

Telefonica

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

July – September 2002

Significant Events

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

Board of Directors Meeting

1. The Board of Directors, at the session held on July 24th, approved the financial statements of the company for the second quarter of 2002 and decided for their filing with Comisión Nacional Supervisora de Empresas y Valores, Lima Stock Exchange and other relevant institutions of the stock market.
2. The Board of Directors, empowered by the General Shareholders Meeting, at session held on August 21st, appointed Deloitte & Touche as the external auditors for year 2002.

Changes and Appointments

On September 18th, Dr. Víctor Schartzmann resigned from the positions of General Secretary and Secretary of the Board of Directors of Telefónica del Perú S.A.A., due to new responsibilities within the Telefónica Group. He is replaced by Dr. Julia María Morales.

Ruling of the Constitutional Court

On September 11th, the official gazette “El Peruano” published a ruling of the Constitutional Court regarding a legal injunction filed by the workers’ Union of Telefónica del Perú S.A. and the workers’ Federation of Telefónica del Perú S.A. The sentence stated that the Company has to reincorporate people belonging to said Unions that were fired and has to stop applying the article 34 of the Labour Productivity and Competitivity Law (D.S. 003-97-TR).

On the other hand, on September 18th, the Constitutional Court published a Resolution declaring null the appeal presented by the Company and ordered the execution according to the terms of the Resolution published on September 11th. It also clarified that the re-incorporation of fired workers is only valid for those fired between May 29th, 2000 and July 11st, 2002, and whose dismissals were the result of the application of said article 34.

To date, the judicial notification of the ruling of the Constitutional Court has yet to be received in order to proceed with its implementation. After that, the Company will evaluate the possible impacts on its financial situation.

Employees strike suspension

On September 12th, the workers’ Union of Telefónica del Perú and the worker’s Federation of Telefónica del Perú announced their decision to end the strike started on July 17th, and their return to work as of that moment.

TELEFÓNICA DEL PERÚ S.A.A. AND SUBSIDIARIES

Management discussion and analysis of the consolidated results for the third quarter ended September 30, 2002

Operating revenues

Operating revenues for 3Q02 totaled S/. 854 million, a 4.6% decrease compared to 3Q01, mainly because the increases in: other operating revenues (62.0%) – due to the increased to fixed-mobile and mobile-fixed traffic and other revenues from subsidiaries -, the businesses of public and rural telephony (7.8%), cable television (14.2%) and business communications (1.7%), were not able to compensate the decrease in the revenues from long distance (39.2%) and local telephony (1.1%). Additional to the drop in revenues was the sale of the directories business to Telefónica Publicidad e Información S.A. (TPI), on February 8th. Excluding the revenues of the directories business, the drop in the operating revenues would have been reduced to 3.4%.

Accumulated revenues for 9M02 totaled S/. 2,597 million a drop of 5.0% compared to 9M01, mainly as a result of the aforementioned sale of the directories business. Excluding this effect, the consolidated operating revenues would have been reduced 1.7%. It is worth noting the growth in public and rural telephony (10.5%), other revenues (49.6%) – due to the increased to fixed-mobile and mobile-fixed traffic and other revenues from subsidiaries -, cable television (9.8%) and business communications (4.3%), while long distance revenues decreased 30.6% and local telephony maintained similar levels.

Regarding business lines, the revenues of **Basic Telephony** for 3Q02 fell in part due to the application of the productivity factor by the regulator, which on average reduced the prices of local telephony by 6.0%, quarterly applied. Thus, those revenues in 3Q02 showed a 1.1% reduction compared to 3Q01, reaching S/. 397 million. Likewise, the revenues for 9M02 maintained similar levels compared to 9M01, totaling S/. 1,208 million. This is explained by the higher growth in the plant which was compensated by the drop of 11% in fixed-fixed voice traffic - mainly due to the reduction in the participation of regular lines regarding the consumption-limit lines that went down from 69% in 9M01 to 63% in 9M02 – and, to a lesser degree, by the reduction of the billed internet traffic (21%) in light of the launching of the flat tariff and the ADSL service.

