

Telefonica

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

January – March 2003

Significant Events

A summary containing the most significant events performed since January 2003 is presented below:

Board of Directors Meeting

1. The Board of Directors, on session held on February 13th, approved the financial statements of the Company for the fourth 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 March 25th, approved, among other, the following issues:
 - a. The rules for disclosure of information to the market.
 - b. The partial restructuring of the Company involving the commercial and operating areas. As part of the aforementioned process, the Board accepted the resignation of Mr. José Luis Baranda to the position of Central Manager of Control and appointed Mr. Diego Martínez-Caro as his replacement. Likewise, the Board appointed Mr. Séneca Gustavo de la Puente Estremadoyro as Central Manager of Resources.

Payment in Advance of Intra-group Loan

Telefónica del Perú S.A.A. informed that it will proceed with the payment in advance of the Yen denominated loan agreed with Telefónica Internacional S.A., either in parts or fully, as long as the market conditions are appropriate and the financial situation and liquidity of the Company allows it.

General Shareholders' Meeting

The Annual General Shareholders' Meeting and the Special Class B Shareholders' Meeting, as well as the Special Class A-1 Shareholders' Meeting took place on March 26th, taking the following resolutions:

Annual General Shareholders' Meeting

Among others, declared a dividend of S/. 14,231,353.20 that represents S/. 0.008264603529551 per share. Furthermore, it resolved that retained earnings for the 2002 fiscal year will be accounted for in the Retained Earnings account, for future use. It also authorized the Board of Directors to grant a provisional dividend to be charged to the final dividend to be approved in the General Shareholders' Meeting for the 2003 fiscal year, as well as the allocation for the Retained Earnings, being able to pay dividends, for a partial or full amount of them, set the ex-dividend, record and payment dates, and any other issue that is required to make such payment.

Special Class B Shareholders' Meeting

Appointed the following four Directors and their respective Locums:

- a. Mr. José Antonio Colomer, a Spanish natural, as Director, and Mr. Javier Marín, a Spanish Natural, as his Locum.
- b. Mr. Enrique Normand as Director, and Mr. Vicente Murcia, a Spanish Natural, as his Locum.
- c. Mr. Javier Nadal, a Spanish natural, as Director, and Mrs. Julia María Morales as his Locum.
- d. Mr. Juan Revilla as Director, and Mr. Diego Martínez-Caro, a Spanish Natural, as his Locum.

Special Class A-1 Shareholders' Meeting

Appointed the following five Directors and their respective Locums:

- a. Mr. Fernando José de Almansa, a Spanish Natural, as Director, and Mr. José Luis García, a Spanish Natural, as his Locum.
- b. Mr. José María Álvarez-Pallete, a Spanish Natural, as Director, and Mr. José Carlos Ros, a Spanish Natural, as his Locum.

- c. Mr. Alfonso Ferrari as Director, and Mr. Ludwig Meier as his Locum.
- d. Mr. Eduardo Caride, an Argentinean natural, as Director, and Mr. Antonio Airaldi as his Locum.
- e. Mr. Enrique Used, a Spanish Natural, as Director, and Mr. Jorge Melo-Vega as his Locum.

New Tariff Plans

Osiptel approved the following tariff plans:

1. On February 21st, the Minute Plans (I, II, III, IV, V) and Fonofácil Plus, implemented on March 14th.
2. On March 5th, the Minute Plan (VI), implemented on March 14th.
3. On March 10th, the Family Voice Flat Plan, implemented on March 24th.
4. On March 24th, the Second Plan (Intra-network Social Line) and Second Plan (Low Consumption).

The Second Plan (High Consumption) and the Extra-network Social Line remain to be approved.

