

# *Telefonica*

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

**July – September 2001**

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Due to the segregation process that went into effect on January 2001, the results of 3Q00 and 3Q01 are not comparable. In order to allow an easier analysis, the Management has prepared pro forma income statements for 3Q00. Balance sheets do not have pro forma statements.

## **Significant Events**

A brief that contains the most significant events performed since July 2001 is presented below.

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

On July the 19<sup>th</sup>, the Board appointed Mr Andres Simons Manager of Economic Studies and Finance. This unit will report directly to the Managing Director of Finance.

On August 23<sup>rd</sup> , the Board decided to change the name of its Central Management of Institutional Relations, Press and Image, to Central Management of Institutional Relations. Mr Ludwig Meier will head this unit. As well, the board approved the creation of the Deputy Central Management of Corporate Communication and Image to be headed by Mr. Antonio de Padua Crespo Prieto and reporting to the Central Management of Institutional Relations. Finally, Mr. José Santamaría was appointed Controlling Processes Manager and Mr. Manuel Lara Gómez Auditing Manager.

### **Productivity Factor**

On July 23<sup>rd</sup>, OSIPTEL notified the Company of Resolution # 038-2001-CD/ OSIPTEL issued by the Directing Council. According to this resolution, the Productivity Factor to be used for this quarter (applicable within the current price cap tariffs regime) was fixed at 0.01535 (6.00% Annually).

It is worth noting that in determining the productivity factor (which will effect the Company's revenues for the next three years starting September 2001) OSIPTEL did not follow the procedures established in the concessions contacts. It its for this reason that the Company will soon file legal injunctions.

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

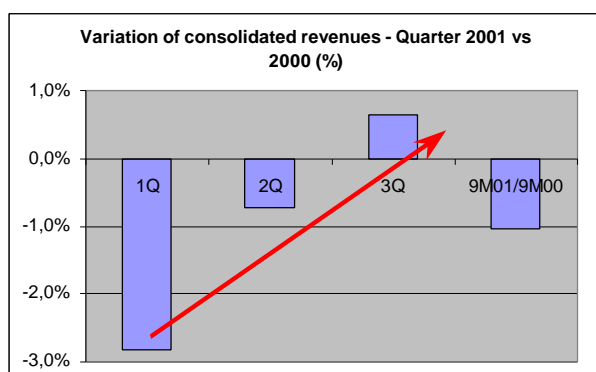
## Management discussion and analysis of the consolidated results for the third quarter and nine months ended September 30, 2001

On January 1st, 2001, the Company put into effect the segregation process of the Mobile Services, Data and the Directories businesses. By virtue of this process initiated on 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 through a non-divestment process.

In this regard, and for ease of comparison the Company has performed quarterly pro forma income statements for year 2000 for Telefónica del Perú S.A. and its Subsidiaries.

- **At the operating level, the Company shows a healthy evolution of both its revenues and expenses, resulting in a normalized EBITDA growth of 4,6%.**
- **The reduction of Capex (11% of revenues), along with the implementation of cost control measures, has generated increased free cash flow, leading to a progressive reduction of debt (more than USD 100 million during the first nine months of 2001).**
- **Although the extraordinary adjustments made during the present quarter have generated losses on a cumulative basis, the Company is now much healthier and ready to face the challenges of the future.**

### Revenue Growth Recovery – Third Quarter 2001



Through the implementation of new policies that foster the sale of products and services more according to customer needs, the company has been able to reverse the negative growth trend experienced at the beginning of the year.

Consolidated operating revenues in 3Q01 were S/. 893 million, an increase of 0.6% over 3Q00. On a cumulative basis, although 9M01 operating revenues were lower than last year's, quarterly results show a reversion to this trend.

**Basic Telephony** revenues reached S/. 434 million in 3Q01, an increase of 1.1% over 3Q00, in line with the reversion of the 9-months revenue trend. This was explained by an increase of the average billable plant, a 0.6% increase in the weighted average tariff in monthly fee, and higher equipment sales than last year's. The increase was partially offset by a 3.8% reduction in the weighted average tariff for local service.

