



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

October - December 2019

Digitally signed by:
MARCOS DAVID SERRA
BENAVIDES
Date: 02/11/2020 03:22:10 p.m.

Digitally signed by:
ALEX MIGUEL NOLTE ALVA
Date: 02/11/2020 04:24:25 p.m.

MOVISTAR WILL CONTINUE TO FOCUS ON DIGITAL TRANSFORMATION AND FINANCIAL RECOVERY

- In 2019, operating revenues reached 7.877 million Soles, led by the fixed segment, whose revenues grew 1.2% in 2019.
- The Company's free cash flow reported an improvement of more than 360 million Soles compared to 2018.
- The Company's strategy focuses on 3 areas: strengthening the convergent offer in all segments, improving customer experience, and accelerating the transformation and efficiency plan.
- Movistar is the only company in the sector with an increase in NPS since August 2018.
- 'Internet for All' has connected more than 1 million Peruvians and is a vehicle to which any operator can join for providing services in rural areas.

Lima, February 11, 2020.- Movistar Peru disseminated its financial results for 2019, recording an operating income of 7,877 million Soles. Operating revenues were led by the fixed business, especially by wholesale and data services. In addition, the Company's free cash flow, despite being in negative territory, increased in 2019 by more than 360 million Soles thanks to the Company's efforts to make its operations and structure more efficient, through the sale of different non-strategic assets.

"In 2019, the Company reached its turning point. Since 2018, we have implemented a transformation process to become a more agile, efficient and digital company, through a disruptive convergent model focused on the client to increase profitability and sustainability in the long term. Our transformation has also implied a continuous process of efficiencies focusing on what generates value. That is why we continue to look to the monetization of assets, the restructuring of the Company, and the sharing of infrastructure, among others," said Pedro Cortez, Executive President of Telefónica del Perú

During that year, Telefónica continued to invest with a total disbursement of 1,394 million Soles that have been destined mainly to expand and improve the infrastructure of fixed and mobile networks nationwide.

The New Telefónica

Cortez added that the corporate decisions announced at the end of 2019, of grouping all the operations of Telefónica Hispanoamérica into a single autonomous entity to maximize the value of the company in the region, are in line with the local strategic plan to recover profitability and sustainability of the operation in the country.

Since 2018, the Company has been working intensively in the quest to be more efficient in its processes and the use of costs, leveraging the increase of digital interactions, and in the automation and robotization of processes. "To this is added our commitment to implement a

new operational model for sharing networks with third parties that will allow us to better serve customers and achieve significant savings in expenses and investments,” added Pedro Cortez, Executive President of Telefónica del Perú.

Along these lines, in mid-2019, the Company reached a RAN sharing agreement with Entel, which has contributed to lower operating costs and deployment investment. Located on 180 road sites where signal density was low, both companies now share the infrastructure that gives access to their respective networks, serving their customers in a more optimal way.

Convergent offer and growth in corporate segment

At the beginning of 2019, 'Movistar Total' was launched, the first and only convergent offer in the country that unites fixed and mobile services, which, at the end of the year, had 210 thousand homes. As a result of convergent initiatives, the expansion of fiber optic coverage, and in the midst of aggressive commercial activity across the market, throughout 2019 Movistar maintained leadership with a 70.2% share in Broadband, 63.7% on TV paid and 35.3% in Mobile Telephony.

Currently, in the fixed business, Telefónica has 4.2 million homes enjoying high-speed networks (Ultra Broad Band), of which 1 million correspond to fiber optic technology connected to the home (FTTH). We are thus the company that invests the greatest amount in fiber optic networks in Peru. Similarly, we invested in infrastructure to improve the capacity of the 4G network, with 421 new sites deployed throughout the country.

On the corporate segment (B2B) side, revenues grew 1.6% by the end of 2019, with a special contribution from digital services that grew by 30% in line with the convergent offer of digital solutions. It should be noted that the corporate sectors where the Company focused most in 2019 were Tourism and Mining; in the latter it reached a 95% share in large mining companies and achieved a 52% year-on-year growth in revenues.

A particular milestone was the leadership of Telefónica in the deployment of the technological infrastructure that guaranteed the connectivity of all the venues of the Lima 2019 Games, with more than 6,000 fixed network and 2,000 wireless Internet access points, which allowed processing in Real-time competition information and ensured the operability of the press and image storage centers. Thanks to this deployment, more than 8,000 athletes had unrestricted internet access in all competition and training venues, as well as in the athletes' village.

Customer Experience

The Company seeks to improve the experience and attention of its customers, putting them at the forefront of its decisions, supplying them with products and services that meet their needs, and proper operation and attention. “We aim for 95% of our contacts to be through digital channels. Likewise, we have made changes to improve attention in stores, contact centers and technical visits to clients' homes,” said Cortez.

This has allowed Movistar to be the only company in the sector with an increase in the NPS (Net Promoter Score) since August 2018 in all segments where the company operates.

On the other hand, the series "Un día eres joven" [*One day you are young*] and "El día de mi suerte" [*The day of my luck*] were released on the multiplatform Movistar Play in September and November, 2019. Both were the first original series produced by Movistar in Latin America. In addition, Movistar continued to offer quality local content with the broadcast of the matches of the Peruvian National Soccer and Volleyball teams, and the National Volleyball League. We also had exclusive coverage of the LIGA1 Movistar, LIGA2 and the Bicentennial Cup. To this was added the uninterrupted transmission of the Pan American and Parapan American Games in Lima 2019.

