

Telefonica

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

April – June 2004

Significant Events

A summary containing the most significant events that have occurred since April 2004 is presented below:

1. Board of Directors approvals:

April 21, 2004 Board:

- Approved the individual and consolidated financial statements of the Company corresponding to the first quarter of 2004 and decided for their filing with the Comisión Nacional Supervisora de Empresas y Valores (CONASEV), the Lima Stock Exchange and other relevant institutions of the stock market.
- Approved partial modification to the Company's structure so that the Management Client Attention, until now under the Central Management for Residential Customers' command, will now depend on the Central Management of Resources; it was also approved that this last unit changes its current denomination to "Central Management of Resources and Commercial Operations".

June 16, 2004 Board:

- Approved the partial modification to the Company's structure in order to create the Central Management of Sohos, Enterprises and Professionals, and the Central Management of Wholesale Businesses. The Board of Directors appointed Mr. Vicente Arnaiz and Luis Delamer as their respective Central Managers.
- Established the Appointments, Retributions and Corporate Government Committee, which will be composed by the directors Luis Bastida, Enrique Used and Alfonso Ferrari. Said Committee will have, as its main functions, to overlook the integrity of the Company's high executives selection process and the application of corporate governance practices.
- Approved the "The Conduct Rules for Telefónica Group's financial officers" which establish the conduct guidelines that must be followed by presidents, directors, managers and executives of the areas of finance, capital markets, treasury, financing, investor relations, accounting and management control, among others.

July 20, 2004 Board:

- Deloitte & Touche S.R.L was appointed as the external auditor for the fiscal year 2004 and the Board of Directors approved the value of the equity block that by a simple reorganization the Company will transfer in favor of its subsidiary Telefónica Multimedia S.A.C., which will be effective on August 1st, 2004.

2. Appointments and Resignations:

- On April 30, 2004, the resignation of Eduardo Airaldi to the positions of Alternate Director and Central Manager for Businesses was made effective.
- Gabriel Frías was appointed as Central Manager for Businesses and Director General Manager of Telefónica Servicios Integrados SAC and as director of Telefónica Soluciones Globales Holding SAC.

3. On April 29, the Company filed with the Securities and Exchange Commission (SEC) a proposal to purchase the class B shares underlying to the American Depositary Shares (ADSs) that JP Morgan Chase Bank (Depositary Bank of such instruments) is offering for sale in the Lima Stock Exchange as a consequence of the cancellation of the respective depositary program. Additionally, on July 8 was released that the Company is able to acquire the class B shares, according to the General Shareholders Meeting and Board of Directors on March 26th and 11th, 2004, respectively.

4. On June 11, the Ministry of Transport and Communications notified the Company the Report N° 166-2004-MTC/17.01.ssp in which supports its decision of not granting the renewal of the concession term. The Company presented the proofs deemed convenient within the period of 15 calendar days as stated in section 4.04 of the concession contracts approved through Supreme Decree N° 001-94-TCC.

5. On July 20, Osiptel notified the Company the decision adopted by its Directive Council, that establish the value of the “Quarterly Productivity Factor” applicable to the price-cap tariff system set in the concession contracts owned by the Company. This value, effective from September 1st, 2004 to August 31st 2007, will be 10,07%, in annual terms, for C and D bundle (monthly fee and local measured service) and 7,80%, in annual terms, for E bundle (DLD and ILD).

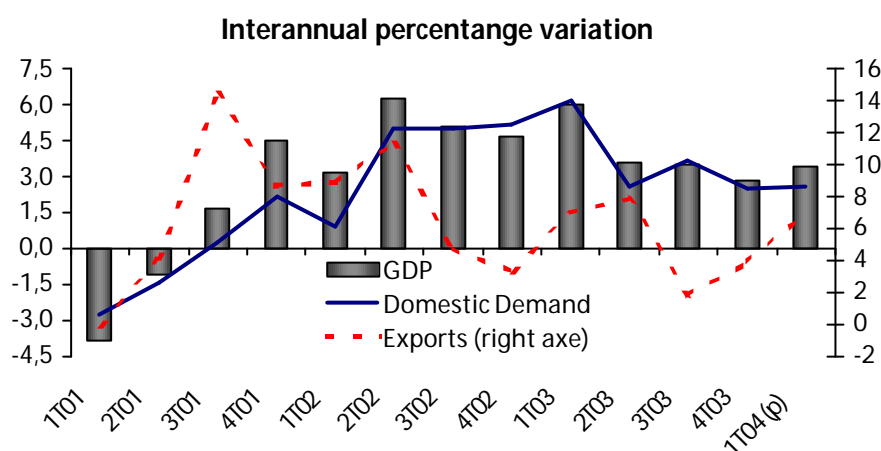
TELEFÓNICA DEL PERÚ S.A.A. AND SUBSIDIARIES

