taxes on investments in subsidiaries and associates

e) As at December 31, 2020 and 2019, the Group maintains accumulated consolidated tax losses for a total of \$1,373,944 and \$1,336,182, respectively, which right to be amortized against future consolidated earnings expires as follows:

| Year of loss | December 31, 2020 Restated amount | Year of expiration |
|--------------|-----------------------------------|--------------------|
| 2011         | \$ 514                            | 2021               |
| 2012         | 243                               | 2022               |
| 2013         | 2,116                             | 2023               |
| 2014         | 25,958                            | 2024               |
| 2015         | 32,809                            | 2025               |
| 2016         | 214                               | 2026               |
| 2017         | 17,271                            | 2027               |
| 2018         | 126,353                           | 2028               |
| 2019         | 980,468                           | 2029               |
| 2020         | 187,998                           | 2030               |
|              | \$ 1,373,944                      |                    |

As of December 31, 2020, a deferred tax asset of \$ 26,550 was generated for temporary differences related to a permanent investment. However, this asset was not recognized as the company has no intention of selling it.

## (21) Costs and expenses by nature-

The cost of services, and selling and administrative expenses are integrated as follows:

|                         | 2020          | 2019      |
|-------------------------|---------------|-----------|
| Cost of services:       |               |           |
| Depreciation            | \$ 3,847,091  | 3,191,175 |
| Programming             | 2,667,692     | 2,571,787 |
| Technical staff labor   | 1,602,550     | 1,443,381 |
| Links                   | 368,790       | 416,781   |
| Publicity and promotion | 381,894       | 394,914   |
| Connections             | 310,601       | 672,253   |
| Power sources           | 335,677       | 252,137   |
| Amortization            | 275,928       | 272,257   |
| Lease depreciation      | 139,146       | 302,925   |
| External works          | 82,225        | 63,765    |
| Other minor [works]     | 14,022        | 26,348    |
| Call traffic            | 81,801        | 53,370    |
| Total cost of services  | \$ 10,107,417 | 9,661,093 |

|  | 2020                | 2019             |
|--|---------------------|------------------|
| <b>Selling expenses</b>                            |                     |                  |
| Labor and benefits                                 | \$ 2,324,436        | 2,704,189        |
| Maintenance and conservation expenses              | 1,154,917           | 812,232          |
| Depreciation                                       | 396,217             | 343,284          |
| Leases   | 305,068             | 259,333          |
| Sales commissions                                  | 236,382             | 232,060          |
| Electric power                                     | 206,793             | 188,274          |
| Insurance  | 125,280             | 115,539          |
| Account statement preparation and courier services | 69,334              | 81,722           |
| Non-deductibles                                    | 33,143              | 45,468           |
| Travel expenses                                    | 48,451              | 66,477           |
| Transfer of securities                             | 74,276              | 74,410           |
| Stationery and office supplies                     | 50,383              | 62,916           |
| Freight  | 40,852              | 41,791           |
| Safety and hygiene                                 | 86,798              | 40,851           |
| Training and recruitment                           | 28,114              | 32,969           |
| Surveillance services                              | 37,273              | 34,085           |
| Telephones   | 32,309              | 28,866           |
| Conventions  | 1,358               | 22,273           |
| Equipment recovery                                 | 3,972               | 9,909            |
| Fees and licenses                                  | 16,010              | 16,121           |
| Other expenses                                     | 35,708              | 53,779           |
| <b>Total selling expenses</b>                      | <b>\$ 5,307,074</b> | <b>5,266,548</b> |
| <b>Administrative expenses</b>                     |                     |                  |
| Advisory services                                  | \$ 174,874          | 184,093          |
| Labor and benefits                                 | 188,451             | 211,411          |
| Bank fees  | 102,662             | 76,708           |
| Depreciation                                       | 31,237              | 27,064           |
| Leases   | 13,687              | 11,635           |
| Safety and hygiene                                 | 6,843               | 3,221            |
| <b>Total administration expenses</b>               | <b>\$ 517,754</b>   | <b>514,132</b>   |