9M01 revenues of S/. 1,276 MM showed a 1.9% decline YoY. The fall in revenues was due to a 6.4% decline in billed traffic and lower weighted average tariffs than last year for local service (5,8%), mainly due to the application of the productivity rate to the tariffs price cap that started on September 1<sup>st</sup> 2001. Lower tariffs

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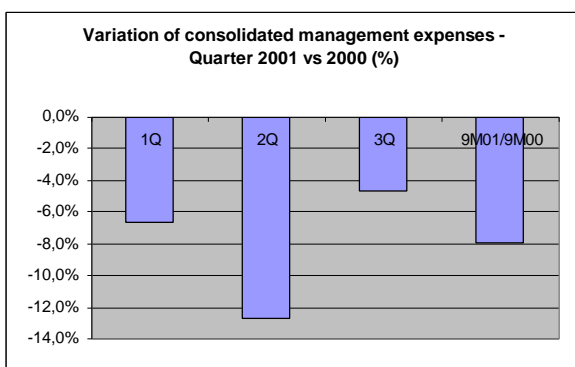
were partially compensated by increased revenues originating from a higher average billable plant, higher equipment sales and a higher pre-paid traffic, (51% growth YoY).

**Long Distance** 3Q01 revenues fell 7.4% to S/. 142 million due to a 3.9% and a 9.2% decline in the weighted average tariffs for DLD and ILD, respectively, which offset the 2.9% increase of total long distance minutes. Likewise, 9M01 revenues registered a 12.1% decline YoY to S/. 436 million. The main reasons were a 3.6% and a 10.2% fall in the weighted average tariffs for DLD and ILD, respectively. This counterbalanced the 5.7% increase of total long distance minutes registered for the period.

Revenues from **Public Telephony** grew by 4.1% to S/. 173 million in 3Q01 due to an increase in Public Telephones in service (15.1%) and higher sales of cards 147. Likewise, 9M01 revenues reached S/. 499 million, a 4.3% increase YoY.

During 9M01 **Cable Television and Business Communications** registered an increase in revenues of 4,7% and 6% YoY respectively. On a quarterly basis Cable Television showed an increase in revenues of 1,8% YoY for 3Q01 while Business Communications dropped by 1,9%.

### Expenses reduction continues



The Company continues to maintain an strict cost control plan same which before considering depreciation and management fee has resulted in a drop of expenses of 7% YoY.

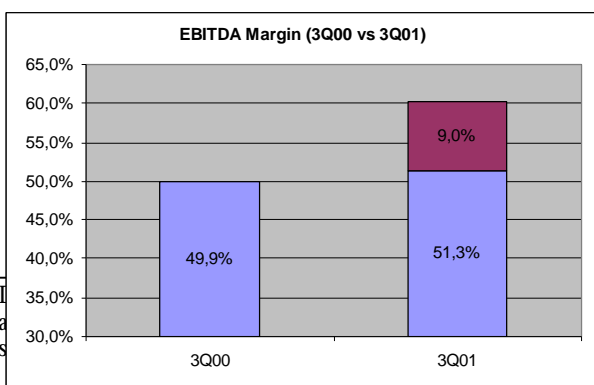
During 3Q01 the Company did not record any expense related to the **Management Fee** after the extraordinary adjustments made to the financial statements and, in accordance with the agreements of the technology transfer contract. Had those adjustments not been done, the Management Fee would have been around S/. 80 million.

**Personnel** expenses 9M01 fell S/. 31 million compared to 9M00, (3Q01 fell S/. 18 million compared to 3Q00) mainly due to the transfer of 597 employees from Telefónica del Perú to Telefónica Gestión de Servicios Compartidos (TGSC) - as of April 1 – (TGSC does not consolidate. with TdP & Subsidiaries)

**General & Administrative** expenses were down from S/. 232 million in 3Q00 to S/. 228 in 3Q01. This was mainly due to lower contributions to Osiptel, Fitel and commercial exploitation fee. Likewise, the 9M01 expenses for this item registered a 6.3% decline, which represents a S/. 46 million saving, due to the same reason.