Commitment to the country

In 2019, our commitment to Peru continued in greater force after the launch of Internet para Todos (*Internet for All-IPT*), a company created jointly with Facebook, IDB Invest and CAF. The purpose of IPT is to connect more than 6 million Peruvians who do not have adequate mobile internet. IPT is a Rural Mobile Infrastructure Operator (OIMR), which, through a wholesale model, offers access to all mobile operators who wish to use their telecommunications infrastructure to provide communication services in rural areas on the coast, or in the mountains and jungle. To date, IPT has already connected more than 1 million Peruvians.

"We want to close the digital divide from now until the bicentennial so that all Peruvians have development opportunities. Internet para Todos is an initiative with significant social impact, but it is also a vehicle to serve 6 million Peruvians through a profitable business model with social impact. To offer that, we have partnered with world-class investors, such as Facebook, CAF and IDB. The key to IPT is the sharing of infrastructure with other operators and we aim to do that," said Cortez.

Main important points of the third quarter of fiscal year 2019

1. On October 3, the following was communicated:
Application No. 2019039784. Official Response No. 4763-2019
We address you in relation to the information disseminated in the web portal of the newspaper Gestión, which refers to that published in the digital press "Vozpopuli". Regarding the foregoing, we wish to specify that we do not have any information regarding the intention of the shareholders to withdraw their investments from the country and that said decision corresponds exclusively to the shareholder.
Regarding the tax dispute that Telefónica del Perú S.A.A. maintains with SUNAT, it should be noted that it still has several pending challenges to date. The information on said controversy and its current status has been disseminated to the market in important events and as notes in the financial information of the Company. Telefónica del Perú S.A.A. has full confidence in the Judiciary and expects that pending challenges be resolved fairly and in accordance with the law, thus strengthening the tax predictability and legal certainty that Peru needs to promote investments and continue growing.
Telefónica del Perú S.A.A. will continue working to improve the experience of its customers and is committed to achieving 100% connectivity for our compatriots.
2. On October 3, the Share Capital was communicated as at September 30, 2019.
3. On October 7, the maturity of interests of the Sixth Bond Program, 11 Issue, series B- was announced.
4. On October 7, the maturity of interest for the Fifth Bond Program, 22 Issue, Series A was announced.
5. On October 10, monthly information on derivative instruments as of September 2019 was communicated.
6. On October 14, the maturity of interests of the Sixth Bond Program, 15 Issue, series A was announced.
7. On October 14, the response to Document No. 4865-2019 was communicated:
Application No. 2019039651
 - a. On October 3, 2019, Telefónica del Perú S.A.A., in compliance with what is required by Official Document No. 4763-2019-SMV/11.1 and within the framework of paragraph 6.4 of Article 6 of the Regulation of Facts of Importance and Reserved Information (hereinafter, the Regulation), proceeded to inform, regarding the publication made in the Spanish digital medium "Vozpopuli" that it was not aware of the intention of its majority shareholder to sell or transfer its shareholding in the company. The latter was manifested even when the same publication indicates that the majority shareholder denied such claims.
 - b. In relation to the application of the presumption established in paragraph 9.2 of Article 9 of the Regulations, we are required to indicate that it would not be applicable to the present case as long as the publication indicated above did not originate in the organization and/or economic group to which Telefónica del Perú S.A.A. belongs. It was however a news item disseminated in an international electronic media context, but in which additionally, it was expressly indicated that our majority shareholder had denied such claims.
 - c. Additionally, upon revising the applicable regulations, we understand that it does not establish the obligation of the issuer to require its controlling shareholder to confirm or deny whether or not it has an intention to transfer its shareholding. Thus, neither the issuer is obliged to comply with such a requirement nor the shareholder to deliver said information.

