

Telefonica

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

April – June 2003

Significant Events

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

Board of Directors Meetings

1. On session held on April 23rd, the Board of Directors, approved the following resolutions:
 - a. Ratified the Board's members positions of President, Vice President, Secretary and Under Secretary.
 - b. Appointed the following members for the Executive Committee of the Board: Mr. Javier Nadal, Mr. Juan Revilla, Mr. Enrique Normand and Mr. José Antonio Colomer.
 - c. Reinstated the Audit Committee, represented by Mr. Alfonso Ferrari, Mr. Enrique Used and Mr. Eduardo Caride.
 - d. Approved the financial statements, individual and consolidated, of the Company corresponding to the first quarter of 2003 and decided for their filing with the Comisión Nacional Supervisora de Empresas y Valores, the Lima Stock Exchange and other relevant institutions of the stock market.
 - e. Authorized the issuance of bonds for up to US\$ 250,000,000.00 in circulation – in addition to the current stock – as considered by the term and economic limits established by the General Shareholders' Meeting of April 26th, 2002.
 - f. Granted the corresponding powers of attorney to the President of the Board, the Chief Executive Officer and the Chief Financial Officer so that any of them could establish the ex-dividend, record and payment date for the dividend approved by the General Shareholders' Meeting of March 26th, 2003, whether it is paid in one or more installments.
2. On May 7th, the Board's President set the record and payment dates for the dividend corresponding to the 2002 fiscal year, to be on June 20th and July 15th, 2003.
3. On session held on May 21st, the Board of Directors incorporated Mr. José María Alvarez as member of the Executive Committee of the Board. Likewise, Mr. Vicente Murcia assumed the condition of Director, fulfilling the vacancy produced by the demise of Mr. Enrique Normand.
4. On session held on June 18th, the Board of Directors approved a total dividend of S/. 149,199,369.24 to be charged against the retained earnings of December 31st, 2002. The dividend represents S/. 0.086644861976843 per share, which will be paid in one or more installments, depending on the financial situation of the Company and the legal terms established to make effective such benefit. In addition, on June 27th, it was announced that the first installment amounted to S/. 0.029036604651280 per share, being the record and payment dates for such benefit July 15th and August 1st, 2003, respectively.

Payment in Advance of the Intra-group Loan

On April 16th and June 9th, the Company amortized the Yen denominated loan agreed with Telefónica Internacional S.A. As of today, there is no loan with said company.

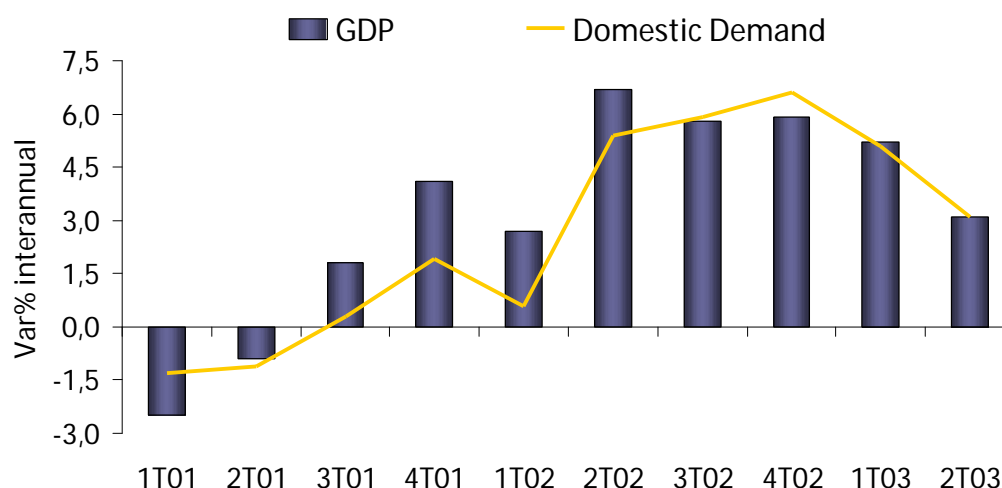
TELEFÓNICA DEL PERÚ S.A.A. AND SUBSIDIARIES

Management discussion and analysis of the consolidated results for the second quarter ended June 30, 2003

It is recommended that the reading of this report be made along with the corresponding financial statements and their notes, presented at the same time, since they form integral part of this document and contain complementary information.

