

Telefónica

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

July – September 2004

Significant Events

A summary containing the most significant events since July 2004 is presented below:

1. Board of Directors approvals:

July 27, 2004 Board:

- Approved the individual and consolidated financial statements of the Company corresponding to the second quarter of 2004 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.
- Approved the acquisition of the total number of shares representative of the capital stock of Antena 3 Producciones S.A. and its consequent incorporation to the Telefónica Group. In that regard, it granted Company's officials with the powers to negotiate and set the terms and conditions of the operation.

August 18, 2004:

- Authorized certain Company's officials to negotiate the modification of the Technical and Management Capacity Transference Contract signed with Telefónica Internacional S.A. and signed the corresponding addendum. In light of said authorization, on September 30, 2004, the addendum to said contract was signed.

2. Appointments and Resignations:

- The resignation of Mr. Diego Martínez-Caro to the positions of Central Manager of Control was accepted and Mr. Álvaro Badiola Guerra was appointed as his replacement.
- Mr. Diego Martínez-Caro resigned to the position of Alternate Director of the Company and Director of Telefónica Multimedia S.A.C, Media Networks S.A.C., Servicios Editoriales del Perú S.A.C., Telefónica Servicios Digitales S.A.C., Telefónica Servicios Técnicos S.A.C. and Telefónica Servicios Integrados S.A.C. Mr. Álvaro Badiola was appointed as his replacement in all the aforementioned positions.

3. Corporate Actions:

- On August 31, Telefónica Multimedia S.A.C. undertook the capital stock increase resulting from receiving the equity block owned by Telefónica del Perú S.A.A. On September 24, Telefónica Multimedia S.A.C. reduced its capital stock to cover the full amount of losses up to August 31, 2004.
- On September 16, the General Shareholders' Meeting of Telefónica Servicios Integrados S.A.C approved its capital stock increase as a consequence of the capitalization of debts that said company had with Telefónica del Perú S.A.A.
- On September 22, Servicios Editoriales del Perú S.A.C. increased its capital stock through the capitalization of part of an outstanding debt with Telefónica del Perú S.A.A., as of August 31, 2004. It also reduced its capital stock to cover the losses up to August 31, 2004.
- On September 24, Telefónica Servicios Comerciales S.A.C. approved the payment of dividends to be charged against the accumulated results as of December 31, 2003.
- On September 30, the Board of Directors called for a General Shareholders' Meeting, which will take place, on first call, on November 8, 2004, in order to approve the following items:
 - a. The increase of the capital stock by capitalizing the accumulated monetary correction as of December 31, 2002 and modification of the first paragraph of article 5 of the Company's bylaws.
 - b. The reduction of the capital stock by returning the contributions to the shareholders and the modification of the first paragraph of article 5 of the Company's bylaws.

4. In executing the operation approved by the Board of Directors and the Mandatory Annual General Shareholders' Meeting, on August 8, the company acquired class B shares of its own issuance.

5. On August 26, Telefónica del Perú S.A.A. subscribed a collective agreement with the Worker's Union to be in place between December 1, 2003 until November 30, 2006, included.
6. On October 4, the Company notified the employees of the launch of an Early Retirement Program with Exceptional Benefits, under certain characteristics to be in place until March 31, 2005.

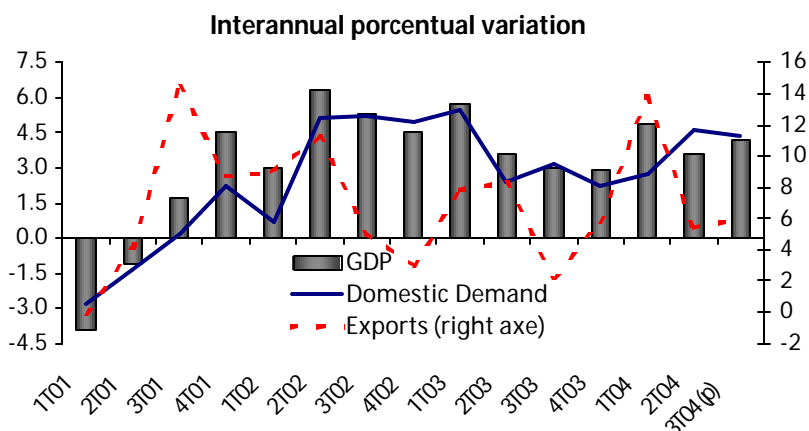
TELFÓNICA DEL PERÚ S.A.A. AND SUBSIDIARIES