**Provisions** fell 11.4% (from S/. 36 million in 3Q00 to S/. 32 million in the 3Q01) due to lower delinquency rates, better collection policies and a wider acceptance of products limiting delinquency risk. During the first nine months of the year provisions reached S/. 98 MM and showed a 24.6% decline YoY explained by the same reasons.

### Improvement in EBITDA



Compared to 3Q00, normalized 3Q01 EBITDA (not considering the adjustment of management in this quarter) increased 4.6% from S/. 443 million to S/. 463 million. The improvement in EBITDA is a result of an increase in revenues and a reduction of expenses. Normalized EBITDA margin increased from 49.9% in 3Q00 to 51.3% in 3Q01.

2001, the results of 3Q00 and 3Q01 are not comparable. In order to income statements for 3Q00. Balance sheets do not have pro forma

During the first nine months of the year, normalized EBITDA reached S/. 1,389 million, a 4.1% increase when compared to the same period of the previous year. This highlights the effectiveness of the cost control plans put in place by the Company. The normalized EBITDA margin grew from 48.4% in 9M00 to 51.0% in 9M01.

**Depreciation** increased 26.5% in 3Q01 when compared to the same period of last year as a result of lower remaining works in progress by the end of year 2000, as well as the new additions throughout this year, resulting in a higher depreciable average plant. During the year 9M01 depreciation showed a 27% increase YoY reaching S/. 710 million.

As a result of the increase in depreciation and amortization charges, the normalized operating result declined 14.5% from S/. 251 million in 3Q00 to S/. 214 million in 3Q01, while the operating margin fell from 28.2% in 3Q00 compared to 24.0% in the 3Q01. 9M01 operating results were down 12.2% YoY, from S/. 775 million to S/. 680 million.

## Non-operating result

During the first nine months of this year, and as part of the steady process used by the Company to review its internal processes, Management decided to undertake a historic evaluation of most of the accounts from the financial statements regarding prior periods. This analysis determined the need for certain adjustments in the financial statements of the Company. Therefore, an amount of S/. 192 million soles was charged against retained earnings, representing 1.9% of the total assets for 2Q01. Furthermore, there was an extraordinary charge of S/. 243 million against the profit and loss statement, representing 2.43% of total assets accounted for, by 2Q01.

As previously stated, during the 3Q01 an extraordinary amount of S/. 243 million was charged to the profit and loss statement in the entry "Others – net". The entries that were most affected by this charge were: inventories, S/. 95 million; pending balances due to the reorganization process, S/. 32 million; write-off assets, S/. 40 million; exchange rate difference in accounts receivable S/. 22 million; and S/. 47 million due to self –claims regarding income from former periods.

As a consequence, the Company has strengthened its system and internal control process thereby avoiding the recurrence of events and improving the quality of the accounting information. The improvement in the system could produce further adjustments in other entries that nevertheless will be significantly lower.

Excluding the monetary correction and the accounting of other revenue and net expenses, the non-operating result registered a S/. 31 million increase during 3Q01, when compared to the same period of last year. This improvement is the result of a S/. 13 million financial revenue increase and a S/. 18 million financial expense reduction. The latter is due to the application of a debt reduction program and the decline of the local interest rates. Likewise, the accumulated non-operating results show a S/. 91 million due to the same reasons.

Finally, non-operating losses went from S/. 76 million during 3Q00 to S/. 419 million in 3Q01. Likewise, 9M01 losses went from S/. 119 million during 9M00 to S/. 589 million.

## Net result

Net income showed a decline from S/. 97 million in 3Q00 to a S/. 253 million loss in 3Q01. 9M01 fell from S/. 388 million to a S/. 93 million loss on a YoY basis.

**For yet another quarter, the Company continues to show that its capacity to generate free cash flow remains intact in spite of the adjustments. Low capex and an important free-cash flow allowed the Company to reduce its financial debt by more than US\$ 100 million during this year – and US\$ 338 million since the peak of its financial debt in 1Q99. The Company believes that the generation of free cash flow will remain, and this cash will be used to**

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**continue on the reduction of its financial debt. Telefónica maintains its capex at reasonable levels, around 11% of revenues.**

### **Consolidated Balance Sheet**

Net property, plant and equipment did not show significant variation compared to 2Q01 because there was not a major variation in installed plant. Other net assets increased S/. 68 millions due to investments in software.