Management discussion and analysis of the consolidated results for the second quarter and six months ended June 30, 2004

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 an integral part of this document and contain complementary information.

Economic Environment

During 2Q04, the Gross Domestic Product may have grown about 4.2%. This growth would still be fueled by exports (8.2%), since internal demand could have grown about 3.4%. The good performance of exports is specially noted in the textile and mining sectors, in a context of improvements in the fiscal accounts and in the country risk, as well as the strengthening of the exchange rate, but of inflation rate acceleration, which would probably be above the upper limit of the target (1.5%-3.5%) by year-end.



The good performance of the economic activity during 2Q04 would have been supported by the dynamism in exports. In effect, the growth of traditional exports would have been fueled by the high prices of gold and cooper (which contribute 38% and 31%, respectively, in the growth of mining exports). On the other hand, exports originated in textile, chemistry and basic metal industries are the ones that would be more contributing to the growth of the non-traditional sector, driven by the benefits from the ATPDEA, which expires in December 2004. It is worth noting that, as a replacement to this one, Peru hopes to sign, in conjunction with Ecuador and Colombia, a Free Trade Agreement with the United States by 1Q05.

The inflation rate acceleration reported in 2Q04 has been tied again to the shocks of supply, both in food and by a delayed impact of the increase of fuel prices in May. With the June figure, the last 12 months inflation rate was 4.26%, exceeding for the first time the top limit (3.5%) of the inflation target for 2004. It is of concern, still six months to go, that the accumulated inflation rate until June is 3.01%, closing quickly to the Central Bank recently expected inflation rate (3.2%) for year 2004.

The 2Q04 fiscal accounts could show signs of an important recovery. The result is supported by the collecting dynamism since mid 2002. In effect, current revenues could grow 8.5% during 2Q04, mainly explained by the improvement in the collection of the IGV (Value Added Tax), the ISC (Selective Consumption Tax), the IR (Income Tax) and the ITF (Banking Transaction Tax). These results could allow financing the non-financial expenses that would grow 5% during the quarter. Nevertheless, the differences in the growth sources are of concern, because while public expenditures have focused on permanent areas, like salaries and pensions, it is unclear whether the growth source of revenues is of the same nature.

Standard & Poor's (S&P) improved the qualification of the sovereign debt in foreign currency from BB- to BB, just two levels below from the investment grade. Furthermore, Fitch changed the outlook for said debt from "Stable" to "Positive" and the IFM approved a US\$ 422.8 million loan to support the economic program in Peru until mid 2006. In light of these news, the Peruvian EMBI dropped below 400 bps. and the exchange rate

strengthened. It is worth noting that the exchange rate broke the support level of S/. 3.430 (July 13) due to increased dollar supply.

Operating revenues

The competitive environment faced by the local telecommunications market has mainly impacted the revenues of Long Distance and Public Telephony businesses. Additionally, the increase in subscriber base of mobile telephony affected the performance of the last business.

Operating revenues for 2Q04 totaled S/. 848 million, showing a 3.4% reduction regarding 2T03, mainly due to the lower revenues from Local Telephony (8.6%), Public and Rural Telephony (10.7%) and Long Distance (12.2%), which were not offset by the revenue increases for Business Communications (37.0%), Other Operating Revenues (14.6%) and Cable Television (5.2%).

Meanwhile, operating revenues for 6M04 totaled S/. 1736 million, dropping 4.0% compared to 6M03, mainly due to the lower revenues from Local Telephony (8.4%), Public and Rural Telephony (6.6%) and Long Distance (16.4%), which were partially compensated by higher revenues for Business Communications (38.3%), Other Operating Revenues (2.4%) and Cable Television (5.5%).

