

Telefonica

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

July – September 2003

Significant Events

A summary containing the most significant events occurred since July 2003 is presented below:

1. On July 10th, Telefónica del Perú S.A.A. informed that Mr. José Luis García Vélez was designed as Chief Executive Officer at Servicios Globales de Telecomunicaciones S.A.C., a Telefonica del Perú S.A.A. subsidiary.
2. The Board of Directors, on session held on July 22nd, approved the individual and consolidated financial statements of the Company corresponding to the second 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.
3. On July 24th, the Company informed the acceptance of the Public Tender Offer launched by Telefónica S.A. regarding the 100% of the capital stock of Terra Networks S.A.
4. On August 20th, Deloitte & Touche was appointed as the external auditor for the fiscal year 2003.
5. On August 18th and 28th, respectively, the Chairman of the Board established the dividends per share to be charged against the Retained Earnings of December 31st, 2002 in the amounts of S/. 0.029036604651280 for the second installment and S/. 0.028571652674284 for the third and last installment. The payment dates were set for September 5th and October 3rd, 2003, respectively.
6. The Board of Directors, on session held on October 8th, approved the following resolutions:
 - a. Accepted the resignation of Mr. Vicente Murcia to the position of Director of the Company.
 - b. Accepted the resignation of Mr. Eduardo Caride to the position of member of the Audit Committee.
 - c. Appointed Mr. Luis J. Bastida as Director of the Company and member of the Audit Committee.
 - d. Modified the denomination of the Central Management of Planning and Development into Central Management of Strategic Planning and Development of Products and Services and appointed Mr. Renán Oliveira de Barros to fill that position.
 - e. On October 15th, the Constitutional Court published on its website the Sentence regarding the Unconstitutional Action proposed against some articles of the Law N° 26285 and the concession contract of the Company. Said Sentence declared as unfounded the allegation of unconstitutionality of the aforementioned articles of the Law and inadmissible the remaining allegations of unconstitutionality.

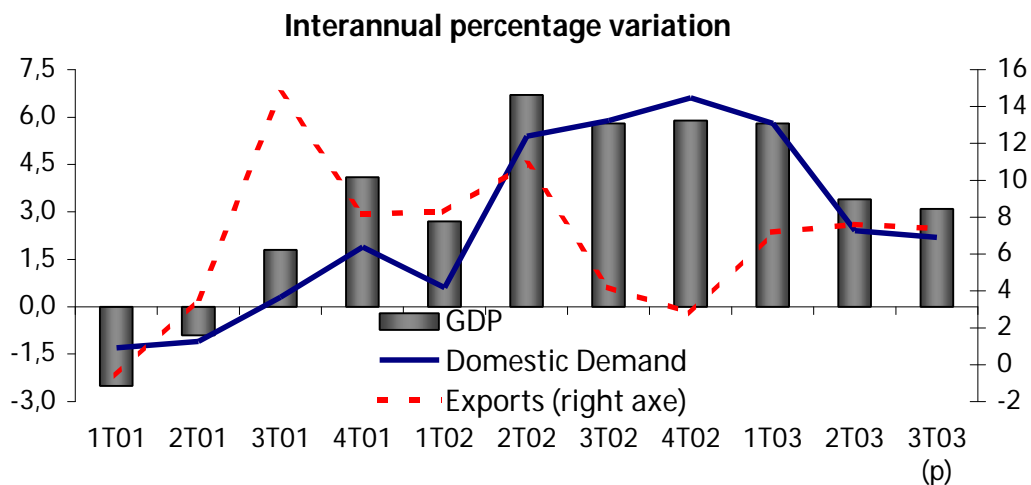
TELEFÓNICA DEL PERÚ S.A.A. AND SUBSIDIARIES

Management discussion and analysis of the consolidated results for the third quarter ended September 30, 2003

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

Economic Environment

During the 3Q03, the Gross Domestic Product (GDP) may have grown by 3.1%, the lowest rate since 2Q02. This fact shows a deceleration of the economic activity. This deceleration was compensated by higher goods and services exports, which may have grown by 7.6% in 3Q03, at an even higher rate than the one achieved in the same period of last year (6.3%).



