



**Quarterly Results**  
**Telefónica del Perú S.A.A.**

**July - September 2019**

Digitally signed by:  
MARCOS DAVID SERRA BENAVIDES  
Date: 10/22/2019 18:28:08

Digitally signed by:  
ALEX MIGUEL NOLTE ALVA  
Date: 10/22/2019 18:41:20

*We recommend reading this document with the corresponding Financial Statements and their accompanying notes simultaneously as these notes are an integral part of this document and contain complementary information.*

## TELEFÓNICA IS STILL FOCUSING ON THE RECOUPING PROFITABILITY AND FINANCIAL BALANCE

- Operating Income amounted to S/ 2,032 million in 3Q19, led by the contribution of the residential fixed segment and the Data + IT business segment.
- The Company's strategy focuses on 3 areas: strengthen the convergent offer in all segments, improve the customer experience, and accelerate the transformation and efficiency plan.
- Through the convergent product 'Movistar Total', the company maintained a solid year-on-year growth rate in Broadband accesses (+ 6.8%) and subscription TV (+ 3.8%). At the end of 3Q19, 'Movistar Total' had reached 156 thousand customers.
- Movistar maintains leadership in different services with a market share of 37.0% in Mobile Telephony, 71.7% in Broadband and 61.9% in pay TV.

Movistar Peru presents its financial results for the third quarter of 2019, in which Operating Income amounted to S/ 2,032 million in 3Q19 (-0.2% vs. 3Q18). The segment with the highest growth was the Local Telephony, Internet and Pay Television services that reached S/ 791 million (+2.3% vs. 3Q18).

“In this third quarter of the year, the Company remained focused on recouping profitability and financial balance. As such, we have been accelerating the deployment of a strategy focused on three fronts: strengthening the convergent offer in all segments, improving customer experience –in a competitive environment that demands greater velocity,– and accelerating the Company's transformation and the efficiency plan”, said Pedro Cortez, Executive President of Telefónica del Perú.

### **Convergent differential offer**

Through 'Movistar Total', the first and only offer on the market that bundles fixed and mobile services, in 3Q19 the fixed segment maintained a growth rate in access and income as a result of convergent initiatives and fiber optic coverage expansion, thereby achieving increases in broadband access (6.8%) and paid TV (3.8%). It should be noted that at the end of 3Q19 'Movistar Total' reached 156 thousand convergent customers.

Furthermore, during 3Q19 the mobile segment achieved growth in the number of postpaid accesses. Movistar also continued to lead the *data* flow share, on the back of Movistar Total and the improvement in mobile coverage.

Telefónica del Perú will maintain its investment and projection levels for the coming years. “Our commitment to Peru is continuing and this year, for example, we have launched the Internet para Todos (Internet for All) initiative in partnership with Facebook, IDB Invest and CAF. The initiative has purpose of connecting more than 6 million Peruvians without adequate internet services, thereby closing the digital divide for when we reach the bicentennial of the Republic in 2021”, added Cortez.

## **Customer Experience**

Seeking to improve the customer experience, Movistar has focused on optimizing customer services and offering exclusive and differentiated content. A reflection of this is the series "One day you are young", released on the multiplatform Movistar Play in mid-September. It is the first original series produced by Movistar in Latin America.

Also, Movistar has reinforced its commitment to local e-sports by acquiring the broadcasting rights and sponsorship of the 'Pro Gaming League', a professional video game competition in Peru that is now transmitted to all countries in the region through the Movistar eSports

Another of the actions designed to satisfy our customers is the simplification of the value offer, which led to the official shutdown of the Tuenti brand. Since October 13, Movistar has been the brand serving more than 150 thousand Tuenti customers, who now enjoy exclusive Movistar benefits.

In the case of the B2B segment, the mining sector has been one of the main sectors where the Company's portfolio of services is outstanding. In this area, the LTE network solution has been offered as an own local network, with customized equipment and configuration, providing greater security, connectivity and lower latency; attributes that facilitate constant connectivity within the mine.

## **Transformation and efficiencies**

During the third quarter, the Company continued working on its digital transformation strategy –through robotization and process automation–. It furthermore advanced the plan of efficiencies and a comprehensive review of assets with a focus on those that contribute to and improve the company's business performance.

During the third quarter, the sale contract of the emblematic Telefónica building located on Arequipa Avenue was signed, and will be transferred during the last quarter of 2019. The employees working there will be distributed between the headquarters of Juan de Arona (San Isidro) and Grimaldo del Solar (Miraflores) as part of a transformation plan that includes new and more agile ways of working.

Additionally, due to the high demand for resources in the industry, Movistar has been optimizing expenses and investments through innovative mechanisms such as infrastructure sharing (RAN Sharing) and restructuring the product grid, focusing on the most profitable products and those that best respond to market needs.

## **Commitment to digital transformation**

An important milestone that demonstrated Telefónica's ability to handle highly complex projects were the "Pan American and Parapan American Games Lima 2019". The B2B segment of Telefónica led the deployment of technological infrastructure at the Games, with more than 6,000 fixed network points and 2,000 wireless Internet accesses that served more than 6,000 athletes. In addition, Movistar broadcasted continuously 24/7 for 41 days, reaching peaks of almost 27 thousand spectators on channels 19 (SD) and 719 (HD).

