



SAMSUNG ELECTRONICS PERU S.A.C.

FINANCIAL STATEMENTS
DECEMBER 31, 2014



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SAMSUNG ELECTRONICS PERU S.A.C.

**FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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S/. = Peruvian New sol
US\$ = United States dollar



REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of
Samsung Electronics Perú S.A.C.

February 18, 2015

We have audited the accompanying financial statements of **Samsung Electronics Perú S.A.C.** (subsidiary of Samsung Electronics Company Limited of Korea), which comprise the statement of financial position as of December 31, 2014 and 2013, and the corresponding statements of comprehensive income, of changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes, included in Notes 1 to 25.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards of Audit endorsed for application in Peru by the Peruvian Board of Deans of Institutes of Certified Accountants (Junta de Decanos de Colegios de Contadores Públicos del Perú). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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February 18, 2015
Samsung Electronics Perú S.A.C.

Opinion

In our opinion, the accompanying financial statements referred to above, present fairly, in all material respects, the financial position of Samsung Electronics Perú S.A.C. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

CAUEGLIO APARICIO Y ASOCIADOS

Countersigned by

A handwritten signature in black ink, appearing to read "Hernán Aparicio P.", written over a horizontal line. To the right of the line, the word "(partner)" is printed.

Hernán Aparicio P.
Certified Peruvian Public Accountant
Registration No.01-020944

SAMSUNG ELECTRONICS PERU S.A.C.

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	As of December 31,		Note	As of December 31,	
		2014	2013		2014	2013
		S/.000	S/.000		S/.000	S/.000
Current assets						
Cash and cash equivalents	6	40,724	51,580	12	187,845	181,412
Trade accounts receivable	7	276,735	222,380	13	293,355	87,407
Other accounts receivable	8	92,244	58,635	14	88,090	81,009
Inventories	10	92,955	43,628		569,290	349,828
Prepaid expenses		885	621			
		<u>503,543</u>	<u>376,844</u>			
Non-current assets				15	56,020	56,020
Other accounts receivable	8	632	745		(80,655)	(6,353)
Deferred income tax	11	39,017	19,928		(24,635)	49,667
Property, vehicles and equipment		<u>1,463</u>	<u>1,978</u>			
		<u>41,112</u>	<u>22,651</u>			
Total assets		<u>544,655</u>	<u>399,495</u>		<u>544,655</u>	<u>399,495</u>
LIABILITIES AND EQUITY						
Current liabilities						
Financial obligations						
Trade accounts payable						
Other accounts payable						
Total current liabilities						
Equity						
Share capital						
Retained earnings						
Total equity						
Total liabilities and equity					<u>544,655</u>	<u>399,495</u>

The accompanying notes from page 7 to 25 are an integral part of the financial statements.

SAMSUNG ELECTRONICS PERU S.A.C.

STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended December 31,	
		2014	2013
		S/.000	S/.000
Sales		1,465,238	1,373,950
Cost of sales	18	(1,272,332)	(1,151,762)
Gross profit		192,906	222,188
Sales expenses	19	(238,192)	(211,616)
Administrative expenses	20	(32,452)	(36,291)
Other income		10,689	5,263
Other expenses		(15,242)	(2,155)
Operating profit		(82,291)	(22,611)
Financial expenses	23	(7,338)	(10,155)
Financial income		509	4,529
Net exchange difference	3-a (i)	(4,271)	(10,994)
Loss before income tax		(93,391)	(39,231)
Income tax benefit	17-b	19,089	14,579
Loss and total comprehensive income for the year		(74,302)	(24,652)

The accompanying notes from page 7 to 25 are an integral part of the financial statements.

SAMSUNG ELECTRONICS PERU S.A.C.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>Share capital</u> <u>S/.000</u>	<u>Retained earnings</u> <u>S/.000</u>	<u>Total</u> <u>S/.000</u>
Balances at January 1, 2013	56,020	18,299	74,319
Loss and total comprehensive income for the period	-	(24,652)	(24,652)
Balances at December 31, 2013	<u>56,020</u>	<u>(6,353)</u>	<u>49,667</u>
Balances at January 1, 2014	56,020	(6,353)	49,667
Loss and total comprehensive income for the period	-	(74,302)	(74,302)
Balances at December 31, 2014	<u>56,020</u>	<u>(80,655)</u>	<u>(24,635)</u>

The accompanying notes from page 7 to 25 are an integral part of the financial statements.

SAMSUNG ELECTRONICS PERU S.A.C.