Revenues from **Public and Rural Telephony** reached S/. 187 million in 3Q02, a 7.8% increase when compared to 3Q01. For the 9M02 period, revenues totaled S/. 553 million, 10.5% higher than in 9M01, mainly due to the growth in revenues for local measured service (23%) and domestic long distance service (8%), which offset the reduction in revenues from international long distance (24%). It is worth noting the growth of the indoors public telephony plant by 20% during 9M02 with respect to 9M01.

As a result of the introduction of the multi-carrier system and its use by competitors (Americatel in April and AT&T in August), with significant discounts in domestic and international tariffs, revenues for **Long Distance** amounted for S/. 94 million in 3Q02, a drop of 39.2% compared to 3Q01. Likewise, the revenues for 9M02 reached S/. 341 million, 30.6% lower than in 9M01. 3Q02 total traffic fell 10.1% compared to 3Q01, and 9M02 traffic showed a decrease of 10.9% when comparing to 9M01.

The revenues for **Business Communications** totaled S/. 48 million for 3Q02, growing 1.7% with respect to 3Q01, while reaching S/. 139 million for 9M02, 4.3% higher than in 9M01, mainly due to the introduction of new products and services. Among these, it is the ADSL service whose subscriber base grew from 1,875 in December 2001 to 13,011 in September 2002 (593.9%).

Cable Television revenues increased 14.2% in 3Q02 compared to 3Q01, reaching S/. 75 million. When comparing 9M02 with 9M01 revenues reached S/. 218 million, an increase of 9.8%. This is explained first by the increase in revenues from monthly fee –an operation to detect illegal connections improved the ratio of billed customers from 85% in 3Q01 to 90% in 3Q02-; second the increased advertising (up 42.8% in 3Q02 and 18.7% in 9M02) –; and finally the revenues from Cable Net (up 159.7% in 3Q02 and 134.3% in 9M02).

Operating expenses

Operating expenses totaled S/. 675 million in 3Q02, which represents a 12.5% increase in relation to the S/. 600 million in 3Q01, given that during 3Q01 no management fee was charged according to the conditions of the management contract (S/. 75 million in 3Q02). Additionally, there was a significant reduction in capitalized expenses by S/. 17 million (60.7%) – as a result of the application of a more conservative policy by the Company -, yet offset by the reduction in personnel expenses of S/. 11 million (10.8%) – resulting from the transfer of personnel to TGSC and the early retirement program that took place in June – and the reduction of S/. 5 million in materials and supplies expenses and S/. 3 million in provisions for doubtful accounts.

Accumulated operating expenses for 9M02 increased by S/. 79 million compared to 9M01 reaching S/. 2,049 million, mainly due to during 3Q01 no management fee was charged, and also due to the reduction in capitalized expenses by S/. 62 million (64.3%) – as a result of the application of a more conservative policy by the Company – and the increase of depreciation by S/. 21 million – as a result of the growth in the average billable plant during 9M02. On the other hand, general and administrative expenses were reduced by S/. 49 million – as a result from the transfer of personnel to TGSC and the early retirement program -, the provisions for doubtful accounts dropped S/. 5 million and the materials and supplies expenses fell S/. 8 million in 9M02 compared to 9M01.

It is worth noting that excluding the payment of the management fee in 3Q02, the operating expenses for the quarter and the nine months would have remained at similar levels as the same period of last year.

EBITDA and Operating Result

As a result of the increase in the management fee, a significant reduction of capitalized expenses and lower revenues in 3Q02, the EBITDA for the quarter reached S/. 424 million, 21.4% lower than in 3Q01, while the EBITDA margin was reduced from 60.3% in 3Q01 to 49.7% in 3Q02. As for the 3Q02 operating result, it dropped by S/. 116 million compared to 3Q01.

Likewise, the accumulated EBITDA dropped 13.1% in 9M02 compared to 9M01, as a result of the lower revenues, the increase of the management fee and lower capitalized expenses. The EBITDA margin fell from 53.9% in 9M01 to 49.3% in 9M02. Disregarding the effect of the reduction in the capitalization of expenses, the margin is only reduced from 50.4% in 9M01 to 48.0% in 9M02. As a result of the reduction of the EBITDA and the increase in depreciation, the operating result drops S/. 214 million in 9M02 compared to the same period of last year.