Moreover, in mid-September Movistar and Ericsson conducted the first 5G trials with real-use cases to demonstrate the benefits and potential of this technology, focusing on how it can revolutionize areas such as health and education. The trial was performed in the city of Trujillo, where a digital class with Augmented Reality connected to 5G was held.

## Main important facts of the third quarter of fiscal year 2019

1. On July 3, the share capital as at June 30, 2019 was announced.
2. On July 6, monthly information on derivative instruments as at June 2019 was announced.
3. On July 4, in accordance with the provisions of the Unique Ordered Text of the Securities Market Law, and Resolution SMV No. 005-2014-SMV / 01, the following was reported as an important event: Today Telefónica del Perú S.A.A. has been notified of the judgment issued by the Supreme Court in the administrative contentious legal action initiated by the Company. Currently, five tax deductions corresponding to Income Tax for the year 2000 of Telefónica Móviles S.A.C. are being disputed. The aforementioned decision declares that (i) our cassation appeal regarding three deductions were upheld, thus permitting the file to be referred to the Superior Court of Lima in order to issue a new judgment; and (ii) unfounded regarding to the other two deductions being disputed.
4. On July 9, a statement was made against the newspaper Gestión for publishing information on the tax dispute in which Telefónica del Perú S.A.A. is involved.

### **TELEFÓNICA STATES THAT THE TEXT PUBLISHED BY THE NEWSPAPER "GESTION" ON THE TAX CONTROVERSY IS FALSE**

In response to the recent publication of the newspaper Gestión on the decision issued by the Supreme Court in file No. 11111-2016-Lima referring to the 2000 financial year, the Company specifies the following:

1. The story by the newspaper Gestión on the alleged loss of the tax dispute for a very significant amount is completely false. The judgment that was handed to us last week does not contemplate any figure. However, the maximum amount discussed in this case does not exceed S/ 700 million in five deductions. Of these five deductions, only two of them have resulted adverse. Our nullity requests for the other three have been declared founded. As such, notwithstanding the evaluation that the Company is still undertaking, any eventual impact derived from this judgment will be much lower than S/ 700 million.
2. It is also untrue that as a result of this legal judgment there is some debt required by SUNAT. We regret that a medium of communication becomes a simple sounding board, publishing figures that are not true and that could generate financial panic.
3. We should clarify that this judgment does not definitively conclude the tax dispute proceedings between SUNAT and one of the country's main taxpayers. We still believe that matters will be resolved fairly and in accordance with the law, thus strengthening tax predictability. It should be mentioned that more than half of the judicial proceedings in progress (21) have been initiated by the SUNAT Public Prosecutor's Office against decisions of the Tax Court that were favorable to the taxpayer.
4. This legitimate tax controversy has been lasted for about 20 years and due to the delay in the tax dispute resolution model, the alleged original debt has increased by more than 500% due to default and interest. This constitutes an adverse precedent for any taxpayer, whether a natural or legal person, as it is a system that unfairly and disproportionately sanctions those who have a legitimate discrepancy with SUNAT regarding interpretable issues. At Telefónica we are proud to have grown alongside the country and contributed to its modernity and digital transformation. We trust the Judiciary and that the cases will be resolved fairly and in accordance with the law, thus strengthening the tax predictability and legal certainty that the country needs to promote investments and continue growing. At Telefónica, we are more than 5,500 direct and 27,000 indirect employees who are committed to ensuring that 100% of our compatriots are connected.

5. On July 11, the following was communicated:  
Today, Telefónica del Perú S.A.A. has been notified with the judgment issued by the Supreme Court regarding the contentious administrative proceedings initiated by the Company. There are five tax deductions corresponding to Income Tax for the years 2000 and 2001 currently being disputed.  
The aforementioned judgment declares that there has been discord regarding one of the deductions in question and informs the parties of the decisions taken regarding the other deductions: one in favor of the Company and the remaining three against.  
To date, the Company is evaluating the scope of said judgment.
6. On July 15, the maturity of TdP Bonds, Fourth Program, 19 Issue, Series A and the maturity of TdP Bonds, Sixth Program, 13 Issue, Series A were reported.
7. On July 16, we reported that the Board of Directors of Telefónica del Perú S.A.A. approved the formulation of the separate and consolidated financial statements corresponding to the second quarter of 2019. The statements contain the accounting record with effect on income tax results. Earnings of S/ 579,678,000, in response to the Supreme Court judgments that were reported as an Event of Importance on July 4 and 11 last.
8. On July 22, the payment of interest was announced for the Fourth Bond Program, 19 Issue, Series C.
9. On July 22, the Fitch Ratings Risk Classification report was issued, which gave the Company a BBB rating.
10. On July 24 it was reported that:  
The firm Gaveglío, Aparicio y Asociados S. Civil de R. L., a member of PricewaterhouseCoopers, the external auditor of the accounts for year 2019 by virtue of the designation made by the mandatory annual shareholder meeting of this year, will begin its planning work on August 5, 2019 and plans to undertake visits on the following dates:  
Planning visit: Weeks from August 5 to 16.  
Interim visit with balances to June 2019: Weeks from August 19 to September 13. Interim visit with balances as of September 2019: Weeks from October 14 to November 29.  
Interim visit with balances to November 2019: Weeks from December 9 to 20. Final visit: Weeks from January 6 to 31, 2020.
11. On July 25, the following was reported: it is public knowledge that Telefónica, SA proceeded to transfer 9 Data Centers located in 6 jurisdictions (Spain, Brazil, Mexico, Peru, Chile and Argentina) to a company controlled by Asterion Industrial Partners SGEIC, S.A. ("Asterion"). In the Peruvian case, as part of its global operations, Telefónica del Perú S.A.A. performed the transfer as reported in communications dated May 8 and 16 last.
12. On August 5, the share capital as at July 31, 2019 was announced.
13. On August 6, monthly information on derivative instruments as at July 2019 was announced.
14. On August 12, the payment of interest for the Seventh Bond Program, 27 Issue, Series A was announced.
15. On September 3, monthly information on derivative instruments to August 2019 was communicated.
16. On September 4, the share capital as at August 31, 2019 was announced.
17. On September 6, the payment of interest was announced for the Sixth Bond Program, 14 Issue, Series A.

