

Telefonica

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

October – December 2002

Significant Events

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

Board of Directors Meeting

1. The Board of Directors, on session held on October 23rd, approved the financial statements of the Company for the third 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, on session held on November 20th, approved the partial modification of the organic structure of the Company regarding the denomination of the Regional Chiefs into Regional Managers, who will cease to be subordinated to the Residential Manager and will functionally depend on the President from now on.

Changes and Appointments

1. On November 21st, Mr. José María Álvarez-Pallete, a Spanish natural, joined the Board of Directors of the Company, following the resignation of Director Mr. Rafael Hernández and his Alternate Director, Mr. Michael Duncan.
2. The Board of Directors, on session held on January 21st, 2003 approved the following resolutions:
 - a. Accepted the resignation of the President of the Board, Mr. Alfonso Bustamante, who will still be part of the Group as member of the Board of Directors and member of the Executive Committee of the Board of Directors of Telefónica del Perú S.A.A. and also as President of the Telefónica Foundation.
 - b. Following his appointment as General Director of Corporate Development of Telefónica Internacional, S.A. – subsidiary of Telefónica, S.A. -, Mr. José Ramón Vela filed his resignation as Director of the Board and Chief Executive Officer of the Company.
 - c. Accepted the resignation of Mr. Antonio Viana-Baptista as member and Vice President of the Board of Directors of Telefónica del Perú S.A.
 - d. Accepted the resignation of the Alternate Directors, Mr. Manuel Fernández and Mr. Antonio Mora.
 - e. Mr. Javier Nadal and Mr. Juan Revilla joined the Board of Directors. Mr. Naval was appointed as President of the Board and, according to the Group policy, he will also assume the position of Executive President of the Group for the country. Furthermore, Mr. Álvarez was appointed as Vice President of the Board.
 - f. The Executive Committee of the Board was recomposed as follows: Mr. Javier Nadal, as President, Mr. Juan Revilla, Mr. Alfonso Bustamante, Mr. José Graña, Mr. Enrique Normad and Mr. José María Álvarez-Pallete.
 - g. Accepted the resignations filed by Mr. Javier Reguero and Mr. Antonio Mora, to the positions of Central Manager of Businesses and Central Manager of Control, respectively, since they will be taking new positions within the Group.
 - h. The Board appointed Mr. Juan Revilla as Chief Executive Officer, who has been member of the Group since 1995.
 - i. Mr. Eduardo Airaldi was appointed as Central Manager of Businesses and Mr. José Luis Baranda was appointed as Central Manager of Control.
 - j. The Board appointed Dr. Julia María Morales as stock exchange representative and empowered the President of the Board, the Chief Executive Officer and the General Secretary with the attributions to determine, any of them, the date, time and place to hold the General Shareholders' Meeting and the Special Shareholders' Meeting for the Class B shareholders.

New tariff regime for the classic lines of fixed telephony

3. As a result of the dialog between the Company and the government, Telefónica proposed to Osiptel a new tariff scheme for the classic line of fixed telephony, consisting in the reduction of the monthly fee, the increase in the cost per minute resulting from the application of the productivity factor, the

elimination of the call execution fee and the elimination of the 60 free minutes, which implied an integral revision of the tariff system within the framework of the concession contract subscribed with the Peruvian government. However, such proposal, was dismissed by Osiptel on February 06, 2002.

TELEFÓNICA DEL PERÚ S.A.A. AND SUBSIDIARIES

Management discussion and analysis of consolidated results for the fourth quarter ended December 31, 2002

Operating revenues

Operating revenues for 4Q02 totaled S/. 865 million, a 2.6% decrease compared to 4Q01, mainly because the fact that the increases in the businesses of public and rural telephony (5.3%) and cable television (4.2%) were not able to compensate the decrease in revenues from long distance (20.1%) and other operating revenues (17.5%). Furthermore, revenues from local telephony and business communications were slightly reduced (0.7% and 1.7%, respectively).

Accumulated revenues for 12M02 totaled S/. 3,457 million, a drop of 4.4% compared to 12M01, mainly because the increases in revenues from public and rural telephony (9.2%), cable television (8.3%), other operating revenues (7.4%) and business communications (1.5%) were not able to offset the reduction in revenues from long distance (28.6%). Revenues from local telephony in 12M02 remained almost unchanged from previous year. Furthermore, it is worth noting the effect from the sale of the business of directories to Telefónica Publicidad e Información S.A. (TPI) - on February 8th, 2002 - in the revenue reduction, since excluding this effect, the consolidated operating revenues would have been reduced only by 2.0%.