|  | 2020                 | 2019              |
|--|----------------------|-------------------|
| <b>Cost of services, selling and administrative expenses</b> |                      |                   |
| Labor and benefits (*)                                       | \$ 4,115,437         | 4,358,981         |
| Depreciation   | 4,274,545            | 3,561,523         |
| Programming  | 2,667,692            | 2,571,787         |
| Maintenance and conservation expenses                        | 1,154,917            | 812,232           |
| Links  | 368,790              | 416,781           |
| Publicity and promotion                                      | 381,894              | 394,914           |
| Connections  | 310,601              | 672,253           |
| Lease depreciation   | 139,146              | 302,925           |
| Sales commissions  | 236,382              | 232,060           |
| Leases   | 318,755              | 270,968           |
| Power sources  | 335,677              | 252,137           |
| Amortization   | 275,928              | 272,257           |
| Advisory services  | 188,494              | 210,072           |
| Electric power   | 206,793              | 188,274           |
| Insurance  | 125,280              | 115,539           |
| Account statement preparation and courier services           | 69,334               | 81,722            |
| Non-deductibles  | 33,143               | 45,468            |
| Bank commission  | 102,662              | 76,708            |
| Travel expenses  | 48,451               | 66,477            |
| Transfer of securities                                       | 74,276               | 74,410            |
| Stationery and office supplies                               | 50,383               | 62,916            |
| Bad debt reserve   | 111,224              | 53,639            |
| External works   | 82,225               | 63,765            |
| Call traffic   | 81,802               | 53,370            |
| Freight  | 40,852               | 41,791            |
| Safety and hygiene   | 93,641               | 44,072            |
| Training and recruitment                                     | 28,114               | 32,969            |
| Surveillance services  | 37,273               | 34,085            |
| Telephones   | 32,309               | 28,866            |
| Conventions  | 1,358                | 22,273            |
| Equipment recovery   | 3,972                | 9,909             |
| Fees and licenses  | 16,010               | 16,121            |
| Other expenses   | 36,109               | 54,148            |
| <b>Total</b>   | <b>\$ 16,043,469</b> | <b>15,495,412</b> |

(\*) Employees benefits and compensation is as follows:

|                                | 2020         | 2019      |
|--------------------------------|--------------|-----------|
| Salaries, benefits and bonuses | \$ 2,470,967 | 2,427,015 |
| Commissions                    | 783,261      | 1,025,592 |
| Taxes and fees                 | 896,322      | 855,353   |
| Employee profit sharing        | 30,844       | 28,450    |
|                                | \$ 4,181,394 | 4,336,410 |

## (22) Analysis of other income, net-

|                            | 2020      | 2019   |
|----------------------------|-----------|--------|
| <b>Other income</b>        |           |        |
| Bonuses received           | \$ 58,292 | 3,187  |
| Exempt income              | 22,327    | 35,248 |
| Provision reconciliations  | 7,472     | 5,206  |
| Tax restatement            | 2,351     | 525    |
| Cash Surpluses             | 1,787     | 1,699  |
| Cancellation of provisions | 704       | -      |
| Others                     | 2,964     | -      |
| Total other income         | \$ 95,897 | 45,865 |
| <b>Other expenses</b>      |           |        |
| Sale of fixed assets       | \$ 18,086 | 2,320  |
| Increase in provisions     | -         | 285    |
| Total other expenses       | \$ 18,086 | 2,605  |
| Total other income, net    | \$ 77,811 | 43,260 |

## (23) Finance income and costs-

|   | 2020         | 2019      |
|---|--------------|-----------|
| Finance costs:  |              |           |
| Interest on bank loans                                  | \$ (456,947) | (539,262) |
| Interest on loans with related parties (Note 25)        | (59,134)     | (59,469)  |
| Interest on leases                                      | (55,638)     | (63,076)  |
| Changes losses, net                                     | (43,395)     | (39,131)  |
| Finance costs   | (615,114)    | (700,938) |
| Finance income:   |              |           |
| Interest income from short-term bank deposits           | 56,845       | 191,621   |
| Interest income from loans to related parties (Note 25) | 89,148       | 119,465   |
| Finance income  | 145,993      | 311,086   |
| Total   | \$ (469,121) | (389,852) |

## (24) Commitments and Contingencies-

### a) Commitments

#### i. Concessions

Pursuant to the terms and conditions of the concessions, the subsidiary companies that hold concession titles granted by the SCT and/or IFT to operate the services, must comply with certain obligations.