### **3Q19 Competitive Environment**

In 3Q19, the competitive intensity continued in the mobile and fixed business. In the mobile business, operators focused their strategy on capturing and shielding value customers by launching unlimited post-paid voice and data plans with price reductions. The focus on value customers was at the expense of lower commercial activity that was reflected in the decline in portability (mainly of prepaid origin). During the quarter, Movistar maintained its leadership in mobile data flow share and continued to grow in post-paid access.

In the fixed business, operators maintained the price reduction strategy with increased speeds. In this context, Movistar continued to grow in BAF and Pay TV accesses by 6.8% and 3.8% compared to 3Q18 through the convergent offer “Movistar Total”, which reached 156,000 convergent customers in September. Additionally, with the aim of continuing to provide the best exclusive content to customers, Movistar premiered "One day you are young", its first original series produced in Latin America. Likewise, Movistar is committed to video games by acquiring the broadcast rights and sponsorship of the “Pro Gaming League”, broadcasting through the Movistar eSports channel.

Telefónica committed to contributing to reducing Peru's digital divide together with Erickson by conducting the first 5G trials with cases of real use in education and health in order to highlight the potential of this network. Due to the foregoing, Telefónica leads digital transformation in Peru, showing what new possibilities the use of technologies such as 5G will bring.

In June, Telefónica, together with Facebook, IDB Invest and CAF, officially launched the new company “Internet for All” (IPT) that aims to connect 6 million Peruvians who presently do not have access to mobile internet. A few months after its launch, IPT received recognition in the Alliances category of the “Peru for sustainable development goals” award, organized by the Peru 2021 association. This award seeks to recognize projects that are contributing to the country's sustainable development.

#### **Mobile business**

According to official information from Osiptel, in 2Q19 Movistar maintained the leadership of the mobile market with a 37.0% share in accesses.

In 3Q19 Movistar reached 12.5 million mobile accesses (7.6 million prepaid and 4.9 million postpaid), which meant a drop of -3.1% vs. 2Q19 and -6.8% vs. 3Q18. However, postpaid accesses increased by 3.7% vs. 2Q19 and 0.4% vs. 3Q18. The mobile IN portability of the market reached 1.86 million migrated lines (62% being prepaid), which meant a reduction of -33% compared to 2Q19 and -13% compared to 3Q18. In 3Q19, Movistar reached -55 thousand net migrations, registering its first loss since 3Q18.

In the postpaid segment the competitive intensity continued with a price reduction of up to 58% in the unlimited postpaid plans. Additionally, the competition launched discounts on a second line (two unlimited postpaid lines from S/ 97.50). In the prepaid segment, there was no increase in commercial activity associated with the new approach to value and retention customers.

#### **Fixed business**

According to information from Osiptel in 2Q19, Movistar continues to lead the fixed market with a 73.3% stake in fixed telephony accesses, 71.7% in broadband, and 61.9% in pay TV.

In 3Q19, Movistar is a leader in the fixed services market with 6.0 million fixed lines, of which 2.0 million are broadband accesses and 1.6 million pay TV accesses, with interannual growth of 6.8% and 3.8% respectively vs 3Q18.

In the fixed business, the competitive intensity did not abate. Operators continued with price reductions accompanied by increased speeds and other benefits. In 3Q19, Movistar continued to strengthen its convergent “Movistar Total” offer, while the competition launched high-speed broadband plans and home packs for fixed telephony and unlimited internet. WIN launched pro gamer plans with speeds of up to 400 Mbps and DirecTV focused on its prepaid plans.

## **Financial Year Results**

### **Income from ordinary activities**

Operating Income amounted to S/ 2,032 million in 3Q19, -0.2% lower than in 3Q18.

Revenues from **Local Telephony, Internet, and Pay TV** services reached S/ 791 million, demonstrating growth of +2.3% compared to 3Q18. The higher income is explained by the higher revenue from rent, **Internet** and **pay television** associated with the increase in plant prices and an increase in the park of 3% against 3Q18.

**Equipment** revenues reached S/ 23.8 million, showing an increase of + 17.1% compared to 3Q18, which was associated with the collection of installation fees.

Revenue from **Wholesale** services reached S/ 69.0 million in 3Q19, higher by some +60% compared to 3Q18, which is explained by an increase in the rental of circuits and IPT.

**Other Fixed revenues** reached S/ 17.5 million in 3Q19, showing a decrease of -52.6% compared to 3Q18. These figures are mainly due to the decrease in revenues from long distance services, Public Telephony and Rural Telephony.