Revenues for **Local Telephony** totaled S/. 364 million in 2Q04, an 8.6% decrease compared with 2Q03. This variation is mainly explained by the effect of the productivity factor in place (6%) as well as the change in the Conditions of Usage-OSIPTTEL established that, during suspension of service, the operator company would not be able to apply any fee related to this service- on the revenues of monthly fee and local measured service beginning in May 2004. Additionally, it has to be mentioned the reduction of Internet billed traffic due to the increase of flat tariff and ADSL clients. On the other hand, revenues for 6M04 showed an 8.4% reduction compared to 6M03, totaling S/. 748 million. This reduction is due to lower revenues from local measured service, as a consequence of the growth in the consumption limit and prepaid plant, which represented 53% of the plant in service at the end of 2Q04. Furthermore, it is reported an increase in the subscribers to tariff plans of lower consume.

Revenues for **Public and Rural Telephony** totaled S/. 164 million in 2Q04, representing a 10.7% reduction regarding 2Q03, while in 6M04 totaled S/. 350 million, 6.6% lower than those of 6M03. This behavior is mainly explained by the reduction in the average local fixed-to-fixed traffic per line of Public Telephony as a result of the increase in the plant of mobile telephony, as well as lower revenues from fixed-to-fixed DLD, as a consequence of the increased migration from the use of coins toward prepaid cards.

Long Distance revenues during 2Q04 dropped 12.2% compared to 2Q03, totaling S/. 78 million, mainly due to lower tariffs in DLD and outgoing ILD, and higher payments to carriers by the increase in the settlement average rate. On the other hand, revenues for 6M04 totaled S/. 161 million, 16.4% lower than in 6M03 due to the reduction of tariffs in DLD and ILD caused by the increased competition. These effects were partially offset by higher revenues coming from the sale of Hola Perú cards and higher revenues for incoming ILD in 2Q04.

Revenues for **Business Communications** showed a 37.0% increase, going from S/. 54 million in 2Q03 to S/. 74 million in 2Q04, while they totaled S/. 141 million in 6M04, 38.3% higher than those registered in 6M03. The higher revenues are mainly explained by the growth shown by the Broad Band market.

It is worth noting the significant growth in the Broad Band market. Thus, the lines of service went to 54 thousand lines in 6M03 to 135 thousand lines in 6M04, a 147.9% increased.

Cable Television revenues totaled S/. 85 million in 2Q04, which represents a 5.2% increase compared to 2Q03, and reached S/. 169 million in 6M04, a 5.5% increase compared to 6M03, mainly as a consequence of the higher revenues from monthly fee in 2.9% - due to an 8.1% increase of the average billable plant.

Other Operating Revenues grew 14.6% in 2Q04 compared to 2Q03, totaling S/. 82 million, while totaled S/. 167 million in 6M04, a 2.4% increase compared to 6M03, mainly due to the higher revenues for network adequacy, as a result of the higher number of operators in the market.

Operating expenses

In 2Q04 operating expenses totaled S/. 688 million, which represents a 4.6% decrease in relation to the S/. 721 million of 2Q03, mainly due to lower personnel expenses (S/. 13 million), general and administrative expenses (S/. 7 million), depreciation (S/. 14 million) and provisions (S/. 4 million). The lower general and administrative expenses are mainly due to advertising and promotion reduction- in 2Q03 an aggressive campaign to communicate the new tariff plans was undertaken-, services of tele-attention to clients and commissions from rural plant outsourcing.

The accumulated expenses for 6M04 dropped S/. 73 million, a 5,0% drop compared to 6M03, totaling S/. 1,404 million, mainly as a consequence of the reduction by S/. 24 million in personnel expenses, by S/. 6 million in general and administrative expenses (for the aforementioned factors), by S/. 34 million in depreciation and by S/. 8 million in provisions.