Non-operating Result

3Q01 losses registered in “others net” were reduced by S/. 259 million when compared to 3Q02, mainly as a result of the adjustments produced by the analysis of balance sheet entries in 3Q01 for approximately S/. 243 million, this in spite of the S/. 92 million registered in this quarter that resulted from an adjustment in some of the asset entries. In addition the improvement is explained by the decrease in net financial expenses of S/. 25 million – consequence of the reduction in debt levels (S/. 968 million in 9M02) and the average financial cost -, and for the positive effect of the monetary correction – up from S/. 0.5 million in 3Q01 to S/. 25 million in 3Q02.

The 9M01 non-operating loss was reduced by 48.3% in 9M02 as a result non operating income was up from a losses of S/. 617 million to S/. 319 million. As previously explained, this reduction was explained by the significant adjustments in 3Q01 as a consequence of the analysis of balance sheet entries. Likewise, the net financial expenses fell S/. 57 million in 9M02 compared to the same period of last year, which was partially offset by the evolution of the monetary correction, that went from a profit of S/. 2 million in 9M01 to a loss of S/. 26 million in 9M02, as the Nuevo Sol net depreciation by 3.9% during 9M02 compared to the net appreciation of 0.6% during 9M01.

Net result

Despite the drop in the operating result of S/. 116 million (39.3%), previously explained, the net result for the quarter reached S/. 4 million, compared to a loss of S/. 254 million in 3Q01, mainly explained by the non-operating losses in 3Q01. The accumulated net result improved from a loss of S/. 93 million in 9M01 to a profit of S/. 86 million in 9M02, because of the improvement in the non-operating result in the 9M02.

Consolidated Balance Sheet

The liquidity levels of the Company – measured by current assets over current liabilities - reached 0.56, similar to the levels registered in 2Q02. Furthermore, the “debt over debt plus equity ratio” improved from 47.5% in 2Q02 to 44.9% in 3Q02. As a consequence of the increase in the current segment of the long term debt, the “short term debt over total debt ratio” increased from 54.8% in 2Q02 to 57.9% in 3Q02.

It is worth noting the significant effort of the Company in light of the cash flow generation since 2001. Thus, the total debt in 3Q02 was reduced by S/. 305 million compared to 2Q02, and during the first nine months of the year the debt stock was over just S/. 960 million. The debt reduction has significantly improved the financial coverage ratios of the Company. In effect, the “debt coverage” – debt over EBITDA – rises from 2.72 in 9M01 to 2.21 in 9M02 while “interest coverage” - EBITDA over net interests- rises from 8.2 in 3Q01 to 10.64 in 3Q02, while the accumulated ratios rise from 7.5 in 9M01 to 9.2 in 9M02.

TABLE 1
TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS IN ADJUSTED SOLES (000) AS OF SEPTEMBER 30, 2002 ^{1/}
(Prepared In Accordance With Peruvian GAAP)