**Data and Information Technology revenues reached S/ 193.9 million in 3Q19, higher by +28.3% compared to 3Q18 due to an increase in the Information Technology business.**

**Mobile Telephony** revenues in 3Q19 reached S/ 936.6 million, showing a decrease of -7.3% compared to 3Q18, which is equivalent to -S/ 73.9 million.

The decrease in income is largely explained on the prepaid front; **revenues show a decrease of -17.5% compared to 3Q18**, which is equivalent to -S/ 31.5 million. This year-on-year downturn is mainly due to a lower recharging plant in 3Q19 as a result of the commercial aggressiveness of the competition and the decrease in the collection of proactive channels.

Postpaid revenues in 3Q19 closed at S/ 422.5 million and show a 0.4% decrease compared to 3Q18, which is equivalent to S/ 1.8 million. This year-on-year fall is mainly due to the aggressiveness of the portability campaigns in the competition in 3Q19.

Income from the sale of terminals in 3Q19 amounted to S/ 302.4 million, a figure 3.3% greater than in 3Q18, which is equivalent to + S/ 9.6 million and largely explained by the increase in sales prices.

Revenues in wholesale in 3Q19 amounted to S/ 46.9 million, which is -40.1% less than in 3Q18. This number equating to -S / 31.4 million is explained by the downturn in the interconnection charge and lower incoming traffic.

Other mobile revenues in 3Q19 amounted to S/ 16.6 million, -53% less than in 3Q18. The figure is equivalent to -S / 18.7 million and due to lower revenues from M2M and mobile IT services.

## **Operating Expenses**

Operating expenses in 3Q19 reached S/ 2.408 million, 12.7% higher than in 3Q18. This increase is explained by higher personnel expenses (+111.1%) impacted by the voluntary retirement plan, and the estimate for doubtful accounts and devaluation of inventories (+166.4%). which were offset by the lower General and Administrative Expenses (4.1%), Depreciation and Amortization (7.8%) and finally lower expenses for Inventories (6.7%). At an accumulated level, operating expenses reached S/ 6,411 million, 3.8% higher compared to the same period of the previous year.

## **Results from other operating activities**

The result from operating activities in 3Q19 was -S/ 273.7 million, S/ 176.7 million lower than that recorded in 3Q18. This is mainly due to higher operating expenses (S/ 272.0 million) when compared to 3Q18. At a cumulative level, the result from operating activities reached -S/ 193.0 million, a figure lower by some S/ 121.6 million when compared to the same period of the previous year.

## **Non-Operating Result**

The non-operating result of 3Q19 was negative by -S/ 67.4 million, which is S/ 38.9 lower million compared to the 3Q18 result. The decrease is due to higher financial expenses. At a cumulative level, the non-operating result amounted to -S/ 191.9 million, which is S/ 61.5 million lower when compared to the same period of the previous year.

## **Net income for the year**

The net result for the year was -S / 317.5 million in 3Q19. The constitutes a decrease of S/ 213.3 million compared to the same quarter of the previous year. The figure is due to the voluntary retirement plan. At a cumulative level, the net result was -S/ 982.5 million, some S/ 756.0 million lower when compared to the same period of the previous year. The figure is mainly due to higher tax provisions in 2Q19 and 3Q19, which equated to approximately S/ .624MM for litigation with SUNAT, as well as to the voluntary retirement plan for S/ 313 million.

## **Economic environment**

In 2Q19 the economy grew 1.2% year-on-year, the lowest rate since 4Q14, which constituted growth of 1.7% in 1H19. This slowdown in the semi-annual GDP growth rate was due to the contraction of 2.9% of the primary activity as a result of transitory shocks, among which are: (i) the late start of the first fishing season and the lower catch quota that affected the anchovy catch, (ii) the lower production of gold, zinc and iron due to low mining laws and some stoppages due to social conflicts, (iii) and the lower activity of primary manufacturing due to lower production of fishmeal and lower refining of non-ferrous metals. Likewise, there was moderate growth of non-primary production, which slowed from an expansion of 4.5% in 1H18 to 3.1% in 1H19. This moderation reflected weaker domestic demand due to lower labor market dynamics, the reduction of public expenditure in 1Q19, the deterioration in expectations, and a less favorable internal and international situation. In terms of expenditure, supply shocks to primary activity implied a reduction in 1H19 exports. Added to this factor is the reduction of public expenditure, partly due to the change of subnational authorities at the beginning of 2019. Likewise, the moderation of world growth, the reduction of the terms of trade, and a less favorable domestic political climate have affected private sector spending decisions. Insofar as private spending, consumption moderated its growth, following the evolution of the labor market. On the contrary, private investment maintained a growth of 4.1%, manifesting in terms of the recovery of non-mining investment.

## **Consumption, Investment and Public Expenditure**

The slowdown in private consumption is a reflection of labor market indicators, which decelerated compared to the advance of 2018. The labor market has shown less dynamism since Feb-19. In the last result recorded in Jul-19, formal jobs in the private sector grew by 3.4% annually, 4.4% lower than in Jul-18, but greater than in previous months, thus presenting signs of recovery. These signals are also evident in other indicators related to private consumption including consumer confidence, measured as the expectation about the future economic situation of families. Consumer confidence reversed the slowdown observed since May-19, reaching a level of 63 points in Aug-19. Terms of trade also experienced a recovery in Aug-19, while consumer credit continued to register high growth rates (10.8% in Aug-19).