The deceleration is mainly explained by the behavior of different domestic demand components. In effect, private investment may have grown slightly in 3Q03 due to the fact that works related to Camisea project, investments in the textile manufacturing sector and home building activity have not impacted significantly in other sectors of the economy. Furthermore, private consumption might also have grown moderately in 3Q03 (2.5%). However, unlike the weak investment performance, it is expected a better consumption performance in the next quarters as a consequence of the expansive trend of the fiscal policy in the last months.

The Consumer Price Index (CPI) registered a 0.42% increase during 3Q03 and a 2.17% increase during the last 12 months, while the core inflation (excluding the volatile components of the CPI) registered a 0.08% variation in the same period and 0.68% during the last 12 months. It is worth noting that the increase of the VAT has not represented a significant impact on prices because the majority of the manufacturers have absorbed the higher VAT. These results keep the Central Bank's perspective of reaching its inflation target this year (1.5% - 3.5%).

Congress granted the powers to the Executive to legislate on tax matters for a period of 90 days. This reform has as cornerstones the establishment of the bank transaction tax (ITB), which would be put in place for a period of three years, and the obligatory of using the financial system for transactions valued higher than an amount yet to be defined. Starting January 2004, the VAT would return to its level of 18% (from current 19%) and the Solidarity Extraordinary Tax (IES) would be utterly eliminated. These measures would reduce tax collection in S/. 780 million per year, in the first case, and S/. 460 million per year, in the second case. Nevertheless, official numbers estimate that the ITB would compensate tax loss and cover part of the new government requirements.

The exchange rate (ask) registered a 0.32% devaluation in 3Q03 and 0.91% valuation in the last 12 months, in line with the positive local macroeconomic fundamentals and a reduced regional uncertainty. It is worth noting that the regional pressures for more resources and the expectations regarding the granting of powers to legislate

on tax matters injected some volatility to the exchange rate. However, because of the trade balance improvements and the constant Central Bank interventions in the exchange market, the exchange rate recovered stability towards the end of the quarter.

Operating revenues

Operating revenues for 3Q03 totaled S/. 843 million, 2.0% lower than the ones registered in 3Q02. This result reflects the effects of the long distance and public telephony competitive environment and, the impact of the new tariff plans put in place after March 14th, 2003 and the productivity factor. The decrease in revenues in the businesses of Local Telephony (7.0%), Public and Rural Telephony (9.6%) and Long Distance (4.4%), were not compensated by the increases in revenues for the businesses of Business Communications (29.8%), Cable Television (7.9%) and Other Operating Revenues (23.6%).

Likewise, operating revenues for 9M03 reached S/. 2,552 million, falling 2.5% regarding 9M02, due to the lower revenues from Long Distance (20.7%), Local Telephony (6.1%) and Public and Rural Telephony (5.9%), partially offset by the increases in revenues for the businesses of Business Communications (27.6%), Cable Television (5.9%) and Other Operating Revenues (43.3%).

In fixed and public telephony, the main competitors are AT&T Perú and BellSouth Perú, which still concentrate in specific segments and keep their market share.

Revenues for **Local Telephony** reached S/. 373 million in 3Q03, a reduction of 7.0% regarding 3Q02. This variation is explained by the introduction of tariff plans, as well as the productivity factor applied (6% annual), that impacted the monthly fee and measured local service. Additionally, the reduction of the Internet billed traffic caused by the increase of Flat Tariff and ADSL clients also impacted those revenues. Moreover, 9M03 revenues showed a 6.1% decrease compared to 9M02, reaching S/. 1,144 million as a result of the aforementioned factors. Lines in service showed a 7.0% increase as a result of the new impulse provided by the lines of lower consumption, which increase by 162 thousand lines (26.4%). It is worth noting that migration toward new tariff plans in 9M03 involved 514 thousand lines.