Failure by the Group to comply with said obligations could imply penalties. In addition, the Group's concessions are subject to revocation only for serious causes, such as interruption of service, repeated failure to comply with the obligations or conditions established in the concession titles, the assignment or transfer of the rights conferred by the concessions in contravention of the provisions of the Law.

In any of these cases, the concession may be revoked without the government being bound to pay any compensation to Mega Cable, S.A. de C.V. If the IFT revokes any of the Group's concessions, it could not operate within the area of the revoked concession or obtain new concessions to operate in said or any other area for a five-year period.



The revocation of any of the Company's concessions would have a significant adverse effect on its activities, financial position and income statement.

ii. Contractual

The Group has obligations to do and not to do with financial institutions in relation to current loan contracts. Said contracts include clauses that prohibit the Group from carrying out activities such as the sale of fixed assets or the merger with a third party (except with prior notice and authorization from the financial institution).

Additionally, the loan agreement requires the fulfillment of certain financial ratios.

b) Contingencies

As of the date of issuance of these financial statements, the following relevant lawsuits have been brought against the Group that could represent an economic impact:

Various labor lawsuits with an initial claimed amount of \$261,897 of which the Group Attorneys have confirmed that the high risk litigation of obtaining an unfavorable judgment amounts to \$29,065. The Group set aside an accounting reserve from previous years on this last amount.

Appeals and amparo or relief proceedings for claims filed by Televisa against Group subsidiaries, for breach of license contracts and the payment of royalties for the use of signals on demand between 29 September and December 31, 2016. According to the opinion of the external lawyers, there are legal elements to obtain a favorable ruling for the Group.

In the case of an audit by the tax authorities, discrepancies could be identified in the criteria applied by the Group to determine its taxes. The tax authorities have not reported any inconsistency in the taxes determined and paid by the Group, except as follows:

As of the date of issuance of these financial statements, two of its subsidiaries (Telefonía por Cable, S.A. de C.V. and Mega Cable, S.A. de C.V.) have received notifications from the General Administration of Large Taxpayers (SAT), determining tax credits by the subsidiaries for \$4,465,299 for Income Tax (ISR) and Special Tax on Production and Services (IEPS), both include surcharges and fines for fiscal years 2008, 2009 and 2011; however, the Group's Management and its attorneys confirm that they have the necessary elements to obtain a favorable ruling, in the means of defense that it has filed.

Impact of COVID – 19. The COVID-19 pandemic has affected our business, financial position, and results of operations as of December 31, 2020 and it is currently difficult to predict the magnitude of the impact it will have for 2021. The Company cannot assure that the conditions of the bank financing markets, capital or other financial markets will not continue to deteriorate as a result of the pandemic, however, bank financing begins to expire in July 2022; or that access to capital and other sources of financing of the Company will not be restricted, which could negatively affect the availability and terms of future loans, renewals or refinancing. Furthermore, the deterioration of global economic conditions as a result of the pandemic could ultimately reduce the demand for the Group's products across its segments as its customers and users reduce or postpone their spending. The Mexican Government is still implementing a plan to reactivate economic activities according to phases based on colors that are determined weekly by state. However, a significant portion of the population continues to implement social distancing and shelter-at-home policies. Our business in the corporate market faced a reduction in the demand for services and may continue to be affected by the reduction in the level of financial activity in the regions in which our clients are located; however, the mass market had a significant increase that covered that shrinking business market. The magnitude of the impact on our business will depend on the duration and intensity of the COVID-19 pandemic, as well as the impact of actions by the federal government, state and local governments, and foreign governments, including the continuation of social distancing policies or reactivation thereof in the future; in addition to consumer behavior in response to the COVID-19 pandemic and the aforementioned government actions. Due to the changing and uncertain nature of this situation, the Group cannot fully estimate the impact that the COVID-19 pandemic will have thereon, but it could continue to affect the business, financial position or the results of operations in the short, medium or long term.