Furthermore, private investment increased from 2.9% in 1Q19 to 5.1% in 2Q19. Greater mining investment, growing by 17%, and that originating from other sectors (+3.5%) contributed to this result. The Ministry of Energy and Mines reported that for 2Q19 mining sector investment, Anglo American Quellaveco, Marcobre, Chinalco mining companies, whose projects began the development phase in 2H18, were the main drivers of investments that amounted to US \$525 MM in 2Q19. Similarly, Yanacocha made investments of US \$42 MM in its Quecher Main project. As a percentage of GDP, non-mining investment remains stable at around 15.5%. For its part, mining investment has increased from 2% to 2.4% of GDP between 2Q18 and 2Q19.

Finally, public expenditure grew 2.9% in 2Q19, thereby reversing the 4.4% drop recorded in 1Q19. This progression is due to the recovery of public investment that went from falling 11% in 1Q19 to growing 6.1% in 2Q19. The increase in public consumption also contributed to the improvement, although to a lesser extent, from falling 2.7% in 1Q19 to only 1.7% in 2Q19. Likewise, the increase in public expenditure was greater than that observed in 2H18, particularly due to higher consumption by the national government.

## **Inflation, Exchange Rate and Rates**

The monthly inflation of September-19 recorded an increase of 0.01%. This occurred in a context of weakening domestic demand, which impacted the behavior of food and beverage prices, increasing only 0.05% per month, whereas it was at 0.11% in Aug-19 and 0.40% in Sep-18. In addition, the transport and communications group presented a significant reduction of -0.4% (subtracting 0.06 pp from the general month result). We observed on one hand a reduction in the interprovincial bus ticket -12% prices, due to the progressive leveling after the seasonal rise of national holidays and bank holidays in Aug-19; and in transport fuels: liquefied petroleum gas (LPG) -1.9%, gasoline -1.4% and diesel oil -0.1%, due to the lower international price of crude oil. Similarly, air transport prices decreased: national -2.8% and international -0.7%; as did personal transport vehicles—mainly new cars with -0.5%, due to a lower exchange rate in Jul-19. With this month's result, the annual inflation variation was 1.85%. The annual trend (the last twelve months), as of 2H19, has continued to decline (Jun-19: 2.29%, Jul-19: 2.11% and Aug-19: 2.04%). In relation to comparable annual periods, the reduction of inflation is greater than that of 2018 (1.28%), but significantly less than the rate observed in 2017 (2.94%).

In relation to our currency, between June 19 and September 19, the Peruvian Sol depreciated 1.7%, from S/ 3.30 to S/ 3.35 per US dollar. As such, the local currency has registered an overall cumulative appreciation of 0.5% so far this year. Volatility in international financial markets, the intensification of the US-China trade war, and local political uncertainty have pushed up the exchange rate in 3Q19. In this context, the Central Bank intervened in the foreign exchange market through by means of US \$708 MM in Foreign Exchange Swaps in Aug-19.

Regarding the monetary policy between Jul-19 and September-19, the actions of BCRP maintained a policy of expansion, with the aim of ensuring that inflation and its expectations remain within the target range (1% to 3%). This is due to a context in which economic activity continues to be below its potential level, and in which there is significant volatility and greater uncertainty in international financial markets. Thus, the Board of Directors of the Central Reserve Bank reduced the base interest rate from 2.75% to 2.50% in Aug-19, emphasizing in its statement that this decision does not necessarily imply any additional interest rate reductions. As a result of these monetary policy actions, the real interest rate was around 0.2% in this period, below its estimated neutral level of 1.50%. The BCRP is expected to again cut the base rate at some stage this year. This more expansive monetary policy position is consistent with a projected inflation rate that is around 2%, with a downward bias due to the possibility of a lower than expected growth in domestic demand.

## **Financial Markets**

Peru has maintained its sovereign debt classification in foreign currency: Moody's with stable A3, S&P with BBB + stable and Fitch with BBB+ stable. The key factors that influenced maintaining the classification were the public debt levels, which are below the legal debt limit (30% of GDP), the credibility of monetary policy, and the best profile of the external sector.

### **Statement of Financial Position**

Total current assets at 3Q19 amounted to S/ 4,064 million, S/ 160 million greater compared to the previous quarter. This result is mainly explained by the higher account balance: Trade accounts receivable, net and Accounts receivable from related entities. On the other hand, there was a decrease in contractual assets and other non-financial assets.

Total non-current assets closed at the third quarter of the year at S/ 11,452 million, S/ 45 million lower than in the previous quarter. This is mainly explained by the decrease in Property, plant and equipment (net) and intangible Assets other than goodwill (net), which was offset by the increase in the deferred tax assets.

Taking into account the foregoing, total assets were S/ 15,516 million, S/ 115 million more than compared to what was recorded at the end of 2Q19.

At the end of 3Q19, total current liabilities were S/ 5,846 million, S/ 307 million greater than 2Q19. The variation is mainly explained by the increase in the balance of Other Financial liabilities and Other accounts payable.

Total non-current liabilities amounted to S/ 4,767 million at the end of the 3Q19, a balance of S/ 122 million greater than when compared to the one observed in the previous quarter. This variation is mainly due to the increase in Lease Liabilities and Other accounts payable.