Regarding business lines, the revenues of **Local Telephony** for 4Q02 amounted to S/. 392 million, a reduction of 0.7% when compared to 4Q01. This change is due to the application of the productivity factor, as well as lower revenues for local measured service - a 10.6% fall in the fixed-to-fixed traffic caused by the reduction of the percentage of classic lines in the total plant -, and, to a lesser degree, to the reduction of the internet billed traffic caused by the increase in ADSL and Flat Tariff clients. However, these effects were offset by the increase in the plant in service of 5%.

12M02 accumulated revenues for **Local Telephony** grew by 0.1%, a slight increase when compared to 12M01, amounting S/. 1,598 million. This change is due to the application of the productivity factor, as well as the lower revenues for local measured service (9.8%) - a 10.6% fall in the fixed-to-fixed traffic caused by the reduction of the percentage of classic lines in the total plant from 67.6% in 2001 to 61.8% in 2002-, and by a 20.8% reduction of the billed internet traffic explained by the increase in ADSL and Flat Tariff clients. However, these effects were offset by the increase in the plant in service of 5%.

The revenues for **Public and Rural Telephony** reached S/. 194 million in the 4Q02, a 5.3% increase when compared to the 4Q01, as a result of a 12.2% growth in the public telephone plant in service and loyalty programs.

12M02 accumulated revenues for **Public and Rural Telephony** totaled S/. 746 million, 9.2% higher than in 12M01, explained by the launch of promotional campaigns, collecting systems automation and the reduction in the malfunction index because of improved maintenance.

Revenues for **Long Distance** amounted for S/. 88 million in 4Q02, a drop of 20.1% compared to 4Q01, as a consequence of the reduction in total traffic (13.0%) and the lower average tariffs for outgoing ILD (44.8%) and DLD (8.0%).

Revenues for the 12M02 totaled S/. 428 million, representing a 28.6% drop compared to 12M01, as a result of the falls in the weighted average tariffs for outgoing ILD (34.7%) and DLD (5.0%) during the 12M02 compared to 12M01 - affected by the introduction of the multi-carrier system on April 19, 2002 - and as a consequence of a 11.4% reduction in the total traffic.

The revenues for **Business Communications** showed a 1.7% slight drop in the 4Q02, decreasing from S/. 62 million in 4Q01 to S/. 61 million in 4Q02. 12M02 accumulated revenues grew 1.5%, from S/. 197 million in the 12M01 to S/. 200 million in the 12M02, mainly due to the introduction of new products and services -

highlighting ADSL service which grew from 1,875 lines in service as of December 2001 to 20,800 lines in service as of December 2002 – and for the development of advanced solutions to corporate clients.

Cable Television revenues increased 4.2% in 4Q02 when compared to 4Q01, reaching S/. 77 million. It is explained by a 136.0% increase in revenues from Cable Net and a 201.4% plant growth that offset a 21.7% tariff reduction.

12M02 accumulated revenues for **Cable Television** grew 8.3% compared to the 12M01, totaling S/. 294 million. This growth is explained by higher cable service revenues, resulting from the DUNA operations (to detect non-authorized users) – which improved the ratio billed clients/subscribers, reaching 91.6% in 12M02 – and from the higher Cable Net revenues – influenced by the commercial campaigns aimed to reduce costs despite the reduction in tariff to its clients.

Other Operating Revenues decreased 17.5% in the 4Q02 compared to the 4Q01. On the other hand, revenues for 12M02 increased 7.4% due to higher revenues by network adaptation and fixed-to-mobile and mobile-to-fixed traffic.

Operating expenses

Operating expenses totaled S/. 596 million in 4Q02, which represents a 9.8% decrease compared to the S/. 661 million in the 4Q01. This decrease is explained by S/. 30 million of lower personnel expenses – as a result of the early retirement program in June 2002 –, S/. 26 million of lower of general and administrative expenses – as a consequence of the tight expenses control that the Company has implemented –, S/. 17 million of lower provision – as a result of the application of stricter policies to control bad debt – and S/. 8 million of lower depreciation expenses. These changes were partially offset by S/. 16 million of lower expenses capitalization.

Accumulated operating expenses for 12M02 increased by S/. 14 million compared to 12M01 reaching S/. 2,641 million, mainly due to a significant reduction in capitalized expenses by S/. 77 million (62.2%) – as a result of the application of a more conservative policy by the Company –, a S/. 13 million increase in depreciation – as a consequence of the increase in the average depreciable plant in 12M02. These increases were not compensated by the S/. 78 million reduction in personnel expenses – resulting from the early retirement program and from the strike ended on September 11, 2002 –, S/. 32 million drop in general and administrative expenses, and S/. 25 million reduction in provisions.