Revenues for **Public and Rural Telephony** reached S/. 170 million in 3Q03, a 9.6% fall when compared to 3Q02, while on the 9M03 reached S/. 524 million, 5.9% lower than those registered in 9M02, mainly explained by the lower revenues in the fixed-to-fixed domestic long distance – due to the tariff pressure of the market that resulted in a important migration from the use of coins toward cards -, as well as the increased competition in the public telephony market.

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

In this environment, **Long Distance** revenues during 3Q03 dropped 4.4% compared to 3Q02, totaling S/. 91 million, mainly explained by lower tariffs in DLD and ILD. Likewise, revenues for 9M03 totaled S/. 272 million, 20.7% lower than in 9M02 due to the same reasons that explain the quarterly comparison. Both effects were partially offset by greater revenues coming from the sale of Hola Perú cards and the minutes packages plans.

During 3Q03, the revenues from **Business Communications** showed a 29.8% rise, going from S/. 48 million in 3Q02 to S/. 63 million in 3Q03, while in 9M03 reached S/. 179 million, 27.6% higher than 9M02. The higher revenues are mainly explained by the growth experienced by the ADSL service, which grew from 13,011 lines in service in 9M02 to 47,175 lines in service in 9M03.

Cable Television business, where the main competitors are located in provinces, registered an increase in its revenues by 7.9% in 3Q03 compared to 3Q02, reaching S/. 81 million, and in 9M03 reached S/. 233 million, a 5.9% increase compared to the same period of last year. The accumulated growth is mainly explained by the increases in Cable Net revenues (105.4%) and, monthly fee revenues (3.5%) whose average billable plant increased 6.4%.

Other Operating Revenues in 3Q03 grew 23.6% compared to 3Q02, reaching S/. 65 million, while they reached S/. 200 million in 9M03, a 43.3% increase compared to 9M02, mainly due to higher interconnection revenues, related to higher traffic, and network adaptation, product of the increase in the number of operators in the market.

Operating expenses

Operating expenses totaled S/. 689 million in 3Q03, which represents a 1.4% increase from the S/. 680 million in 3Q02, mainly due to higher general and administrative expenses (up S/. 6 million), chiefly as a result of advertising and promotion expenses related to the new tariff plans, promotion expenses for long distance, as well as the services of Tele-attendance to Clients and sale commissions from “Speedy”. Higher depreciation expenses (S/. 3 million) also contributed to this increase.

Accumulated operating expenses for 9M03 increased S/. 20 million compared to 9M02 reaching S/. 2,085 million, mainly due to the increase in the general and administrative expenses (S/. 39 million), explained by the aforementioned effects, as well as an increase in expenses from satellite rental. Additionally, further increases were also recorded: S/. 10 million in depreciation and amortization, S/. 3 million in provisions and S/. 3 million in materials and supplies.

EBITDA and Operating Result

Mainly as a result of the lower revenues and the increased in general and administrative expenses registered during 3Q03, the EBITDA dropped 5.6% compared to 3Q02, reaching S/. 403 million. Therefore, the EBITDA margin decreased from 49.7% in 3Q02 to 47.8% in 3Q03. This reduction, in conjunction with an increase in depreciation and amortization, contributed to the S/. 27 million drop of the operating result in 3Q03 compared to 3Q02.

Likewise, the accumulated EBITDA dropped 5.8% in 9M03 compared to 9M02, as a consequence of lower revenues. Thus, the EBITDA margin fell from 49.3% in 9M02 to 47.6% in 9M03, while the operating result reduced by S/. 85 million in 9M03 compared to the same period of the previous year.

Non-operating Result

During 3Q03, the non-operating loss fell to S/. 80 million from S/. 130 million showed in 3Q02. The losses registered in “others net” decreased by S/. 56 million and the net financial expenses diminished by S/. 17 million as a consequence of the reduction in the debt balance and the lower interest rates. This was partially offset by the lower positive effect of the monetary correction (REI) registered in 3Q03 (S/. 3 million) vis-à-vis the numbers registered in 3Q02 (S/. 25 million).