Economic Environment

During 2Q03, GDP growth may have decelerated with regards to the previous quarter, mainly because of the lower activity in non-primary sectors, especially non-primary Manufacture. On the other hand, the delay of the Government in cutting the expenses and the increase of social pressures, heightened during the 2Q03, forced the Government to announce a series of measures, despite the increase in tax collection, to financer greater expenses and accomplish the targets agreed with the International Monetary Fund (IMF).



Contrary to what happened during the previous quarter, the slight growth in economic activity would have led mainly by primary sectors, especially Mining. However, it is worth noting that non-primary sector, could have continued growing, although at lower rates than those registered during the previous quarter.

The CPI registered a 0.55% contraction during 2Q03, and a 2.17% increase during the last 12 months, while core inflation (excluding the volatile components of the CPI) registered a slight increase of 0.17% in 2Q03 and an increase of 1.54% during the last 12 months. Unlike 1Q03 when CPI grew at a higher rate than core inflation, in 2Q03 the opposite took place, due to a correction of fuel prices and farming overproduction. These results keep the Central Bank's perspective of reaching its inflation target this year (1.5% - 3.5%).

The greater expense demands been faced by the Government as a result of several salary increases requests have forced the Executive to propose fiscal measures and cost cutting measures, highlighting among them, the 1 percentage point VAT's increase. These measures would allow financing the requirements of social demands for this and next year.

The exchange rate (ask) registered an increase of 0.09% in 2Q03 and 1.11% over the last 12 months, in line with the positive local macroeconomic fundamentals and a reduced regional uncertainty. It is worth noting that the public sector strikes, the delay in the announcement of the new cabinet and the fiscal measures injected some volatility to the exchange rate. Nevertheless, once the two first situations were solved, the exchange rate took the declining path that has been following since the start of the year, despite the intervention of the Central Bank in the market.

Operating revenues

The long distance business is the business segment where the strongest competition is seen among the business lines that the Company and its subsidiaries are involved; the main competitor is Americatel, followed by AT&T Peru and Nortek. The development of prepaid cards market and the consolidation of the multi-carrier system have been the highlights of the evolution in this segment.

In fixed and public telephony, market share levels have remained the same, and main competitors are AT&T Perú and BellSouth Perú. In cable television, the main competitors are located in provinces.

Operating revenues for 2Q03 totaled S/. 825 million, 5.2% lower than that in 2Q02. This result reflects the effects of the new tariff plans put in place since March 14th, 2003, the competitive environment in long distance and public telephony businesses and the productivity factor applied to the revenues of local telephony. The decline in revenues from long distance (30.3%), local telephony (6.9%) and public and rural telephony (5.9%) were greater than the increase in revenues from the businesses of business communications (35.4%), cable television (4.8%) and other operating revenues (21.4%).

Meanwhile, operating revenues for 1H03 reached S/. 1,700 million, falling 2.8% compared to 1H02, due to the lower revenues from long distance (26.9%), local telephony (5.6%) and public and rural telephony (4.0%), partially offset by the increases in revenues in the businesses of: business communications (26.4%), cable television (4.9%) and other operating revenues (55.3%).

Revenues from **Local Telephony** reached S/. 374 million in 2Q03, a 6.9% reduction regarding 2Q02. This decline is explained by the introduction of tariff plans, as well as the productivity factor (6% per year), which impacted the revenues from monthly fee and local measured service. In addition, the reduction of the billed Internet traffic caused by an increased number of clients from Flat Tariff and ADSL also impacted those revenues. Moreover, the revenues for the 1H03 showed a 5.6% decrease compared to 1H02, reaching S/. 767 million. This reduction was due to the lower revenues from local measured service, as a result of the significant number of migrations, mainly from classic lines to new tariff plans, as well as the increase of ADSL lines; these effects were partially offset by the increase in the 2.7% average billable plant.