Management discussion and analysis of the consolidated results for the third quarter and nine months ended September 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

The Gross Domestic Product during 3Q04 could have grown about 4.2%. This growth would still be fueled by exports (6.0%), while the domestic demand could have grown about 4.4%. Exports were favored by the global economy growth, which translated into higher prices for commodities, and by the commercial agreements, specially the ATPDEA. On the other hand, a deceleration of inflation was observed, which would result in inflation to finish this year slightly over the top limit of the inflationary target (3.5%). Said deceleration keeps a close relation, fundamentally, with the exchange rate evolution, which reached S/. 3.342 per dollar by the end of the quarter. Finally, some improvements in the fiscal accounts and the country risk were observed.



The good performance of the economic activity during 3Q04 could have been supported by the dynamism in exports, and also by the domestic demand. The growth of traditional exports is mainly explained by the higher prices of metals and higher exported volumes of gold, copper and fish flour. Among the non-traditional exports textile and agribusiness were the highlights of this segment. On a sector basis, the non-primary items could have recorded a larger expansion, particularly non-primary manufacturing, construction and services.

The inflation rate registered in 3Q04 was 0.2%, showing a clear deceleration regarding previous quarters. Despite this deceleration, there are some inflationary risks related to the increase of oil prices in the international market and the increase of local power tariffs. With the result of September, inflation for the last 12 months was 4.03% (above the top limit of the inflationary target) and the accumulated inflation for the period January-September was 3.22%. The highlights of 3Q04 were food and beverages (reduction of 0.1%) and housing, fuel and electricity (increase of 2.05%).

The 3Q04 fiscal accounts could still show signs of an important recovery, in line with the collecting dynamism present since mid 2002. In effect, current revenues could grow 12.8% during 3Q04, mainly explained by the improvement in the collection of the IGV (Value Added Tax), the IR (Income Tax) and the IT (Tax on Imports). With these improvements, the fiscal deficit target could be achieved, in light of the reduction of public expenditures and lower-than-budgeted expenses in the Peruvian regions.

As for the currency versus the dollar reached S/. 3.358, on average, in the inter-bank market. US currency has been depreciating for the fourth month in a row, accumulating a drop of 3.3% year-to-date, mainly due to the improvement of the Peruvian external accounts and the reduction in the perceived country risk. The Peruvian EMBI dropped to 319 bps, lower than the 439 bps showed by the end of the previous quarter, chiefly because of the improvement in the Brazilian country risk and the results of the fiscal accounts.

Operating revenues

The telecommunications market faces an ever more aggressive competitive environment, mainly in the businesses of long distance, fixed telephony, public telephony and prepaid cards.

Operating revenues for 3Q04 totaled S/. 853 million, a 4.6% reduction regarding 3T03, mainly due to the lower revenues from Local Telephony (-7.3%), Long Distance (-19.3%), Public and Rural Telephony (-10.0%) and Cable Television (-2.4%), which were not compensated by the increases in revenues for Business Communications (41.3%) and Other Operating Revenues (4.4%).

Meanwhile, operating revenues for 9M04 reached S/. 2,590 million, dropping 4.2% compared 9M03, due to lower revenues in Local Telephony (-8.0%), Long Distance (-17.4%) and Public and Rural Telephony (-7.7%), partially offset by higher revenues in Business Communications (39.3%), Other Operating Revenues (3.1%) and Cable TV (2.7%)

Revenues for **Local Telephony** totaled S/. 366 million in 3Q04, a 7.3% reduction compared with 3Q03. This variation is mainly explained by the effect of the productivity factor in place until August (6% annually) as well as the change in the Conditions of Usage established by Osipitel regarding charges during suspended service, which impacted on the revenues of monthly fee and local measured service from May 2004. Additionally, the reduction of Internet billed traffic due to the increase of flat tariff and ADSL clients also factored in. On the other hand, revenues for 9M04 showed a 8.0% reduction compared to 9M03, totaling S/. 1,115 million. This reduction is due to the lower revenues from local measured service, as a consequence of the growth in the consumption limit and prepaid plant, which represented 55% of the plant in service at the end of 3Q04. Furthermore, it is reported an increase in the subscribers to tariff plans of lower consume.