In the 9M03, the non-operating loss decreased by S/. 69 million compared to the 9M02, due to the reduction of the net financial expenses in S/. 62 million during the period –mainly because of the lower debt level resulting from the cash flow generation and the lower interest rates obtained by the Company-, and to the lesser negative effect of the monetary correction (REI) in S/. 16 million. The losses registered in “others net” amounted S/. 165 million in 9M03, a S/. 10 million higher in relation to the one registered in the 9M02, mainly because of the sale Terra Networks shares.

Net result

As a consequence of the reduction in the non-operating loss, the net result increased from S/. 4 million in 3Q02 to S/. 25 million in 3Q03. Nevertheless, in accumulated terms, the net result fell from S/. 87 million to S/. 58 million, mainly explained by the lower operating result.

Consolidated Balance Sheet

The liquidity levels of the Company – measured by the current assets-over-current liabilities ratio – increased from 0.48 in 2Q03 to 0.58 in 3Q03. This increase is explained by the reduction in the current portion of the long-term debt that went from 9.8% in the 2Q03 to 4.4% of the total debt in the 3Q03, and by the reduction of other accounts payable (17.7%) resulting from the dividend payment during the quarter.

Furthermore, the Company has continued its debt reduction process in line with the important effort to generate free cash flow. Thus, the financial debt in 3Q03 was S/. 1,861 million, which means a S/. 163 million reduction compared to 2Q03 and S/. 995 million compared to 3Q02. As a result, the “debt over debt plus equity” ratio showed a reduction, going from 38.1% in 2Q03 to 36.0% in 3Q03; on the other hand, the “interest coverage” ratio – EBITDA over net interests – rose from 10.6 in 3Q02 to 17.0 in 3Q03; and the “debt coverage” ratio – debt over EBITDA – fell from 1.4 in December 2002 to 1.1 over the last 12 months.