Revenues from **Public and Rural Telephony** reached S/. 173 million in 2Q03, a 5.9% fall when compared to 2Q02, while on 1H03 reached S/. 352 million, 4.0% lower than those registered in 1H02, mainly explained by the reduction in the fixed-to-fixed local traffic of the public telephony service as a result of the growth in the mobile telephony plant, as well as the lower revenues of fixed-to-fixed domestic long distance due to tariff based promotions.

Long Distance revenues during 2Q03 dropped 30.3% compared to 2Q02, totaling S/. 84 million, mainly explained by lower tariffs in DLD and ILD as a result of the strong competitive environment of the market. Revenues for 1H03 totaled S/. 181 million, 26.9% lower than 1H02 due to the same reasons that explain the evolution in the quarterly comparison. Both effects were partially offset by greater revenues coming from the sale of Hola Perú cards.

During 2Q03, revenues from **Business Communications** showed a 35.4% raise, going from S/. 45 million in 2Q02 to S/. 61 million in 2Q03, while in 1H03 reached S/. 116 million, 26.4% higher than 1H02. The higher revenues are mainly explained by the growth experienced in the ADSL service, which grew from 7,743 lines in service in 1H02 to 36,734 lines in service in 1H03.

Cable Television revenues increased in 2Q03 by 4.3% in relation to 2Q02, reaching S/. 76 million and in 1H03 reached S/. 151 million, a 4.9% increase compared to the same period of last year. This is mainly explained by the increase in revenues from monthly fee (6.2%) - a 5.6% increase in the average billable plant - resulting from higher revenues in the basic package (8.7%), economic package (3.1%) and Cable Net (124.7%), whose average billable plant went from 8,082 clients in 1H02 to 17,701 clients in 1H03.

Other Operating Revenues in 2Q03 grew 21.4% compared to 2Q02, reaching S/. 57 million, while they reached S/. 134 million in 1H03, a 55.3% increase compared to 1H02, mainly due to higher interconnection revenues related to higher traffic generated by other operators.

Operating expenses

Operating expenses totaled S/. 677 million in 2Q03, which represents a 0.8% increase in relation to the S/. 672 million in 2Q02, due to higher general and administrative expenses (up S/. 11 million), mainly due to advertising and promotion related to the new tariff plans, promotion for long distance, as well as the services of Tele-attention to Clients and commissions from Speedy products sale. As well higher depreciation expenses (S/. 11 million) were also partially responsible for this increase.

Accumulated operating expenses for 1H03 increased S/. 10 million to reach S/. 1,388 million, mainly due to the S/. 32 million increase in general and administrative expenses due to the aforementioned effects, as well as plant maintenance activities and higher commissions for the increase in the deployment of Speedy. In addition, further increases were also recorded: S/. 7 million in depreciation, S/. 3 million in materials and supplies and S/. 1 million in provisions.

EBITDA and Operating Result

Mainly as a result of the lower revenues and the increased in general and administrative expenses registered during 2Q03, the EBITDA dropped 9.3% compared to 2Q02, reaching S/. 391 million. For that reason, the EBITDA margin declined from 49.5% in 2Q02 to 47.4% in 2Q03. For the same reason, the operating result fell S/. 51 million in 2Q03 compared to 2Q02.

Likewise, the accumulated EBITDA dropped 6.0% in 1H03 compared to 1H02, as a consequence of lower revenues. Thus, the EBITDA margin fell from 49.1% in 1H02 to 47.5% in 1H03, while the operating result dropped S/. 58 million in 1H03 compared to the same period of the previous year.