- d. Notwithstanding the foregoing, and given the requirement undertaken in the Official document, we wish to state that, as recognized by the same media "Vozpopuli", the majority shareholder of Telefónica del Perú S.A.A. has denied such claims. Telefónica del Perú S.A.A. reiterates its commitment to strictly comply with all its obligations in accordance with the applicable legal framework, as it has been doing so far.
8. On October 14, the response to the Official Document No. 4865-2019 was communicated: Application No. 2019039651
 Regarding the fact of importance reported on October 3 in connection with the information disseminated in the website of the newspaper "Gestión", referring to that published in the digital media "Vozpopuli".
 As can be seen from the same news item, the information contained therein was denied by our controlling shareholder. We reiterate what was informed through a communication dated October 3 insofar as that we are not aware of the intention of our controlling shareholders to withdraw their investments from the country.
9. On October 15, the following was communicated: Application No. 2019039784.
 By means of this we comply with the attachment of Official Document No. 4865-2019-SMV/11.1 that was involuntarily omitted. Likewise, we are again providing the response letter communicated on October 14, 2019.
10. On October 16, the maturity of interests of the First Private Bond Program, 1 Issue, series A was announced.
11. On October 21, the maturity of interests of the Sixth Bond Program, 16 Issue, series A was announced.
12. On October 22, the maturity of interests of the Fourth Bond Program, 19 Issue, Series B, was announced.
13. On October 22 we informed that:
 The Board of Directors approved on the date (i) the preparation of the individual and consolidated financial statements corresponding to the third quarter of 2019: (ii) the resignations submitted by Mr. Alfonso Ferrari Herrero, of Spanish nationality, identified with passport No. AAB337700, and Gonzalo Hinojosa Fernández de Angulo, of Spanish nationality, identified with passport No. AAI318063, as Directors and members of the "Audit and Appointments, Remuneration and Good Governance Committee" of Telefónica del Perú S.A.A.; and (iii) the appointment as Directors of Messrs. Eduardo Caride, and Jose Luis Gomez-Navarro, who, in accordance with the provisions of Article 157 of the General Companies Law and Article 30 of the bylaws, are incorporated by means of co-optation to the Board of Directors with immediate effect, as well as to the Audit and Appointments, Remuneration and Good Governance Committee of Telefónica del Perú S.A.A.
14. On October 22 we informed that:
 The approval of the financial statements for the third quarter of 2019 (separate and consolidated).
15. The following was communicated on November 4: Application No. 2019043923
 We make it public knowledge that Telefónica del Perú S.A.A. and Entel Perú S.A. have signed a "memorandum of understanding" (MoU) to explore, in a non-binding manner, the possible sharing of our telecommunications networks and various technologies. Both companies have expressed in the MoU their intention to reach an agreement to share active infrastructure of their networks that will allow them to improve the experience of their customers and achieve efficiencies in their operations.
 In accordance with the Regulation of Facts of Importance and Reserved Information, in due course the agreements that they may reach shall be communicated, if applicable.

16. On November 7, the monthly position of derivative instruments was communicated as at October 2019.
17. On November 7, the Share Capital as at October 31, 2019 was communicated.
18. On November 22, the maturity of interest for the TdP Fourth Program Bonds, 37 Issue, Series A was announced.
19. On November 27, the following was communicated:
By means of this communication Telefónica del Perú S.A.A., wishes to disclose in the media that the Company has proceeded with the payment of S/ 218,527,890 in execution of Coercive Execution Resolution No. 011-006-0059183 issued by SUNAT as per the framework of the process linked to income tax withholdings for the years 1999 and 2000 of non-domiciled companies (Satellite Case). It should be noted that said amount was fully provisioned in the financial statements of the Company. It should be noted that said amount does not meet the materiality requirements established in the Internal Standards of Conduct of Telefónica del Perú S.A.A.
20. On November 27, the following was communicated:
By means of this communication and in compliance with the provisions of the Regulation of Facts of Importance and Reserved Information, we state that today, November 27, 2019, we have been informed by the Lima Stock Exchange of the suspension of trading of our Class "B" (TELEFBC1) and Class "C" (TELEFCC1) shares until the close of today's trading. We have attached the aforementioned EMI.
21. On November 27, the following was communicated:
In accordance with the provisions of Article 28 of the Securities Market Law and the Regulations of Importance Facts and Reserved Information, attached hereto, please find the Risk Classification report, of Telefónica del Perú S.A.A., issued by Class y Asociados S.A.
22. On November 27, the following was communicated:
Press release: TELEFÓNICA WILL SEEK NEW BUSINESS MODELS AND ALLIANCES TO REINFORCE INVESTMENT CAPABILITIES IN HISPAM.
23. On November 27, the Apoyo & Associates Risk Classification Report was communicated
24. On November 29, Response (Circular No. 337-2019-SMV/11) was communicated
In response to that required by Circular N ° 337-2019-SMV/11 dated October 25, 2019, we attach hereto the Annex with the responses to the information request.
25. On December 2, the maturity of interest of TdP Fourth Program Bonds, 12 Issue, Series A was announced.
26. On December 4, the Share Capital as at November 30, 2019 was communicated.
27. On December 6, monthly information on derivative instruments as at November 2019 was communicated.
28. On December 9, the maturity of interest of TdP Sixth Program Bonds, 11 Issue, Series A was announced.
29. On December 13, the interest maturity of TdP Sixth Program Bonds, 12 Issue, Series A was announced.
30. On December 16, the following was communicated: Application No. 2019049337
Official response of the SMV
We address you regarding the communication of the abovementioned matter regarding the interview published in the November 25, 2019 edition of the supplement "Día 1" of the newspaper El Comercio.
This interview, which is public knowledge, presents aspects that are also of public knowledge and that were once registered in the market as a fact of importance, as well as personal opinions of our Executive President, Mr. Pedro Cortez Rojas. In due course, any presentation was not considered necessary as a fact of importance since the interview does not contain information that is relevant, not disclosed to the market, likely to influence the decision of

a sensible investor regarding their investment decisions. Notwithstanding the foregoing, and in consideration of the communication, we comply with attaching the aforementioned public interview to this document.

31. The following was communicated on December 26: Application No. 2019050489

In relation to Circular No. 399-2019-SMV/11.1 and the aforementioned file, in order to inform you that the Responsible Business Policy has been maintained in the same terms as approved by the Board of Directors of the Company at its meeting of the October 18, 2017.