Current liabilities increased S/. 115 millions in 3Q01 compared to 2Q01. The net balance in accounts payable and accrued liabilities increased S/. 264 million, but was offset by the reduction of S/. 172 millions in other accounts payable.

Bank loans dropped S/. 215 million in this period, and were partially offset by an increase of S/. 221 million of commercial papers. The shift from bank loans to commercial papers is in line with our objectives to reduce the exposure of debt to foreign currency changes and to match the currency of financing sources with that of revenues.

EBITDA/ Interest expenses ratio reached 6.3 in 3Q01, which compares favorably with the 5.9 registered during the first half of the year.

As a consequence of the extraordinary adjustments, the Company charged S/. 191 million to retained earnings, of which S/. 82 million belonged to several minor entries not registered in their corresponding time frame. The remaining S/. 109 million correspond to the difference between the minimum-income tax paid in the past and the corresponding value of the general income tax system. Therefore, the adjustment does not imply cash disbursements. According to the income tax regime under which the Company operates, this quarter extraordinary adjustments will not exempt the Company to pay those taxes that regarding to this concept could apply to it.

Due to the extraordinary adjustments, shareholders' equity was reduced by S/. 451 million and the ratio of debt to permanent capital increased to 54%. Efforts made to optimize the use of resources in investment projects and to control expenses will allow the Company to improve free cash flow and therefore to keep reducing debt throughout 2002 and the following years.