EBITDA and Operating Result

The EBITDA (Earnings before interest, taxes, depreciation and amortization) dropped 2.6% compared to 2Q03, totaling S/. 405 million as a result of lower revenues that could not be offset by lower expenses reported in 2Q04. However, the EBITDA margin increased from 47.4% in 2Q03 to 47.8% in 2Q04. Furthermore, the operating result increased S/. 3 million in 2Q04 compared to 2Q03 as a consequence of lower depreciation and amortization.

Moreover, the accumulated EBITDA dropped 3.9% in 6M04 compared to 6M03, as a consequence of lower revenues. Meanwhile, the EBITDA margin remained stable at 47.5%. In the same way, the operating result in 6M04 also remained stable regarding 6M03 (S/. 332 million).

Non-operating Result

The non-operating result went from a loss of S/. 115 million in 2Q03 to a profit of S/. 1 million in 2Q04, mainly due to external factors to the management of the company such as the positive effect of the monetary correction (REI) by S/. 44 million in 2Q04 compared to the negative value of S/. 41 million in 2Q03 (the wholesale price index, WPI, increased by 1.89% and the Nuevo Sol appreciated by 0.31% in 2Q04). Furthermore, the loss in "others net" dropped S/. 29 million mainly due to lower adjustments for contingencies. Additionally, the net financial expenses showed a decrease of S/. 2 million as a consequence of the lower debt level.

In 6M04, the non-operating result increased S/. 207 million regarding 6M03. The same way as in 2Q04, this occurred due to external factors. On one hand, decrease of the REI registered an improve of S/. 136 million- as a consequence of a 4.77% increase in WPI and a 0.23% depreciation of the Nuevo Sol in 6M04-; on the other hand it was reported a lower loss in "others net" by S/. 70 million in 6M04 compared to 6M03 (mainly due to lower adjustments for contingencies). The net financial expenses remained similar to the ones of the same period of last year.

Net result

The net profit totaled S/. 88 million in 2Q03 compared to the S/. 1 million in 2Q04. In the same way, in accumulated terms, the net profit grew from S/. 35 million in 6M03 to S/. 195 million in 6M04. In both cases, this increase is mainly explained by an improve in non-operating result.

Consolidated Balance Sheet

The liquidity levels of the Company -measured by the current assets over current liabilities ratio- increased from 0.63 in 1Q04 to 0.68 in 2Q04, due to an increase in the cash levels of the company.

During 2Q04, the company reported a slightly decrease in the "debt over debt plus equity" ratio, going from 31.9% in 1Q04 to 29.7% in 2Q04, as a result of both a reduction in debt and an increase in equity. Additionally, an improvement in the "interest coverage" ratio- EBITDA over net interest- was reported. This ratio increased from 14.6 in 2Q03 to 15.3 in 2Q04, as a result of the 3.7% reduction in the financial expenses. Nevertheless, the same ratio reported a slightly decrease from 15.0 in 6M03 to 14.5 in 6M04. Finally, the debt coverage ratio - debt over EBITDA- reached 1,0 in 6M04 compared to 1.5 in 6M03.

TABLE 1
TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS IN ADJUSTED SOLES (000) AS OF JUNE 30, 2004 ^{1/}
(Prepared In Accordance With Peruvian GAAP)

