

*Telefonica*

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

**January – March 2001**

## **Significant Events**

A brief containing the most significant events that occurred since January 2001 is presented below:

### **General shareholder meeting**

- 1) The General Shareholders Meeting approved the company management and the financial results of the fiscal year 2000, as well as the Annual Report of said fiscal year.
- 2) A dividend of S/. 101 181 377,97 was declared, representing S/. 0,05875923341 per share. Likewise, it was agreed that the net profit balance will be kept in the Undistributed Profits account for their later use. For such effects, the Board was delegated the assignation of the record, registration and payment date of said dividends, according to the form and term stated by law. The Board was also authorized, if it deems relevant and after an evaluation of the company's financial situation, to assign a temporary dividend on behalf of the definitive dividend to be approved by the General Shareholder Meeting for the fiscal year 2001, empowering it for such purpose to assign the corresponding record, registration and payment dates. This dividend was calculated based on 1 726 665 589 shares, that belong to the number of shares that will represent the capital stock of Telefónica del Perú S.A.A. once the share swap due to the segregation of the company is concluded.
- 3) It was approved the compensation to the directors for the fiscal year 2001 –which is the same as agreed in the General Shareholders Meeting of March 1998 for the various concepts established.
- 4) The Board was delegated the appointment of the external auditors for the fiscal year 2001.

### **Changes in the Board and Management**

On February 22, Javier Aguirre Nogues submitted his resignation as Director and member of the Company's Executive Committee.

### **Incorporation of new companies**

On March 22, Telefónica Gestión de Servicios Compartidos S.A.C. subscribed the public deed of "Telefónica Centros de Cobro S.A.C.", whose capital stock is one thousand nuevos soles represented by one thousand shares, whose nominal value is one nuevo sol each, and from which 999 are held by Telefónica Gestión de Servicios Compartidos S.A.C. and the remaining one by Telefónica Soluciones Globales Holding S.A.C. This company shall be devoted to render services of collection and payment, being the General Manager Roberto Campuzano.

On April 2, "Servicios Globales de Telecomunicaciones S.A.C." was created. This company has a capital stock of one thousand nuevos soles represented by one thousand shares, whose nominal value is one nuevo sol each, and from which 999 are held by Telefónica del Perú S.A.A. and the remaining one by Telefónica Soluciones Globales Holding S.A.C. This company, whose General Manager is Jesús Abarzuza, has as main objective to render the services of telecommunications and radiocommunications in general.

On April 19, the company "Telefónica Servicios Técnicos S.A.C." was created. This company has a capital stock of one thousand nuevos soles represented by one thousand shares, whose nominal value is one nuevo sol each, and from which 999 are held by Telefónica del Perú S.A.A. and the remaining one by Telefónica Soluciones Globales Holding S.A.C. The General Manager is Manuel Plaza. This company has as main purpose the commercialization, advisory, installation and rendering services for equipment and telecommunication network maintenance.

# TELEFÓ NICA DEL PERÚ S.A.A. AND SUBSIDIARIES

## Management discussion and analysis of the consolidated results of the first quarter ended on March 31, 2001

On January 1, 2001, the Company put into effect the segregation process of the Mobile Services, Data and Directories businesses. By virtue of this process initiated in November 2001, the Telefónica Móvil and Telefónica Data Companies were created through a spin-off process, while in December 2000, Telefónica Publicidad e Información was created. Due to this segregation process, the results of the first quarter of 2000 and those of the first quarter of 2001 are not comparable.

### Operating Revenues

The consolidated operating revenues in the 1Q01 added up to S/. 966 million, which represents a 21.3% reduction, mainly due to the segregation process that the company undertook, by which the Mobile Services and the part of Business Communications that was transferred to Telefónica Data are not reported as consolidated anymore. If we exclude the revenues of these businesses in the 1Q00, the operating income would have been reduced by 6%.

The revenues from **Basic Telephony** suffered a 3% fall, mainly as a result of a reduction of 7% in the weighted average rate in measured service, as well as of a 4.1% decrease in the total traffic. This decrease was compensated partly by an increase in the average billable plant that increased the revenues of monthly fee.

Likewise, the **Long Distance** revenues decreased by 19.9% as a result of the 3.9% and 11.7% falls in the weighted average rates of DLD and ILD, respectively, which offset the 3% increase of the total long distance minutes. **Business Communications** registered a 17.8% fall mainly because of the transfer of some of its services to Telefónica Data. On the other hand, the revenues of **Public Telephony** grew up in 6.4% because of the increase by 19.7% in the service plant. **Directories** experienced a fall of 11.3% in its revenues due to a reduction in the sell of advertising.