EBITDA and Operating Result

As a consequence of the lower expenses registered in the 4Q02 compared to 4Q01, the EBITDA for the quarter reached S/. 514 million, 7.0% higher than in the 4Q01, while the EBITDA margin increased from 54.1% in 4Q01 to 59.4% in 4Q02. As a result of the increase in the EBITDA and the reduction of the depreciation, the operating result increased in S/. 42 million in 4Q02 compared to 4Q01.

Nevertheless, the accumulated EBITDA dropped 8.2% in the 12M02 compared to the 12M01, as a consequence of lower revenues and lower capitalized expenses. Therefore, the EBITDA margin fell from 53.9% in the 12M01 to 51.8% in the 12M02. Disregarding the effect of the reduction in the capitalization of expenses, the EBITDA margin remains in similar levels to the ones of 12M01. As a result of the reduction of the EBITDA and the increase in depreciation, the operating result drops S/. 172 million in 12M02 compared to same period of the last year.

Non-operating Result

During 4Q02, the non-operating loss amounted to S/. 213 million, similar to the S/. 210 million registered in 4Q01. In 4Q02, the losses registered in “others net” grew S/. 111 million compared to 4Q01, mainly due to the higher adjustments in 4Q02 – depreciation of investments and stocks, adjustments in revenues from other carriers, sundry contingencies and adjustments from previous years. Part of this higher loss was compensated by the monetary correction that went from a loss of S/. 63 million in 4Q01 to a profit of S/. 10 million in 4Q02, and by the S/. 38 million reduction in financial expenses, as a consequence of the reduction of the outstanding debt and the lower average financing cost.

The non-operating loss was reduced by 35.7% in the 12M02 when compared to 12M01, thus the losses went from S/. 825 million to S/. 531 million. This reduction is mainly explained by higher accounting adjustments in 12M01, as a consequence of the analysis of balance sheet entries. Likewise, the financial expenses fell S/. 109 million in the 12M02 regarding the 12M01 due to the reduction of the debt levels in S/. 1,464 million and the lower average financing cost. Finally, the monetary correction registered a lower loss during the 12M02 of S/. 45 million.

Net result

The net losses slightly increased from S/. 54 million in the 4Q01 to S/. 55 million in the 4Q02, explained, on one hand, by the better operating results (S/. 42 million) and on the other hand, by the increase in non-operating losses in S/. 3 million and the higher income taxes and workers' participation by S/. 40 million.

The accumulated net result improved from a loss of S/. 147 million in 12M01 to a profit of S/. 31 million in the 12M02, mainly explained by the S/. 294 million improvement in the non-operating result and the lower account in taxes and workers' participation by S/. 56 million. These effects compensated the S/. 172 million drop in operating results.

Consolidated Balance Sheet

The liquidity levels of the Company – measured by current assets over current liabilities – reduced from 0.55 in 3Q02 to 0.45 in the 4Q02, as a result of the reduction of other accounts receivable. Furthermore, the “debt over debt plus equity ratio” still improved from 44.9% in the 3Q02 to 41.3% in the 4Q02. As a consequence of the drop in the current segment of the long term debt, the “short term debt over total debt ratio” decreased from 57.9% in the 3Q02 to 47.7% in the 4Q02.

It is worth noting the significant effort of the Company in light of the cash flow generation. Thus, the total debt in the 4Q02 was reduced by S/. 429 million compared to the 3Q02, and during the 12M02 the debt stock decreased by S/. 1 464 million. The debt reduction has significantly improved the financial coverage ratios of the Company. In that sense, the “debt coverage” – debt over EBITDA – falls from 2.0 in the 12M01 to 1.3 in the 12M02 while the “interest coverage” – EBITDA over net interests – rises from 6.7 in the 4Q01 to 14.2 in the 4Q02, while the accumulated ratios rise from 7.3 in the 12M01 to 10.2 the 12M02.