STATEMENT OF CASH FLOWS

	For the year ended December 31,	
	2014	2013
	S/.000	S/.000
OPERATING ACTIVITIES		
Loss for the period	(74,302)	(24,652)
Adjustments to reconcile net income to cash flows provided by operating activities:		
Provision for doubtful accounts	(634)	356
Recoveries for impairment of inventories	2,456	780
Write-off of property and equipment	37	193
Depreciation	672	861
Exchange difference of cash	(887)	313
Deferred income tax	(19,089)	(14,579)
Unrealized gain (loss) from fair value changes on derivatives	(1,018)	(290)
Net changes in assets and liabilities:		
Trade and other accounts receivable	(87,851)	(34,120)
Inventories	(49,327)	3,510
Prepaid expenses	(264)	(81)
Trade and other accounts payable	219,566	14,896
Net cash applied to operating activities	<u>(10,641)</u>	<u>(52,813)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(194)</u>	<u>(1,088)</u>
Net cash applied to investing activities	<u>(194)</u>	<u>(1,088)</u>
FINANCING ACTIVITIES		
Loan received	1,643,982	178,000
Repayment from loan received	<u>(1,644,890)</u>	<u>(123,481)</u>
Net cash (applied to) provided by financing activities	<u>(908)</u>	<u>54,519</u>
Net cash and cash equivalents (decrease) increase	(11,743)	618
Exchange difference of cash	887	(313)
Balance of cash and cash equivalents at beginning of period	<u>51,580</u>	<u>51,275</u>
Balance of cash and cash equivalents at end of period	<u><u>40,724</u></u>	<u><u>51,580</u></u>

The accompanying notes from page 7 to 25 are an integral part of the financial statements.

SAMSUNG ELECTRONICS PERU S.A.C.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2014

1 GENERAL INFORMATION

a) Operations -

Samsung Electronics Perú S.A.C. (formerly Samsung Electronics Sucursal del Perú, hereinafter the Company) was established in Lima on March 5, 1996, the Company and is a subsidiary of Samsung Electronics Company Limited of Korea, who owns 99.99% of the share capital. Effective April 2010, the Company is mainly engaged in importing and trading home appliances, electronic devices and cell phone equipment under the Samsung trademark.

The Company's legal address in Rivera Navarrete Av. 501, San Isidro, Lima, Perú.

At December 31, 2014 the Company shows accumulated losses for S/.80.6 millions. In accordance to Peruvian Law, the Company has become eligible for dissolution because its accumulated losses have reduced its equity balance to an amount lower than a third of the paid-in capital.

During 2014, and in order to overcome this situation, the Company has considered a plan to reduce costs and improve its financial performance and working capital as well. In accordance with the strategic plan for this year, Management considers mainly the following: a change in sales strategies with clients, activities to improve sell out of customers and also a renegotiation of costs with factories.

b) Approval of the financial statements -

The financial statements as of December 31, 2014 and 2013 have been approved by Company's Management and will be presented for approval of the General Shareholders' Meeting on March 31, 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant accounting principles and policies applied in the preparation of the financial statements are detailed below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of presentation -

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The preparation of the financial statements in accordance with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.2 Changes in accounting policies and disclosures -

New standards and interpretations adopted by the Company -

The Company has adopted all applicable new and amended standards that were effective for first time during 2014. The adoption of these new and amended standards did not have any material impact on the Company's financial information.

Standards, amendments and interpretations issued but not yet effective for 2014 not early adopted by the Company -

- IFRS 9 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition.

The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of comprehensive income, unless this creates an accounting mismatch.

- IFRS 15, 'Revenue from Contracts with Customers', replaces the previous revenue Standards: IAS 18 *Revenue* and IAS 11 *Construction Contracts* and establishes a comprehensive framework for determining *when* to recognize revenue and *how much* revenue to recognize. The core principle in that framework is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 is effective from 1 January 2017.

The Company has evaluated these standards and considers that the impact of such application will not be relevant to its financial position based on the activities that it currently performs.

2.3 Foreign currency translation -

2.3.1 Functional and presentation currency -

The items included in the Company's financial statements are expressed in the currency of the primary economic environment in which the entity operates (functional currency). Financial statements are presented in Peruvian New soles, which is the Company's functional and presentation currency.

2.3.2 Transactions and balances -

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

2.4 Financial assets -

2.4.1 Classification -

The Company classifies its financial assets, following categories defined by IAS 39 "Financial instruments: recognition and measurement". The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss -

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated and accounted for under hedge accounting.

Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. The fair value impact of derivatives is recognized as other income or expense of the period.

b) Loans and receivables -

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The loans and receivables comprise trade accounts receivable and "other accounts receivable" and in the statement of financial position.

2.4.2 Recognition and measurement -

Loans and receivables are initially recognized at fair value plus transaction costs. Loans and receivables are subsequently carried at amortized cost by using the effective interest method. Financial assets are derecognized when the rights to receive cash flows from the loans and receivable have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise.