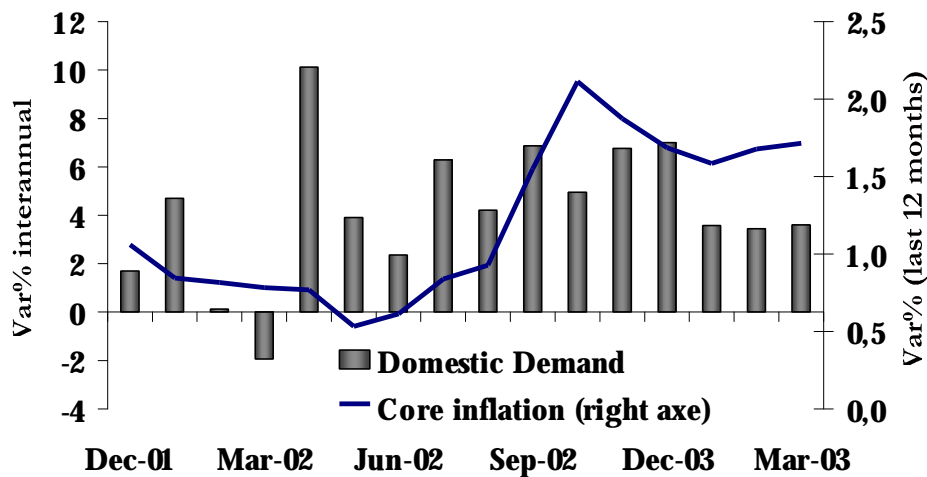
TELEFÓNICA DEL PERÚ S.A.A. AND SUBSIDIARIES

Management discussion and analysis of the consolidated results for the first quarter ended March 31, 2003

It is recommended to read this report with the corresponding Financial Statements and its notes released together, which are part of the whole document and content additional information.

Economic Overview

During the first two months of 2003, GDP continued growing, though at a slower pace than in the last months of 2002, mainly due to a smaller expansion in domestic demand, as well as the delay of the recovery of private investment. Furthermore, despite the increase in tax collection, economic agents still foresee difficulties on the fiscal front because of the high dependency of public deficit financing on the capital markets, and the delay in control over expenditures.



During 1Q03, the increase in the economic activity was led mainly by the non-primary manufacturing, commerce and services sectors. On the demand side, growth was fundamentally sustained by higher private and public consumption because private investment is still registering too low of levels to guarantee sustained growth.

The CPI increased by 1.83% during 1Q03, and by 3.39% during the last 12 months, while the core CPI (excluding CPI's volatile components) registered a 0.09% increase in 1Q03 and 1.71% during the last 12 months. This difference is explained by external factors (i.e., fuel prices) instead of domestic demand pressures, since the core CPI lies around the inflation target of the Central Bank (1.5% - 3.5%).

Even though the fiscal deficit in 1Q03 was 1.2% of GDP, larger adjustments in expenditures will be required in the coming quarters in order to reach the economic target agreed to with the IMF. Nevertheless, so far no announcements have been made regarding reforms in the public sector that may result in significant expense reductions, and therefore, stop the continuous use of capital markets to finance such deficits.

In relation to financial markets, the exchange rate registered a 1.1% appreciation in 1Q03 and a depreciation of just 0.84% in the last 12 months, in spite of Central Bank intervention. These results reflect the lower expectations on depreciation, based on the positive local fundamentals (economic growth and expectation of a lower deficit regarding last year and surplus in commercial balance), as well as decreased regional uncertainty (Brazil). Regarding interest rates for corporate loans, these have been reduced compared with the previous quarter, in line with the trend of international rates and the lower expectations on depreciation.

Operating revenues

The long distance business is the one that faces the most competition. The consolidation of a multicarrier system and the development of prepaid cards have been the drivers in the evolution of this segment, with Americatel being the main competitor of Telefónica del Perú followed by AT&T and Nortek.

In fixed and public telephony, the main competitors have focused their efforts in specific segments. In the first case, AT&T Perú mainly serves to corporate sector, while in the second case, BellSouth Perú offers its service through mobile interconnection and places its telephones in the urban zones with high traffic, especially in Lima. Referring to cable television, the main competitors are located in provinces.

Operating revenues for 1Q03 totaled S/. 880 million, similar amount to the S/. 883 million recorded in 1Q02. The increases in business communications (17.6%), cable television (5.0%) and other operating revenues (96.1%) were offset by the reduction in the revenues of long distance (23.8%), local telephony (4.3%) and public and rural telephony (2.1%).