Non-operating Result

During 2Q03, the non-operating loss fell to S/. 108 million, compared to the S/. 138 million registered in 2Q02. The losses registered in “others net” dropped S/. 34 million, chiefly due to higher expenses of the early retirement program (PRI) registered in 2Q02 (S/. 54 million); in addition, the net financial expenses declined S/. 19 million as a consequence of the reduction in the debt balance and the lower interest rates. This was partially offset by the stronger negative effect of the monetary correction (REI) registered in 2Q03 (S/. 39 million) vis-à-vis the numbers registered in 2Q02 (S/. 15 million).

In 1H03, the non-operating loss declined S/. 19 million compared to 1H02, due to the decrease in the monetary correction (REI) in S/. 38 million – as a result of the increase in the price level (WPI 0.44%) and a 1.22% appreciation of the Nuevo Sol in 1H03 -, and the reduction of the net financial expenses in S/. 45 million during the period, due to the lower debt levels resulting from cash generation and lower interest rates obtained by the Company. The losses registered in “others net” amounted S/. 105 million in the 1H03, S/. 65 million higher than that in 1H02, mainly due to adjustments in various contingencies.

Net result

As a consequence of the reduction in the operating result, the net result fell from S/. 22 million in 2Q02 to S/. 1 million in 2Q03. Likewise, in accumulated terms, the net result fell from S/. 82 million to S/. 33 million, mainly explained by the lower operating result.

Consolidated Balance Sheet

The liquidity levels of the Company – measured by current assets over current liabilities – increased from 0.43 in 1Q03 to 0.48 in 2Q03. This increase is explained by the reduction in the current portion of the long-term debt that went from 14.1% in 1Q03 to 2.9% of the total debt in 2Q03.

Furthermore, the Company has continued its debt reduction strategy in line with an effort to generate free cash flow. Thus, the financial debt in 2Q03 was S/. 2,012 million, a reduction of S/. 58 million compared to 1Q03

and S/. 1,132 million compared to 2Q02. As a result, the “interest coverage” ratio – EBITDA over net interests – rises from 9.4 in 2Q02 to 14.5 in 2Q03; and the “debt coverage” ratio – debt over EBITDA – falls from 1.8 in 1H02 to 1.2 in 1H03.

Finally, the net equity in 2Q03 was reduced because of declared dividends charged to the retained earnings as of December 31st, 2002, for an amount of S/. 149 million, which almost did not affect the “debt over debt plus equity” ratio, which went from 37.7% in 1Q03 to 38.1% in 2Q03.

TABLE 1
TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS IN ADJUSTED SOLES (000) AS OF JUNE 30, 2003
(Prepared In Accordance With Peruvian GAAP)

