

# *Telefonica*

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

**April – June 2001**

Due to the segregation process that went into effect on January 2001, the results of 2Q00 and 2Q01 are not comparable. In order to allow an easier analysis, the Management has prepared pro forma financial results for 2Q00.

## **Significant Events**

A brief containing the most significant events performed since April 2001 is presented below.

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

On April 27, the Board accepted the resignation of Mr. Fernando Fournón and Mr. Vicente Murcia, Regular Directors, as well as Mr. Javier Manzanares, Alternate Director of the first one. Likewise, Mr. Enrique Usued and Mr. Félix Ivorra were co-opted by the Board as Regular Directors.

On July 16, Mr. Carles Vilarrubí submitted his resignation as Regular Director of the Company, taking up his post the Alternate Director, Mr. Jorge Melo Vega.

### **Separation for lines of business**

On June, 13, Telefónica del Perú S.A.A. subscribed the agreement of stock sales by virtue of which it transferred to Telefónica Data Perú S.A.A. all its shares representing the capital stock of Telefónica Servicios Internet del Perú S.A.C. and Telefónica Servicios Financieros S.A.C. As a result of such operation, both companies fail to be subsidiaries of Telefónica del Perú S.A.A. and now take up that position for Telefónica Data Perú S.A.A, which has 99.9% sharing in each of them.

On June 15, the share-swap among Telefónica del Perú S.A.A., Telefónica Data Perú S.A.A. and Telefónica Móviles Perú Holding S.A.A. was carried out. For each share of Telefónica del Perú S.A.A., each shareholder received:

- 0.818325200 shares of Telefónica del Perú S.A.A.
- 0.0121298619 shares of Telefónica Data Perú S.A.A.
- 0.1695457872 shares of Telefónica Móviles Perú Holding S.A.A.

# TELEFÓNICA DEL PERÚ S.A.A. AND SUBSIDIARIES

## Management discussion and analysis of the consolidated results of the second quarter ended on June 30, 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 2000, Telefónica Móviles Perú Holding S.A.A. and Telefónica Data Perú S.A.A. were created through a spin-off process, while in December 2000, Telefónica Publicidad e Información Perú S.A.C. was created under a simple reorganization process.

With this regard, the Company has elaborated a pro forma statement of revenues for the 2000 quarters in order to compare the results obtained by Telefónica del Perú S.A. and Subsidiaries regarding the results of the same period last year.

### Operating Revenues

Consolidated operating revenues in 2Q01 added up to S/. 884 million, which represented a 0.8% reduction regarding the 2Q00 results.

Revenues from **Basic Telephony** registered a 3.7% drop in 2Q01. Such drop was mainly the result of a 3.6% reduction in the weighted average rate in local measured service (reduction of fixed-mobile and mobile fixed interconnection rate since January 1, from US\$ 0.029 to US\$ 0.0168 per minute) and a 11.2% decrease in the invoiced traffic. However, when considering the pre-paid traffic (cards 147, consumption limit and popular telephone), 2Q01 total traffic shows a 5% year-over-year fall.

Likewise, **Long Distance** revenues fell by 7.9% due to a 2.9% and a 9.7% drop in the weighted average rates of DLD and ILD, respectively, which offset the 8.7% increase of total long distance minutes. **Business Communications** registered a 11.5% increase in its revenues mainly because of higher commission and lease-agreement revenues.

Year-over-year, **Public Telephony** revenues grew 2.2% in 2Q01 due to an increase in Public Telephones in service (14%) and in sales of cards 147. Likewise, **Cable Television** revenues grew 4.3%. in 2Q01 due partly to a 2.8% growth in the number of subscribers compared to the same quarter of 2000.

### Operating expenses

Consolidated operating expenses grew 6.7%, from S/. 651 million in 2Q00 to S/. 695 million in 2Q01. This mainly resulted from an increase of depreciation (26.1%) and general & administrative expenses (4.9%) which offset the reductions in provisions (30.7%) and personnel expenses (7.3%).

**Depreciation** increased as a result of fewer remaining works in progress at the end of year 2000 resulting in a higher amortizable average plant. On the other hand, the increase of **General & Administrative** expenses was a result of higher costs in the signal lease for cable transmission as well as higher advertisement expenses.