Finally, total equity decreased by S/ 314 million in 3Q19, to S/ 4,903 million largely due to the results of the year.

### **Relevant Financial Ratios**

At the end of 1Q19, liquidity ( $[\text{Total current assets} - \text{Cash and equivalents}] / \text{Total current liabilities}$ ) closed at 0.62x, a ratio similar to that obtained in the previous quarter that closed at 0.63x.

The financial leverage ( $\text{Financial liabilities} / \text{Total equity}$ ) reached the level of 0.74x in the second quarter of the year compared to the level of 0.70x of the previous quarter. These are comparatively low for the industry, and do not include the lease debt recorded as per IFRS 16.

TABLE 1

## TELEFONICA DEL PERU S.A.A.

Income Statement in SOLS (000) FOR THE PERIOD ENDING SEPTEMBER 30, 2019 AND 2018  
(Prepared as per the International Financial Reporting Standards IRFS)

|                                                           | 3Q19      |        | 3Q18      |       | Var. Abs<br>3Q18-3Q19 | Var. %<br>3Q18-3Q19 | 9M19      |        | 9M18      |       | Var. Abs<br>9M18-9M19 | Var. %<br>9M18-9M19 |
|-----------------------------------------------------------|-----------|--------|-----------|-------|-----------------------|---------------------|-----------|--------|-----------|-------|-----------------------|---------------------|
|                                                           | %         |        | %         |       |                       | %                   | %         |        | %         |       | %                     |                     |
| Revenue from ordinary activities                          |           |        |           |       |                       |                     |           |        |           |       |                       |                     |
| Fixed income                                              |           |        |           |       |                       |                     |           |        |           |       |                       |                     |
| Income from services (Voice + Internet + TV)              | 2,031,958 | 100.0  | 2,035,123 | 100.0 | (3,165)               | (0.2)               | 5,999,159 | 100.0  | 6,060,749 | 100.0 | (61,590)              | (1.0)               |
| Data + IT                                                 | 1,095,386 | 53.9   | 1,024,692 | 50.4  | 70,694                | 6.9                 | 3,109,852 | 51.8   | 3,000,220 | 49.5  | 109,632               | 3.7                 |
| Wholesale                                                 | 791,117   | 38.9   | 773,175   | 38.0  | 17,942                | 2.3                 | 2,313,717 | 38.6   | 2,297,043 | 37.9  | 16,674                | 0.7                 |
| Equipment (voice + internet + TV)                         | 193,896   | 9.5    | 151,114   | 7.4   | 42,782                | 28.3                | 488,150   | 8.1    | 418,902   | 6.9   | 69,248                | 16.5                |
| Other fixed income                                        | 69,006    | 3.4    | 43,019    | 2.1   | 25,987                | 60.4                | 169,677   | 2.8    | 121,696   | 2.0   | 47,981                | 39.4                |
| Mobile income                                             | 23,817    | 1.2    | 20,345    | 1.0   | 3,472                 | 17.1                | 67,929    | 1.1    | 62,474    | 1.0   | 5,455                 | 8.7                 |
| Postpaid                                                  | 17,550    | 0.9    | 37,039    | 1.8   | (19,489)              | (52.6)              | 70,379    | 1.2    | 100,105   | 1.7   | (29,726)              | (29.7)              |
| Terminals (recruitment and loyalty)                       | 936,572   | 46.1   | 1,010,431 | 49.6  | (73,859)              | (7.3)               | 2,889,307 | 48.2   | 3,060,529 | 50.5  | (171,222)             | (5.6)               |
| Prepaid                                                   | 422,540   | 20.8   | 424,354   | 20.9  | (1,814)               | (0.4)               | 1,305,099 | 21.8   | 1,321,209 | 21.8  | (16,110)              | (1.2)               |
| Wholesale                                                 | 302,445   | 14.9   | 292,855   | 14.4  | 9,590                 | 3.3                 | 916,365   | 15.3   | 845,770   | 14.0  | 70,595                | 8.3                 |
| Other mobile income                                       | 148,061   | 7.3    | 179,569   | 8.8   | (31,508)              | (17.5)              | 468,991   | 7.8    | 552,753   | 9.1   | (83,762)              | (15.2)              |
| Operating expenses                                        | 46,947    | 2.3    | 78,393    | 3.9   | (31,446)              | (40.1)              | 132,665   | 2.2    | 239,914   | 4.0   | (107,249)             | (44.7)              |