	2Q02		2Q03		Abs. Var.	% Var.	6M02		6M03		Var. Abs.	Var. %
		%		%	2Q03-2Q02	2Q03-2Q02		%		%	6M03-6M02	6M03-6M02
Local Telephone Service	402 097	46,2	374 270	45,4	(27 827)	(6,9)	812 838	46,5	767 053	45,1	(45 785)	(5,6)
Long Distance	119 780	13,8	83 517	10,1	(36 263)	(30,3)	247 129	14,1	180 539	10,6	(66 590)	(26,9)
Public Telephones	183 779	21,1	172 863	21,0	(10 916)	(5,9)	367 000	21,0	352 234	20,7	(14 766)	(4,0)
Cable TV	72 761	8,4	76 283	9,2	3 522	4,8	143 532	8,2	150 544	8,9	7 012	4,9
Business Communications	44 928	5,2	60 848	7,4	15 920	35,4	91 463	5,2	115 566	6,8	24 103	26,4
Other	47 135	5,4	57 239	6,9	10 104	21,4	86 220	4,9	133 879	7,9	47 659	55,3
Total Operating Revenues	870 480	100,0	825 020	100,0	(45 460)	(5,2)	1 748 182	100,0	1 699 815	100,0	(48 367)	(2,8)
Personnel	109 980	12,6	100 856	12,2	(9 124)	(8,3)	227 936	13,0	202 476	11,9	(25 460)	(11,2)
General and Administrative	219 132	25,2	230 117	27,9	10 985	5,0	442 920	25,3	475 113	28,0	32 193	7,3
Depreciation	232 327	26,7	243 201	29,5	10 874	4,7	488 427	27,9	495 535	29,2	7 108	1,5
Technology Transfer and Management Fees	78 283	9,0	70 602	8,6	(7 681)	(9,8)	156 167	8,9	145 995	8,6	(10 172)	(6,5)
Materials and Supplies	13 468	1,5	13 053	1,6	(415)	(3,1)	24 628	1,4	27 296	1,6	2 668	10,8
Provisions	30 214	3,5	30 065	3,6	(149)	(0,5)	61 427	3,5	62 834	3,7	1 407	2,3
Own Work Capitalized	(11 475)	(1,3)	(10 543)	(1,3)	932	(8,1)	(23 024)	(1,3)	(20 943)	(1,2)	2 081	(9,0)
Total Operating Costs and Expenses	671 929	77,2	677 351	82,1	5 422	0,8	1 378 481	78,9	1 388 306	81,7	9 825	0,7
Operating Income	198 551	22,8	147 669	17,9	(50 882)	(25,6)	369 701	21,1	311 509	18,3	(58 192)	(15,7)
EBITDA	430 878	49,5	390 870	47,4	(40 008)	(9,3)	858 128	49,1	807 044	47,5	(51 084)	(6,0)
Other Income (Expenses)												
Interest Income	14 109	1,6	7 781	0,9	(6 328)	(44,9)	27 512	1,6	15 526	0,9	(11 986)	(43,6)
Interest Expenses	(59 752)	(6,9)	(34 647)	(4,2)	25 105	(42,0)	(126 966)	(7,3)	(69 483)	(4,1)	57 483	(45,3)
Others Net	(77 088)	(8,9)	(43 081)	(5,2)	34 007	(44,1)	(39 839)	(2,3)	(105 100)	(6,2)	(65 261)	163,8
Inflation Gain (Loss)	(15 056)	(1,7)	(38 522)	(4,7)	(23 466)	155,9	(50 699)	(2,9)	(12 394)	(0,7)	38 305	(75,6)
Total Other Income (Expenses)	(137 787)	(15,8)	(108 469)	(13,1)	29 318	(21,3)	(189 992)	(10,9)	(171 451)	(10,1)	18 541	(9,8)
Income Before Taxes and Participations	60 764	7,0	39 200	4,8	(21 564)	(35,5)	179 709	10,3	140 058	8,2	(39 651)	(22,1)
Workers' Participation	(10 375)	(1,2)	(9 861)	(1,2)	514	(5,0)	(26 237)	(1,5)	(28 433)	(1,7)	(2 196)	8,4
Income Tax	(28 054)	(3,2)	(27 979)	(3,4)	75	(0,3)	(71 049)	(4,1)	(78 908)	(4,6)	(7 859)	11,1
Net Income	22 335	2,6	1 360	0,2	(20 975)	(93,9)	82 423	4,7	32 717	1,9	(49 706)	(60,3)

TABLE 2

TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET IN ADJUSTED SOLES (000) AS OF JUNE 30, 2003 (1)

(End of Period Figures)