**(25) Related parties-**

a) The main balances with related parties are as follows:

| Entity  | Type of relationship | Line item    | 2020       | 2019      |
|---|----------------------|--------------|------------|-----------|
| <u>Long-term accounts receivable:</u>   |                      |              |            |           |
| Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C.V. (GTAC) <sup>(1)</sup> | Joint venture        | Loan granted | \$ 978,473 | 1,151,542 |
| <u>Accounts payable:</u>  |                      |              |            |           |
| Grupo de Telecomunicaciones de Alta Capacidad, S.A.P.I. de C.V. (GTAC) <sup>(2)</sup> | Joint venture        | Lease        | \$ 829,234 | 1,010,934 |
| Minus short-term accounts payable   |                      |              | (100,149)  | (275,534) |
| Total long-term accounts payable  |                      |              | \$ 729,085 | 735,400   |

(1) The long-term account receivable as at December 31, 2020 and 2019 is originated by a current account loan granted to its joint venture GTAC, for up to USD 20 million. The loan is due on December 31 2030 and accrues monthly interest at the 28-day interbank rate plus two percentage points. The effective rate as at December 31, 2020 and 2019 was 6.72% and 10.34%, respectively. As at December 31, 2020 and 2019, the fair value of the account receivable is \$877,043 and \$957,515, respectively, and is at level 2 of fair value.

(2) The account payable for leases as at December 31, 2020 and 2019, corresponds to the contract entered into for the provision of capacity for telecommunications services with GTAC executed on August 1, 2012. Said contract specifies that the Group will make annual payments of \$41,400 over the next 18 years, that will be increased annually through the National Consumer Price Index (CPI). The contract also establishes that the payments corresponding to years 10 through 18 can be paid in advance. In addition, this account payable corresponds to the financial lease additions acquired by a Group subsidiary, which is paid at 10 years, according to the present calculation value. See Note 17.

The implicit annual interest rate determined for the payments that the Group will make will be TIIE plus 1.22 percentage points or 6%, whichever is less. In 2020 and 2019 the effective rate was 6.0%.

The fair value as at December 31, 2020 and 2019 of the account payable is \$671,688, and \$885,842, respectively. Said fair value is based on discounted cash flows using the discount rate calculated by Management and are within level 2 in the fair value hierarchies.

b) The following transactions were completed over the course of the year:

| Entity   | Type of relationship | Line item         | 2020       | 2019    |
|--|----------------------|-------------------|------------|---------|
| Altán Redes, S. A. P. I. de C. V.  | Joint venture        | Service revenues  | \$ 370,870 | 273,038 |
| Grupo de Telecomunicaciones de Alta Capacidad, S. A. P. I. de C. V. (GTAC) | Joint venture        | Maintenance       | 109,044    | 100,317 |
| Grupo de Telecomunicaciones de Alta Capacidad, S. A. P. I. de C. V. (GTAC) | Joint venture        | Interest income   | 89,148     | 119,465 |
| Grupo de Telecomunicaciones de Alta Capacidad, S. A. P. I. de C. V. (GTAC) | Joint venture        | Interest expenses | 59,134     | 59,469  |

The goods are acquired from the joint venture under regular commercial terms and conditions.

c) Compensation of key personnel

Key personnel include directors and members of the Executive Committee. Compensation paid or payable to these executives for their services is as follows:

|                      | 2020      | 2019   |
|----------------------|-----------|--------|
| Short-term benefits  | \$ 73,094 | 67,488 |
| Termination benefits | 25,867    | 5,017  |
|                      | \$ 98,961 | 72,505 |

d) Loans to related parties

|   | 2020         | 2019      |
|---|--------------|-----------|
| Total loans to related parties <sup>(1)</sup> : |              |           |
| As at January 1                                 | \$ 1,151,542 | 1,086,983 |
| Loans granted in the year                       | 100,359      | 204,442   |
| Loan collections                                | (205,454)    | (139,875) |
| Interest collected                              | (157,122)    | (119,473) |
| Interest charged                                | 89,148       | 119,465   |
| As at December 31                               | \$ 978,473   | 1,151,542 |

1) See subsection a).1) above.

For the years ended December 31, 2020 and 2019, there are no loan balances granted to key administration personnel.

**(26) Other assets-**

|  | 2020       | 2019    |
|--|------------|---------|
| Other permanent investment (1)               | \$ 580,830 | 451,515 |
| Impairment of other permanent investment (2) | (88,500)   | -       |
| Total other permanent investment             | \$ 492,330 | 451,515 |
| Commissions                                  | 182,712    | 140,785 |
| Prepayments and others                       | 41,218     | 37,262  |
| Total other non-current assets               | \$ 716,260 | 629,562 |

(1) Corresponds to another permanent investment in Altán Redes, S.A.P.I. de C.V. (Altán).