In terms of business lines, the revenues for **Local Telephony** in 1Q03 amounted S/. 395 million, a 4.3% reduction regarding 1Q02. This decreased is explained, on one side for the application of the productivity factor (6% annual), as well as the lower revenues for local measured service - due to a reduction in the fixed-to-fixed traffic caused by the drop of the percentage of classic lines in the total plant from 65% in 1Q02 to 60% in 1Q03-, and, into a lesser degree, the reduction of the internet billed traffic caused by the increase of Flat Tariff and ADSL clients. These effects were partially offset by the increase in the billable plant in service of 2.9%.

The revenues for **Public and Rural Telephony** reached S/. 181 million in 1Q03, a 2.1% fall when compared to 1Q02. This decreased was due to the fact that the higher participation to mobile operators and the lower revenues from pre-paid card sales were not offset by the 10.1% increase in the public telephony plant in service.

In relation to **Long Distance** revenues, they dropped 23.8% in 1Q03, compared to 1Q02, totaling S/. 98 million, as a consequence of lower ILD revenues – related to tariff falls: 39.5% for outgoing ILD and 39.1% for incoming ILD-, as well as lower DLD revenues – related to the reduced traffic coming from the fixed telephony. Both effects were partially counterbalanced by higher revenues resulting from the sale of cards “Hola Perú”.

During 1Q03, the revenues for **Business Communications** showed a raise of 17.6%, going from S/. 47 million in 1Q02 to S/. 55 million in 1Q03, mainly explained by the sustained growth experienced by the ADSL service which grew from 3,215 lines in service as of March 2002 to 28,351 lines in service as of March 2003.

Cable Television increased its revenues in 1Q03 by 5.0% in relation to 1Q02, reaching S/. 75 million. This is explained by the increases in the revenues from monthly fee (4.2%) – resulting from higher revenues in basic package (7.9%) and economic package (1.6%)- and Cable Net (109.6%) - resulting from the increase in the billed plant from 6,293 in 1Q02 to 15,192 clients in 1Q03.

Other Operating Revenues in 1Q03 grew 96.1% compared to 1Q02, reaching S/. 77 million, mainly due to the higher interconnection net margin related to the higher traffic generated by other operators.

Operating expenses

Operating expenses totaled S/. 715 million in 1Q03, which represents a slight increase of 0.7% in relation to the S/. 711 million in the 1Q02, as a consequence of the increases in general and administrative expenses in S/. 20 million – mainly due to commissions for public telephony traffic, plant maintenance, advertising and network rental – and materials and supplies expenses in S/. 3 million. This was partially offset by the lower personnel expenses in S/. 15 million, as well as the lower depreciation expenses in S/. 4 million.

EBITDA and Operating Result

As a consequence of the higher general and administrative expenses registered in 1Q03, the EBITDA for this quarter reached S/. 419 million, 2.6% lower than in 1Q02. The EBITDA margin decreased from 48.7% in 1Q02 to 47.6% in 1Q03. Due to the reduction of the EBITDA and despite the lower depreciation, the operating result was reduced in S/. 7 million in 1Q03 compared to 1Q02.

Non-operating Result

During 1Q03, the non-operating loss amounted to S/. 63 million, compared to the S/. 53 million registered in 1Q02. In 1Q03, the losses registered in “others net” totaled S/. 62 million compared to the profit of S/. 37 million registered in 1Q02, mainly due to the adjustments made in 1Q03 to face diverse contingencies.

Part of this higher loss was compensated, on one hand, by the monetary correction that went from a loss of S/. 36 million in 1Q02 to a gain of S/. 26 million in 1Q03 – appreciation of the Nuevo Sol of 1.1% in the 1Q03 and variation of the WPI of 1.1% within the same period-, and, on the other hand, by the significant reduction in the financial expenses of S/. 33 million, as a consequence of the reduction of the outstanding debt and the lower average financing cost.

Net result

The net result dropped from S/. 60 million in 1Q02 to S/. 32 million in 1Q03, explained by the lower operating results in S/. 7 million, the increase in non-operating losses in S/. 11 million and the higher income taxes and workers' participation in S/. 11 million.