Competitive environment 4Q19

Currently, in the fixed business, Telefónica has 4.2 million homes enjoying high-speed networks (Ultra Broad Band - UBB), of which 1 million correspond to fiber optic technology connected to the home (FTTH). We are thus the company that invests the greatest amount in fiber optic networks in Peru. Similarly, we have invested in infrastructure to improve the capacity of our 4G network, deploying a total of 421 new sites across the country.

In line with the commitment to continue improving connectivity in the country, Telefónica, in partnership with Facebook, IDB Invest and CAF, has created the company "Internet para Todos". In Peru, IPT will allow more than 6 million Peruvians from rural communities on the coast and in mountains and jungle to be integrated into Telefónica's data network. 2019 closed with more than 1 million Peruvians benefitting from high-speed mobile Internet access.

Likewise, with the aim of continuing to provide the best services and benefits to its customers, Telefónica launched "Movistar Total": the first convergent offer in the country that combines fixed and mobile services. This means the possibility of contracting fixed voice, high speed internet, television with a wide variety of content and the best mobile plans in a single package. In addition, the convergent offer includes more benefits such as Movistar Prix applications, exclusive benefits program for Movistar customers, and Movistar Play, an online video platform, all of which have been improved in search of creating unique and innovative experiences. Movistar Prix reached 3.5 million users and Movistar Play has 0.6 million active customers. At the end of 2019, Movistar Total was already connected 210 thousand homes and 302 thousand mobile customers.

In addition, during 2019 Telefónica continued to provide the best local and differentiated content to its customers, through its exclusive channels. In the field of Sports, Movistar Deportes provided coverage of the matches of the Peruvian National Soccer and Volleyball teams, and of the National Volleyball League; GOLPERU exclusively transmitted the LIGA1 Movistar, LIGA2, Bicentennial Cup; and as a milestone, a 24/7 channel was offered to broadcast the Pan-American and Para-American Games "Lima 2019", thus becoming the main ally for Peruvian sport. In the entertainment field, Movistar Peru was the pioneer in the production of original fiction programming by offering our clients two series: "One day you are young" and "The day of my luck".

Mobile business

According to official OSIPTEL reports, as at 3Q 2019, the mobile market fell to 40.9 million, a 0.3% reduction compared to the same period of 2018, reaching a density (lines/population) of 131.4%. Movistar continues to be the leader of the mobile market with a total of 14.4 million lines and a 35.3% stake. The density of the mobile internet service increased from 74.2% in 3Q 2018 to 78.0% in 3Q 2019, a growth of 3.8 percentage points. Additionally, the average consumption of mobile internet increased from 10 GB in 3Q 2018 to 15 GB in 3Q 2019.

In 2019, commercial aggressiveness was maintained, with operators focused on capturing and shielding customers of medium and high postpaid value by reducing prices in their unlimited plans, to launching promotions of two unlimited lines for less than S/ 100 monthly, portability promotions, attractive devices with flexible plans and better customer retention. In prepaid, operators continued to drive improvements and incentives in top ups and welcome bonuses.

In 4Q19, Movistar achieved 11.9 million mobile accesses (4.9 million postpaid and 7.0 million prepaid), obtaining a negative net gain of -617 thousand mobile accesses vs. 3Q19 (+29 thousand postpaid accesses and -646 thousand prepaid accesses) and in an annual comparison lost - 1,767 thousand accesses (+7 thousand postpaid accesses and - 1,774 thousand prepaid accesses), in 4Q19 there was an adjustment and cleaning of mobile accesses. The drop in prepaid access responds to reduction of channels due to regulatory adjustments and to the reduction of revolving.

During 2019, Movistar registered 2.5 million ported lines (+4.2% vs. 2018) capturing 28.4% of the total number of ported lines in Portability "IN". In Net Portability, Movistar recorded negative results of -125 thousand net ported lines (-70 thousand vs 2018).

Fixed business

According to official Osiptel reports in 3Q19, fixed telephony reached 2.5 million lines, which represents a 10.6% reduction compared to 3Q18. Telefónica maintains the leadership with a 72.6% stake. In terms of fixed broadband, the market represented 2.4 million lines, a 3.1% reduction in an annual comparison; Telefónica leads the market share with 70.2%. Finally, in the television market, 2.0 million lines were registered, a 4.6% reduction in an annual comparison; Here too, Telefónica maintains the leadership with a total share of 63.7%.

In the fixed business, price reduction continued with increased speeds (mainly in broadband offers), in addition there was the entry of new niche operators. In 4Q19, Telefónica's accesses reached 5.7 million, a decrease of -342 thousand vs. 3Q19 and -309 thousand compared to 4Q18. This fall is mainly due to the adjustment and cleaning of accesses that were made in November 2019.

Telefónica's total revenues in 2019 increased 2% compared to 2018, leveraged by the new convergent offer, its differentials and the Pan American Games.

Financial Year Results

Income from ordinary activities

Operating Income amounted to S/ 1,878 million in 4Q19, -7.7% less than in 4Q18.

The revenues from services of **Local Telephony, Internet, and Paid Television** reached S/ 733 million, -5.1% less than in 4Q18. The lower income is explained by lower commercial activity and the reduction in the plant.

Equipment revenues reached S/ 24.4 million, observing an increase of + 48.9% compared to 4Q18, associated with the collection of the installation fee.