| General and administrative                                | 16,579    | 0.8    | 35,260    | 1.7   | (18,681)              | (53.0)              | 66,187    | 1.1    | 100,883   | 1.7   | (34,696)              | (34.4)              |
| Inventory                                                 | 2,407,688 | 118.5  | 2,135,678 | 104.9 | 272,010               | 12.7                | 6,411,442 | 106.9  | 6,178,901 | 101.9 | 232,541               | 3.8                 |
| Depreciation and amortization                             | 962,050   | 47.3   | 1,003,391 | 49.3  | (41,341)              | (4.1)               | 2,729,503 | 45.5   | 2,936,968 | 48.5  | (207,465)             | (7.1)               |
| Depreciation in use rights                                | 324,198   | 16.0   | 347,550   | 17.1  | (23,352)              | (6.7)               | 1,011,214 | 16.9   | 988,020   | 16.3  | 23,194                | 2.3                 |
| Personnel                                                 | 332,265   | 16.4   | 360,407   | 17.7  | (28,142)              | (7.8)               | 1,013,090 | 16.9   | 1,071,010 | 17.7  | (57,920)              | (5.4)               |
| Interconnection costs                                     | 45,874    | 2.3    | -         | -     | 45,874                | -                   | 132,708   | 2.2    | -         | -     | 132,708               | -                   |
| Estimated doubtful collection of accounts and devaluation | 505,730   | 24.9   | 239,606   | 11.8  | 266,124               | 111.1               | 879,817   | 14.7   | 581,388   | 9.6   | 298,429               | 51.3                |
| Transfer fees for technical and management capacity       | 69,018    | 3.4    | 86,748    | 4.3   | (17,730)              | (20.4)              | 179,556   | 3.0    | 256,423   | 4.2   | (76,867)              | (30.0)              |
| Operating income before other income and expenses, net    | 166,196   | 8.2    | 62,378    | 3.1   | 103,818               | 166.4               | 460,412   | 7.7    | 240,776   | 4.0   | 219,636               | 91.2                |
| Other income – operating costs, net                       | 2,357     | 0.1    | 35,598    | 1.7   | (33,241)              | (93.4)              | 5,142     | 0.1    | 104,316   | 1.7   | (99,174)              | (95.1)              |
| Operating activity profits                                | (375,730) | (18.5) | (100,555) | (4.9) | (275,175)             | 273.7               | (412,283) | (6.9)  | (118,152) | (1.9) | (294,131)             | (95.1)              |
| Financial income                                          | 102,036   | 5.0    | 3,539     | 0.2   | 98,497                | 2,783.2             | 219,299   | 3.7    | 46,723    | 0.8   | 172,576               | 369.4               |
| Financial expenses                                        | (273,694) | (13.5) | (97,016)  | (4.8) | (176,678)             | 182.1               | (192,984) | (3.2)  | (71,429)  | (1.2) | (121,555)             | 170.2               |
| Net difference in exchange                                | 10,171    | 0.5    | 10,855    | 0.5   | (684)                 | (6.3)               | 35,696    | 0.6    | 23,054    | 0.4   | 12,642                | 54.8                |
| Share in earnings of related parties                      | (80,484)  | (4.0)  | (43,123)  | (2.1) | (37,361)              | 86.6                | (223,115) | (3.7)  | (163,207) | (2.7) | (59,908)              | 36.7                |
| Non-operating earnings                                    | 3,146     | 0.2    | 3,561     | 0.2   | (415)                 | (11.7)              | (2,277)   | (0.0)  | 5,244     | 0.1   | (7,521)               | (143.4)             |
| Income tax                                                | (263)     | (0.0)  | 162       | 0.0   | (425)                 | (262.3)             | (2,189)   | (0.0)  | 4,571     | 0.1   | (6,760)               | (147.9)             |
| Net (loss) for fiscal year                                | (67,430)  | (3.3)  | (28,545)  | (1.4) | (38,885)              | 136.2               | (191,885) | (3.2)  | (130,338) | (2.2) | (61,547)              | 47.2                |
|                                                           | (341,124) | (16.8) | (125,561) | (6.2) | (215,563)             | 171.7               | (384,869) | (6.4)  | (201,767) | (3.3) | (183,102)             | 90.7                |
|                                                           | 23,601    | 1.2    | 21,387    | 1.1   | 2,214                 | 10.4                | (597,583) | (10.0) | (24,689)  | (0.4) | (572,894)             | 2,320.4             |
|                                                           | (317,523) | (15.6) | (104,174) | (5.1) | (213,349)             | 204.8               | (982,452) | (16.4) | (226,456) | (3.7) | (755,996)             | 333.8               |