### Operating expenses

The consolidated operating expenses decreased by 10.3%, from S/. 820 million in 1Q00 to S/. 736 million in 1Q01. If we exclude the effect of the segregated businesses for 1T00, the operating expenses would have increased by approximately 5%.

The **Personnel** expenses decreased by 13% mainly due to the transfer of personnel as a result of the separation of Telefónica Móviles and Telefónica Data, as well as a lower provision in the allowances for the executive personnel. Likewise, the **General and Administrative** expenses decreased by 7.1% as a result of the segregation process, as well as reduction in the advertisement expenses compared to 1Q00.

Additionally, the amounts for **Provisions** and **Materials and Supplies** decreased by 40.9% and 61.7%, respectively, as a result of the aforementioned segregation process. The **Depreciation**, however, grew up 11.8% as a consequence of the greater plant in service.

### Operating result

The operating result decreased by 43.6% from S/. 407 million in 1Q00 to S/. 230 million in 1Q01, mainly because the revenue reduction was higher than the expense decrease, in connection to the segregation process. Likewise, the EBITDA added up to S/. 466 million, a reduction of 24.7%. However, if we exclude the effect of the segregation process for 1Q00, the EBITDA would have decreased by approximately 6%.

## **Non-operating result**

The Non Operating Result registered a loss of S/. 59 million during the 1Q01, lower compared to the S/. 78 million loss in 1Q00. This is explained by a decrease in the Interest Expenses, and an increase in the Interest Income and Others net, which offset the decrease of inflation gain.

## **Net result**

As a consequence of the segregation process, the net result of the company decreased from S/. 200 million in the 1Q00 to S/. 93 million in the 1Q01. This represents an earning per share of S/. 0.10 in the 1Q00 and of S/. 0.05 in the 1Q01. However, if we eliminate the effect of the segregated businesses in the 1Q00 results, the net result would have dropped by approximately 44%.



## **Consolidated Balance Sheet**

As of 1Q01, the balance presents significance amendments due to the aforementioned segregation process of Telefónica Móviles and Telefónica Data, which greatly limits the comparison against prior quarters. In this sense, it is noted a significant decrease of the net fixed assets (S/. 1.760 million) and of the equity (S/. 779 million, excluding the accumulated profits), as well as the acknowledgment of the account receivable to Telefónica Móviles (S/. 599 million).

It is worth noting some advances regarding the financial management of the quarter. In 1Q01, the Company was still reducing the financial debt, particularly the bank loans, on the basis of a greater cash generation and a lesser investment flow. In this line, the debt balance decreased in the first quarter of the year by S/. 271 million, and in the case of bank loans, the reduction reached S/. 478 million. Likewise, the debt installment structure was enhanced by negotiating loans and issuing bonds, which raised the long-term position in S/. 413 million. Additionally, the Company was still participating actively in the local capital market by performing a bond and commercial paper placement in soles for an amount of S/. 100 million.

**TABLE 1**  
**TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENTS IN ADJUSTED SOLES (000) AS OF MARCH 31, 2001**  
(Prepared In Accordance With Peruvian GAAP)