2.5 Offsetting financial instruments -

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.6 Impairment of financial assets -

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss of assets classified as loans and receivables category is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

In connection with accounts receivable, for those individually significant, the Company made a specific evaluation to determine whether there is objective evidence of loss in the value of accounts receivable. Likewise, for those accounts that are not individually significant, the accounts receivable are collectively evaluated for impairment and are estimated on the basis of historical loss experience for those accounts receivable with similar credit risk characteristics. This procedure allows the Company to reasonably estimate the loss for doubtful accounts, considering the characteristics of clients in Peru and the accounting requirements of IAS 39, in order to adequately cover the risk of loss on accounts receivable due to market conditions in which it operates.

2.7 Trade accounts receivable -

Trade accounts receivable are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

Trade accounts receivable are initially recorded at fair value and subsequently measured at amortized costs using the effective interest method, less the provision for impairment. The provision for impairment of accounts receivable is determined based on the evaluation of individual accounts.

The amount of the provision is recognized in the statement of comprehensive income. When an account receivable is considered uncollectable, it is written-off from the financial statements against the provision initially recognized. Subsequent recoveries of amounts previously written-off from the financial statements are recognized with a credit to the statement of comprehensive income.

2.8 Inventories -

Inventories are stated at the lower of cost or net realizable value. By reductions in the carrying value of inventories to net realizable value, the Company recognizes a provision when such reductions occur. The cost of inventories is realized by using the weighted-average method. Cost of inventories includes direct costs and excludes financing expenses. The net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

2.9 Property, vehicles and equipment -

Recognition and measurement -

Items in this account are recorded at the acquisition cost less accumulated depreciation.

Expenses incurred to replace a component of an item or element of property, vehicles and equipment are capitalized separately, and the carrying amount of the component is written-off. Other subsequent expenses are capitalized, only when it is probable that future economic benefits associated to the asset will flow to the Company and the cost of such assets can be reasonably measured.

Maintenance and repair expenses are charged to the income statement in the period in which they were incurred.

Annual depreciation is recognized as an expense and is determined by using the straight-line method based on the estimated useful life of assets, represented by the equivalent depreciation rates as follows:

	<u>Years</u>
Improvement on leased properties	5
Vehicles	5
Computer equipment	4
Other equipment	10

Residual values and useful lives of assets are reviewed and adjusted, if appropriate, at each balance sheet date.

Gains and losses on asset sales correspond to the difference between on the income from the transaction and the carrying amount of assets. These are included as other income/expenses in the statement of comprehensive income.

2.10 Impairment of non-financial assets -

Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.11 Leases -

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.12 Financial liabilities -

The Company classified its financial liabilities in the following categories: 'financial liabilities at fair value through profit and loss' and 'other financial liabilities'. The classification depends on the purpose for which it is assumed the liabilities and how they are managed. Management determines the classification of its financial liabilities at the date of initial recognition. At December 31, 2014, the Company's financial liabilities were in the category of 'other financial liabilities', among which financial obligations, trade accounts payable and other accounts payable, the characteristics and treatment are described below:

Trade and other payables -

Trade accounts payable and other accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade accounts payable and other accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade accounts payable and other accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Financial obligations -

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowing using the effective interest method.

The amortized costs of the loans that are settled in advance are immediately affected to statement of comprehensive income. For those loans that replace existing loans, they can be regarded as an extinguishment of debt to the extent that the present value of new loans recognized at amortized cost is different from the cost of previous loans by more than 10 percent of its value.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

2.13 Income tax -

Income tax expense for the period comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the income tax laws enacted in Peru. Management periodically evaluates positions taken in income tax returns with respect to situations in which applicable income tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the income tax basis of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for when it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred income tax is determined using income tax rate (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.14 Provisions -

Provisions are recognized when (i) the Company has a present legal or constructive obligation as a result of past events (ii), it is probable that an outflow of resources will be required to settle the obligation and (iii) the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense in the statement of comprehensive income.

2.15 Employee benefits -

Workers' profit sharing and other employee benefits -

In accordance with labor laws, entities are required to provide for workers' profit sharing of 8% of the taxable income.

This amount is charged to the statement of comprehensive income as an additional remuneration (distributed among cost of services, administrative expenses and selling expenses, as appropriate). This charge is a deductible expense for income tax purposes (Note 16).

Statutory bonuses -

In accordance with labor laws, employees are entitled to two additional monthly salaries per year as annual statutory bonuses. The Company recognizes the expense in statutory bonuses and the related liabilities on an accrual basis. Statutory bonuses are paid in July and December every year.

Employees' severance indemnities -

Employees' severance indemnities are comprised of indemnities determined under labor laws and regulations. The amount of the annual indemnity payable to employees is credited in May and November to bank accounts selected by the employees. The annual amount of employees' severance indemnities is equal to one month of salary. The Company does not have any obligation of additional payments once these annual deposits, to which each worker is entitled, are made.

2.16 Share capital -

Ordinary shares are classified as equity.

