

Telefonica

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

January – March 2001

Significant Events

A summary containing the most significant events performed since January 2002 is presented below:

General Shareholders Meeting

On March 26th, the General Shareholders Meeting of **Telefónica del Perú S.A.A.** approved the following issues:

1. The management administration and the financial results for year 2001, as well as the Annual Report for the said period.
2. The compensation for the Board of Directors for year 2002, which remains unchanged since it was set on the General Shareholder Meeting on March 1998, for the concepts there established.
3. Entrusted the Board with the responsibility to designate the external auditors for the year 2002.
4. Modified the authorized amounts of issuance in commercial papers from US\$ 180 million to US\$ 300 million and in corporate bonds from US\$ 800 million to US\$ 620 million.
5. Partially modified the Company's by-laws regarding the composition of the Board of Directors and the quorum for the installation and voting for such board. Likewise, it set in fourteen the number of members of the Board of Directors of the Company for the present year.

Transference of Telefónica Publicidad e Información Perú S.A.C.

Following the segregation process initiated by the Telefónica Group around the world, on February 8th, 2002, Telefónica del Perú S.A.A., and Telefónica Publicidad e Información S.A.C (a Spanish-based company and group-head of the Directories business) subscribed a share-sale contract for 100% of the shares belonging to Telefónica del Perú S.A.A.. In accordance with this contract, the former transferred to the second 78 499 999 shares of Telefónica Publicidad e Información S.A.C. for a total price of US\$ 31 159 372.79. As a consequence of such transfer, Telefónica Publicidad e Información S.A. no longer belongs to Telefónica del Perú S.A.A., and now depends directly of its group-head in Spain of which Telefónica S.A is the main shareholder. As a consequence, the enclosed 1Q02 financial statements do not include the operations of the directory business line.

SUNAT Resolutions

On February 11th, 2002, the Company was notified by SUNAT of a S/. 244 million claim, resulting from an integral fiscalization process, which corresponded to the 1998 period. This fact was immediately communicated to CONASEV as a significant reserved event.

The Company management and its legal advisers consider that the referred claim does not adjust to law, and in consequence the Company will impugn the matter totally.

TELEFÓNICA DEL PERÚ S.A.A. AND SUBSIDIARIES

Management discussion and analysis of the consolidated results for the first quarter ended March 31, 2002

Operating revenues

Operating revenues for 1Q02 totaled S/. 855 million, an 8.7% drop compared to 1Q01, mainly as a result of the aforementioned sale, on February 8th, of the directory business to Telefónica Publicidad e Información S.A. (TPI), Group-head of the directory business. Discounting the effect of this sale, the drop in revenues would have been 1.3% as the revenue increases in public telephony (10.2%), cable television (8.0%), business communications (10.5%) and basic telephony (1.0%) could not offset the revenue reduction in long distance (-23.0%) and others (-9.6%).

Basic Telephony revenues for 1Q02 grew 1.0% compared to 1Q01, reaching S/. 400 million, despite the 8.2% reduction in monthly fees that affected the weighted average tariff. The reduction in tariffs was basically offset by the 58.0% increase in number of lines sold compared to 1Q01, and by the increase in traffic of consumption-limit lines.

1Q02 revenues for **Long Distance** totaled S/. 124 million, a 23.0% drop compared to 1Q01, resulting from the 4.0% and 11.1% reduction in DLD and ILD weighted average tariffs, respectively, and a 14.3% decrease in total traffic. These events were consequence of the international tariff reduction and the increase of competition.

Despite the increase of interconnection transfers to mobile operators due to regulatory reasons, **Public and Rural Telephony** revenues reached S/. 178 million in 1Q02, a 10.2% increase compared to 1Q01. The increase was mainly explained by the 20.0% growth in the public telephony plant in relation to 1Q01.

Despite the 3.0% yoy decrease in the subscriber number during 1Q02, **Cable Television** revenues increased by 8.0% in 1Q02 compared to 1Q01, reaching S/. 69 million. The increase is explained by the 6.6% growth in monthly fees, 11.5% in advertising and 91.2% in Cable Net revenues –service recently launched.