Revenue from **Wholesale** services reached S/ 67.7 million in 4Q19, +17% greater than when compared to 4Q18, explained by an increase in the rental of circuits and IPT.

Other Fixed revenues reached S/ 23.2 million in 4Q19, showing a decrease of -35.5% compared to 4Q18. These figures are mainly due to the decrease in revenues from long distance services, Public Telephony and Rural Telephony.

Data and Information Technology revenues were at S/ 159.0 million in 4Q19, 15% lower than in 4Q18, explained by smaller-scale projects in the Information Technology business.

Mobile Telephony revenues in 4Q19 reached S/ 870.9 million with a decrease of -9.8% compared to 4Q18 equivalent to -S/ 94.8 million.

The decrease in income is largely explained on the prepaid front. Revenues show a decrease of -21.8% when compared to 4Q18, equivalent to S/ 39.1 million. This year-on-year downturn is mainly due to a lower topping-up in 4Q19 as a result of the commercial aggressiveness of the competition, and the decrease in the acquisition of proactive channels.

Postpaid revenues in 4Q19 closed at S/ 422.1 million, showing an improvement of 1.6% compared to 4Q18--equivalent to an increase of S/ 6.6 million. The B2C segment shows a decrease due to the decrease in the average ARPU due to the cancellations with higher ARPU than subscriptions.

Income from the sale of terminals in 4Q19 amounted to S/ 254.9 million, less by 8.4% in 4Q18, which is equivalent to -S/ 23.4 million. The foregoing is mainly explained by the downturn in commercial activity.

Wholesale income in 4Q19 amounted to S/ 48.4 million, -40.7% lower than 4Q18 income. This is equivalent to -S/ 33.3 million and explained by the drop in the interconnection charge and lower incoming traffic.

Other mobile revenues in 4Q19 amounted to S/ 5.4 million, down -51.3% when compared to 4Q18. This is the equivalent to -S/ 5.7 million and explained by lower revenues in M2M and mobile IT services.

Results from other operating activities

The Result from Operating Activities in 4Q19 was -S/ 122.6 million, S/ 76.6 million better than that recorded in 4Q18.

The Operating Activity Result for the year 2019 was -S/ 315.6 million, S/ 44.9 million lower than that recorded in 2018, mainly due to the decrease in the Revenue from Ordinary Activities.

Non-Operating Result

Non-Operating Income in 4Q19 was negative at S/ 70.7 million, which shows a decrease of S/ 57.9 million compared to 4Q18. The drop is mainly due to higher finance expenses due to maintaining higher debt and the impact of IFRS 16.

The Non-Operating Result in 2019 was negative at S/ 262.6 million, which presents a decrease of S/ 119.5 million compared to 2018, as explained in the previous paragraph.

Net yearly income

The net result for the year in 4Q19 was -S/ 154.7 million, an improvement of S/ 29.0 compared to 4Q18.

The net result for the year of 2019 was -S/ 1,137.1 million, which represents an amount of S/ 727.0 million below that recorded in 2018. This result is explained mainly by the lower operating result and by higher taxes compared to 2018, as a result of the judgments of ACA 1 and ACA 7.

Economic environment

The economy grew 3.0% in 3Q19, slightly below that expected by the market consensus. This lower rate was mainly due to the fall in the volume exported from the primary sectors as a result of the slowdown in the world economy. However, the dynamism of domestic demand surprised all by growing 4.1% in 3Q19, its highest expansion rate since 2Q18. The expansion of domestic demand was led by private consumption, which contributed half of the growth and private investment, which also registered its greatest expansion since 2Q18. Furthermore, although public investment showed some stagnation, it highlighted the dynamism of public consumption, which reported its highest result in seven quarters.

Although GDP managed to accelerate its growth to 3% in 3Q19, this dynamism has not continued in the months of October and November. As such, during the period January-November 2019, the economy grew only 2.1%. There are several factors that explain this slowdown; In the first place, the political environment, manifested in the dissolution of the congress of the republic on September 30 and the call for congressional elections, has generated uncertainty affecting business confidence and therefore non-mining investment. Second, the unfavorable global economic environment, whose main manifestation was the trade war between China and the United States, impacted on the price of copper, which accounts for more than 40% of Peruvian exports. Finally, the most prolonged impact of shocks on mining and fishing activity.

Consumption, Investment and Public Expenditure

Private consumption grew 3.3% in 3Q19, its highest expansion rate of the year, exceeding the slowdown shown in 2Q19. This behavior was explained by a recovery of formal employment, which has shown a better dynamism since Jul-19, although it continues at levels below what was achieved in 2018. Formal jobs rose 3.0% year-on-year in Sep-19, the second highest rate of the year. These signals are also evidenced in other indicators related to private consumption, including consumer confidence, measured as the expectation about the future economic situation of families, which reversed the slowdown observed in 2Q19, reaching a level of 62 points in 3Q19. Furthermore, retail sales maintained their upward trend since 2Q19. The greater dynamism was reflected in the recovery of sales of new cars, which turned around to a positive rate after four quarters. In addition, consumer credit resumed its upward rate of around 11% and consumption imports went from negative variation rates to positive rates; mainly those of durable goods that went from falling 9% for three consecutive quarters to growth of 1.3% in 3Q19. This result was partially offset by the stagnation of revenues in real terms that fell 0.1% in 3Q19 after growing 1.7% in 3Q18.