In 2016, Altán won the international bidding process published by the Secretariat of Communications and Transportation, to build and operate the shared wholesale network. In January 2017, Altán obtained a 20 year concession title for commercial use as a wholesale shared network.

Grupo Megacable holds 3.92% of Altán's equity, obtained through cash contributions and through a telecommunications services provision plan. Grupo Megacable may not have significant influence on the Altán operation, therefore, its participation is made through the acquisition of a special series of shares without voting rights that consists primarily of contributing services and capabilities.

(2) By calculating Altán's investments at market value, an impairment in the investment was determined as of December 31, 2020, the Group recorded \$ 88,500 as impairment for the year.

Currently Grupo Megacable, in addition to being a shareholder, is a provider and client of telecommunications services with Altán and will be a possible client once the shared network begins operations.

**(27) Cash changes considered part of financing activities-**

The net debt as at December 31, 2020 and 2019 is integrated as follows:

| Net debt (liabilities arising from financing activities) | 2020           |
|--|----------------|
| Bank loans payable in 1 year                             | \$ (459)       |
| Bank loans payable after 1 year                          | (6,358,954)    |
| Related party payables within one year                   | (100,149)      |
| Related party payables in more than one year             | (729,085)      |
| Net debt as at December 31, 2020                         | \$ (7,188,647) |

| Net debt (liabilities arising from financing activities) | 2019           |
|--|----------------|
| Bank loans payable in 1 year                             | \$ (79,922)    |
| Bank loans payable after 1 year                          | (6,427,847)    |
| Related party payables within one year                   | (275,534)      |
| Related party payables in more than one year             | (735,400)      |
| Net debt as at December 31, 2019                         | \$ (7,518,703) |

| Net debt as at December 31, 2020   | Related party payables in less than one year | Loans payable over one year with related parties | Bank loans of less than 1 year maturity | Bank loans valid for more than 1 year | Total       |
|------------------------------------|--|--|---|---------------------------------------|-------------|
| Net debt at January 1, 2020        | \$ (275,534)                                 | (735,400)  | (79,922)                                | (6,427,847)                           | (7,518,703) |
| Accrued interest                   | 41,299                                       | -  | 426,992                                 | -                                     | 468,291     |
| Cash flow - Principal payments (1) | 245,474                                      | -  | 148,356                                 | -                                     | 393,830     |
| Cash flow - Interest payments      | (62,227)                                     | -  | (426,992)                               | -                                     | (489,219)   |
| Increase in accounts payable       | (42,846)                                     | -  | -                                       | -                                     | (42,846)    |
| Short-term transfer                | (6,315)                                      | 6,315  | (68,893)                                | 68,893                                | -           |
| Net debt as at December 31, 2020   | \$ (100,149)                                 | (729,085)  | (459)                                   | (6,358,954)                           | (7,188,647) |

| Net debt as at December 31, 2019        | Related party payables in less than one year | Loans payable over one year with related parties | Bank loans of less than 1 year maturity | Bank loans valid for more than 1 year | Total              |
|---|--|--|---|---------------------------------------|--------------------|
| Net debt at January 1, 2019             | (412,321)                                    | (661,561)  | (3,778,569)                             | (124,782)                             | (4,977,233)        |
| Accrued interest                        | (59,469)                                     | -  | (314,007)                               | (225,255)                             | (598,731)          |
| Cash flow - Principal payments (1)      | 242,957                                      | -  | 3,808,716                               | -                                     | 4,051,673          |
| Cash flow - Interest payments           | 42,156                                       | -  | 315,982                                 | 225,255                               | 583,393            |
| Cash flow - Obtaining loans             | -  | -  | (5,417)                                 | (6,409,692)                           | (6,415,109)        |
| Increase in accounts payable            | (162,696)                                    | -  | -                                       | -                                     | (162,696)          |
| Short-term transfer                     | 73,839                                       | (73,839)   | (106,627)                               | 106,627                               | -                  |
| <b>Net debt as at December 31, 2019</b> | <b>(275,534)</b>                             | <b>(735,400)</b>                                 | <b>(79,922)</b>                         | <b>(6,427,847)</b>                    | <b>(7,518,703)</b> |

(1) Includes the payment corresponding to the lease with related parties.

