

# *Telefonica*

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

**April – June 2006**

## Significant Events

A summary containing the most significant events since April 2006 is presented below:

1. Boards of Directors' Meeting

Session of April 20, 2006

- Approved the individual and consolidated financial statements of the Company corresponding to the first quarter of 2006 and decided for their filing with the Comisión Nacional Supervisor de Empresas y Valores (CONASEV), the Lima Stock Exchange (BVL) and corresponding institutions of the stock market.

2. Deliberations of the General Shareholders' Meeting held on April 24:

- Approved the merger project of Telefónica Empresas Perú S.A.A. into Telefónica del Perú S.A.A., that will entail the extinguishing of the legal representation of the first one. It also approved the modification of articles 5 and 6 of the Company's bylaws.
- Approved the distribution and exchange of shares established in the Project. According to it, the shareholders of Telefónica Empresas will receive 2.32541920389 Class B shares of Telefónica del Perú by each share of Telefónica Empresas that they hold at the registry date.
- Approved the capital stock increase at Telefónica del Perú in the amount of S/. 930,270 that is, from S/. 1,704,508,380 to S/. 1,705,438,650

3. Boards of Directors' Meeting

Session of June 05, 2006

- Call for a General Shareholders' Meeting to be held on July 06, 2006, to discuss the capital stock increase due to the capitalization of the monetary correction accumulated as of December 31, 2004, in the amount of S/. 202,630,820.43; the board also granted powers to modify the first paragraph of article 5 of the Company's bylaws.
- As part of the capital stock reduction program approved by the General Shareholders' Meeting on its session held on March 24, 2006, it approved the reduction of the capital stock in the amount of S/. 594,758,268.01. This amount will be allocated to reimburse the shareholders' contributions pro-rata of their participations in the capital stock. Such capital reduction will take place through a decrease in the nominal value of the shares.

4. Boards of Directors' Meeting

Session of June 20, 2006

- Approved the amortization of 536,704 Class B shares of Telefónica del Perú S.A.A., which corresponded to the shareholders that exercised their right of withdrawal, according to law. As a consequence, it approved the reduction of the capital stock in S/. 536,704.00, that is from S/. 1,705,538,650.00 to S/. 1,704,901,946.00, as well as the modification of the first paragraph of article 5 of the Company's bylaws.

5. Deliberations of the General Shareholders' Meeting held on July 6:

- Approved the capitalization of results for inflation expose on December 31, 2006, by consequence, the capital stock increased in the amount of S/. 202 630 820.43 that is, from S/. 1 704 901 946.00 to S/. 1 907 532 766.43.
- Approved that such capital grow will take place through a increase in the nominal value of the shares, keeping the same number of shares and don't change the participation of the shareholders in the capital stock.

- Approved to grant powers to the Board of Directors of Telefónica del Perú to modify the first paragraph of article 5 of the Company's bylaws.

6. Appointments and resignations:

- On June 20, 2006, the resignation of Mr. Álvaro Badiola to the position of Vice-President of Management Control was accepted. Mr. Badiola was promoted by the Group to a position in Telefónica Internacional S.A. Mr. Juan Parra, a Chilean national, identified with passport # 7986115-4, was appointed as his replacement.

# TELEFÓNICA DEL PERÚ S.A.A. AND SUBSIDIARIES

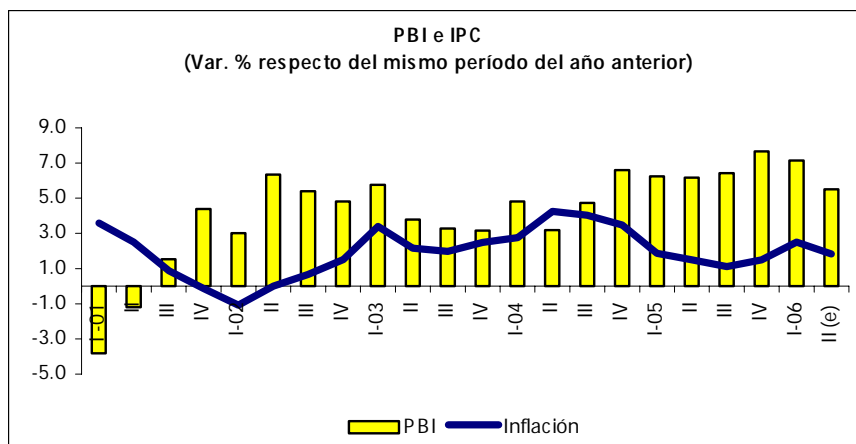
## Management discussion and analysis of the consolidated results for the second quarter ended on June 30, 2006

*It is recommended the reading of this report 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