	1Q00		1Q01		Abs. Var.	% Var.
					1Q01 - 1Q00	1Q01 - 1Q00
		%		%		%
<b>Local Telephone Service</b>	445.983	<b>36,3</b>	432.460	<b>44,8</b>	(13.523)	<b>(3,0)</b>
<b>Long Distance</b>	182.021	<b>14,8</b>	145.724	<b>15,1</b>	(36.297)	<b>(19,9)</b>
<b>Public Telephones</b>	157.099	<b>12,8</b>	167.137	<b>17,3</b>	10.038	<b>6,4</b>
<b>Mobile Services</b>	215.581	<b>17,6</b>	-	-	(215.581)	<b>(100,0)</b>
<b>Cable TV</b>	60.963	<b>5,0</b>	65.880	<b>6,8</b>	4.917	<b>8,1</b>
<b>Business Communications</b>	66.095	<b>5,4</b>	54.361	<b>5,6</b>	(11.734)	<b>(17,8)</b>
<b>Telephone Directories</b>	81.451	<b>6,6</b>	72.236	<b>7,5</b>	(9.215)	<b>(11,3)</b>
<b>Other</b>	18.563	<b>1,5</b>	28.112	<b>2,9</b>	9.549	<b>51,4</b>
<b>Total Operating Revenues</b>	1.227.756	<b>100,0</b>	965.910	<b>100,0</b>	(261.846)	<b>(21,3)</b>
<b>Personnel</b>	160.797	<b>13,1</b>	139.957	<b>14,5</b>	(20.840)	<b>(13,0)</b>
<b>General and Administrative</b>	278.707	<b>22,7</b>	258.844	<b>26,8</b>	(19.863)	<b>(7,1)</b>
<b>Provisions</b>	61.515	<b>5,0</b>	36.354	<b>3,8</b>	(25.161)	<b>(40,9)</b>
<b>Depreciation</b>	211.305	<b>17,2</b>	236.318	<b>24,5</b>	25.013	<b>11,8</b>
<b>Technology Transfer and Management Fees</b>	113.975	<b>9,3</b>	88.020	<b>9,1</b>	(25.955)	<b>(22,8)</b>
<b>Materials and Supplies</b>	32.900	<b>2,7</b>	12.614	<b>1,3</b>	(20.286)	<b>(61,7)</b>
<b>Own Work Capitalized</b>	(38.784)	<b>(3,2)</b>	(36.013)	<b>(3,7)</b>	2.771	<b>(7,1)</b>
<b>Total Operating Costs and Expenses</b>	820.415	<b>66,8</b>	736.094	<b>76,2</b>	(84.321)	<b>(10,3)</b>
<b>Operating Income</b>	407.341	<b>33,2</b>	229.816	<b>23,8</b>	(177.525)	<b>(43,6)</b>
<b>EBITDA</b>	618.646	<b>50,4</b>	466.134	<b>48,3</b>	(152.512)	<b>(24,7)</b>
<b>Other Income (Expenses)</b>						
<b>Interest Income</b>	7.121	<b>0,6</b>	20.542	<b>2,1</b>	13.421	<b>188,5</b>
<b>Interest Expenses</b>	(104.087)	<b>(8,5)</b>	(86.438)	<b>(8,9)</b>	17.649	<b>(17,0)</b>
<b>Others Net</b>	(24.259)	<b>(2,0)</b>	1.632	<b>0,2</b>	25.891	<b>(106,7)</b>
<b>Inflation Gain (Loss)</b>	42.843	<b>3,5</b>	5.224	<b>0,5</b>	(37.619)	<b>(87,8)</b>
<b>Total Other Income (Expenses)</b>	(78.382)	<b>(6,4)</b>	(59.040)	<b>(6,1)</b>	19.342	<b>(24,7)</b>
<b>Early Retirement Expense</b>	-	-	(3.561)	<b>(0,4)</b>	(3.561)	-
<b>Income Before Taxes and Participations</b>	328.959	<b>26,8</b>	167.215	<b>17,3</b>	(161.744)	<b>(49,2)</b>
<b>Workers' Participation</b>	(34.892)	<b>(2,8)</b>	(19.851)	<b>(2,1)</b>	15.041	<b>(43,1)</b>
<b>Income Tax</b>	(93.816)	<b>(7,6)</b>	(54.520)	<b>(5,6)</b>	39.296	<b>(41,9)</b>
<b>Net Income</b>	200.251	<b>16,3</b>	92.844	<b>9,6</b>	(107.407)	<b>(53,6)</b>

TABLE 2

## TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET IN ADJUSTED SOLES (000) AS OF MARCH 31, 2001 (1)

(End of Period Figures)