The revenues for **Public and Rural Telephony** totaled S/. 163 million in 3Q04, representing a 10.0% reduction regarding 3Q03, while in 9M04 totaled S/. 513 million, 7.7% lower than those of 9M03. The result are mainly explained by lower revenues from domestic long distance – resulting from the increasing migration from the use of coins toward cards and the expansion of the prepaid fixed telephony -, as well as the reduction in the average local traffic per public telephone as a consequence of the increase of the plant of mobile telephony.

Long Distance revenues during 3Q04 dropped 19.3% compared to 3Q03, totaling S/. 78 million, mainly due to lower traffic in DLD and outgoing ILD, as well as lower revenues of incoming ILD because of a lower accounting rate, partially offset by lower expenses with carriers. Meanwhile, revenues for 9M04 reached S/. 239 million, 17.4% lower than those in 9M03 due to the reduction of traffic in DLD and outgoing ILD caused by the migration to the use of prepaid cards, tied with the growth of plant of lines with consumption limit. These effects were partially compensated by higher revenues coming from the sale of Hola Perú cards, both in the 3Q04 and the 9M04 compared to similar periods of the previous year.

Revenues for **Business Communications** showed a 41.3% increase, going from S/. 56 million in 3Q03 to S/. 79 million in 3Q04, while they totaled S/. 220 million in 9M04, 39.3% higher than those registered in 9M03. The higher revenues are mainly explained by the growth shown by the broadband market where ADSL lines increased from 47,175 in 9M03 to 144,083 in 9M04, which represents an increase of 205.4%.

It is worth noting than the Company continues with the expansion of the broadband (ADSL and Cablenet) nationwide; therefore, the number of lines in service grew from 68 thousand in 9M03 to 166 thousand in the 9M04, a 143.7% increase.

Cable Television revenues totaled S/. 84 million in 3Q04, which represents a 2.4% decrease compared to 3Q03, and totaled S/. 253 million in 9M04, a 2.7% increase compared to 9M03, mainly as a consequence of the increased revenues from monthly fee in 1.6% - an increase of 8.4% of the average billable plant.

Other Operating Revenues grew 4.4% in 3Q04 compared to 3Q03, totaling S/. 83 million, while it totaled S/. 251 million in 9M04, a 3.1% increase compared to 9M03, mainly due to the higher revenues for net adaptation, as a result of the higher number of operators in the market.

Operating expenses

Operating expenses totaled S/. 627 million in 3Q04, which represents a 14.2% decrease in relation to the S/. 731 million of 3Q03, due to, the reduction by S/. 66 million in management fee -as a result of the addendum signed in the contract with Telefonica Internacional since July 1, 2004-. Additionally, reductions of S/. 15 million in depreciation, S/. 13 million in general and administrative expenses, S/. 7 million in personnel expenses, and S/. 5 million in provisions improved to reduce operating expenses. The reduction of the general and administrative expenses is the result of lower expenses in advertising and promotion -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 9M04 dropped S/. 178 million, a 8.0% decrease compared to 9M03, totaling S/. 2,032 million, mainly due to the reduction of S/. 74 million in management fee, as a result to the change in the contract during this quarter, S/. 49 million in depreciation and amortization, S/. 36 million in personnel expenses, S/. 14 million in general and administrative expenses (due to the aforementioned factors) and S/. 13 million in provisions.

EBITDA and Operating Result

The EBITDA (Earnings before interest, taxes, depreciation and amortization) grew 11.2% compared to 3Q03, totaling S/. 475 million as a result of lower expenses that allowed to more than offset the lower revenues during 3Q04. An increase in the EBITDA margin was also recorded, from 47.8% in 3Q03 to 55.7% in 3Q04. Furthermore, the operating result increased S/. 63 million in 3Q04 compared to 3Q03 as a consequence of lower management fee, depreciation and amortization and the general and administrative expenses.