	2Q03		2Q04		Abs. Var. 2Q04-2Q03		6M03		6M04		Var. Abs. 6M04-6M03		Var. % 6M04-6M03	
		%		%		%		%		%		%		%
Local Telephone Service	398 223	45,4	364 143	42,9	(34 080)	(8,6)	816 144	45,1	747 766	43,1	(68 378)	(8,4)		
Long Distance	88 862	10,1	78 003	9,2	(10 859)	(12,2)	192 093	10,6	160 681	9,3	(31 412)	(16,4)		
Public Telephones	183 926	21,0	164 243	19,4	(19 683)	(10,7)	374 777	20,7	349 902	20,2	(24 875)	(6,6)		
Cable TV	81 165	9,2	85 358	10,1	4 193	5,2	160 179	8,9	168 950	9,7	8 771	5,5		
Business Communications	54 254	6,2	74 308	8,8	20 054	37,0	101 964	5,6	141 029	8,1	39 065	38,3		
Other	71 390	8,1	81 836	9,7	10 446	14,6	163 445	9,0	167 407	9,6	3 962	2,4		
Total Operating Revenues	877 820	100,0	847 891	100,0	(29 929)	(3,4)	1 808 602	100,0	1 735 735	100,0	(72 867)	(4,0)		
Personnel	107 311	12,2	94 192	11,1	(13 119)	(12,2)	215 434	11,9	191 432	11,0	(24 002)	(11,1)		
General and Administrative	244 844	27,9	238 242	28,1	(6 602)	(2,7)	505 520	28,0	499 323	28,8	(6 197)	(1,2)		
Depreciation	258 766	29,5	244 961	28,9	(13 805)	(5,3)	527 249	29,2	493 271	28,4	(33 978)	(6,4)		
Technology Transfer and Management Fees	75 121	8,6	74 119	8,7	(1 002)	(1,3)	155 339	8,6	147 775	8,5	(7 564)	(4,9)		
Materials and Supplies	13 888	1,6	17 293	2,0	3 405	24,5	29 043	1,6	32 404	1,9	3 361	11,6		
Provisions	31 989	3,6	28 301	3,3	(3 688)	(11,5)	66 855	3,7	59 064	3,4	(7 791)	(11,7)		
Own Work Capitalized	(11 218)	(1,3)	(9 492)	(1,1)	1 726	(15,4)	(22 283)	(1,2)	(19 316)	(1,1)	2 967	(13,3)		
Total Operating Costs and Expenses	720 701	82,1	687 616	81,1	(33 085)	(4,6)	1 477 157	81,7	1 403 953	80,9	(73 204)	(5,0)		
Operating Income	157 119	17,9	160 275	18,9	3 156	2,0	331 445	18,3	331 782	19,1	337	0,1		
EBITDA	415 885	47,4	405 236	47,8	(10 649)	(2,6)	858 694	47,5	825 053	47,5	(33 641)	(3,9)		
Other Income (Expenses)														
Interest Income	8 279	0,9	4 981	0,6	(3 298)	(39,8)	16 520	0,9	10 163	0,6	(6 357)	(38,5)		
Interest Expenses	(36 864)	(4,2)	(31 442)	(3,7)	5 422	(14,7)	(73 930)	(4,1)	(66 923)	(3,9)	7 007	(9,5)		
Others Net	(45 838)	(5,2)	(16 559)	(2,0)	29 279	(63,9)	(111 826)	(6,2)	(41 714)	(2,4)	70 112	(62,7)		
Inflation Gain (Loss)	(40 987)	(4,7)	44 333	5,2	85 320	(208,2)	(13 187)	(0,7)	122 551	7,1	135 738	(1 029,3)		
Total Other Income (Expenses)	(115 410)	(13,1)	1 313	0,2	116 723	(101,1)	(182 423)	(10,1)	24 077	1,4	206 500	(113,2)		
Income Before Taxes and Participations	41 709	4,8	161 588	19,1	119 879	287,4	149 022	8,2	355 859	20,5	206 837	138,8		
Workers' Participation	(10 492)	(1,2)	(19 948)	(2,4)	(9 456)	90,1	(30 253)	(1,7)	(43 530)	(2,5)	(13 277)	43,9		
Income Tax	(29 770)	(3,4)	(53 964)	(6,4)	(24 194)	81,3	(83 958)	(4,6)	(117 003)	(6,7)	(33 045)	39,4		
Net Income	1 447	0,2	87 676	10,3	86 229	5 959,2	34 811	1,9	195 326	11,3	160 515	461,1		

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 JUNE 30, 2004 (1)
(End of Period Figures)