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

	3Q02		3Q03		Abs. Var. 3Q03-3Q02		% Var. 3Q03-3Q02		9M02		9M03		Abs. Var. 9M03-9M02		Var. % 9M03-9M02	
		%		%		%		%		%		%		%		%
Local Telephone Service	400 619	46,6	372 696	44,2	(27 923)	(7,0)	1 217 510	46,5	1 143 715	44,8	(73 795)	(6,1)				
Public Telephones	188 380	21,9	170 345	20,2	(18 035)	(9,6)	557 205	21,3	524 399	20,6	(32 806)	(5,9)				
Long Distance	95 005	11,0	90 864	10,8	(4 141)	(4,4)	343 364	13,1	272 341	10,7	(71 023)	(20,7)				
Cable TV	75 266	8,7	81 178	9,6	5 912	7,9	219 514	8,4	232 501	9,1	12 987	5,9				
Business Communications	48 389	5,6	62 799	7,4	14 410	29,8	140 306	5,4	178 961	7,0	38 655	27,6				
Other	52 775	6,1	65 225	7,7	12 450	23,6	139 433	5,3	199 789	7,8	60 356	43,3				
Total Operating Revenues	860 434	100,0	843 107	100,0	(17 327)	(2,0)	2 617 332	100,0	2 551 706	100,0	(65 626)	(2,5)				
Personnel	93 863	10,9	96 418	11,4	2 555	2,7	327 802	12,5	304 022	11,9	(23 780)	(7,3)				
General and Administrative	230 497	26,8	236 735	28,1	6 238	2,7	670 483	25,6	709 955	27,8	39 472	5,9				
Depreciation	246 736	28,7	249 744	29,6	3 008	1,2	737 596	28,2	747 844	29,3	10 248	1,4				
Technology Transfer and Management Fees	75 633	8,8	71 991	8,5	(3 642)	(4,8)	232 581	8,9	218 741	8,6	(13 840)	(6,0)				
Materials and Supplies	15 208	1,8	14 366	1,7	(842)	(5,5)	40 236	1,5	42 074	1,6	1 838	4,6				
Provisions	29 395	3,4	30 804	3,7	1 409	4,8	91 129	3,5	93 961	3,7	2 832	3,1				
Own Work Capitalized	(11 416)	(1,3)	(10 591)	(1,3)	825	(7,2)	(34 555)	(1,3)	(31 641)	(1,2)	2 914	(8,4)				
Total Operating Costs and Expenses	679 916	79,0	689 467	81,8	9 551	1,4	2 065 272	78,9	2 084 956	81,7	19 684	1,0				
Operating Income	180 518	21,0	153 640	18,2	(26 878)	(14,9)	552 060	21,1	466 750	18,3	(85 310)	(15,5)				
EBITDA	427 254	49,7	403 384	47,8	(23 870)	(5,6)	1 289 656	49,3	1 214 594	47,6	(75 062)	(5,8)				
Other Income (Expenses)																
Interest Income	12 288	1,4	7 275	0,9	(5 013)	(40,8)	39 938	1,5	22 882	0,9	(17 056)	(42,7)				
Interest Expenses	(52 744)	(6,1)	(30 979)	(3,7)	21 765	(41,3)	(180 346)	(6,9)	(100 822)	(4,0)	79 524	(44,1)				
Others Net	(114 768)	(13,3)	(59 160)	(7,0)	55 608	(48,5)	(154 806)	(5,9)	(164 841)	(6,5)	(10 035)	6,5				
Inflation Gain (Loss)	24 841	2,9	2 588	0,3	(22 253)	(89,6)	(26 125)	(1,0)	(9 848)	(0,4)	16 277	(62,3)				
Total Other Income (Expenses)	(130 383)	(15,2)	(80 276)	(9,5)	50 107	(38,4)	(321 339)	(12,3)	(252 629)	(9,9)	68 710	(21,4)				
Income Before Taxes and Participations	50 135	5,8	73 364	8,7	23 229	46,3	230 721	8,8	214 121	8,4	(16 600)	(7,2)				
Workers' Participation	(12 379)	(1,4)	(12 974)	(1,5)	(595)	4,8	(38 743)	(1,5)	(41 554)	(1,6)	(2 811)	7,3				
Income Tax	(33 718)	(3,9)	(35 507)	(4,2)	(1 789)	5,3	(105 117)	(4,0)	(114 826)	(4,5)	(9 709)	9,2				
Net Income	4 038	0,5	24 883	3,0	20 845	516,2	86 861	3,3	57 741	2,3	(29 120)	(33,5)				

(1) Data is adjusted according to the WPI published by the National Statistics Institute

TABLE 2
TELEFONICA DEL PERU S. A. A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET IN ADJUSTED SOLES (000) AS OF SEPTEMBER 30, 2003 (1)
(End of Period Figures)