Moreover, the accumulated EBITDA rose 1.1% in 9M04 compared to 9M03, as a consequence of lower expenses. Additionally, the EBITDA margin improved from 47.6% in 9M03 to 50.2% in 9M04. In the same way, the operating result in 9M04 increased S/. 63 million compared to 9M03.

Non-operating Result

The non-operating result improved S/. 34 million, going from a loss of S/. 85 million in 3Q03 to a loss of S/. 51 million in 3Q04, mainly because the account "others net" dropped S/. 49 million, as a result of the lower adjustments recorded as contingencies.

Additionally, the net financial expenses showed a S/. 5 million reduction as a consequence of the reduction of the lower levels of debt. These results were partially offset by the negative effect of the monetary correction (REI) that amounted to S/. 18 million in 3Q04 compared to a positive REI of S/. 3 million in 3Q03.

In 9M04, the non-operating result increased S/. 240 million regarding 9M03, going from a loss of S/. 268 million in 9M03 to a loss of S/. 27 million in 9M04. This result is chiefly explained by a lower loss in "others net" of S/. 120 million in 9M04 compared to 9M03 (mainly because of lower adjustments recorded as contingencies) and the positive effect of the monetary correction (REI) in S/. 115 million - as a consequence of a 4.77% increase in the WPI and a 3.52% appreciation of the Nuevo Sol in 9M04. Finally, the net financial expenses recorded a lower loss of S/. 6 million compared to the ones of the same period of the previous year.

Net result

The net profit reached S/. 78 million in 3Q03, compared to the S/. 26 million in 3Q04. Likewise, in accumulated terms, the net profit grew from S/. 61 million in 9M03 to S/. 273 million in 9M04. In both cases, this was mainly explained by the improvement of the operating result - the reduction of the operating expenses - and the lower non-operating result.

Consolidated Balance Sheet

The liquidity levels of the Company – measured by the current assets over current liabilities ratio – increased from 0.68 in 2Q04 to 0.76 in 3Q04, due to an increase in the cash levels of the Company.

During 3Q04, the Company continued reducing its “debt over debt plus equity” ratio, going from 29.7% in 2Q04 to 28.8% in 3Q04, mainly because of an increase in the equity. Additionally, an improvement in the “interest coverage” ratio – EBITDA over net interests – was reported, increasing from 17.0 in 3Q03 to 23.4 in 3Q04, as a result of an increase of 11.2% of the EBITDA and a reduction of 19.3% in the net financial expenses. Moreover, in accumulated terms, an increase in the “interest coverage” ratio was reported, going from 15.6 in 3Q03 to 16.9 in 3Q04. Finally, the “debt coverage” ratio – debt over EBITDA – was 0.9 in 9M04 compared to the 1.1 reported in 9M03.