2.17 Revenue recognition -

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the sale of goods and services, stated net rebates, discounts and value added taxes. Rebates for sales volume are recognized by the Company as a monthly accrual in conformity with the contract terms.

The Company recognizes revenue when (i) income from the sale of products, when the Company has delivered the products to the customer, the customer has accepted the products and the corresponding collection of accounts receivable is reasonably secured, and (ii) income from post-sale services, when the service is provided.

2.18 Contingent liabilities and assets -

Contingent liabilities, due to the uncertainty of the futures events, are not recognized in the financial statements unless probable and are disclosed in notes to the financial statements, unless their occurrence is estimated remote. Contingent assets are not recognized in the financial statements and are disclosed only if their realization is assessed as probable.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors -

The Company's activities exposes it to a variety of financial risks: market risk, credit risk, and liquidity risk, which are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability, and each individual within it is accountable for the risk exposures related to their duties. Business risks such as changes in the legal environment, technology and industry are excluded from this independent risk control process, and these are monitored through the Company's strategic planning process.

a) Market risks -

The market risk is the risk that the fair value of the financial instruments fluctuates as a result of changes in market prices. The market prices that apply to the financial instruments of the Company include foreign exchange risk and interest rate risk.

i) Foreign exchange risk -

The Company is exposed to the effects of fluctuations in foreign currency prevailing on its financial position and cash flows. Management sets limits on the exposure levels, both, by currency and the total daily transactions. Transactions are performed mainly in U.S. dollars. Foreign currency transactions are performed at supply and demand rates. As of December 31, 2014, the free market weighted average exchange rate for transactions in United States Dollars was S/.2,989 per US\$1.00 (As of December 31, 2013 was S/.2,796 per US\$1.00).

Periodically the company uses forward foreign exchange contracts falling due at 30 days as a way to mitigate its exposure to this risk. Foreign currency forward contracts are effective economic hedges of balance sheet exposures as part of Samsung's committed exposure program.

Assets and liabilities in foreign currency at December 31, 2014 and December 31, 2013 are summarized as follows:

	<u>2014</u> <u>US\$000</u>	<u>2013</u> <u>US\$000</u>
Assets:		
Cash and cash equivalents	1,203	6,235
Trade accounts receivable	58,741	36,217
Other accounts receivable	<u>3,842</u>	<u>3,988</u>
	63,786	46,440
Liabilities:		
Trade payables to related parties	(98,145)	(31,262)
Other accounts payable	<u>(10,022)</u>	<u>(15,353)</u>
	108,167	(46,516)
Net liability position	<u>(44,381)</u>	<u>(175)</u>

At December 31, 2014, the nominal amount of hedged items is US\$53,586,000 and US\$116,707,000 for assets and liabilities, respectively (US\$8,299,000 and US\$5,320,000 at December 31, 2013).

At December 31, 2014 the Company recognized exchange gains totaling S/.18,829,000 (S/.367,000 in 2013) and exchange losses totaling S/.23,100,000 (S/.168,000 in 2013), the net amount of which is stated in exchange differences in the statement of comprehensive income.

The following table shows the possible impact of eventual changes in the U.S. exchange rates against the Peruvian new sol, with all other variables held constant, on the Company's pre-tax profits resulting from changes in the fair value of their assets and liabilities:

<u>Increase/decrease in exchange rates</u>	<u>Effect on profits before income tax</u>	
	<u>2014</u>	<u>2013</u>
	<u>S/.</u>	<u>S/.</u>
+2%	7	6
- 2%	7	(6)

ii) Interest rate risk -

The borrowings maintained by the Company are at fixed rates and they are not exposed to the interest rate risk.

b) Credit risk -

The Company takes positions subject to credit risk, which is the risk that a client will cause a financial loss by failing to perform its obligations. The financial assets potentially exposed to credit risk concentrations primarily consists of bank deposits and trade and other accounts receivable.

Cash balances are held mainly with financial institutions with third party credit mainly rating of A or better. The Company has policies that limit the amount of credit exposure to third parties. (Note 5.2)

Credit risk is monitored by the Company through internal and external control procedures as follow:

- i) Analysis of credit risk of customer through INFOCORP (Peruvian credit risk agency)
- ii) Ratios and other historic information of customers are evaluated by the internal risk management department of the Company in order to setup credit lines.
- iii) Information about customers/credit lines is also evaluated by COFACE (credit bureau agency) in Chile.

c) Liquidity risk -

Liquidity risk is understood as the risk that the Company may fail to perform their payment obligations related to financial liabilities when due, and replace the funds once they are withdrawn. The consequence entails a default on the payment of its obligations. The Company controls its liquidity by properly managing the maturity of its assets and liabilities, so as to achieve a match between its cash inflows and its future payments, allowing the regular development of its activities.