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY					
	2Q03	1Q03	4Q02	3Q02	2Q02		2Q03	1Q03	4Q02	3Q02	2Q02
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	98 668	65 916	55 507	73 888	15 285	Overdrafts	0	0	0	0	0
Negotiable securities	51 101	68 380	54 078	88 082	26 352	Accounts payable and accrued liabilities	323 133	450 313	473 270	453 874	400 713
Accounts and notes receivable - net	672 493	683 416	648 379	662 434	802 559	Other accounts payable	1 075 488	933 409	764 030	1 165 643	1 101 909
Other accounts receivable	220 407	211 682	197 178	777 498	763 562	Provision for severance indemnities	335	1 854	1 043	253	1 054
Materials and supplies	32 735	33 714	28 290	43 262	43 380	Bank Loans	349 115	366 371	476 600	342 819	518 222
Prepaid taxes and expenses	63 744	72 660	94 656	160 262	164 997	Current maturities of long-term debt	57 610	291 553	58 591	600 018	598 714
						Current maturities of bonds	197 094	261 272	297 509	384 969	261 095
Total current assets	1 139 148	1 135 768	1 078 088	1 805 426	1 816 135	Commercial Papers	372 077	335 988	315 162	314 335	345 407
Accounts receivable - LT wit T. Móviles	225 256	224 117	264 529	310 272	303 940	Total current liabilities	2 374 852	2 640 760	2 386 205	3 261 911	3 227 114
						LONG-TERM DEBT	366 421	309 419	806 671	849 897	950 193
LONG-TERM INVESTMENTS	272 440	272 291	290 119	298 568	331 681	BONDS	669 625	505 567	452 681	346 293	470 489
PROPERTY, PLANT AND EQUIPMENT	13 605 479	13 548 841	13 542 712	13 430 517	13 349 472	GUARANTY DEPOSITS	101 629	98 688	97 515	95 044	94 138
Accumulated depreciation	-7 650 290	-7 439 167	-7 223 526	-7 012 411	-6 800 737	DEFERRED TAXES	1 036 004	1 020 552	1 056 200	1 078 816	1 089 749
						SHAREHOLDERS' EQUITY	2 907 150	2 907 150	2 907 150	2 907 150	2 907 150
Write-off Provision	-61 320	-61 320	-61 320	-61 320	-61 320	Capital stock					
	5 893 869	6 048 354	6 257 866	6 356 786	6 487 415	Additional paid-in capital					
OTHER ASSETS, net	290 704	321 149	324 223	337 957	371 633	Legal reserve	347 144	343 968	343 968	343 968	343 968
						Retained earnings	18 592	175 575	164 435	225 930	228 003
TOTAL ASSETS	7 821 417	8 001 679	8 214 825	9 109 009	9 310 804	TOTAL SHAREHOLDERS' EQUITY	3 272 886	3 426 693	3 415 553	3 477 048	3 479 121
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	7 821 417	8 001 679	8 214 825	9 109 009	9 310 804

(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

	2Q03	1Q03	4Q02	3Q02	2Q02	2Q03-2Q02	2Q03/ 2Q02
Fixed-Wire Telephone Service: Local+Long Distance							
Lines Installed	2 017 265	2 021 041	2 028 913	2 032 817	2 037 097	19 832	1,0
Profits (losses) in Lines in Service, net	16 017	19 660	21 574	16 661	33 991	17 974	112,2
Lines in Service Including Public Telephones (1)	1 763 697	1 785 298	1 809 598	1 828 732	1 866 171	102 474	5,8
Local Traffic - Minutes (000) (2)	2 392 884	2 416 349	2 396 337	2 315 213	2 379 713	(13 171)	(0,6)
Long Distance - Minutes (000)	233 703	224 387	198 524	205 907	226 751	(6 952)	(3,0)
Number of Employees (Telefónica del Perú and Subsidiaries)	4 598	4 612	4 874	5 217	5 058	460	10,0
Number of Employees (Telefónica del Perú)	3 215	3 209	3 366	3 566	3 454	239	7,4
Lines in Service per Employee (Telefónica del Perú)	549	556	538	513	540	(8)	(1,5)
Digitalization Rate (%)	96	96	96	96	96	0	0,1
Lines in Service per 100 inhabitants	6,7	6,7	6,8	6,8	6,9	0	2,4
PUBLIC TELEPHONES							
Lines in Service (3)	102 620	104 509	107 280	109 788	113 285	10 665	10,4
CABLE TV							
Subscribers	340 058	338 246	340 001	340 163	345 016	4 958	1,5

(1) Excluding Cellular Public Phones, Publifón and rurals

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

(3) Including Cellular Public Phones