Meanwhile, private investment continued to accelerate and increased from 1.4% in 3Q18 to 7.1% in the same period this year. 4Q19 can be explained by the acceleration of non-mining investment that registered a real growth of 5.3%, constituting two thirds of the increase in private investment (4.6 percentage points). In particular, the foregoing is highlighted by the dynamism of real estate investment and further progress of reconstruction works in the north of the country. Likewise, mining investment continued to grow, driven by the execution of mining megaprojects such as Quellaveco, Mina Justa and the expansion of Toromocho. In line with the trend in investment, the volume of capital goods imports grew for the second consecutive quarter reaching a rate of 9.5%. Additionally, internal cement consumption grew 7.9%. As a percentage of GDP, non-mining investment remains stable at around 16%. For its part, mining investment increased from 2.1% to 2.5% of GDP between 3Q18 and 3Q19.

Public spending increased 4.6% in 3Q19, contrary to the fall observed in the same period of the previous year (-3.2%). The increase in public consumption by 6.6%, its highest rate since 4Q17, was prompted by the greater expense incurred in the acquisition of goods and services by the national government (17%), mainly for the transport and communications sector, and local governments (5.1%). On the contrary, public investment registered a zero expansion (0.0%) reversing the progress shown in 2Q19. The growing trend of national government investment (5.8%) was maintained, but at a slower pace compared to the previous quarter, while better execution of regional governments (0.9%) and public companies (21%) was reported. The foregoing was completely offset by the fall in local government investment (-9.5%). The problem is that local governments and ministries have had difficulties in the capacity and implementation of spending. In addition, political uncertainty and corruption problems are holding back the execution of several projects.

Inflation, Exchange Rate and Rates

Inflation in 2019 recorded a growth of 1.9%, slightly below our forecast of 2.2%. Being one of the lowest in Latin America, it was placed only above Ecuador and Bolivia, and very close to the midpoint of the BCR target range (between 1% and 3%).

The various price trend measures point to stable behavior. Inflation expectations have also remained stable, around 2.2%, and may yield to levels of 2.0%.

Domestic financial markets were not greatly affected by the increased local political tension. The exchange rate, in particular, registered moderate volatility, which was more associated with external factors than with local factors. Between Sep-19 and Dec-19 the Sol kept oscillating between 3.39 and 3.36, ending the last 3 days of the year at 3.31 levels due to the improved international economic outlook after proposing the new agreement between the US and China. Due to the foregoing, the local currency registered a cumulative appreciation of 1.7% in 2019. Volatility in international financial markets, the intensification of the US-China trade war and local political uncertainty pushed up the exchange rate in 4Q19, reaching levels of 3.40 at the end of November. In this context, the Central Bank intervened in the foreign exchange market by means of making available US \$708 MM in Foreign Exchange Swaps in Aug-19.

Regarding monetary policy during 2019, the issuing entity cut its reference interest rate by 50 bps, to 2.25%. Two arguments influenced this decision: i) economic growth significantly below the central bank's expectations, and ii) the lack of fiscal stimulus and, therefore, a perceived need to be compensated with monetary stimulus. Although both factors are likely to persist during 2020, there is less room now to continue lowering the interest rate. The real interest rate, a measure that reflects the monetary policy stance, went from 0.27% at the end of 2018 to 0.02% at the end of 2019. Considering that the neutral rate is positioned at 1.50%, this situation reflects a fairly expansive stance. The BCR believes that the growth of the Peruvian economy will accelerate from 2.3% in 2019 to 3.8% in 2020, according to its projections contained in the latest Inflation Report. To the extent that the economy does not attain that pace, a bearish bias in the interest rate might be seen. One factor that the BCR will be monitoring is public investment.

Financial Markets

Peru has maintained its sovereign debt classification in foreign currency: Moody's with A3 stable, 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 improved profile of the external sector.

Statement of Financial Position

Total current assets in 4Q19 amounted to S/ 3,889 million, lower by S/ 175 million compared to the previous quarter. This variation is mainly explained by the lower account balance: Accounts receivable from related entities, Inventories and Other non-financial assets. Furthermore, there was an increase in Cash and cash equivalents.

Total non-current assets closed at the fourth quarter of the year at S/ 11,523 million, higher by S/ 71 million than that observed in the previous quarter. This is mainly explained by the increase in Deferred Tax Assets, which was offset by the decrease in intangible Assets other than capital gains (net).

On the back of the foregoing, total assets were S/ 15,412 million, lower by S/ 104 million compared to that recorded at the end of 3Q19.

At the end of 4Q19, total current liabilities were S/ 5,963 million, S/ 117 million greater than 3Q19. The variation is mainly explained by the increase in the balance of trade accounts payable and other accounts payable.

Total non-current liabilities amounted to S/ 4,698 million at the end of the 3Q19, a balance of S/69 million greater than when compared to that observed in the previous quarter. This variation is mainly due to the decrease in other provisions.