Business Communications revenues grew 10.5%, from S/. 41 million in 1Q01 to S/. 45 million in 1Q02, mainly due to the introduction of new products and services. In that sense, the Company launched the ADSL service during August 2001, initially targeted to high-income clients. The client base was widened in 2002 and grew from 1,875 in December 2001 to 3,213 in March 2002 (71.4%).

Operating expenses

Operating expenses net of depreciation were down 7.6% in 1Q02 compared to 1Q01, due to the S/. 26 million reduction of personnel expenses –explained by the exclusion of the payroll expenses of directory business and Telefónica Gestión de Servicios Compartidos in 2002 -, the S/. 18 million drop of general and administrative expenses –as a consequence of the exclusion of the directory-business expenses- and the S/. 9 million reduction in management fees –resulting from an 11% reduction in the calculation base.

Nevertheless, total operating expenses dropped only by S/. 16 million due to the S/. 20 million increase in depreciation (8.9% compared to 1Q01) - resulting from an 8% higher average plant - and the significant reduction in the capitalization of expenses (S/. 24 million or 67.8%), as a result of the application of a more conservative policy, following corporate criteria. Netting of the effect of the directory-business sale and the reduction of capitalization of expenses, operating expenses would have grown 1.8%.

EBITDA and Operating Result

Mainly as a result the directory–business sale, the introduction of the productivity factor since September 2001, the significant reduction in the capitalization of expenses and the weak economic environment, the EBITDA for 1Q02 was down 9.7% compared to 1Q01. The EBITDA margin fell slightly from 49.3% in 1Q01 to 48.7% in 1Q02. The operating result dropped from S/. 232 million in 1Q01 to S/. 167 million in 1Q02 (28.2% down) due to the increase of depreciation and the aforementioned factors. Discounting the effect of the directory business sale and the reduction of the capitalization of expenses, the EBITDA and the operating result could have been down by 0.2% and 12.1%, respectively.

Non-operating Result

The non-operating result improved 27.3% in 1Q02 compared to 1Q01, reducing the loss from S/. 70 million to S/. 51 million. The reduction of the non-operating loss was explained by diminished expenses (S/. 15 million or 18.7%) –resulting from lower debt levels and from lower average financial costs- and the S/. 48 million increase in others net –S/. 31 million of which belong to the capital gain of the directory-business sale. Nevertheless, this result was affected by the S/. 40 million drop in the monetary correction, mainly explained by the 0,5% reduction in the WPI during 1Q02.

Net result

The net result dropped 35.0% from S/. 90 million in 1Q01 to S/. 59 million in 1Q02 mainly explained by the reduction of long distance revenues, the increase in depreciation, the significant reduction in capitalization of expenses and the monetary correction.

Consolidated Balance Sheet

The liquidity levels of the Company –measured by the current assets over current liabilities ratio- increased from 0.46 in 4Q01 to 0.52 in 1Q02, basically as a result of the financial debt reduction (bank loans).

Likewise, the Company continued its debt -reduction process as free cash flow has significantly increased. As a result of that, during 1Q02, total debt was reduced by S/. 422 million, leading to a drop in the debt-over-debt-plus-equity ratio from 53.2% in 4Q01 to 49.9% in 1Q02. At the same time, the Company improved its risk profile through the diversification of financing sources, the reduction of exposure to exchange rate variations and the increase in the average life. In that sense, the short-term-debt-over-total-debt ratio was reduced from 59.2% in 4Q01 to 53.7% in 1Q02. Additionally, there was a significant improvement in the financial coverage ratio - EBITDA over net interests- as it went up from 7.2, in 1T01, to 7.9 in 1Q02.