Consolidated Balance Sheet

The liquidity levels of the Company – measured by current assets over current liabilities – reduced slightly from 0.45 in 4Q02 to 0.43 in 1Q03. This reduction is explained by the increase in the receivable accounts, as well as in the raise in the current portion of the long-term debt that went from 2.4% of the total debt in the 4Q02 to 14.1% in the 1Q03.

Furthermore, the Company has continued its debt reduction process in light of the effort to generate free cash flow. Thus, the total debt in 1Q03 was US\$ 600 million, which means a reduction of US\$ 98 million compared to 4Q02. As a result, “debt over debt plus equity” ratio fell from 41.3% in 4Q02 to 37.7% in 1Q03; the “interest coverage” ratio – EBITDA over net interests – rose from 7.9 in 1Q02 to 15.4 in 1Q03; and the “debt coverage” ratio – debt over EBITDA – fell from 1.8 in 1Q02 to 1.2 in 1Q03.

TABLE 1
TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS IN ADJUSTED SOLES (000) AS OF MARCH 31, 2003
(Prepared In Accordance With Peruvian GAAP)

	1Q02		1Q03		Abs. Var.	% Var.
		%		%	1Q03-1Q02	1Q03-1Q02
						%
Local Telephone Service	413 223	46,8	395 271	44,9	(17 952)	(4,3)
Long Distance	128 122	14,5	97 637	11,1	(30 485)	(23,8)
Public Telephones	184 328	20,9	180 506	20,5	(3 822)	(2,1)
Cable TV	71 200	8,1	74 733	8,5	3 533	5,0
Business Communications	46 817	5,3	55 063	6,3	8 246	17,6
Other	39 317	4,5	77 120	8,8	37 803	96,1
Total Operating Revenues	883 007	100,0	880 330	100,0	(2 677)	(0,3)
Personnel	113 317	12,8	98 490	11,2	(14 827)	(13,1)
General and Administrative	230 558	26,1	250 561	28,5	20 003	8,7
Depreciation	257 644	29,2	253 935	28,8	(3 709)	(1,4)
Technology Transfer and Management Fees	78 354	8,9	75 870	8,6	(2 484)	(3,2)
Materials and Supplies	11 164	1,3	14 092	1,6	2 928	26,2
Provisions	31 402	3,6	32 975	3,7	1 573	5,0
Own Work Capitalized	(11 617)	(1,3)	(10 466)	(1,2)	1 151	(9,9)
Total Operating Costs and Expenses	710 822	80,5	715 457	81,3	4 635	0,7
Operating Income	172 185	19,5	164 873	18,7	(7 312)	(4,2)
EBITDA	429 829	48,7	418 808	47,6	(11 021)	(2,6)
Other Income (Expenses)						
Interest Income	13 485	1,5	7 793	0,9	(5 692)	(42,2)
Interest Expenses	(67 622)	(7,7)	(35 057)	(4,0)	32 565	(48,2)
Others Net	37 463	4,2	(62 448)	(7,1)	(99 911)	-
Inflation Gain (Loss)	(35 871)	(4,1)	26 307	3,0	62 178	-
Total Other Income (Expenses)	(52 545)	(6,0)	(63 405)	(7,2)	(10 860)	20,7
Income Before Taxes and Participations	119 640	13,5	101 468	11,5	(18 172)	(15,2)
Workers' Participation	(15 954)	(1,8)	(18 689)	(2,1)	(2 735)	17,1
Income Tax	(43 249)	(4,9)	(51 252)	(5,8)	(8 003)	18,5
Net Income	60 437	6,8	31 527	3,6	(28 910)	(47,8)

TABLE 2

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET IN ADJUSTED SOLES (000) AS OF MARCH 31, 2003 (1)

(End of Period Figures)