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

	3Q00		3Q01		Abs. Var.	% Var.	9M00		9M01		Abs. Var.	9M01/ 9M00
		%		%	3Q01 - 3Q00	3Q01 - 3Q00					9M01-9M00	
Local Telephone Service	429.353	48,4	434.101	48,6	4.748	1,1	1.300.464	47,2	1.276.398	46,8	(24.066)	(1,9)
Long Distance	153.745	17,3	142.337	15,9	(11.408)	(7,4)	496.065	18,0	436.144	16,0	(59.921)	(12,1)
Public Telephones	166.062	18,7	172.945	19,4	6.883	4,1	478.695	17,4	499.095	18,3	20.400	4,3
Cable TV	64.078	7,2	65.244	7,3	1.166	1,8	189.129	6,9	198.025	7,3	8.896	4,7
Business Communications	47.996	5,4	47.091	5,3	(905)	(1,9)	142.310	5,2	150.827	5,5	8.517	6,0
Telephone Directories	9.213	1,0	11.347	1,3	2.134	23,2	97.622	3,5	89.746	3,3	(7.876)	(8,1)
Other	16.956	1,9	19.957	2,2	3.001	17,7	50.677	1,8	76.268	2,8	25.591	50,5
<b>Total Operating Revenues</b>	<b>887.404</b>	<b>100,0</b>	<b>893.022</b>	<b>100,0</b>	<b>5.618</b>	<b>0,6</b>	<b>2.754.962</b>	<b>100,0</b>	<b>2.726.503</b>	<b>100,0</b>	<b>(28.459)</b>	<b>(1,0)</b>
Personnel	121.858	13,7	104.229	11,7	(17.629)	(14,5)	387.726	14,1	357.044	13,1	(30.682)	(7,9)
General and Administrative	231.975	26,1	227.643	25,5	(4.332)	(1,9)	732.206	26,6	685.993	25,2	(46.213)	(6,3)
Depreciation	192.652	21,7	243.757	27,3	51.105	26,5	558.876	20,3	709.503	26,0	150.627	27,0
Technology Transfer and Management Fees	81.823	9,2	-	-	(81.823)	(100,0)	247.661	9,0	167.171	6,1	(80.490)	(32,5)
Materials and Supplies	12.261	1,4	19.723	2,2	7.462	60,9	38.301	1,4	44.430	1,6	6.129	16,0
Provisions	36.080	4,1	31.968	3,6	(4.112)	(11,4)	129.998	4,7	98.010	3,6	(31.988)	(24,6)
Own Work Capitalized	(39.845)	(4,5)	(28.741)	(3,2)	11.104	(27,9)	(114.887)	(4,2)	(95.766)	(3,5)	19.121	(16,6)
<b>Total Operating Costs and Expenses</b>	<b>636.803</b>	<b>71,8</b>	<b>598.579</b>	<b>67,0</b>	<b>(38.224)</b>	<b>(6,0)</b>	<b>1.979.881</b>	<b>71,9</b>	<b>1.966.385</b>	<b>72,1</b>	<b>(13.496)</b>	<b>(0,7)</b>
<b>Operating Income</b>	<b>250.600</b>	<b>28,2</b>	<b>294.443</b>	<b>33,0</b>	<b>43.843</b>	<b>17,5</b>	<b>775.081</b>	<b>28,1</b>	<b>760.118</b>	<b>27,9</b>	<b>(14.963)</b>	<b>(1,9)</b>
<b>EBITDA</b>	<b>443.252</b>	<b>49,9</b>	<b>538.200</b>	<b>60,3</b>	<b>94.948</b>	<b>21,4</b>	<b>1.333.957</b>	<b>48,4</b>	<b>1.469.621</b>	<b>53,9</b>	<b>135.664</b>	<b>10,2</b>
<b>Other Income (Expenses)</b>												
Interest Income	6.820	0,8	19.748	2,2	12.928	189,5	21.008	0,8	53.825	2,0	32.817	156,2
Interest Expenses	(102.780)	(11,6)	(85.077)	(9,5)	17.703	(17,2)	(307.546)	(11,2)	(249.628)	(9,2)	57.918	(18,8)
Others Net	(19.358)	(2,2)	(354.073)	(39,6)	(334.715)	1.729,1	41.092	1,5	(395.127)	(14,5)	(436.219)	(1.061,6)
Inflation Gain (Loss)	38.861	4,4	478	0,1	(38.383)	(98,8)	126.310	4,6	2.116	0,1	(124.194)	(98,3)
<b>Total Other Income (Expenses)</b>	<b>(76.456)</b>	<b>(8,6)</b>	<b>(418.924)</b>	<b>(46,9)</b>	<b>(342.468)</b>	<b>447,9</b>	<b>(119.135)</b>	<b>(4,3)</b>	<b>(588.814)</b>	<b>(21,6)</b>	<b>(469.679)</b>	<b>394,2</b>
Early Retirement Expense	(4.490)	(0,5)	(18.462)	(2,1)	(13.972)	-	(4.490)	(0,2)	(26.868)	(1,0)	(22.378)	498,4
<b>Income Before Taxes and Participations</b>	<b>169.654</b>	<b>19,1</b>	<b>(142.943)</b>	<b>(16,0)</b>	<b>(312.597)</b>	<b>(184,3)</b>	<b>651.455</b>	<b>23,6</b>	<b>144.436</b>	<b>5,3</b>	<b>(507.019)</b>	<b>(77,8)</b>
Workers' Participation	(19.542)	(2,2)	(18.395)	(2,1)	1.147	(5,9)	(71.093)	(2,6)	(52.550)	(1,9)	18.543	(26,1)
Income Tax	(52.765)	(5,9)	(92.001)	(10,3)	(39.236)	74,4	(191.950)	(7,0)	(185.066)	(6,8)	6.884	(3,6)
<b>Net Income</b>	<b>97.346</b>	<b>11,0</b>	<b>(253.339)</b>	<b>(28,4)</b>	<b>(350.685)</b>	<b>(360,2)</b>	<b>388.412</b>	<b>14,1</b>	<b>(93.180)</b>	<b>(3,4)</b>	<b>(481.592)</b>	<b>(124,0)</b>