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

	3Q03		3Q04		Abs. Var.	% Var.	9M03		9M04		Abs. Var.	Var. %
		%		%	3Q04-3Q03	3Q04-3Q03		%		%	9M04-9M03	9M04-9M03
Local Telephone Service	395,058	44.2	366,151	42.9	(28,907)	(7.3)	1,212,338	44.8	1,114,769	43.0	(97,569)	(8.0)
Long Distance	96,316	10.8	77,697	9.1	(18,619)	(19.3)	288,681	10.7	238,562	9.2	(50,119)	(17.4)
Public Telephones	180,566	20.2	162,501	19.1	(18,065)	(10.0)	555,863	20.6	512,801	19.8	(43,062)	(7.7)
Cable TV	86,049	9.6	83,996	9.9	(2,053)	(2.4)	246,451	9.1	253,140	9.8	6,689	2.7
Business Communications	56,042	6.3	79,181	9.3	23,139	41.3	158,140	5.8	220,359	8.5	62,219	39.3
Other	79,664	8.9	83,181	9.8	3,517	4.4	243,335	9.0	250,789	9.7	7,454	3.1
Total Operating Revenues	893,695	100.0	852,707	100.0	(40,988)	(4.6)	2,704,808	100.0	2,590,420	100.0	(114,388)	(4.2)
Personnel	102,203	11.4	94,844	11.1	(7,359)	(7.2)	322,263	11.9	285,941	11.0	(36,322)	(11.3)
General and Administrative	250,939	28.1	238,210	27.9	(12,729)	(5.1)	752,552	27.8	738,658	28.5	(13,894)	(1.8)
Depreciation	264,729	29.6	249,526	29.3	(15,203)	(5.7)	792,715	29.3	743,364	28.7	(49,351)	(6.2)
Technology Transfer and Management Fees	76,310	8.5	9,926	1.2	(66,384)	(87.0)	231,865	8.6	157,870	6.1	(73,995)	(31.9)
Materials and Supplies	15,228	1.7	16,496	1.9	1,268	8.3	44,598	1.6	48,937	1.9	4,339	9.7
Provisions	32,652	3.7	27,281	3.2	(5,371)	(16.4)	99,599	3.7	86,413	3.3	(13,186)	(13.2)
Own Work Capitalized	(11,226)	(1.3)	(9,421)	(1.1)	1,805	(16.1)	(33,539)	(1.2)	(28,759)	(1.1)	4,780	(14.3)
Total Operating Costs and Expenses	730,835	81.8	626,862	73.5	(103,973)	(14.2)	2,210,053	81.7	2,032,424	78.5	(177,629)	(8.0)
Operating Income	162,860	18.2	225,845	26.5	62,985	38.7	494,755	18.3	557,996	21.5	63,241	12.8
EBITDA	427,589	47.8	475,371	55.7	47,782	11.2	1,287,470	47.6	1,301,360	50.2	13,890	1.1
Other Income (Expenses)												
Interest Income	7,712	0.9	4,738	0.6	(2,974)	(38.6)	24,255	0.9	14,913	0.6	(9,342)	(38.5)
Interest Expenses	(32,838)	(3.7)	(25,020)	(2.9)	7,818	(23.8)	(106,871)	(4.0)	(92,019)	(3.6)	14,852	(13.9)
Others Net	(62,710)	(7.0)	(13,372)	(1.6)	49,338	(78.7)	(174,732)	(6.5)	(55,132)	(2.1)	119,600	(68.4)
Inflation Gain (Loss)	2,743	0.3	(17,746)	(2.1)	(20,489)	(747.0)	(10,439)	(0.4)	104,941	4.1	115,380	(1,105.3)
Total Other Income (Expenses)	(85,093)	(9.5)	(51,400)	(6.0)	33,693	(39.6)	(267,787)	(9.9)	(27,297)	(1.1)	240,490	(89.8)
Income Before Taxes and Participations	77,767	8.7	174,445	20.5	96,678	124.3	226,968	8.4	530,699	20.5	303,731	133.8
Workers' Participation	(13,752)	(1.5)	(25,665)	(3.0)	(11,913)	86.6	(44,048)	(1.6)	(69,244)	(2.7)	(25,196)	57.2
Income Tax	(37,637)	(4.2)	(70,886)	(8.3)	(33,249)	88.3	(121,715)	(4.5)	(188,023)	(7.3)	(66,308)	54.5
Net Income	26,378	3.0	77,894	9.1	51,516	195.3	61,205	2.3	273,432	10.6	212,227	346.7

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, 2004 (1)
(End of Period Figures)