## (28) Financial information by operating segments-

The Chief Executive Officer is the highest authority in the Group's operational decision-making. Consequently, Management has determined the operating segments to report based on the internal management reports reviewed by that body to make strategic business decisions.

The Chief Executive Officer analyzes the business from a geographic and product perspective. As at December 31, 2020 and 2019, there were no changes based on this analysis.

The Chief Executive Officer evaluates the performance of operating segments based on operating profit. The result for interest earned and lost is not assigned to the segments, since this activity is the responsibility of the treasury, which manages the Group's liquidity.

Segment information is reported based on the information used by the Chief Executive Officer for strategic and operational decision making processes. An operating segment is defined as a component of an entity for which there is separate financial information that is regularly evaluated.

The Group's segment revenues are as follows:

### Cable

It includes the operation of cable television systems in different states of Mexico and generates income mainly from basic and premier services. This segment also includes cable subscriber setup, pay-per-view fees, local and national advertising sales.

### Internet

Includes high-speed services provided to residential and commercial customers.

### Telephony

Although the Telephony segment does not meet the quantitative limits required under IFRS 8 to be reported separately, Group Management has done so because it believes that the potential growth of this segment will imply that it contributes significantly to the income of the Group in the future. The telephony receives its income from digital fixed telephony from the internet protocol, from services provided to residential and commercial customers.

### Business

It includes the Metrocarrier, MCM, Ho1a and PCTV units, focused on the different connectivity, equipment, administrative services and content segments.

### Other segments

It represents operating segments that individually comprise less than 10% of the consolidated total. Others include TV and broadcast program production operations, point distribution services, virtual private network and other network services.

Corporate costs are distributed in the different segments.

IFRS 8 requires the disclosure of a segment's assets and liabilities if the measurement is regularly provided to the decision-making body; however, in the Group's case, the Chief Executive Officer only evaluates the performance of the operating segments based on the analysis of the income, operating profit and assets, but not the liabilities of each segment.

The income reported by the Group represents the income generated by external customers since there are no inter-segment sales.

a) **Income and results by segment:**

| December 31, 2020   | Cable        | Internet  | Telephony | Business  | Others (*) | Consolidated Total |
|---|--------------|-----------|-----------|-----------|------------|--------------------|
| Service revenues  | \$ 9,255,286 | 7,205,950 | 1,845,857 | 3,906,167 | 169,770    | 22,383,030         |
| Cost of services, and selling and administrative expenses | 6,633,905    | 5,165,004 | 1,323,054 | 2,799,820 | 121,686    | 16,043,469         |
| Earnings before other income                              | 2,621,381    | 2,040,946 | 522,803   | 1,106,347 | 48,084     | 6,339,561          |
| Other income, net   | 32,175       | 25,050    | 6,417     | 13,579    | 590        | 77,811             |
| Operating profit  | 2,653,556    | 2,065,996 | 529,220   | 1,119,926 | 48,674     | 6,417,372          |
| Finance cost, net   |              |           |           |           |            | (469,121)          |
| Impairment of other permanent investment                  |              |           |           |           |            | (88,500)           |
| Income tax  |              |           |           |           |            | (1,335,496)        |
| Consolidated net income                                   | \$           |           |           |           |            | 4,524,255          |

| December 31, 2019   | Cable        | Internet  | Telephony | Business  | Others (*) | Consolidated Total |
|---|--------------|-----------|-----------|-----------|------------|--------------------|
| Service revenues  | \$ 8,962,186 | 6,622,493 | 1,599,141 | 4,256,023 | 175,367    | 21,615,210         |
| Cost of services, and selling and administrative expenses | 6,424,772    | 4,747,502 | 1,146,385 | 3,051,037 | 125,716    | 15,495,412         |
| Earnings before other income                              | 2,537,414    | 1,874,991 | 452,756   | 1,204,986 | 49,651     | 6,119,798          |
| Other income, net   | (29,721)     | (4,471)   | 75,930    | 323       | 1,199      | 43,260             |
| Operating profit  | 2,507,693    | 1,870,520 | 528,686   | 1,205,309 | 50,850     | 6,163,058          |
| Finance cost, net   |              |           |           |           |            | (389,852)          |
| Income tax  |              |           |           |           |            | (1,320,611)        |
| Consolidated net income                                   | \$           |           |           |           |            | 4,452,595          |

(\*) The "Others" segment is comprised primarily of revenues from megacanal, video rola, and others.