The drop in **Personnel** expenses by 7.3% during 2Q01 was mainly due to the transfer of 597 employees of Telefónica del Perú to Telefónica Gestión de Servicios Compartidos - as of April 1 - which is not consolidated. The amount of **Materials and Supplies** fell by 11.9%.

### Operating result

EBITDA (earnings before taxes, depreciation and amortization) added up to S/. 422 million in 2Q01, which implied a 0.7% reduction year-over-year. EBITDA margin remained steady at 47.7%. As a consequence of the depreciation and amortization effect, the operating result dropped 21.3% from S/.

Due to the segregation process that went into effect on January 2001, the results of 2Q00 and 2Q01 are not comparable. In order to allow an easier analysis, the Management has prepared pro forma financial results for 2Q00.

240 million in 2Q00 to S/. 189 million in 2Q01, while the operating margin fell to 21.4% compared to 27.0% in the 2Q00.

### **Non-operating result**

Non-operating result registered a S/. 61 million loss during 2Q01, compared to a S/. 24 million profit during 2Q00 in spite of a contraction of net interest expenses (S/. 30 million). This was due to a loss in monetary correction of S/. 3 million in 2Q01 - which occurred as a result of the fall of WPI and fluctuations in the exchange rate in the quarter - compared to a profit of S/. 56 million in the 2Q00 and a S/. 56 million reduction in other net incomes.

### **Net result**

Due to such monetary correction net result of the Company fell from S/. 157 million in 2Q00 to S/. 69 million in 2Q01. This implies a drop in earnings per share from S/. 0.07 in 2Q00 to S/. 0.04 in 2Q01.

### **Consolidated Balance Sheet**

2Q01 compared to 1Q01 showed no significant change neither in the level nor in the composition of current assets. However, current liabilities were lower than those of 1Q01 by S/. 378 million or 12%, basically due to a reduction of bank loans (S/. 295 million) and other account payables (S/. 149 million).

Fixed assets did not register a significant increase by the end of June (S/. 97 million in gross terms). This was due to the fact that investments showed moderate growth during this quarter. Investments continued focusing on expansion activities (revenue generation).

During 2Q01, Telefónica continued executing its liability-restructuring strategy, that implies the diversification of financing sources and the increase of their duration.

With regards to the diversification plan, total debt placed in the capital market – bonds and commercial papers – continued to increase from 19.8% in the 1Q01 to 22% of total debt in 2Q01, despite the maturity of a S/. 118 million bond in June of this year. During the same quarter, Telefónica issued commercial papers for a total amount of S/. 225 million and US\$ 25 million, and a 2-year-local-currency-denominated bond for S/. 66 million.

At the same time, long-term as a percentage of total debt increased from 51.4% in 1Q01 to 56.8% in 2Q01, basically because the debt reduction strategy was focused on short-term commitments.

Debt reduction was achieved through internally generated resources and lower investment outflows. During 2Q01 the Company was able to reduce the total stock in S/. 204 million, particularly bank loans.

Finally, the ratio of debt to permanent capital (debt plus stocks) dropped from 52.2% in the 1Q01 to 50.5% in the 2Q01, because of the reduction in debt and the profits accrued in the quarter.

Due to the segregation process that went into effect on January 2001, the results of 2Q00 and 2Q01 are not comparable. In order to allow an easier analysis, the Management has prepared pro forma financial results for 2Q00.

TABLE 1  
TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENTS IN ADJUSTED SOLES (000) AS OF JUNE 30, 2001  
(Prepared In Accordance With Peruvian GAAP)