TABLE 1
TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS IN ADJUSTED SOLES (000) AS OF MARCH 31, 2002 ^{1/}
(Prepared In Accordance With Peruvian GAAP)

	1Q01		1Q02		Abs. Var. 1Q02-1Q01	% Var. 1Q02-1Q01
		%		%		%
Local Telephone Service	396 060	42,3	400 022	46,8	3 962	1,0
Long Distance	160 974	17,2	124 028	14,5	(36 946)	(23,0)
Public Telephones	161 956	17,3	178 439	20,9	16 483	10,2
Cable TV	63 838	6,8	68 925	8,1	5 087	8,0
Business Communications	41 017	4,4	45 321	5,3	4 304	10,5
Telephone Directories	69 997	7,5	-	-	(69 997)	(100,0)
Other	42 127	4,5	38 062	4,5	(4 065)	(9,6)
Total Operating Revenues	935 969	100,0	854 797	100,0	(81 172)	(8,7)
Personnel	135 618	14,5	109 697	12,8	(25 921)	(19,1)
General and Administrative	241 499	25,8	223 193	26,1	(18 306)	(7,6)
Depreciation	228 992	24,5	249 413	29,2	20 421	8,9
Technology Transfer and Management Fees	85 291	9,1	75 851	8,9	(9 440)	(11,1)
Materials and Supplies	12 223	1,3	10 807	1,3	(1 416)	(11,6)
Provisions	35 227	3,8	30 399	3,6	(4 828)	(13,7)
Own Work Capitalized	(34 897)	(3,7)	(11 246)	(1,3)	23 651	(67,8)
Total Operating Costs and Expenses	703 953	75,2	688 114	80,5	(15 839)	(2,3)
Operating Income	232 016	24,8	166 683	19,5	(65 333)	(28,2)
EBITDA	461 008	49,3	416 096	48,7	(44 912)	(9,7)
Other Income (Expenses)						
Interest Income	16 645	1,8	13 054	1,5	(3 591)	(21,6)
Interest Expenses	(80 498)	(8,6)	(65 462)	(7,7)	15 036	(18,7)
Others Net	(11 190)	(1,2)	36 266	4,2	47 456	(424,1)
Inflation Gain (Loss)	5 062	0,5	(34 725)	(4,1)	(39 787)	(786,0)
Total Other Income (Expenses)	(69 981)	(7,5)	(50 867)	(6,0)	19 114	(27,3)
Income Before Taxes and Participations	162 035	17,3	115 816	13,5	(46 219)	(28,5)
Workers' Participation	(19 236)	(2,1)	(15 444)	(1,8)	3 792	(19,7)
Income Tax	(52 830)	(5,6)	(41 867)	(4,9)	10 963	(20,8)
Net Income	89 969	9,6	58 505	6,8	(31 464)	(35,0)

1/ For ease of analysis, 1Q01 income statement includes reclassifications (without effects in Net Income) in some accounts:

a. Starting year 2002 Tarjeta 147 revenues are split between Local Telephone Service and Long Distance accounts. In 1Q01 they were registered in the Local Telephone Service account only.

b. Starting year 2002, interconnection revenues, from traffic of F2M, M2M and FTF, are no longer registered in the Local Telephone Service account but in Other Revenues account.

c. Starting 3Q01 the subsidiaries's revenues are registered in Others Net account and not in general and administrative expenses.

TABLE 2

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES

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

(End of Period Figures)