The presentation by segments previously disclosed is the same one Management used in the periodic review processes on the Group's performance.

Taxes and financial costs are managed at the Group level and not within each of the reported segments. As a result, this information is not presented as distributed in each segment reported. Operating profit is the key performance indicator for the Company's management, which is reported monthly to the Chief Executive Officer.

b) **Other information by segments:**

| December 31, 2020  | Cable         | Internet  | Telephony | Business  | Others (*) | Consolidated Total |
|--|---------------|-----------|-----------|-----------|------------|--------------------|
| Property, networks and equipment by segment                                    | \$ 21,758,863 | 5,583,059 | 735,557   | 1,993,817 | 1,486,851  | 31,558,147         |
| Acquisitions and net disposals in the year of property, networks and equipment | \$ 4,331,290  | 1,111,356 | 146,419   | 396,887   | 295,970    | 6,281,922          |
| Depreciation of fixed assets   | \$ 2,884,557  | 740,142   | 97,512    | 264,319   | 197,111    | 4,183,641          |

| December 31, 2019  | Cable         | Internet  | Telephony | Business  | Others (*) | Consolidated Total |
|--|---------------|-----------|-----------|-----------|------------|--------------------|
| Property, networks and equipment by segment                                    | \$ 21,549,057 | 4,825,826 | 729,586   | 1,829,376 | 526,021    | 29,459,866         |
| Acquisitions and net disposals in the year of property, networks and equipment | \$ 5,161,302  | 1,320,656 | 174,746   | 438,161   | 125,989    | 7,220,854          |
| Depreciation of fixed assets   | \$ 2,591,345  | 599,199   | 87,735    | 219,988   | 63,256     | 3,561,523          |

The balance as at December 31, 2019, presents the reclassification based on the accounting change of IFRS 16 "Leases" of technical signal distribution equipment. (See Notes 10, and 17).

Some fixed assets included in the cable segment are also used in other segments, such as internet and telephony; however, the cost of these assets is assigned only to cable.

c) **Information by geographic location:**

- i. Analysis of net income by geographic location:

|                      | Total service revenues |            |
|----------------------|------------------------|------------|
|                      | 2020                   | 2019       |
| State                |                        |            |
| Jalisco              | \$ 2,632,871           | 2,868,453  |
| Mexico City          | 1,837,352              | 2,110,786  |
| Sonora               | 2,298,753              | 2,115,253  |
| Sinaloa              | 1,904,769              | 1,798,008  |
| Puebla               | 1,708,801              | 1,679,253  |
| State of Mexico      | 1,823,103              | 1,695,002  |
| Guanajuato           | 1,796,037              | 1,659,435  |
| Michoacán            | 1,662,094              | 1,536,799  |
| Veracruz             | 1,473,596              | 1,436,020  |
| Durango and Coahuila | 1,328,449              | 1,238,477  |
| Queretaro            | 1,001,205              | 987,542    |
| Chiapas              | 578,350                | 531,966    |
| Nayarit              | 450,062                | 419,224    |
| Baja California Sur  | 344,163                | 325,693    |
| Colima               | 297,100                | 265,625    |
| Oaxaca               | 280,625                | 260,071    |
| Zacatecas            | 276,003                | 245,927    |
| Nuevo León           | 231,487                | 66,472     |
| Morelos              | 145,431                | 128,722    |
| Guerrero             | 106,336                | 95,925     |
| Chihuahua            | 72,532                 | 59,959     |
| Quintana Roo         | 51,218                 | 19,684     |
| Hidalgo              | 33,794                 | 28,973     |
| Tabasco              | 5,656                  | 5,495      |
| San Luis Potosí      | 4,283                  | 4,179      |
| Others               | 38,960                 | 32,267     |
| Consolidated total   | \$ 22,383,030          | 21,615,210 |