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY					
	3T03	2T03	1T03	4T02	3T02	3T03	2T03	1T03	4T02	3T02	
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	29 979	99 258	66 310	55 837	74 332	Overdrafts	-	-	-	-	
Negotiable securities	58 758	51 406	68 789	54 402	88 612	Accounts payable and accrued liabilities	460 302	325 065	453 004	476 103	456 604
Accounts and notes receivable - net	716 283	676 512	687 500	652 252	666 419	Other accounts payable	890 611	1 082 252	940 851	769 637	1 172 908
Other accounts receivable	230 382	221 724	212 947	198 356	782 173	Bank Loans	207 675	351 201	368 560	479 447	344 880
Materials and supplies	33 588	32 931	33 915	28 459	43 522	Current maturities of long-term debt	57 624	57 954	293 296	58 944	603 626
Prepaid taxes and expenses	84 093	64 125	73 095	95 224	161 225	Current maturities of bonds	81 255	198 272	262 834	299 287	387 284
						Commercial Papers	305 347	374 301	337 996	317 047	316 225
Total current assets	1 153 083	1 145 956	1 142 556	1 084 530	1 816 283	Total current liabilities	2 002 814	2 389 045	2 656 541	2 400 465	3 281 527
Accounts receivable - LT wit T. Móviles	225 674	226 602	225 457	266 110	312 138	LONG-TERM DEBT	357 773	368 611	311 268	811 491	855 008
LONG-TERM INVESTMENTS	207 907	274 068	273 918	291 853	300 363	BONDS	851 129	673 627	508 589	455 386	348 375
PROPERTY, PLANT AND EQUIPMENT	13 783 611	13 686 789	13 629 813	13 623 644	13 511 283	GUARANTY DEPOSITS	103 765	102 236	99 278	98 097	95 616
Accumulated depreciation	(7 913 108)	(7 696 009)	(7 483 626)	(7 266 696)	(7 054 582)	DEFERRED TAXES	1 030 513	1 042 195	1 026 651	1 062 512	1 085 303
						SHAREHOLDERS' EQUITY					
	5 870 503	5 990 780	6 146 187	6 356 948	6 456 701	Capital stock	2 924 524	2 924 524	2 924 524	2 924 524	2 924 524
Write-off Provision	(61 687)	(61 687)	(61 687)	(61 687)	(61 687)	Legal reserve	349 219	349 219	346 024	346 024	346 024
						Retained earnings	37 623	18 703	176 624	165 418	227 410
OTHER ASSETS, net	5 808 816	5 929 093	6 084 500	6 295 261	6 395 014	TOTAL SHAREHOLDERS' EQUITY	3 311 366	3 292 446	3 447 172	3 435 966	3 497 958
	261 880	292 441	323 068	326 163	339 989	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	7 657 360	7 868 160	8 049 499	8 263 917	9 163 787
TOTAL ASSETS	7 657 360	7 868 160	8 049 499	8 263 917	9 163 787						

(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

	3Q02	4Q02	1Q03	2Q03	3Q03	Abs. Var. 3Q03-3Q02	3Q03/ 3Q02
Fixed-Wire Telephone Service: Local+Long Distance							
Lines Installed	2 021 041	2 028 913	2 032 817	2 037 097	2 107 791	86 750	4,3
Profits (losses) in Lines in Service, net	19 660	21 574	16 661	33 991	46 152	26 492	134,8
Lines in Service Including Public Telephones (1)	1 785 298	1 809 598	1 828 732	1 866 171	1 915 191	129 893	7,3
Local Traffic - Minutes (000) (2)	1 707 522	1 682 638	1 633 096	1 499 533	1 482 289	(225 234)	(13,2)
Long Distance - Minutes (000)	224 387	198 524	205 907	226 751	239 200	14 813	6,6
Number of Employees (Telefónica del Perú and Subsidiaries)	4 612	4 874	5 217	5 058	5 004	392	8,5
Number of Employees (Telefónica del Perú)	3 209	3 366	3 566	3 454	3 413	204	6,4
Lines in Service per Employee (Telefónica del Perú)	556	538	513	540	561	5	0,9
Digitalization Rate (%)	96,0	96,1	96,1	96,1	96,2	0,2	0,2
Lines in Service per 100 inhabitants	6,7	6,8	6,8	6,9	7,0	0,3	4,6
PUBLIC TELEPHONES							
Lines in Service (3)	104 509	107 280	109 788	113 285	116 159	11 650	11,1
ADSL							
Lines in Service (5)	13 011	20 800	28 351	36 734	47 175	34 164	262,6
CABLE TV							
Subscribers	338 246	340 001	340 163	345 016	355 011	16 765	5,0
Cablenet	11 830	13 589	15 192	17 701	21 022	9 192	77,7

(1) Excluding Cellular Public Phones, Publifón and Rurals

(2) Including traffic F2F billing (voice and internet), F2M and M2F

(3) Excluding prepaid cards, including plans minutes of packages

(4) Including Fixed and Cellular Public Phones, Fixed and Cellular TUP's Rurals (excluding Publifón)

(5) Including Speedy Standard and Speedy Plus