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

	4Q01		4Q02		Abs. Var. 4Q02-4Q01	% Var. 4Q02-4Q01	12M01		12M02		Var. Abs. 12M02-12M01	Var. % 12M02-12M01
		%		%		%		%		%		%
Total Operating Revenues	888 539	100,0	865 347	100,0	(23 192)	(2,6)	3 615 165	100,0	3 457 083	100,0	(158 082)	(4,4)
Local Telephone Service	394 976	44,5	392 074	45,3	(2 902)	(0,7)	1 596 829	44,2	1 597 677	46,2	848	0,1
Long Distance	110 286	12,4	88 123	10,2	(22 163)	(20,1)	599 747	16,6	428 140	12,4	(171 607)	(28,6)
Public Telephones	184 241	20,7	194 093	22,4	9 852	5,3	683 293	18,9	745 845	21,6	62 552	9,2
Cable TV	73 836	8,3	76 943	8,9	3 107	4,2	271 870	7,5	294 310	8,5	22 440	8,3
Business Communications	61 676	6,9	60 606	7,0	(1 070)	(1,7)	196 631	5,4	199 540	5,8	2 909	1,5
Telephone Directories	(1 316)	(0,1)	-	-	1 316	-	88 432	2,4	-	-	(88 432)	-
Other	64 840	7,3	53 508	6,2	(11 332)	(17,5)	178 363	4,9	191 571	5,5	13 208	7,4
Total Operating Costs and Expenses	660 547	74,3	595 576	68,8	(64 971)	(9,8)	2 627 021	72,7	2 640 658	76,4	13 637	0,5
Personnel	116 615	13,1	86 961	10,0	(29 654)	(25,4)	473 676	13,1	395 505	11,4	(78 171)	(16,5)
General and Administrative	260 259	29,3	234 017	27,0	(26 242)	(10,1)	946 283	26,2	914 333	26,4	(31 950)	(3,4)
Depreciation	252 537	28,4	244 403	28,2	(8 134)	(3,2)	962 073	26,6	974 786	28,2	12 713	1,3
Technology Transfer and Management Fees	431	0,0	-	-	(431)	-	167 607	4,6	230 304	6,7	62 697	37,4
Materials and Supplies	14 635	1,6	15 314	1,8	679	4,6	59 067	1,6	54 826	1,6	(4 241)	(7,2)
Provisions	44 352	5,0	27 505	3,2	(16 847)	(38,0)	142 367	3,9	117 743	3,4	(24 624)	(17,3)
Own Work Capitalized	(28 282)	(3,2)	(12 624)	(1,5)	15 658	(55,4)	(124 052)	(3,4)	(46 839)	(1,4)	77 213	(62,2)
Operating Income	227 992	25,7	269 771	31,2	41 779	18,3	988 144	27,3	816 425	23,6	(171 719)	(17,4)
EBITDA	480 529	54,1	514 174	59,4	33 645	7,0	1 950 216	53,9	1 791 213	51,8	(159 003)	(8,2)
Other Income (Expenses)												
Interest Income	16 083	1,8	12 874	1,5	(3 209)	(20,0)	69 911	1,9	52 419	1,5	(17 492)	(25,0)
Interest Expenses	(87 334)	(9,8)	(49 108)	(5,7)	38 226	(43,8)	(336 974)	(9,3)	(227 690)	(6,6)	109 284	(32,4)
Others Net	(75 576)	(8,5)	(186 345)	(21,5)	(110 769)	146,6	(497 588)	(13,8)	(339 620)	(9,8)	157 968	(31,7)
Inflation Gain (Loss)	(62 735)	(7,1)	9 816	1,1	72 551	-	(60 621)	(1,7)	(16 062)	(0,5)	44 559	(73,5)
Total Other Income (Expenses)	(209 562)	(23,6)	(212 763)	(24,6)	(3 201)	1,5	(825 272)	(22,8)	(530 953)	(15,4)	294 319	(35,7)
Income Before Taxes and Participations	18 430	2,1	57 008	6,6	38 578	209,3	162 872	4,5	285 472	8,3	122 600	75,3
Workers' Participation	(68 128)	(7,7)	(30 639)	(3,5)	37 489	(55,0)	(120 683)	(3,3)	(69 003)	(2,0)	51 680	(42,8)
Income Tax	(4 614)	(0,5)	(81 738)	(9,4)	(77 124)	1 671,5	(189 687)	(5,2)	(185 829)	(5,4)	3 858	(2,0)
Net Income	(54 312)	(6,1)	(55 369)	(6,4)	(1 057)	1,9	(147 498)	(4,1)	30 640	0,9	178 138	-

1/ In order to allow an easier analysis, the income statement of 4Q01 includes reclassifications (without effects in the net income) in some accounts:

a. Since 2002 the Tarjeta 147 revenues have been registered separately between the Local Telephone Service and Long Distance accounts, while they were registered only in the Local Telephone Service in 2001.

b. Since 2002, the interconnection revenues, regarding to the F2M, M2M and F2F traffic, have not been registered in the Local Telephone Service account besides they are registered in the others account.

c. Since 3Q01 the subsidiaries's billings 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 DECEMBER 31, 2002 (1)

(End of Period Figures)