	3Q01		3Q02		Abs. Var. 3Q02-3Q01	% Var. 3Q02-3Q01	9M01		9M02		Var. Abs. 9M02-9M01	Var. % 9M02-9M01
	%		%		%		%	%	%		%	
Local Telephone Service	401 965	44,9	397 439	46,6	(4 526)	(1,1)	1 205 062	44,1	1 207 845	46,5	2 783	0,2
Long Distance	154 936	17,3	94 251	11,0	(60 685)	(39,2)	490 615	18,0	340 643	13,1	(149 972)	(30,6)
Public Telephones	173 291	19,4	186 885	21,9	13 594	7,8	500 093	18,3	552 783	21,3	52 690	10,5
Cable TV	65 374	7,3	74 669	8,7	9 295	14,2	198 421	7,3	217 773	8,4	19 352	9,8
Business Communications	47 185	5,3	48 005	5,6	820	1,7	133 503	4,9	139 192	5,4	5 689	4,3
Telephone Directories	11 370	1,3	-	-	(11 370)	(100,0)	89 925	3,3	-	-	(89 925)	(100,0)
Other	40 687	4,5	52 356	6,1	11 669	28,7	114 336	4,2	138 325	5,3	23 989	21,0
Total Operating Revenues	894 808	100,0	853 605	100,0	(41 203)	(4,6)	2 731 955	100,0	2 596 561	100,0	(135 394)	(5,0)
Personnel	104 438	11,7	93 118	10,9	(11 320)	(10,8)	357 759	13,1	309 116	11,9	(48 643)	(13,6)
General and Administrative	228 098	25,5	228 668	26,8	570	0,2	687 364	25,2	681 578	26,2	(5 786)	(0,8)
Depreciation	244 245	27,3	244 778	28,7	533	0,2	710 922	26,0	731 742	28,2	20 820	2,9
Technology Transfer and Management Fees	-	-	75 033	8,8	75 033	-	167 505	6,1	230 735	8,9	63 230	37,7
Materials and Supplies	19 762	2,2	15 087	1,8	(4 675)	(23,7)	44 519	1,6	39 583	1,5	(4 936)	(11,1)
Provisions	32 032	3,6	29 162	3,4	(2 870)	(9,0)	98 206	3,6	90 406	3,5	(7 800)	(7,9)
Own Work Capitalized	(28 798)	(3,2)	(11 325)	(1,3)	17 473	(60,7)	(95 958)	(3,5)	(34 281)	(1,3)	61 677	(64,3)
Total Operating Costs and Expenses	599 777	67,0	674 521	79,0	74 744	12,5	1 970 317	72,1	2 048 879	78,9	78 562	4,0
Operating Income	295 031	33,0	179 084	21,0	(115 947)	(39,3)	761 638	27,9	547 682	21,1	(213 956)	(28,1)
EBITDA	539 276	60,3	423 862	49,7	(115 414)	(21,4)	1 472 560	53,9	1 279 424	49,3	(193 136)	(13,1)
Other Income (Expenses)												
Interest Income	19 787	2,2	12 190	1,4	(7 597)	(38,4)	53 933	2,0	39 620	1,5	(14 313)	(26,5)
Interest Expenses	(85 247)	(9,5)	(52 325)	(6,1)	32 922	(38,6)	(250 127)	(9,2)	(178 912)	(6,9)	71 215	(28,5)
Others Net	(373 280)	(41,7)	(113 857)	(13,3)	259 423	(69,5)	(422 839)	(15,5)	(153 583)	(5,9)	269 256	(63,7)
Inflation Gain (Loss)	479	0,1	24 644	2,9	24 165	5 044,9	2 120	0,1	(25 903)	(1,0)	(28 023)	(1 321,8)
Total Other Income (Expenses)	(438 261)	(49,0)	(129 348)	(15,2)	308 913	(70,5)	(616 913)	(22,6)	(318 778)	(12,3)	298 135	(48,3)
Income Before Taxes and Participations	(143 230)	(16,0)	49 736	5,8	192 966	(134,7)	144 725	5,3	228 904	8,8	84 179	58,2
Workers' Participation	(18 432)	(2,1)	(12 281)	(1,4)	6 151	(33,4)	(52 655)	(1,9)	(38 440)	(1,5)	14 215	(27,0)
Income Tax	(92 185)	(10,3)	(33 450)	(3,9)	58 735	(63,7)	(185 436)	(6,8)	(104 287)	(4,0)	81 149	(43,8)
Net Income	(253 847)	(28,4)	4 005	0,5	257 852	(101,6)	(93 366)	(3,4)	86 177	3,3	179 543	(192,3)

1/ In order to allow an easier analysis, the income statement of 3Q01 includes reclassifications (without effects in the net income) in some accounts:

a. Since the year 2002 the Tarjeta 147 incomes have been registered separately between the Local Telephone Service and Long Distance accounts, while they were registered only in the Local Telephone Service in 1Q01.

b. Since the year 2002, the interconnection incomes, regarding to the traffic of F2M, M2M and FTF, have not been registered in the Local Telephone Service account besides they are registered in the others account.

c. Since 3Q01 the subsidiaries's billing have been 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 SEPTEMBER 30, 2002 (1)
(End of Period Figures)