We recommend reading this document with the corresponding Financial Statements and their accompanying notes simultaneously, which are an integral part of this document and contain complementary information.

**TABLE 2**  
**TELEFONICA DEL PERU SAA**  
**Income Statement in SOLS (000) AS OF SEPTEMBER 30, 2019**  
**(Prepared as per the International Financial Reporting Standards IRFS)**

| <b>Assets</b>                               | <b>3Q19</b>       | <b>2Q19</b>       | <b>1Q19</b>       | <b>4Q18</b>       | <b>3Q18</b>       | <b>Liability and Equity</b>                | <b>3Q19</b>       | <b>2Q19</b>       | <b>1Q19</b>       | <b>4Q18</b>       | <b>3Q18</b>       |
|---------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Current assets                              |                   |                   |                   |                   |                   | Current liabilities                        |                   |                   |                   |                   |                   |
| Cash and cash equivalents                   | 440,032           | 436,814           | 152,971           | 88,038            | 52,513            | Other financial liabilities                | 584,569           | 513,360           | 1,434,354         | 459,730           | 759,196           |
| Trade accounts receivable, net              | 1,776,322         | 1,619,325         | 1,629,404         | 1,525,749         | 1,560,575         | Lease liabilities                          | 222,949           | 212,252           | 128,002           | -                 | -                 |
| Contract assets                             | 175,613           | 199,937           | 221,418           | 267,299           | 301,337           | Trade accounts payable                     | 1,706,044         | 1,702,525         | 1,654,528         | 2,355,433         | 1,657,339         |
| Accounts receivable from related entities   | 552,452           | 473,105           | 287               | 372               | 287               | Contract liabilities                       | 154,966           | 174,736           | 191,789           | 162,252           | 184,100           |
| Other accounts receivable                   | 114,439           | 116,917           | 167,532           | 127,978           | 96,760            | Accounts payable to related entities       | 2,475             | 2,081             | 2,008             | 384               | -                 |
| Inventories                                 | 382,389           | 361,049           | 342,304           | 312,132           | 341,774           | Other accounts payable                     | 447,688           | 208,459           | 230,405           | 319,991           | 210,420           |
| Income tax credits                          | 206,851           | 219,559           | 245,342           | 303,060           | 283,821           | Deferred income                            | 36,011            | 47,011            | 59,800            | 52,649            | 45,768            |
| Other non-financial assets                  | 395,028           | 433,747           | 367,592           | 302,531           | 292,692           | Other provisions                           | 2,691,368         | 2,678,835         | 2,154,430         | 2,133,551         | 2,120,087         |
| Assets available for sale                   | 20,479            | 43,281            | -                 | -                 | -                 |                                            |                   |                   |                   |                   |                   |
| Total current assets                        | 4,063,605         | 3,903,734         | 3,126,750         | 2,927,159         | 2,929,759         | Total current liabilities                  | 5,845,890         | 5,539,259         | 5,855,316         | 5,481,990         | 4,976,910         |
| Trade accounts receivable                   | 15,333            | 9,585             | 24,674            | 38,084            | 26,519            | Other financial liabilities                | 3,051,665         | 3,160,737         | 1,693,374         | 1,689,598         | 1,744,505         |
| Accounts receivable from related entities   | 587               | 587               | 587               | 587               | 587               | Lease liabilities                          | 872,051           | 835,841           | 760,877           | -                 | -                 |
| Contract assets                             | 24,095            | 21,834            | 12,942            | 17,867            | 30,248            | Other accounts payable                     | 193,777           | 35,012            | 41,240            | 73,355            | 51,410            |
| Other accounts receivable, net              | 178,507           | 184,177           | 272,345           | 287,383           | 302,987           | Other accounts payable to related entities | 1,671             | 1,437             | 1,621             | 3,390             | -                 |
| Financial investments                       | 272,774           | 273,037           | 13,140            | 12,200            | 8,544             | Contract liabilities                       | 85,797            | 68,237            | 59,141            | 61,205            | 64,575            |
| Property, plant and equipment               | 28,397,625        | 28,334,387        | 28,862,220        | 28,671,302        | 28,322,736        | Deferred income                            | 110,923           | 114,913           | 120,713           | 125,321           | 132,226           |
| Accumulated depreciation                    | (22,207,964)      | (22,042,445)      | (22,171,618)      | (21,941,665)      | (21,806,660)      | Other provisions                           | 451,211           | 428,448           | 438,539           | 459,646           | 530,805           |
|                                             | 6,189,661         | 6,291,942         | 6,690,602         | 6,729,637         | 6,516,076         | Deferred tax assets                        | -                 | -                 | 5,244             | -                 | 40,203            |
| Intangible assets other than goodwill (net) | 2,103,500         | 2,140,279         | 2,200,691         | 2,276,029         | 2,295,342         | Total non-current liabilities              | 4,767,095         | 4,644,605         | 3,120,749         | 2,412,515         | 2,563,724         |
| Rights of use assets                        | 1,025,448         | 1,046,263         | 998,452           | -                 | -                 | Total liabilities                          | 10,612,985        | 10,183,864        | 8,976,065         | 7,896,505         | 7,540,634         |
| Differed tax assets                         | 133,326           | 13,869            | -                 | 535               | -                 | Equity                                     |                   |                   |                   |                   |                   |
| Goodwill                                    | 1,215,345         | 1,224,872         | 1,224,379         | 1,224,379         | 1,224,379         | Capital issued                             | 2,876,352         | 2,876,352         | 2,876,352         | 2,876,352         | 2,876,352         |
| Other non-financial assets                  | 293,590           | 290,143           | 255,452           | 279,273           | 290,400           | Issue premiums                             | 77,899            | 77,899            | 77,899            | 77,899            | 77,899            |
| Total non-current assets                    | 11,451,966        | 11,496,568        | 11,693,264        | 10,865,974        | 10,695,082        | Other capital reserves                     | 578,891           | 576,456           | 576,453           | 576,453           | 580,457           |
|                                             |                   |                   |                   |                   |                   | Accumulated results                        | 1,371,501         | 1,689,024         | 2,315,797         | 2,368,477         | 2,552,189         |
|                                             |                   |                   |                   |                   |                   | Other equity reserves                      | (1,857)           | (3,093)           | (2,352)           | (2,353)           | (2,490)           |
|                                             |                   |                   |                   |                   |                   | Total equity                               | 4,902,586         | 5,216,438         | 5,843,949         | 5,896,628         | 6,084,207         |
| <b>Total assets</b>                         | <b>15,515,571</b> | <b>15,400,302</b> | <b>14,820,014</b> | <b>13,793,133</b> | <b>13,624,841</b> | Total liabilities and equity               | <b>15,515,571</b> | <b>15,400,302</b> | <b>14,820,014</b> | <b>13,793,133</b> | <b>13,624,841</b> |

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