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY					
	1Q02	4Q01	3Q01	2Q01	1Q01		1Q02	4Q01	3Q01	2Q01	1Q01
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	8 434	152 112	3 426	4 595	36 674	Overdrafts	0	66 661	1 752	409	0
Negotiable securities	52 889	31 851	68 419	65 107	77 437	Accounts payable and accrued liabilities	1 043 989	909 675	715 788	456 888	367 988
Accounts and notes receivable - net	789 428	735 473	796 095	766 243	758 190	Other accounts payable	395 097	317 834	388 612	556 903	701 333
Other accounts receivable	648 514	426 105	407 381	868 549	826 515	Provision for severance indemnities	1 556	2 160	2 774	3 767	8 794
Materials and supplies	41 587	44 838	10 075	87 022	81 926	Bank Loans	639 168	1 107 311	1 067 822	1 278 321	1 564 594
Prepaid taxes and expenses	160 423	217 421	356 903	468 621	429 346	Current maturities of long-term debt	580 014	574 119	84 232	67 756	67 681
						Current maturities of bonds	138 920	138 225	0	0	113 009
Total current assets	1 701 275	1 607 800	1 642 299	2 260 137	2 210 088	Commercial Papers	444 888	349 706	558 567	342 345	250 007
Accounts receivable - LT wit T. Móviles	396 175	427 974	426 110	0	0	Total current liabilities	3 243 632	3 465 691	2 819 547	2 706 389	3 073 406
						LONG-TERM DEBT	995 534	1 002 833	1 683 238	1 700 989	1 656 514
LONG-TERM INVESTMENTS	343 871	344 054	339 070	346 114	345 940	BONDS	557 254	539 413	517 936	515 586	450 989
PROPERTY, PLANT AND EQUIPMENT	13 030 563	12 989 917	12 900 008	12 920 529	12 825 480	GUARANTY DEPOSITS	89 768	85 956	81 659	79 083	75 963
Accumulated depreciation	6 432 669	6 214 543	6 056 934	5 877 308	5 681 388	DEFERRED EARNINGS	5 241	14 570	11 153	10 686	0
						DEFERRED TAXES	1 038 946	1 032 952	1 027 814	1 009 216	911 924
Write-off Provision	-60 055	-59 755	-66 750	-77 758	-77 592	SHAREHOLDERS' EQUITY	2 832 931	2 832 931	2 832 931	2 832 931	2 832 931
	6 537 839	6 715 619	6 776 324	6 965 463	7 066 500	Capital stock					
OTHER ASSETS, net	325 902	368 182	338 882	272 185	307 336	Additional paid-in capital					
						Legal reserve	335 187	335 187	335 187	335 187	335 187
TOTAL ASSETS	9 305 062	9 463 629	9 522 685	9 843 899	9 929 864	Retained earnings	206 569	154 096	213 220	653 832	592 950
						TOTAL SHAREHOLDERS' EQUITY	3 374 687	3 322 214	3 381 338	3 821 950	3 761 068
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9 305 062	9 463 629	9 522 685	9 843 899	9 929 864

(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

	1Q01	2Q01	3Q01	4Q01	1Q02	1Q02-1Q01	1Q02/ 1Q01
Fixed-Wire Telephone Service: Local+Long Distance							
Lines Installed	2 022 265	2 009 549	2 017 865	2 019 761	2 019 761	(2 504)	(0,1)
Profits (losses) in Lines in Service, net	(4 040)	(1 097)	7 514	(15 075)	24 615	28 655	(709,3)
Lines in Service Including Public Telephones (1)	1 712 437	1 713 048	1 724 601	1 716 097	1 744 794	32 357	1,9
Local Traffic - Minutes (000) (2)	2 014 480	1 942 846	1 950 196	1 921 051	1 727 667	(286 813)	(14,2)
Long Distance - Minutes (000)	252 755	254 737	249 681	228 124	216 636	(36 119)	(14,3)
Number of Employees (Telefónica del Perú and Subsidiaries)	6 079	5 345	5 470	5 429	5 170	(909)	(15,0)
Number of Employees (Telefónica del Perú)	4 747	3 913	3 863	3 823	3 823	(924)	(19,5)
Lines in Service per Employee (Telefónica del Perú)	361	438	446	449	456	96	26,6
Digitalization Rate (%)	96	96	96	96	96	(0)	(0,0)
Lines in Service per 100 inhabitants	6,7	6,6	6,7	6,6	6,6	(0)	(1,7)
PUBLIC TELEPHONES							
Lines in Service (3)	83 093	84 851	88 885	95 624	99 676	16 583	20,0
CABLE TV							
Subscribers	351 237	351 337	351 718	341 720	340 595	(10 642)	(3,0)

(1) Excluding Cellular Public Phones, Publifón and rurals

(2) Including traffic F2F billing (voice and internet), F2F and F2M

(3) Including Cellular Public Phones