	2Q00		2Q01		Abs. Var. 2Q01 - 2Q00	% Var. 2Q01 - 2Q00	6M00		6M01		Abs. Var. 6M01-6M00	6M01/ 6M00
		%		%		%						
Local Telephone Service	433.370	<b>48,6</b>	417.359	<b>47,2</b>	(16.011)	<b>(3,7)</b>	878.845	<b>46,6</b>	848.955	<b>45,9</b>	(29.890)	<b>(3,4)</b>
Long Distance	163.567	<b>18,3</b>	150.698	<b>17,0</b>	(12.869)	<b>(7,9)</b>	345.359	<b>18,3</b>	296.131	<b>16,0</b>	(49.228)	<b>(14,3)</b>
Public Telephones	158.483	<b>17,8</b>	161.929	<b>18,3</b>	3.446	<b>2,2</b>	315.409	<b>16,7</b>	328.731	<b>17,8</b>	13.322	<b>4,2</b>
Cable TV	65.267	<b>7,3</b>	68.081	<b>7,7</b>	2.814	<b>4,3</b>	126.161	<b>6,7</b>	133.829	<b>7,2</b>	7.668	<b>6,1</b>
Business Communications	47.410	<b>5,3</b>	52.848	<b>6,0</b>	5.438	<b>11,5</b>	95.151	<b>5,1</b>	104.466	<b>5,7</b>	9.315	<b>9,8</b>
Telephone Directories	7.812	<b>0,9</b>	7.096	<b>0,8</b>	(716)	<b>(9,2)</b>	89.194	<b>4,7</b>	79.029	<b>4,3</b>	(10.165)	<b>(11,4)</b>
Other	15.485	<b>1,7</b>	25.986	<b>2,9</b>	10.501	<b>67,8</b>	34.020	<b>1,8</b>	56.839	<b>3,1</b>	22.819	<b>67,1</b>
<b>Total Operating Revenues</b>	<b>891.394</b>	<b>100,0</b>	<b>883.997</b>	<b>100,0</b>	<b>(7.397)</b>	<b>(0,8)</b>	<b>1.884.139</b>	<b>100,0</b>	<b>1.847.980</b>	<b>100,0</b>	<b>(36.159)</b>	<b>(1,9)</b>
Personnel	123.846	<b>13,9</b>	114.803	<b>13,0</b>	(9.043)	<b>(7,3)</b>	268.228	<b>14,2</b>	254.832	<b>13,8</b>	(13.396)	<b>(5,0)</b>
General and Administrative	242.770	<b>27,2</b>	254.624	<b>28,8</b>	11.854	<b>4,9</b>	504.673	<b>26,8</b>	512.980	<b>27,8</b>	8.307	<b>1,6</b>
Depreciation	184.546	<b>20,7</b>	232.792	<b>26,3</b>	48.246	<b>26,1</b>	369.476	<b>19,6</b>	469.425	<b>25,4</b>	99.949	<b>27,1</b>
Technology Transfer and Management Fees	79.115	<b>8,9</b>	80.615	<b>9,1</b>	1.500	<b>1,9</b>	167.310	<b>8,9</b>	168.492	<b>9,1</b>	1.182	<b>0,7</b>
Materials and Supplies	13.975	<b>1,6</b>	12.307	<b>1,4</b>	(1.668)	<b>(11,9)</b>	26.271	<b>1,4</b>	24.895	<b>1,3</b>	(1.376)	<b>(5,2)</b>
Provisions	45.249	<b>5,1</b>	31.364	<b>3,5</b>	(13.885)	<b>(30,7)</b>	94.752	<b>5,0</b>	66.505	<b>3,6</b>	(28.247)	<b>(29,8)</b>
Own Work Capitalized	(38.435)	<b>(4,3)</b>	(31.613)	<b>(3,6)</b>	6.822	<b>(17,7)</b>	(75.708)	<b>(4,0)</b>	(67.554)	<b>(3,7)</b>	8.154	<b>(10,8)</b>