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

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY					
	3Q01	2Q01	1Q01	4Q00	3Q00		3Q01	2Q01	1Q01	4Q00	3Q00
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	3.499	4.694	37.469	87.865	129.280	Overdrafts	1.790	418	0	80.136	0
Negotiable securities	69.887	66.516	79.115	57.697	75.173	Accounts payable and accrued liabilities	731.142	466.769	375.963	760.396	511.769
Accounts and notes receivable - net	813.172	782.815	774.622	833.563	844.887	Other accounts payable	396.948	568.948	716.531	424.148	478.479
Other accounts receivable	416.119	887.333	844.427	270.065	293.545	Provision for severance indemnities	2.833	3.848	8.984	6.954	14.122
Inventory	10.291	88.904	83.702	140.608	137.508	Bank Loans	1.090.727	1.305.967	1.598.502	2.077.254	2.739.660
Prepaid expenses	364.559	478.756	438.651	498.570	497.539	Current maturities of long-term debt	86.039	69.222	69.148	68.803	68.764
Total current assets	1.677.527	2.309.018	2.257.986	1.888.368	1.977.932	Bonds	0	0	115.458	280.860	416.517
Accounts receivable - LT wit T. Móviles	435.250	0	0	0	0	Commercial Papers	570.549	349.749	255.425	216.909	263.233
LONG-TERM INVESTMENTS	346.343	353.599	353.437	357.886	356.135	Total current liabilities	2.880.028	2.764.921	3.140.011	3.915.460	4.492.544
PROPERTY, PLANT AND EQUIPMENT	13.176.719	13.199.964	13.103.431	14.862.491	14.543.115	LONG-TERM DEBT	1.719.344	1.737.777	1.692.414	1.331.997	807.119
Accumulated depreciation	6.186.858	6.004.417	5.804.515	6.014.215	5.610.567	BONDS	529.046	526.737	460.763	412.147	343.452
Write-off Provision	-68.182	-79.439	-79.273	-82.734	0	GUARANTY DEPOSITS	83.411	80.793	77.609	72.066	67.620
OTHER ASSETS, net	346.151	278.071	313.996	378.116	274.956	DEFERRED EARNINGS	11.392	10.917	0	0	0
TOTAL ASSETS	9.726.950	10.056.796	10.145.062	11.389.912	11.541.571	DEFERRED TAXES	1.049.861	1.031.042	931.687	849.782	803.529
						SHAREHOLDERS' EQUITY					
						Capital stock	2.893.746	2.893.746	2.893.746	3.274.082	3.274.082
						Additional paid-in capital	0	0	0	114.602	114.602
						Legal reserve	342.382	342.382	342.382	654.816	619.275
						Retained earnings	217.740	668.481	606.450	764.960	1.019.348
						TOTAL SHAREHOLDERS' EQUITY	3.453.868	3.904.609	3.842.578	4.808.460	5.027.307
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9.726.950	10.056.796	10.145.062	11.389.912	11.541.571

(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>3Q01</b>	<b>3Q01-3Q00</b>	<b>3Q01/ 3Q00</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	2.017.865	(972)	<b>(0,0)</b>
New Lines in Service	11.205	5.728	(2.085)	(6.623)	(4.040)	(1.097)	7.514	9.599	<b>(460,4)</b>
Lines in Service Including Public Telephones (1)	1.705.746	1.719.006	1.719.679	1.717.117	1.712.437	1.713.048	1.724.601	4.922	<b>0,3</b>
Local Traffic - Minutes (000)	2.100.546	2.158.870	2.055.180	2.154.646	2.014.480	1.942.846	1.950.196	(104.984)	<b>(5,1)</b>
Long Distance - Minutes (000)	236.984	231.596	239.800	254.204	250.099	251.777	246.747	6.948	<b>2,9</b>
Number of Employees (Telefónica del Perú and Subsidiaries)	6.023	6.185	6.292	6.330	6.079	5.345	5.470	(822)	<b>(13,1)</b>
Number of Employees (Telefónica del Perú)	4.867	4.920	4.903	4.875	4.747	3.913	3.863	(1.040)	<b>(21,2)</b>
Lines in Service per Employee (Telefónica del Perú)	350	349	351	352	361	438	446	95	<b>27,2</b>
Digitalization Rate (%)	95	96	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	6,7	-	-
<b>PUBLIC TELEPHONES</b>									
Lines in Service (2)	66.881	74.443	77.197	81.253	83.093	84.850	88.883	11.686	<b>15,1</b>
<b>CABLE TV</b>									
Subscribers	333.679	341.716	345.495	349.447	351.237	351.337	351.718	6.223	<b>1,8</b>

**(1) Excluding Cellular Public Phones**

**(2) Including Cellular Public Phones**