The Company's main source of cash inflows is the collection of the invoices issued for the commercial broadcasting service. During 2014, the average collection term ranged from 30 to 60 days, and the average payment term to its main suppliers ranged from 30 to 60 days. The Company believes that the collection and payment terms will tend to improve due to the enhancement of its collection management policies.

The table below sets forth the financial liabilities of the Company, none of which are derivative financial instruments, and allocates them into relevant maturity groupings based on the remaining period to their contractual maturity date as from the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	December 31, 2014		December 31, 2013	
	Less than a 3 months	Between 3 months and 1 year	Less than a 3 months	Between 3 months and 1 year
	S/.000	S/.000	S/.000	S/.000
Trade account payable	293,355	-	87,407	-
Financial obligations	188,157	-	186,270	-
Derivative financial liabilities	3,412	-	591	-
	<u>484,924</u>	<u>-</u>	<u>274,268</u>	<u>-</u>

3.2 Capital management -

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern (Note 1-b) and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As of December 31, 2014, there were no changes to the Company's activities and in its capital management policies.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total financial obligations (including current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as 'total equity' as shown in the balance sheet plus net debt.

The gearing ratio at December 31, 2014 and December 31, 2013 was as follows:

	2014	2013
	S/.000	S/.000
Financial obligations	187,845	181,412
Less: cash and cash equivalents	(40,724)	(51,580)
Net debt (A)	147,121	129,832
Total equity	(24,635)	49,667
Total capital (B)	122,486	179,499
Gearing ratio (A) / (B)	<u>1.20</u>	<u>0.72</u>

3.3 Fair value of financial instruments -

For the classification of the type of valuation used by the Company for its financial instruments at fair value, the following levels of measurement have been established:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or the liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The financial instruments measured at fair value by the Company are forward foreign exchange contracts in U.S. dollars. The measurement at fair value of these instruments corresponds to the characteristics of Level 2 and has been determined based on the present value of discounted future cash flows.

The carrying amount of cash and cash equivalents corresponds to its fair value. The Company considers that the carrying amount of short-term accounts receivables and payables approximates to their fair value due to their short-term maturity.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

4.1 Critical accounting estimates -

The preparation of the financial statements requires Management to make accounting judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities as of the end of the reported period. Such judgments and estimates are based on best Management's knowledge of material events and circumstances, taking into account historical experience. However, actual results may differ from the amounts shown in the financial statements. The information on such judgments and estimates is included in the accounting policies of and/or notes to the financial statements.

Income taxes (Note 17) -

The Company is subject to income taxes in Peru. Judgment is required in determining the provision for income taxes. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Company determines its critical accounting estimates based on Management's historical experience and other various assumptions and conditions, which are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from those estimates under different assumptions or conditions.

Deferred tax assets and liabilities are calculated by taking the temporary differences of the tax basis of assets and liabilities and the financial statement basis using the tax rates in effect for each of the years in which the differences are expected to reverse. Any change in tax rates will affect the deferred tax assets and liabilities. This change will be recognized in income in the period the change takes effect.

The Company makes estimates for deferred income tax valuation allowance. This allowance may be increased or decreased if Management determines it to be more likely than not that the valuation allowance needs to be adjusted. If a tax position is not more likely than not to ultimately be realized, no tax benefit is recorded.

The Company basis estimates for the valuation allowance on all available evidence which includes historical data, projected income, current operations and tax planning strategies. The deferred tax asset is supported by the assumption that the Company will continue to generate income in the future. If Management determines that future revenues will not be sufficient to cover the deferred tax asset, the valuation account for deferred tax income would be adjusted.

4.2 Critical judgments -

The Company has no considered any significant critical judgment in applying their accounting policies.

5 FINANCIAL INSTRUMENTS

5.1 Financial instruments by category -

At December 31, 2014 and December 31, 2013, financial assets and financial liabilities as per the statement of financial position are as follows:

	<u>2014</u> <u>S/.000</u>	<u>2013</u> <u>S/.000</u>
Financial Assets		
At fair value through profit or loss:		
- Derivatives (included in other accounts receivables)	2,394	120
Loans and receivables:		
- Cash and cash equivalents	40,724	51,580
- Trade accounts receivable	276,735	222,380
- Other accounts receivable (excludes advances)	90,258	59,040
	<u>410,411</u>	<u>333,120</u>
Financial Liabilities		
At fair value through profit or loss:		
- Derivatives (included in other accounts payables)	3,412	591
Other financial liabilities:		
- Trade account payable	293,355	87,407
- Financial obligations	187,845	181,412
	<u>484,612</u>	<u>269,410</u>

5.2 Credit quality of the financial assets -

The assessment of the credit quality of financial assets can be performed on the basis of historical data on default rates of their counterparts. At December 31, 2014, the Company's portfolio had been considered as existing customers/related parties with more than 6 months of trade relationship and no previous default history. Contract terms and conditions have not been renegotiated

Cash and bank is maintained in financial institutions with A+ credit rating derived from risk rating agencies authorized by the Banking and Insurance Superintendence of Peru (*Superintendencia de Banca, Seguros y AFP*).