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY					
	1Q03	4Q02	3Q02	2Q02	1Q02		1Q03	4Q02	3Q02	2Q02	1Q02
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	66 376	55 894	74 403	15 392	8 715	Overdrafts	0	0	0	0	0
Negotiable securities	68 857	54 455	88 696	26 536	54 650	Accounts payable and accrued liabilities	453 453	476 569	457 039	403 507	436 695
Accounts and notes receivable - net	688 181	652 900	667 054	808 155	815 726	Other accounts payable	939 916	769 254	1 173 771	1 109 592	1 055 749
Other accounts receivable	213 158	198 553	782 918	768 886	670 118	Provision for severance indemnities	1 867	1 151	254	1 061	1 608
Materials and supplies	33 949	28 487	43 564	43 683	42 972	Bank Loans	368 925	479 922	345 209	521 835	660 461
Prepaid taxes and expenses	73 167	95 316	161 379	166 147	165 767	Current maturities of long-term debt	293 586	59 002	604 201	602 889	599 336
Total current assets	1 143 688	1 085 605	1 818 014	1 828 799	1 757 948	Current maturities of bonds	263 094	299 584	387 653	262 915	143 547
Accounts receivable - LT wit T. Móviles	225 680	266 373	312 435	306 059	409 373	Commercial Papers	338 331	317 361	316 526	347 815	459 709
LONG-TERM INVESTMENTS	274 189	292 142	300 649	333 994	355 327	Total current liabilities	2 659 172	2 402 843	3 284 653	3 249 614	3 357 105
PROPERTY, PLANT AND EQUIPMENT	13 643 305	13 637 133	13 524 156	13 442 546	13 464 657	LONG-TERM DEBT	311 576	812 294	855 823	956 818	1 028 700
Accumulated depreciation	-7 491 034	-7 273 889	-7 061 301	-6 848 153	-6 647 271	BONDS	509 092	455 836	348 707	473 770	575 819
Write-off Provision	-61 748	-61 748	-61 748	-61 748	-61 748	GUARANTY DEPOSITS	99 376	98 195	95 706	94 794	92 758
OTHER ASSETS, net	323 388	326 483	340 313	374 224	336 759	DEFERRED EARNINGS	#jREF!	#jREF!	#jREF!	#jREF!	#jREF!
TOTAL ASSETS	8 057 468	8 272 099	9 172 518	9 375 721	9 615 045	DEFERRED TAXES	1 027 667	1 063 564	1 086 339	1 097 347	1 073 559
						SHAREHOLDERS' EQUITY	2 927 419	2 927 419	2 927 419	2 927 419	2 927 419
						Capital stock					
						Additional paid-in capital					
						Legal reserve	346 367	346 367	346 367	346 367	346 367
						Retained earnings	176 799	165 581	227 504	229 592	213 318
						TOTAL SHAREHOLDERS' EQUITY	3 450 585	3 439 367	3 501 290	3 503 378	3 487 104
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8 057 468	8 272 099	9 172 518	9 375 721	9 615 045

(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

	1Q02	2Q02	3Q02	4Q02	1Q03	1Q03-1Q02	1Q03/ 1Q02
Fixed-Wire Telephone Service: Local+Long Distance							
Lines Installed	2 019 761	2 017 265	2 021 041	2 028 913	2 032 817	13 056	0,6
Profits (losses) in Lines in Service, net	24 615	16 017	19 660	21 574	16 661	(7 954)	(32,3)
Lines in Service Including Public Telephones (1)	1 744 794	1 763 697	1 785 298	1 809 598	1 828 732	83 938	4,8
Local Traffic - Minutes (000) (2)	1 727 667	1 684 155	1 707 522	1 682 638	1 633 097	(94 570)	(5,5)
Long Distance - Minutes (000)	216 636	233 703	224 387	198 524	205 907	(10 729)	(5,0)
Number of Employees (Telefónica del Perú and Subsidiaries)	5 170	4 598	4 612	4 874	5 217	47	0,9
Number of Employees (Telefónica del Perú)	3 823	3 215	3 209	3 366	3 566	(257)	(6,7)
Lines in Service per Employee (Telefónica del Perú)	456	549	556	538	513	56	12,4
Digitalization Rate (%)	96	96	96	96	96	0	0,1
Lines in Service per 100 inhabitants	6,6	6,7	6,7	6,8	6,8	0	3,0
PUBLIC TELEPHONES							
Lines in Service (3)	99 676	102 620	104 509	107 280	109 788	10 112	10,1
CABLE TV							
Subscribers	340 595	340 058	338 246	340 001	340 163	(432)	(0,1)

(1) Excluding Cellular Public Phones, Publifón and rurals

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

(3) Including Cellular Public Phones