<b>Total Operating Costs and Expenses</b>	<b>651.066</b>	<b>73,0</b>	<b>694.892</b>	<b>78,6</b>	<b>43.826</b>	<b>6,7</b>	<b>1.355.002</b>	<b>71,9</b>	<b>1.429.575</b>	<b>77,4</b>	<b>74.573</b>	<b>5,5</b>
<b>Operating Income</b>	<b>240.328</b>	<b>27,0</b>	<b>189.105</b>	<b>21,4</b>	<b>(51.223)</b>	<b>(21,3)</b>	<b>529.137</b>	<b>28,1</b>	<b>418.405</b>	<b>22,6</b>	<b>(110.732)</b>	<b>(20,9)</b>
<b>EBITDA</b>	<b>424.874</b>	<b>47,7</b>	<b>421.897</b>	<b>47,7</b>	<b>(2.977)</b>	<b>(0,7)</b>	<b>898.613</b>	<b>47,7</b>	<b>887.830</b>	<b>48,0</b>	<b>(10.783)</b>	<b>(1,2)</b>
<b>Other Income (Expenses)</b>												
Interest Income	7.200	<b>0,8</b>	12.146	<b>1,4</b>	4.946	<b>68,7</b>	14.314	<b>0,8</b>	23.647	<b>1,3</b>	9.333	<b>65,2</b>
Interest Expenses	(102.614)	<b>(11,5)</b>	(77.885)	<b>(8,8)</b>	24.729	<b>(24,1)</b>	(206.584)	<b>(11,0)</b>	(155.150)	<b>(8,4)</b>	51.434	<b>(24,9)</b>
Others Net	63.878	<b>7,2</b>	7.850	<b>0,9</b>	(56.028)	<b>(87,7)</b>	60.987	<b>3,2</b>	9.480	<b>0,5</b>	(51.507)	<b>(84,5)</b>
Inflation Gain (Loss)	55.571	<b>6,2</b>	(3.457)	<b>(0,4)</b>	(59.028)	<b>(106,2)</b>	88.225	<b>4,7</b>	1.757	<b>0,1</b>	(86.468)	<b>(98,0)</b>
<b>Total Other Income (Expenses)</b>	<b>24.035</b>	<b>2,7</b>	<b>(61.346)</b>	<b>(6,9)</b>	<b>(85.381)</b>	<b>(355,2)</b>	<b>(43.058)</b>	<b>(2,3)</b>	<b>(120.266)</b>	<b>(6,5)</b>	<b>(77.208)</b>	<b>179,3</b>
Early Retirement Expense	-	-	(4.919)	<b>(0,6)</b>	(4.919)	-	-	-	(8.474)	<b>(0,5)</b>	(8.474)	-
<b>Income Before Taxes and Participations</b>	<b>264.363</b>	<b>29,7</b>	<b>122.840</b>	<b>13,9</b>	<b>(141.523)</b>	<b>(53,5)</b>	<b>486.079</b>	<b>25,8</b>	<b>289.665</b>	<b>15,7</b>	<b>(196.414)</b>	<b>(40,4)</b>
Workers' Participation	(29.036)	<b>(3,3)</b>	(14.623)	<b>(1,7)</b>	14.413	<b>(49,6)</b>	(52.008)	<b>(2,8)</b>	(34.434)	<b>(1,9)</b>	17.574	<b>(33,8)</b>
Income Tax	(78.398)	<b>(8,8)</b>	(39.410)	<b>(4,5)</b>	38.988	<b>(49,7)</b>	(140.421)	<b>(7,5)</b>	(93.821)	<b>(5,1)</b>	46.600	<b>(33,2)</b>
<b>Net Income</b>	<b>156.929</b>	<b>17,6</b>	<b>68.807</b>	<b>7,8</b>	<b>(88.122)</b>	<b>(56,2)</b>	<b>293.650</b>	<b>15,6</b>	<b>161.410</b>	<b>8,7</b>	<b>(132.240)</b>	<b>(45,0)</b>