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY					
	1T04	4T03	3T03	2T03	1T03		1T04	4T03	3T03	2T03	1T03
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	255 008	123 735	52 407	31 729	105 052	Overdrafts	5 905	4 209	23 065	-	-
Negotiable securities	39 474	53 508	48 576	62 188	54 407	Accounts payable and accrued liabilities	372 627	434 181	487 086	487 173	344 040
Accounts and notes receivable - net	584 432	633 345	673 598	758 097	716 004	Other accounts payable	816 466	767 354	909 765	942 602	1 145 074
Other accounts receivable	223 425	230 517	373 581	243 831	234 668	Provision for severance indemnities	2 997	3 074	2 774	0	357
Materials and supplies	37 141	35 541	29 342	35 549	34 853	Bank Loans	120 000	212 047	148 397	219 798	371 703
Prepaid taxes and expenses	47 425	39 416	71 308	89 002	67 868	Current maturities of long-term debt	122 163	85 373	89 617	60 988	61 337
						Current maturities of bonds	244 004	162 097	27 515	85 998	209 846
Total current assets	1 186 905	1 116 062	1 248 812	1 220 396	1 212 852	Commercial Papers	50 740	114 753	265 001	323 172	396 151
Accounts receivable - LT wit T. Móviles	0	0	0	238 848	239 830	Total current liabilities	1 734 902	1 783 088	1 953 220	2 119 731	2 528 508
						LONG-TERM DEBT	251 770	310 165	329 422	378 658	390 129
LONG-TERM INVESTMENTS	92 401	91 565	90 706	74 664	144 682	BONDS	746 264	783 247	951 816	900 815	712 951
PROPERTY, PLANT AND EQUIPMENT	15 058 705	15 052 839	15 006 478	14 716 744	14 614 280	GUARANTY DEPOSITS	102 299	105 474	109 229	109 822	108 205
						DEFERRED EARNINGS	936 502	984 920	1 060 394	1 090 669	1 103 034
Accumulated depreciation	(9 102 874)	(8 882 468)	(8 652 707)	(8 375 044)	(8 145 273)	SHAREHOLDERS' EQUITY					
						Capital stock	3 095 246	3 095 246	3 095 246	3 095 246	3 095 246
Write-off Provision	(65 269)	(65 269)	(65 269)	(65 269)	(65 269)	Legal reserve	372 011	372 011	369 604	369 604	369 604
	5 890 562	6 105 102	6 288 502	6 276 431	6 403 738	Retained earnings	175 816	94 277	(4 815)	39 819	19 795
OTHER ASSETS, net	244 942	215 699	236 096	294 025	326 370	TOTAL SHAREHOLDERS' EQUITY	3 643 073	3 561 534	3 460 035	3 504 669	3 484 645
TOTAL ASSETS	7 414 810	7 528 428	7 864 116	8 104 364	8 327 472	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	7 414 810	7 528 428	7 864 116	8 104 364	8 327 472

(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	3Q03	4Q03	1Q04	4Q01	1Q04-1Q03	1Q04/ 1Q03
Fixed-Wire Telephone Service: Local+Long Distance							
Lines Installed	2 037 097	2 107 791	2 145 345	2 178 845	2 197 489	160 392	7,9
Profits (losses) in Lines in Service, net	33 991	46 152	49 052	33 536	42 988	8 997	26,5
Lines in Service Including Public Telephones (1)	1 866 171	1 915 191	1 963 554	1 998 141	2 043 885	177 714	9,5
Local Traffic - Minutes (000) (2)	1 499 533	1 482 289	1 446 274	1 395 796	1 341 295	(158 238)	(10,6)
Long Distance - Minutes (000) (3)	226 751	239 200	241 167	240 638	239 532	12 781	5,6
Number of Employees (Telefónica del Perú and Subsidiaries)	5 058	5 004	4 920	5 198	5 128	70	1,4
Number of Employees (Telefónica del Perú)	3 454	3 413	3 316	3 335	3 325	(129)	(3,7)
Lines in Service per Employee (Telefónica del Perú) (1)	540	561	592	599	615	75	13,9
Digitalization Rate (%)	96	96	96	96	96	0	0,3
Lines in Service per 100 inhabitants	6,9	7,0	7,2	7,3	7,5	1	9,3
PUBLIC TELEPHONES							
Lines in Service (4)	113 285	116 159	115 614	116 694	119 448	6 163	5,4
BROAD BAND							
Lines in Service (5)	54 435	68 197	90 689	107 246	134 925	80 490	147,9
CABLE TV							
Subscribers	345 016	355 011	363 088	369 741	373 203	28 187	8,2

(1) Excluding Cellular Public Phones, Publifón and rurals

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

(3) Excluding Prepaid cards, including packed minutes plans.

(4) Including cellular and fixed public phones and Rural fixed and cellular public phones (do not include Publifon)

(5) Including broad band and Cablenet