	ASSETS					LIABILITIES AND SHAREHOLDERS' EQUITY					
	3T04	2T04	1T04	4T03	3T03	3T04	2T04	1T04	4T03	3T03	
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	352,221	255,251	123,853	52,457	31,759	Overdrafts	368	5,911	4,213	23,087	0
Negotiable securities	45,388	39,512	53,559	48,622	62,247	Accounts payable and accrued liabilities	355,479	364,366	425,234	477,535	422,951
Accounts and notes receivable - net	547,559	576,373	624,589	664,226	694,134	Other accounts payable	775,682	817,245	768,087	910,632	943,502
Other accounts receivable	214,044	223,639	230,737	373,937	244,065	Provision for severance indemnities	2,374	3,000	3,077	2,779	0
Materials and supplies	37,487	37,176	35,575	29,370	35,583	Bank Loans	110,000	120,114	212,249	148,538	220,008
Prepaid taxes and expenses	48,029	47,470	39,454	71,376	89,087	Current maturities of long-term debt	120,395	122,280	85,455	89,702	61,046
						Current maturities of bonds	234,519	244,237	162,252	27,541	86,080
Total current assets	1,244,728	1,179,421	1,107,767	1,239,988	1,156,875	Commercial Papers	51,500	50,788	114,862	265,254	323,480
Accounts receivable - LT wit T. Móviles	0	0	0	0	239,076	Total current liabilities	1,650,317	1,727,941	1,775,429	1,945,068	2,057,067
						LONG-TERM DEBT	235,276	252,010	310,461	329,736	379,020
LONG-TERM INVESTMENTS	0	92,489	91,653	90,793	74,735	BONDS	746,561	746,976	783,994	952,724	901,674
PROPERTY, PLANT AND EQUIPMENT	15,195,811	15,073,072	15,067,236	15,020,794	14,730,805	GUARANTY DEPOSITS	104,203	102,398	105,576	109,333	109,927
						DEFERRED EARNINGS	918,020	937,395	985,860	1,061,405	1,091,710
Accumulated depreciation	(9,342,531)	(9,111,535)	(8,890,955)	(8,660,939)	(8,383,031)						
						SHAREHOLDERS' EQUITY					
Write-off Provision	(65,355)	(65,355)	(65,355)	(65,355)	(65,355)	Capital stock	3,098,199	3,098,199	3,098,199	3,098,199	3,098,199
						Treasury stock	(21,895)	0	0	0	0
	5,787,925	5,896,182	6,110,926	6,294,500	6,282,419	Legal reserve	372,365	372,365	372,365	369,957	369,957
OTHER ASSETS, net	225,141	245,176	215,905	236,321	294,306	Retained earnings	247,868	175,984	94,367	(4,820)	39,857
						TOTAL SHAREHOLDERS' EQUITY	3,696,537	3,646,548	3,564,931	3,463,336	3,508,013
TOTAL ASSETS	7,350,914	7,413,268	7,526,251	7,861,602	8,047,411	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	7,350,914	7,413,268	7,526,251	7,861,602	8,047,411

(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

	3Q03	4Q03	1Q04	2Q04	3Q04	Abs. Var. 3Q04-3Q03	3Q04/ 3Q03
Fixed-Wire Telephone Service: Local+Long Distance							
Lines Installed	2,107,791	2,145,345	2,178,845	2,197,489	2,260,831	153,040	7.3
Profits (losses) in Lines in Service, net	46,152	49,052	33,536	42,988	46,990	838	1.8
Lines in Service Including Public Telephones (1)	1,915,191	1,963,554	1,998,141	2,043,885	2,095,838	180,647	9.4
Local Traffic - Minutes (000) (2)	1,482,289	1,446,274	1,395,796	1,341,295	1,302,021	(180,268)	(12.2)
Long Distance - Minutes (000) (3)	239,200	241,167	240,638	239,532	235,797	(3,403)	(1.4)
Number of Employees (Telefónica del Perú and Subsidiaries)	5,004	4,920	5,198	5,128	5,227	223	4.5
Number of Employees (Telefónica del Perú)	3,413	3,316	3,335	3,325	3,328	(85)	(2.5)
Lines in Service per Employee (Telefónica del Perú)	561	592	599	615	630	69	12.3
Digitalization Rate (%)	96	96	96	96	96	0	0.3
Lines in Service per 100 inhabitants	7.0	7.2	7.3	7.5	7.6	1	8.5
PUBLIC TELEPHONES							
Lines in Service (4)	116,159	115,614	116,694	119,448	124,499	8,340	7.2
BROADBAND							
Lines in services(5)	68,197	90,689	107,246	134,925	166,228	98,031	143.7
CABLE TV							
Subscribers	355,011	363,088	369,741	373,203	383,260	28,249	8.0

(1) Excluding Cellular Public Phones, Publifón and rurals

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

(3) Including prebill traffic FTF (voice and internet)

(3) Including Fixed and Cellular Public Phones, Fixed and cellular rurals public phones

(5) Including ADSL and Cablenet.