6 CASH AND CASH EQUIVALENTS

As of December 31, 2014, the Company maintains savings accounts in banks for approximately S/.37,138,000 and US\$1,203,000, respectively (S/.34,160,000 and US\$6,235,000 as of December 31, 2013).

7 TRADE ACCOUNTS RECEIVABLE

This item comprises:

	As of December 31,	
	2014	2013
	S/.000	S/.000
Trade receivables	276,713	222,422
Less: provision for impairment of trade receivables	(1)	(984)
Trade receivables - net	276,712	221,438
Receivables from related parties (Note 9)	23	942
Total trade accounts receivable	<u>276,735</u>	<u>222,380</u>

The aging of trade accounts receivable that are not impaired had been evaluated based on the historical information as follows:

	As of December 31,	
	2014	2013
	S/.000	S/.000
Current	246,795	179,039
Past due up to 30 days	29,237	33,635
Past due from 31 to 90 days	681	9,748
	<u>276,713</u>	<u>222,422</u>

As of December 31, 2014 and 2013 trade accounts receivables of S/.1,609 and S/.984,000, respectively, were impaired and fully provisioned by the Company. The aging of these receivables is less than 90 days.

8 OTHER ACCOUNTS RECEIVABLE

This item comprises:

	As of December 31,	
	2014	2013
	S/.000	S/.000
Prepaid taxes (a)	78,648	47,831
Recoverable taxes (b)	10,288	9,642
Derivative financial assets	2,394	120
Receivables from personnel	632	745
Advances to suppliers	224	220
Other accounts receivable from related parties (Note 9)	58	147
Others	<u>632</u>	<u>675</u>
Total other accounts receivable	92,876	59,380
Less non-current (Receivables from personnel)	(632)	(745)
Total other current accounts receivable	<u>92,244</u>	<u>58,635</u>

- Prepaid taxes comprises the related Value Added Tax - VAT (IGV in Peru) paid by the Company in the acquisition of goods and services. This VAT will be recovered with the taxes payable on its future sales.
- Recoverable taxes are customs duties on imports of goods from Mexico, which should be returned by Tax Authorities (SUNAT) to the Company within the framework of the Free Trade Agreement (Peru - Mexico).

9 RELATED PARTIES

This item comprises:

As of December 31,		
2014	2013	
S/.000	S/.000	
Trade and other accounts receivables		
Samsung Electronics Chile Ltda.	2	-
Samsung Electronics Argentina	11	-
Samsung Electronics Mexico S.A. de C.V.	-	38
Samsung Electronics Latin Americana	8	904
Other	2	-
Total accounts receivables from related parties (Note 7)	23	942
Samsung Electronics Co. Ltd	58	147
Total other accounts receivable from related parties (Note 8)	58	147
Trade accounts payables		
Samsung Electronics Co., Ltd	291,754	86,045
Samsung Electronics Mexico S.A. de C.V.	193	-
Samsung Electronics America, INC.	400	871
Other	1,008	491
Total accounts payables to related parties (Note 13)	293,355	87,407

Accounts payables to related parties mainly correspond to purchase of merchandise, are of current maturity, not interest-bearing and do not have specific guarantees.

a) Transactions between related parties -

The main transactions with related parties included in the statement of comprehensive income for the period from January 1 to December 31, comprise:

	2014	2013
	S/.000	S/.000
Purchase of merchandise	1,301,801	531,746
Key personnel salaries	7,585	2,506

10 INVENTORIES

This item comprises:

As of December 31,		
2014	2013	
S/.000	S/.000	
Merchandise	62,576	33,321
In-transit	31,012	8,698
Other supplies	3,311	3,097
	96,899	45,116
Provision for impairment of inventories	(3,944)	(1,488)
	92,955	43,628

11 DEFERRED INCOME TAX

The components generating deferred income tax as of December 31, 2014 and December 31, 2013 are as follows:

	<u>Provisions</u>	<u>Tax loss carry forward</u>	<u>Others</u>	<u>Total</u>
Deferred asset				
At December 31, 2013	8,192	9,106	2,630	19,928
Charged (credited) to results	<u>1,511</u>	<u>19,511</u>	<u>(1,933)</u>	<u>19,089</u>
At December 31, 2014	<u>9,703</u>	<u>28,617</u>	<u>697</u>	<u>39,017</u>

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	<u>As of December 31,</u>	
	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
Deferred tax assets -		
Deferred tax assets to be recovered after more than 12	31,479	15,362
Deferred tax asset to be recovered within 12 months	<u>7,538</u>	<u>4,566</u>
	<u>39,017</u>	<u>19,928</u>

The company expects to recover most of its tax losses in over a year based on the increase of future sales and profit. Management uses a tax rate of 28% (Note 17-g) to calculate its deferred tax asset as of December 31, 2014 (a tax rate of 30% as of December 31, 2013).