Finally, total equity decreased by S/ 152 million in 4Q19, to S/ 4,751 million largely due to the results of the fiscal 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 0.73x in the second quarter of the year compared to the level of 0.74x in 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.
STATEMENT OF RESULTS IN SOLES (000) FOR THE PERIOD ENDED DECEMBER 31, 2019 AND 2018
(Prepared in accordance with International Financial Reporting Standards - IFRS)

	4T19		4T18		Var. Abs. 4T18-4T19	Var. % 4T18-4T19	12M19		12M18		Var. Abs. 12M18-12M19	Var. % 12M18-12M19
		%		%		%		%		%		%
Income from ordinary activities	1,877,988	100.0	2,035,118	100.0	(157,130)	(7.7)	7,877,147	100.0	8,095,867	100.0	(218,720)	(2.7)
Fixed business income	1,007,075	53.6	1,069,334	52.5	(62,259)	(5.8)	4,116,927	52.3	4,069,552	50.3	47,375	1.2
Revenues from services (Voice + Broad band+ TV)	732,697	39.0	771,999	37.9	(39,302)	(5.1)	3,046,414	38.7	3,069,043	37.9	(22,629)	(0.7)
Data + TI	158,955	8.5	187,001	9.2	(28,046)	(15.0)	647,105	8.2	605,903	7.5	41,202	6.8
Wholesale	67,739	3.6	57,873	2.8	9,866	17.0	237,416	3.0	179,569	2.2	57,847	32.2
Equipment (Voice + Broad band+ TV)	24,440	1.3	16,416	0.8	8,024	48.9	92,369	1.2	78,890	1.0	13,479	17.1
Other Fixed business income	23,244	1.2	36,045	1.8	(12,801)	(35.5)	93,623	1.2	136,147	1.7	(42,524)	(31.2)
Mobile Business Income	870,913	46.4	965,784	47.5	(94,871)	(9.8)	3,760,220	47.7	4,026,315	49.7	(266,095)	(6.6)
Postpaid	422,117	22.5	415,548	20.4	6,569	1.6	1,727,216	21.9	1,736,757	21.5	(9,541)	(0.5)
Terminals (Recruitment + Loyalty)	254,937	13.6	278,293	13.7	(23,356)	(8.4)	1,171,302	14.9	1,124,064	13.9	47,238	4.2
Prepaid	140,072	7.5	179,187	8.8	(39,115)	(21.8)	609,063	7.7	731,940	9.0	(122,877)	(16.8)
Wholesale	48,368	2.6	81,622	4.0	(33,254)	(40.7)	181,033	2.3	321,536	4.0	(140,503)	(43.7)
Other Mobile Business Income	5,419	0.3	11,134	0.5	(5,715)	(51.3)	71,606	0.9	112,018	1.4	(40,412)	(36.1)
Operational expenses	2,070,812	110.3	2,278,272	111.9	(207,460)	(9.1)	8,482,254	107.7	8,457,173	104.5	25,081	0.3
General and administrative	988,922	52.7	1,054,313	51.8	(65,391)	(6.2)	3,718,425	47.2	3,991,281	49.3	(272,856)	(6.8)
Inventories	285,358	15.2	368,408	18.1	(83,050)	(22.5)	1,296,572	16.5	1,356,428	16.8	(59,856)	(4.4)
Depreciation and amortization	390,949	20.8	362,350	17.8	28,599	7.9	1,404,039	17.8	1,433,360	17.7	(29,321)	(2.0)
Depreciation of rights of use	50,936	2.7	-	-	50,936	-	183,644	2.3	-	-	183,644	-
Personnel	177,513	9.5	234,167	11.5	(56,654)	(24.2)	1,057,330	13.4	815,555	10.1	241,775	29.6
Interconnection Expenses	71,148	3.8	96,136	4.7	(24,988)	(26.0)	250,704	3.2	352,559	4.4	(101,855)	(28.9)
Estimate for doubtful accounts and inventory devaluation a	103,582	5.5	127,840	6.3	(24,258)	(19.0)	563,994	7.2	368,616	4.6	195,378	53.0
Fees for transfer of technical and management capacity	2,404	0.1	35,058	1.7	(32,654)	(93.1)	7,546	0.1	139,374	1.7	(131,828)	(94.6)
Operational Result before other income and expenses, net	(192,824)	(10.3)	(243,154)	(11.9)	50,330	(20.7)	(605,107)	(7.7)	(361,306)	(4.5)	(243,801)	(94.6)
Other operational income (expenses), net	70,173	3.7	43,888	2.2	26,285	59.9	289,472	3.7	90,611	1.1	198,861	219.5
Gain from operational activities	(122,651)	(6.5)	(199,266)	(9.8)	76,615	(38.4)	(315,635)	(4.0)	(270,695)	(3.3)	(44,940)	16.6
Financial income	19,814	1.1	14,333	0.7	5,481	38.2	55,510	0.7	37,387	0.5	18,123	48.5
Financial expenses	(94,267)	(5.0)	(28,936)	(1.4)	(65,331)	225.8	(317,382)	(4.0)	(192,143)	(2.4)	(125,239)	65.2
Exchange Difference, net	3,594	0.2	(1,771)	(0.1)	5,365	(302.9)	1,317	0.0	3,473	0.0	(2,156)	(62.1)
Share in Results of related parties	196	0.0	3,656	0.2	(3,460)	(94.6)	(1,993)	(0.0)	8,227	0.1	(10,220)	(124.2)
Non operational Benefit	(70,663)	(3.8)	(12,718)	(0.6)	(57,945)	455.6	(262,548)	(3.3)	(143,056)	(1.8)	(119,492)	83.5
Earnings before tax	(193,314)	(10.3)	(211,984)	(10.4)	18,670	(8.8)	(578,183)	(7.3)	(413,751)	(5.1)	(164,432)	39.7
Income tax	38,630	2.1	28,272	1.4	10,358	36.6	(558,953)	(7.1)	3,583	0.0	(562,536)	(15,700.1)
Net Income (Loss)	(154,684)	(8.2)	(183,712)	(9.0)	29,028	(15.8)	(1,137,136)	(14.4)	(410,168)	(5.1)	(726,968)	177.2