**TABLE 2**  
**TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET IN ADJUSTED SOLES (000) AS OF JUNE 30, 2001 (1)**  
(End of Period Figures)

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY					
	2Q01	1Q01	4Q00	3Q00	2Q00		2Q01	1Q01	4Q00	3Q00	2Q00
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	4.732	37.771	88.573	130.311	157.737	Overdrafts	421	0	80.781	0	0
Negotiable securities	67.052	79.754	58.161	75.773	43.324	Accounts payable and accrued liabilities	470.533	379.001	766.516	515.850	550.823
Accounts and notes receivable - net	789.128	780.881	840.273	851.626	917.267	Other accounts payable	573.536	722.321	424.959	482.295	520.602
Other accounts receivable	894.489	851.251	272.237	295.886	329.452	Provision for severance indemnities	3.879	9.057	7.010	14.234	5.532
Inventory	89.621	84.378	141.740	138.605	133.782	Bank Loans	1.316.499	1.611.419	2.096.572	2.761.512	1.443.001
Prepaid expenses	482.617	442.196	502.582	501.507	551.580	Current maturities of long-term debt	69.780	69.706	69.358	69.312	216.909
Total current assets	2.327.639	2.276.231	1.903.566	1.993.708	2.133.142	Bonds	0	116.391	283.120	419.840	424.429
						Commercial Papers	352.570	257.489	218.654	265.333	261.629
						Total current liabilities	2.787.218	3.165.384	3.946.970	4.528.376	3.422.925
						LONG-TERM DEBT	1.751.791	1.706.090	1.342.716	813.556	2.393.763
LONG-TERM INVESTMENTS	356.451	356.293	360.767	358.975	362.768	BONDS	530.985	464.486	415.464	346.192	223.104
PROPERTY, PLANT AND EQUIPMENT	13.306.415	13.209.317	14.982.107	14.659.112	14.470.527	GUARANTY DEPOSITS	81.445	78.236	72.646	68.160	61.971
Accumulated depreciation	6.052.840	5.851.420	6.062.621	5.655.318	5.451.089	DEFERRED EARNINGS	11.005	0	0	0	2.265
	7.253.575	7.357.897	8.919.486	9.003.794	9.019.438	DEFERRED TAXES	1.039.357	939.216	856.621	809.938	736.211
Write-off Provision	-80.080	-79.914	-83.399	0	0	SHAREHOLDERS' EQUITY	2.917.036	2.917.316	3.300.433	3.300.433	3.300.433
	7.173.495	7.277.983	8.836.087	9.003.794	9.019.438	Capital stock	0	0	115.525	115.525	115.525
OTHER ASSETS, net	280.314	316.534	381.158	277.149	258.833	Additional paid-in capital	345.138	345.138	660.087	624.259	624.259
TOTAL ASSETS	10.137.899	10.227.041	11.481.578	11.633.626	11.774.181	Legal reserve	673.924	611.175	771.116	1.027.187	893.725
						Retained earnings					
						TOTAL SHAREHOLDERS' EQUITY	3.936.098	3.873.629	4.847.161	5.067.404	4.933.942
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	10.137.899	10.227.041	11.481.578	11.633.626	11.774.181

(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>2Q01</b>	<b>2Q01-2Q00</b>	<b>2Q01/ 2Q00</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	2.009.549	(2.504)	<b>(0,1)</b>
New Lines in Service	11.205	5.728	(2.085)	(6.623)	(4.040)	(1.097)	(6.825)	<b>(119,2)</b>
Lines in Service Including Public Telephones (1)	1.705.746	1.719.006	1.719.679	1.717.118	1.712.437	1.713.048	(5.958)	<b>(0,3)</b>
Local Traffic - Minutes (000)	2.129.120	2.188.438	2.081.147	2.182.321	2.014.480	1.942.843	(245.595)	<b>(11,2)</b>
Long Distance - Minutes (000)	236.984	231.596	239.800	254.204	250.099	251.777	20.181	<b>8,7</b>
Number of Employees (Telefónica del Perú and Subsidiaries)	6.023	6.185	6.292	6.330	6.017	6.007	(178)	<b>(2,9)</b>
Number of Employees (Telefónica del Perú)	4.867	4.920	4.903	4.875	4.747	4.676	(244)	<b>(5,0)</b>
Lines in Service per Employee (Telefónica del Perú)	350	349	351	352	361	368	19	<b>5,3</b>
Digitalization Rate (%)	95	96	96	96	96	96	0	<b>0,0</b>
Lines in Service per 100 inhabitants	6,7	6,8	6,7	6,7	6,7	6,6	(0)	<b>(2,9)</b>
<b>PUBLIC TELEPHONES</b>								
Lines in Service (2)	66.881	74.443	77.197	81.253	83.093	84.850	10.407	<b>14,0</b>
<b>CABLE TV</b>								
Subscribers	333.679	341.716	345.495	349.447	351.237	351.337	9.621	<b>2,8</b>

**(1) Excluding Cellular Public Phones**

**(2) Including Cellular Public Phones**