The gross movement of the deferred income tax account is as follows:

	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
At January 1	19,928	5,349
Debit (credit) to the statement of comprehensive income (Note 17)	<u>19,089</u>	<u>14,579</u>
At December 31	<u>39,017</u>	<u>19,928</u>

12 FINANCIAL OBLIGATIONS

At December 31, 2014 and 2013, bank borrowings of S/.187,845,000 and S/.181,412,000 respectively, were used for working capital and are of current maturity, bear interests at an effective financial market rate from 3.96% to 4.22% annually, are on local currency and guaranteed by the Parent. The fair value of these bank loans is approximate to their carrying amounts given due to the impact of their discount is not significant. As of December 31, 2014 financial expenses related to these obligations amounted to S/.757,000 (S/. 8,270,000 as of December 31, 2013).

13 TRADE ACCOUNTS PAYABLE

This item comprises:

	<u>As of December 31,</u>	
	<u>2014</u>	<u>2013</u>
	<u>S/.000</u>	<u>S/.000</u>
Accounts payables to related parties (Note 9)	293,355	87,407
Total trade accounts payable	<u>293,355</u>	<u>87,407</u>

14 OTHER ACCOUNTS PAYABLE

This item comprises:

	As of December 31,	
	2014	2013
	S/.000	S/.000
Marketing and advertising	42,004	47,773
Provision for guarantees	14,558	13,949
Provision of unpaid taxes - Samex (a)	13,568	6,541
Derivative financial instruments	3,412	591
General expenses	3,125	2,575
Provision for consultation and service HQ	2,880	3,061
Salaries and profit sharing payable	2,211	1,728
Taxes and contributions payable	1,132	1,454
Other	5,200	3,337
Total other accounts payable	<u>88,090</u>	<u>81,009</u>

(a) Corresponds to the tax provision of merchandise import from México for the period between October 2012 and September 2013.

15 EQUITY

a) Capital -

At December 31, 2014 and December 31, 2013, the authorized, subscribed and paid-in capital comprises 56,020,523 common stocks at S/.1.00 par value each. At December 31, 2014 and December 31, 2013, the Company's capital structure is as follows:

Percentage of individual interest in capital	Number of shareholders	Total percentage of interest
Up to 1	1	0.01
From 90.01 to 99.99	1	99.99
Total	<u>2</u>	<u>100.00</u>

b) Retained earnings -

Dividends on behalf of shareholders, other than domiciled legal entities, are subject to a 4.1% income tax, which should be withheld and settled by the Company (see note 17-f).

There are no restrictions for the remittance of dividends or profits to foreign investors.

16 WORKERS' PROFIT SHARING

As established under Legislative Decree No.677, the Company's workers' profit share is 8% of the taxable income. This profit sharing is deductible for income tax purposes.

In December 31, 2014 and 2013, the Company did not determine workers' profit sharing due to the tax loss.

17 TAX SITUATION

- a) The Company's Management considers that the taxable income under the general regime of income tax has been determined in accordance with tax laws currently in force by adding to and deducting from the result, shown in the financial statements, those items considered as taxable and non-taxable, respectively.

The income tax rate has been fixed at 28% and 30% at December 31, 2014 and 2013, respectively. At December 31, taxable income has been determined as follows:

	<u>2014</u> S/.000	<u>2013</u> S/.000
Loss before income tax	(93,391)	(39,231)
Additions (deductions):		
Provision for vacations	4,015	31
Prior-year expenses	1,447	1,709
Provision for doubtful collection	(978)	356
VAT from disposals	1,617	1,399
Personal expenses	1,616	1,051
Provision for impairment of inventories	2,456	780
Provision for guarantees	609	1,955
Provision for samples	1,171	1,602
Sales return estimation	35	2,496
Others	6,359	(2,500)
Tax loss of the period	<u>(75,044)</u>	<u>(30,352)</u>

- b) The expense from income tax shown in the income statement for the period ending December 31 comprises the deferred tax (Note 11).
- c) Temporary tax on Net Assets:

As of January 1, 2005, a temporary tax on net assets has been applied which affects those corporate income-earners subject to the Peruvian General Regime of Income Tax.

The taxable income consists of the value of net assets stated in the adjusted balance sheet as per Legislative Decree No.797 as of December of the year prior to when payment is expected to be made, net of depreciations and amortizations. The income tax rate is 0.4% applicable to the amounts of net assets exceeding S/.1 million.

The amount effectively paid may be used as a fiscal credit against VAT (IGV in Peru) on-account payments of the VAT general regime in the related fiscal year.