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 S.A.A.
STATE OF FINANCIAL SITUATION IN SOLES (000) AS AT DECEMBER 31, 2019
(Prepared in accordance with International Financial Reporting Standards - IFRS)

Assets						Liabilities and equity					
	4T19	3T19	2T19	1T19	4T18		4T19	3T19	2T19	1T19	4T18
Current Assets						Current Liabilities					
Cash and Cash Equivalents	1,001,213	440,032	436,814	152,971	88,038	Other financial liabilities	408,070	584,569	513,360	1,434,354	459,730
Trade accounts receivable, net	1,744,651	1,776,322	1,619,325	1,629,404	1,525,749	Lease liabilities	243,083	222,949	212,252	128,002	-
Contractual Assets	129,295	175,613	199,937	221,418	267,299	Commercial accounts payable	2,049,040	1,706,044	1,702,525	1,654,528	2,355,433
Accounts receivable from related companies	26,746	552,452	473,105	287	372	Contract liabilities	137,566	154,966	174,736	191,789	162,252
Other accounts receivable, net	123,390	114,439	116,917	167,532	127,978	Other accounts payable to related companies	2,991	2,475	2,081	2,008	384
Inventories	306,834	382,389	361,049	342,204	312,132	Other accounts payable	532,024	447,688	208,459	230,405	319,991
Current income tax assets	208,399	206,851	219,559	245,342	303,060	Deferred income	48,996	36,031	47,011	59,800	52,649
Other non-financial assets	348,202	395,028	433,747	367,592	302,531	Other provisions	362,967	2,691,168	2,678,835	2,154,430	2,133,551
Available-for-sale assets	-	20,479	43,281	-	-	Income tax liabilities	2,177,835	-	-	-	-
Total Current Assets	3,888,730	4,063,605	3,903,734	3,126,750	2,927,159	Total current liabilities	5,962,572	5,845,890	5,539,259	5,855,316	5,483,990
Trade accounts receivable, net	15,918	15,333	9,565	24,674	38,084	Other financial liabilities	3,036,855	3,051,665	3,160,737	1,693,374	1,689,598
Accounts receivable from related companies	587	587	587	587	587	Lease liabilities	922,268	872,051	835,841	760,877	-
Contractual Assets	6,110	24,095	21,834	12,942	17,867	Other accounts payable	190,467	193,777	35,012	41,240	73,355
Other accounts receivable, net	177,433	178,507	184,177	272,345	287,383	Other accounts payable to related companies	1,938	1,671	1,437	1,621	3,390
Financial investments	272,970	272,774	273,037	13,140	12,200	Contract liabilities	79,391	85,797	68,217	59,141	61,205
Property, plant and equipment	28,630,851	28,397,625	28,334,387	28,862,220	28,671,302	Deferred income	99,611	110,923	114,913	120,713	125,321
Accumulated depreciation	(22,443,709)	(22,207,964)	(22,042,445)	(22,171,618)	(21,941,665)	Other provisions	276,957	451,211	428,448	438,539	459,646
	6,187,142	6,189,661	6,291,942	6,690,602	6,729,637	Income tax liabilities	90,880	-	-	-	-
						Deferred tax liabilities	-	-	-	5,244	-
						Total non-current liabilities	4,698,367	4,767,095	4,644,605	3,120,749	2,412,515
Intangible assets other than capital gains (net)	2,078,047	2,103,500	2,140,279	2,200,691	2,276,029						
Rights of use assets	1,057,095	1,025,448	1,046,263	998,452	-	Total liabilities	10,660,939	10,612,985	10,183,864	8,976,065	7,896,505
Deferred tax assets	202,026	133,326	13,869	-	535	Equity					
Goodwill	1,215,145	1,215,145	1,224,872	1,224,379	1,224,379	Issued capital	2,876,152	2,876,152	2,876,152	2,876,152	2,876,152
Other non-financial assets	310,703	293,590	290,143	255,452	279,273	Issuance premiums	77,899	77,899	77,899	77,899	77,899
						Other capital reserves	582,513	578,891	576,456	576,453	576,453
						Accumulated results	1,216,817	1,371,501	1,689,024	2,315,797	2,368,477
Total Non-current Assets	11,523,176	11,451,966	11,496,568	11,693,264	10,865,974	Other equity reserves	(2,414)	(1,857)	(3,093)	(2,352)	(2,353)
						Total equity	4,750,967	4,902,586	5,216,438	5,843,949	5,896,628
Total Assets	15,411,906	15,515,571	15,400,302	14,820,014	13,793,133	Total liabilities and equity	15,411,906	15,515,571	15,400,302	14,820,014	13,793,133

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