|                             | Property, networks and computers |            | Network and equipment acquisitions |           |
|-----------------------------|----------------------------------|------------|------------------------------------|-----------|
|                             | 2020                             | 2019       | 2020                               | 2019      |
| State                       |                                  |            |                                    |           |
| Jalisco                     | \$ 11,638,553                    | 9,198,081  | 3,214,758                          | 4,137,394 |
| Sonora                      | 2,274,657                        | 2,249,040  | 395,031                            | 157,626   |
| Sinaloa                     | 1,868,124                        | 1,838,149  | 365,483                            | 209,933   |
| Puebla                      | 2,275,394                        | 2,441,515  | 264,479                            | 439,974   |
| Veracruz                    | 1,910,222                        | 1,982,022  | 235,170                            | 214,881   |
| State of Mexico/Mexico City | 2,564,400                        | 2,561,176  | 415,493                            | 493,673   |
| Guanajuato                  | 1,911,680                        | 1,987,461  | 254,109                            | 355,877   |
| Durango and Coahuila        | 1,502,834                        | 1,495,710  | 248,439                            | 169,690   |
| Michoacán                   | 1,366,858                        | 1,373,061  | 276,067                            | 276,493   |
| Querétaro                   | 1,433,724                        | 1,463,921  | 173,031                            | 344,217   |
| Chiapas                     | 666,377                          | 670,584    | 108,405                            | 83,565    |
| Colima                      | 331,516                          | 355,035    | 36,009                             | 43,073    |
| Baja California Sur         | 356,083                          | 376,626    | 48,233                             | 58,115    |
| Oaxaca                      | 299,599                          | 323,013    | 29,798                             | 40,275    |
| Nayarit                     | 324,463                          | 350,438    | 45,193                             | 45,562    |
| Zacatecas                   | 290,904                          | 307,600    | 34,885                             | 40,914    |
| Guerrero                    | 195,549                          | 150,377    | 69,590                             | 13,925    |
| Morelos                     | 117,499                          | 128,226    | 11,579                             | 28,412    |
| Chihuahua                   | 121,849                          | 114,521    | 27,276                             | 20,269    |
| Others                      | 107,862                          | 93,310     | 28,894                             | 46,986    |
| Consolidated total          | \$ 31,558,147                    | 29,459,866 | 6,281,922                          | 7,220,854 |

ii. Analysis of income from services to external customers by product:

|  | 2020                | 2019             |
|--|---------------------|------------------|
| <u>Cable Segment</u>                   |                     |                  |
| Basic Cable                            | \$ 4,086,172        | 4,133,177        |
| Lifeline Cable                         | 2,788,140           | 2,126,667        |
| Premier Cable                          | 2,361,240           | 2,548,728        |
| Other services                         | 19,734              | 153,614          |
| <b>Total cable segment</b>             | <b>9,255,286</b>    | <b>8,962,186</b> |
| <u>Internet segment</u>                |                     |                  |
| High speed residential internet        | 6,410,715           | 5,980,129        |
| High speed commercial internet         | 795,235             | 642,364          |
| <b>Total Internet segment</b>          | <b>7,205,950</b>    | <b>6,622,493</b> |
| <u>Digital telephone segment</u>       |                     |                  |
| Residential telephony                  | 1,660,083           | 1,423,509        |
| Commercial telephony                   | 185,774             | 175,632          |
| <b>Total digital telephony segment</b> | <b>\$ 1,845,857</b> | <b>1,599,141</b> |

|  | 2020              | 2019              |
|--|-------------------|-------------------|
| <u>Business Segment</u>                  |                   |                   |
| Metrocarrier                             | 1,878,446         | 1,838,387         |
| MCM                                      | 1,100,169         | 1,046,827         |
| Ho1a                                     | 623,682           | 1,049,104         |
| PCTV                                     | 303,870           | 321,705           |
|  | 3,906,167         | 4,256,023         |
| Others                                   | 169,770           | 175,367           |
| <b>Total business segment and others</b> | <b>4,075,937</b>  | <b>4,431,390</b>  |
| <b>Consolidated total</b>                | <b>22,383,030</b> | <b>21,615,210</b> |

**(29) Authorization to issue the consolidated financial statements-**

The issuance of the consolidated financial statements and the corresponding notes was authorized by Enrique Yamuni Robles (Chief Executive Officer) and Luis Antonio Zetter Zermeño (Chief Finance and Administration Officer), on April 27, 2021, for approval by the Committee Audit and the Board of Directors. These consolidated financial statements will be presented at the Shareholders Meeting for approval.