- d) Peruvian tax authorities have the right to examine, and, if necessary, amend the income tax determined by the Company in the last four years, as from January 1 of the year after the date when the tax returns are filed (years subject to examination). Years 2009 through 2013 are open to examination. Since differences may arise over the interpretation by the tax authorities of the regulations applied to the Company, it is presently not possible to estimate if any additional tax liabilities will arise as a result of any eventual examinations. Any additional tax, fines and interest, if arising, will be recognized in the results of the period when such differences are resolved. The Company's Management considers that no significant liabilities will arise as a result of these eventual tax examinations.
- e) Under legislation currently in force, for purposes of determining income tax and general sales tax, transfer pricing among related and non-related parties should have adequate supporting documentation as well as information supporting the methods and valuation criteria used. Peruvian tax authorities are entitled to request such information from the taxpayer.

f) Regulatory framework - Amendments to Peruvian Income Tax Law:

By means of Law No.30296 enacted on December 31, 2014 amendments to Income Tax Law have been made, which are effective starting in fiscal year 2015 onwards.

Among these amendments, it should be noted the progressive reduction of the tax rate on the Peruvian third-category income earners, from 30% to 28%, for fiscal years 2015 and 2016; then a reduction to 27% for fiscal years 2017 and 2018; and a final reduction to 26% from fiscal year 2019 onwards.

Tax on dividends and other forms of profit distribution, agreed on by any legal entities to non-domiciled individuals and legal persons will also be progressively increased from 4.1% to 6.8% for distributions that are agreed on or made available in cash or in kind during fiscal years 2015 and 2016; then an increase to 8.8% for fiscal years 2017 and 2018; and a final increase to 9.3% from fiscal year 2019 onwards. The distribution of retained earnings until December 31, 2014 will continue to be subject to a 4.1% tax even if the distribution is to be made effective in subsequent years.

18 COST OF SALES

The costs of sales for the period from January 1 to December 31, comprises:

	<u>2014</u> <u>S/.000</u>	<u>2013</u> <u>S/.000</u>
Initial inventory of merchandise	36,418	31,640
Purchase of merchandise	1,301,801	1,156,540
Final inventory of merchandise	(65,887)	(36,418)
	<u>1,272,332</u>	<u>1,151,762</u>

19 SALES EXPENSES

Sales expenses for the period from January 1 to December 31, comprise:

	<u>2014</u> <u>S/.000</u>	<u>2013</u> <u>S/.000</u>
Services received from third parties	202,013	174,288
Personnel expenses	31,335	32,692
Other	4,844	4,636
	<u>238,192</u>	<u>211,616</u>

20 ADMINISTRATIVE EXPENSES

Administrative expenses for the period from January 1 to December 31 comprise:

	<u>2014</u> <u>S/.000</u>	<u>2013</u> <u>S/.000</u>
Services received from third parties	24,030	21,065
Personnel expenses	6,227	7,290
Others	2,195	7,936
	<u>32,452</u>	<u>36,291</u>

21 SERVICES RECEIVED FROM THIRD PARTIES

This account for the period from January 1 to December 31 comprises:

	<u>2014</u> <u>S/.000</u>	<u>2013</u> <u>S/.000</u>
Advertising and marketing	147,525	126,943
Repairs of warranty products	21,249	18,469
Logistics expense	20,383	19,711
Service and commission	17,242	12,770
Travel expenses	3,968	4,476
Utilities	3,107	2615
Repairs and maintenance	1,490	1,864
Others	11,079	8,505
	<u>226,043</u>	<u>195,353</u>

22 PERSONNEL EXPENSES

This account for the period from January 1 to December 31 comprises:

	<u>2014</u> <u>S/.000</u>	<u>2013</u> <u>S/.000</u>
Salaries	24,645	24,288
Statutory bonuses	5,432	8,185
Employee's severance indemnities	2,963	2,820
Social security	2,396	2,335
Vacations	636	773
Others	1,490	1,581
	<u>37,562</u>	<u>39,982</u>

The Company's number of both, directors and employees, was 248 in 2014 and 241 in 2013.

23 FINANCIAL EXPENSES

Financial expenses for the period from January 1 to December 31, 2014 and 2013 comprises borrowing expenses for S/.7,338,000 and S/.10,155,000, respectively.

24 CONTINGENCIES

The Company does not recognize any provision in relation to presented claims at the date of the financial statement. However, at December 31, 2014, the Company received a notice of payment from Peruvian tax authorities on tax examination process. The Company with tax advisors has evaluated the degree of contingency and determined that S/.6,198,000 is possible to lose which is not required to be accounted for per current accounting standards.

25 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Between December 31, 2014 and the date of approval of the financial statements, no subsequent events have occurred that are required to be disclosed in the notes to the financial statements.