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY					
	3Q02	2Q02	1Q02	4Q01	3Q01		3Q02	2Q02	1Q02	4Q01	3Q01
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	73 741	15 255	8 637	155 781	3 506	Overdrafts	0	0	0	68 269	1 793
Negotiable securities	87 907	26 300	54 164	32 619	70 026	Accounts payable and accrued liabilities	452 972	399 916	432 810	553 658	526 606
Accounts and notes receivable - net	661 118	800 964	808 468	753 211	814 798	Other accounts payable	1 148 771	1 087 352	1 040 986	703 463	603 740
Other accounts receivable	775 952	762 044	664 155	436 382	416 951	Provision for severance indemnities	252	1 052	1 594	2 212	2 839
Materials and supplies	43 176	43 294	42 590	45 920	10 312	Bank Loans	342 137	517 192	654 584	1 134 020	1 092 908
Prepaid taxes and expenses	159 943	164 669	164 292	222 668	365 289	Current maturities of long-term debt	598 825	597 524	594 003	587 967	86 211
						Current maturities of bonds	384 204	260 576	142 270	141 559	0
Total current assets	1 801 837	1 812 526	1 742 306	1 646 581	1 680 882	Commercial Papers	313 710	344 720	455 618	358 141	571 690
Accounts receivable - LT wit T. Móviles	309 655	303 336	405 730	438 297	436 121	Total current liabilities	3 240 871	3 208 332	3 321 865	3 549 289	2 885 787
						LONG-TERM DEBT	848 207	948 305	1 019 546	1 027 021	1 722 782
LONG-TERM INVESTMENTS	297 974	331 022	352 165	352 354	347 036	BONDS	345 604	469 554	570 695	552 424	530 104
PROPERTY, PLANT AND EQUIPMENT	13 403 817	13 322 933	13 344 847	13 303 240	13 203 072	GUARANTY DEPOSITS	94 855	93 951	91 933	88 029	83 578
Accumulated depreciation	-6 998 472	-6 787 217	-6 587 819	-6 364 444	-6 199 232	DEFERRED EARNINGS	14 556	12 367	5 368	14 921	11 415
						DEFERRED TAXES	1 076 671	1 087 582	1 064 005	1 057 868	1 051 960
Write-off Provision	-61 196	-61 196	-61 196	-61 196	-68 318	SHAREHOLDERS' EQUITY					
						Capital stock	2 901 263	2 901 263	2 901 263	2 901 263	2 901 263
OTHER ASSETS, net	337 285	370 892	333 455	377 065	346 843	Additional paid-in capital					
						Legal reserve	343 272	343 272	343 272	343 272	343 272
TOTAL ASSETS	9 090 900	9 292 296	9 529 488	9 691 897	9 746 404	Retained earnings	225 601	227 670	211 541	157 810	216 243
						TOTAL SHAREHOLDERS' EQUITY	3 470 136	3 472 205	3 456 076	3 402 345	3 460 778
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9 090 900	9 292 296	9 529 488	9 691 897	9 746 404

(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

	3Q01	4Q01	1Q02	2Q02	3Q02	3Q02-3Q01	3Q02/ 3Q01
Fixed-Wire Telephone Service: Local+Long Distance							
Lines Installed	2 017 865	2 019 761	2 019 761	2 017 265	2 021 041	3 176	0,2
Profits (losses) in Lines in Service, net	7 514	(15 075)	24 615	16 017	19 660	12 146	161,6
Lines in Service Including Public Telephones (1)	1 724 601	1 716 097	1 744 794	1 763 697	1 785 298	60 697	3,5
Local Traffic - Minutes (000) (2)	1 950 196	1 921 051	1 727 667	1 684 155	1 707 522	(242 674)	(12,4)
Long Distance - Minutes (000)	249 681	228 124	216 636	233 703	224 387	(25 294)	(10,1)
Number of Employees (Telefónica del Perú and Subsidiaries)	5 470	5 429	5 170	4 598	4 612	(858)	(15,7)
Number of Employees (Telefónica del Perú)	3 863	3 823	3 823	3 215	3 209	(654)	(16,9)
Lines in Service per Employee (Telefónica del Perú)	446	449	456	549	556	110	24,6
Digitalization Rate (%)	96	96	96	96	96	0	0,1
Lines in Service per 100 inhabitants	6,7	6,6	6,6	6,7	6,7	-	-
PUBLIC TELEPHONES							
Lines in Service (3)	88 885	95 624	99 676	102 620	104 509	15 624	17,6
CABLE TV							
Subscribers	351 718	341 720	340 595	340 058	338 246	(13 472)	(3,8)

(1) Excluding Cellular Public Phones, Publifón and rurals

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

(3) Including Cellular Public Phones