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY					
	4Q02	3Q02	2Q02	1Q02	4Q01		4Q02	3Q02	2Q02	1Q02	4Q01
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	55 286	73 594	15 224	8 620	155 475	Overdrafts	0	0	0	0	68 135
Negotiable securities	53 863	87 731	26 247	54 056	32 555	Accounts payable and accrued liabilities	471 384	452 066	399 116	431 944	533 464
Accounts and notes receivable - net	645 796	659 795	799 362	806 851	689 265	Other accounts payable	760 884	1 161 000	1 097 519	1 044 262	410 665
Other accounts receivable	196 392	774 400	760 521	662 826	172 580	Provision for severance indemnities	1 139	251	1 050	1 591	2 208
Materials and supplies	28 177	43 090	43 207	42 505	45 830	Bank Loans	474 700	341 453	516 158	653 275	1 131 794
Prepaid taxes and expenses	94 279	159 623	164 340	163 963	222 229	Current maturities of long-term debt	58 360	597 627	596 329	592 815	586 813
						Current maturities of bonds	296 324	383 436	260 055	141 985	141 282
Total current assets	1 073 793	1 798 233	1 808 901	1 738 821	1 317 934	Commercial Papers	313 908	313 083	344 031	454 707	357 438
Accounts receivable - LT wit T. Móviles	263 475	309 036	302 729	404 919	437 437	Total current liabilities	2 376 699	3 248 916	3 214 258	3 320 579	3 231 799
						LONG-TERM DEBT	803 456	846 511	946 408	1 017 507	1 025 005
LONG-TERM INVESTMENTS	288 963	297 378	330 360	351 461	351 661	BONDS	450 877	344 913	468 615	569 554	551 340
PROPERTY, PLANT AND EQUIPMENT	13 488 757	13 377 009	13 296 287	13 318 157	13 277 130	GUARANTY DEPOSITS	97 126	94 665	93 763	91 749	87 850
Accumulated depreciation	-7 194 747	-6 984 472	-6 773 642	-6 574 947	-6 351 951	DEFERRED TAXES	1 051 992	1 074 518	1 085 407	1 061 877	1 055 791
						SHAREHOLDERS' EQUITY					
Write-off Provision	-61 076	-61 076	-61 076	-61 076	-61 076	Capital stock	2 895 568	2 895 568	2 895 568	2 895 568	2 895 568
	6 232 934	6 331 461	6 461 569	6 682 134	6 864 103	Legal reserve	342 598	342 598	342 598	342 598	342 598
OTHER ASSETS, net	322 931	336 610	370 152	333 094	376 324	Retained earnings	163 780	225 029	227 094	210 997	157 508
TOTAL ASSETS	8 182 096	9 072 718	9 273 711	9 510 429	9 347 459	TOTAL SHAREHOLDERS' EQUITY	3 401 946	3 463 195	3 465 260	3 449 163	3 395 674
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8 182 096	9 072 718	9 273 711	9 510 429	9 347 459

(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

	4Q01	1Q02	2Q02	3Q02	4Q02	4Q02-4Q01	4Q02/ 4Q01
Fixed-Wire Telephone Service: Local+Long Distance							
Lines Installed	2 019 761	2 019 761	2 017 265	2 021 041	2 028 913	9 152	0,5
Profits (losses) in Lines in Service, net	(15 075)	24 615	16 017	19 660	21 574	36 649	-
Lines in Service Including Public Telephones (1)	1 716 097	1 744 794	1 763 697	1 785 298	1 809 598	93 501	5,4
Local Traffic - Minutes (000) (2)	1 922 235	1 727 667	1 684 155	1 707 522	1 682 638	(239 597)	(12,5)
Long Distance - Minutes (000)	228 124	216 636	233 703	224 387	198 524	(29 600)	(13,0)
Number of Employees (Telefónica del Perú and Subsidiaries)	5 429	5 170	4 598	4 612	4 874	(555)	(10,2)
Number of Employees (Telefónica del Perú)	3 823	3 823	3 215	3 209	3 366	(457)	(12,0)
Lines in Service per Employee (Telefónica del Perú)	449	456	549	556	538	89	19,8
Digitalization Rate (%)	96	96	96	96	96	0	0,1
Lines in Service per 100 inhabitants	6,6	6,6	6,7	6,7	6,8	0,2	3,0
PUBLIC TELEPHONES							
Lines in Service (3)	95 624	99 676	102 620	104 509	107 280	11 656	12,2
CABLE TV							
Subscribers	341 720	340 595	340 058	338 246	340 001	(1 719)	(0,5)

(1) Excluding Cellular Public Phones, Publifón and rurals

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

(3) Including Cellular and Fixed Public Phones, Rural Cellular and Fixed Public Phones (It does not include Publifon)