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY					
	1Q01	4Q00	3Q00	2Q00	1Q00		1Q01	4Q00	3Q00	2Q00	1Q00
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	37.847	88.750	130.569	157.891	171.936	Overdrafts	0	80.942	0	0	0
Negotiable securities	79.914	58.277	75.923	43.366	26.972	Accounts payable and accrued liabilities	379.761	768.045	516.871	551.361	582.038
Accounts and notes receivable - net	782.446	841.950	853.310	918.162	941.759	Other accounts payable	723.769	436.257	483.249	521.110	751.732
Other accounts receivable	852.957	272.782	296.472	329.774	290.505	Provision for severance indemnities	9.075	7.024	14.262	5.538	12.798
Inventory	84.547	142.022	138.879	133.912	132.851	Bank Loans	1.614.648	2.092.554	2.766.975	1.444.409	1.532.591
Prepaid expenses	443.082	503.585	502.499	552.119	637.844	Current maturities of long-term debt	69.846	69.497	69.449	217.120	109.284
Total current assets	2.280.793	1.907.366	1.997.652	2.135.224	2.201.867	Bonds	116.624	283.685	420.670	424.843	310.526
						Commercial Papers	258.005	216.844	265.858	261.884	200.887
						Total current liabilities	3.171.728	3.954.848	4.537.334	3.426.265	3.499.856
LONG-TERM INVESTMENTS	357.007	361.488	359.685	363.122	355.554	LONG-TERM DEBT	1.709.509	1.345.398	815.166	2.396.099	2.548.305
PROPERTY, PLANT AND EQUIPMENT	13.235.789	15.012.011	14.688.111	14.484.644	14.309.665	BONDS	465.417	416.294	346.877	223.322	339.731
Accumulated depreciation	5.863.146	6.074.721	5.666.505	5.456.408	5.257.486	GUARANTY DEPOSITS	78.393	72.791	68.295	62.032	55.166
	7.372.643	8.937.290	9.021.606	9.028.236	9.052.179	DEFERRED EARNINGS	0	0	0	2.267	2.264
Write-off Provision	-80.074	-83.566	0	0	0	DEFERRED TAXES	941.098	858.331	811.541	736.929	659.843
	7.292.569	8.853.724	9.021.606	9.028.236	9.052.179	SHAREHOLDERS' EQUITY	2.923.139	3.307.020	3.307.020	3.307.020	3.307.020
OTHER ASSETS, net	317.168	381.919	277.698	259.085	280.632	Capital stock	0	115.755	115.755	115.755	115.755
TOTAL ASSETS	10.247.537	11.504.497	11.656.641	11.785.667	11.890.232	Additional paid-in capital	345.827	661.404	625.505	625.505	625.505
						Legal reserve	612.426	772.656	1.029.148	890.473	736.787
						Retained earnings					
						TOTAL SHAREHOLDERS' EQUITY	3.881.392	4.856.835	5.077.428	4.938.753	4.785.067
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	10.247.537	11.504.497	11.656.641	11.785.667	11.890.232

(1) Data is adjusted according to the WPI published by the National Statistics Institute

**TABLE 3**  
**TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES**  
**Statistical Data, End of Period Figures**

	<b>1Q00</b>	<b>2Q00</b>	<b>3Q00</b>	<b>4Q00</b>	<b>1Q01</b>	<b>1Q01-1Q00</b>	<b>1Q01/ 1Q00</b>
<b>Fixed-Wire Telephone Service: Local+Long Distance</b>							
Lines Installed	2.019.697	2.012.053	2.018.837	2.021.689	2.022.265	2.568	<b>0,1</b>
New Lines in Service	11.205	5.728	(2.085)	(6.623)	(4.040)	(15.245)	<b>(136,1)</b>
Lines in Service Including Public Telephones (1)	1.705.746	1.719.006	1.719.679	1.717.118	1.711.954	6.208	<b>0,4</b>
Local Traffic - Minutes (000)	2.100.546	2.158.870	2.055.180	2.154.646	2.014.480	(86.065)	<b>(4,1)</b>
Long Distance - Minutes (000)	236.984	231.596	239.800	254.204	244.029	7.045	<b>3,0</b>
Number of Employees (Telefónica del Perú and Subsidiaries)	6.023	6.185	6.292	6.330	6.017	(6)	<b>(0,1)</b>
Number of Employees (Telefónica del Perú)	4.867	4.920	4.903	4.875	4.747	(120)	<b>(2,5)</b>
Lines in Service per Employee (Telefónica del Perú)	350	349	351	352	361	10	<b>2,9</b>
Digitalization Rate (%)	95	96	96	96	96	1	<b>1,1</b>
Lines in Service per 100 inhabitants	6,7	6,8	6,7	6,7	6,6	(0)	<b>(1,5)</b>
<b>PUBLIC TELEPHONES</b>							
Lines in Service (2)	66.881	74.443	77.197	81.253	80.051	13.170	<b>19,7</b>
<b>CABLE TV</b>							
Subscribers	333.679	341.716	345.495	349.447	351.237	17.558	<b>5,3</b>

**(1) Excluding Cellular Public Phones**

**(2) Including Cellular Public Phones**