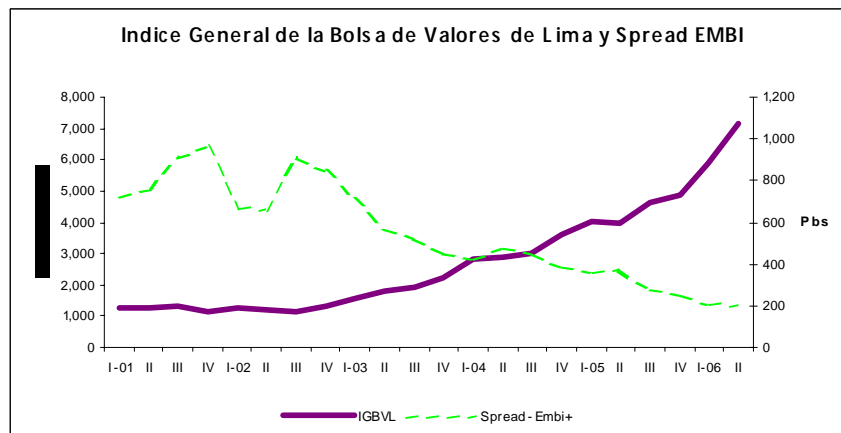
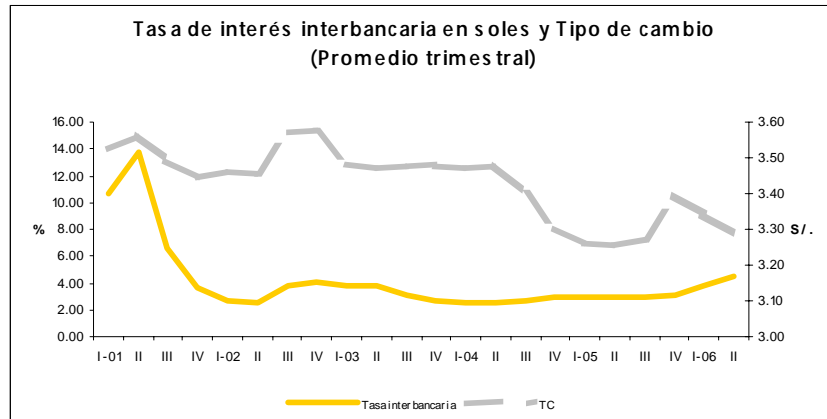
The Peruvian economy continues to show solid indicators in terms of Gross Domestic Product (GDP), inflation (Consumer Price Index) and external and fiscal accounts. Moreover, after the elections, the financial variables showed stability and even strength, particularly the foreign exchange rate and the stock market indexes.

In the 2Q06, it is estimated that the economy could have grown 5.5%. The Ministry of Economy and Finance (MEF) estimates a growth of 6%, while the International Monetary Fund estimates a growth of 5.5%, in line with estimate of the local analysts. Lately, the non-primary sectors, specially construction and services, are the ones that are growing the most. Regarding inflation, since the 1Q05, the inflation rate of the last 12 months fluctuates between 1.1% and 2.5%, which is the lower range of the annual target established by the Central Bank (BCR). There are no major risks for a substantial increase in the inflation rate, which led the BCR to maintain its reference interest rate in 4.5%.



Furthermore, the fiscal and external accounts continue to show strength. Tax collection due to the IGV (Peruvian Value Added Tax) and income tax keep growing at rates higher than 20%, which implies a fiscal deficit for the year lower than 1% of the GDP. On the other hand, the surplus of the commercial balance, fueled by the increase in the price of commodities, surpasses US\$ 6,000 million, close to US\$ 900 million higher than the one of 2005.

Furthermore, the Nuevo Sol continued to strengthen, a mid a lower political noise and a higher seasonal demand for the local currency, and despite the continuous and significant purchases of dollars by the BCR. Recently, the exchange rate dropped below S/. 3.24, the lowest level since January 1999. Additionally, share prices of the main companies in the Lima Stock Exchange, particularly the mining and banking sectors, continued to rise. Finally, the interest rates increased slightly, in line with the international rates, whereas the country risk – measured by the EMBI – fell after then second round of the elections, somehow isolated from the volatility within the region.



## Competitive Environment

During the first half of 2006, the competitive pressure in the different businesses in which the Company operates continued, mainly by the substitution effect from other technologies like mobile telephony. Furthermore, the presence of other companies in the market is increasing in the businesses of Local Telephony, Public Telephony and Long Distance. It is worth noting the impact caused by the strong increase of the number of subscribers in mobile telephony, which resulted in a decrease in traffic of fixed-to-fixed and fixed-to-mobile minutes. Moreover, the increasing proliferation of informal phone booths is significantly impacting the businesses of Public Telephony and Long Distance. Conversely, the main competitors in local telephony – Telmex and Americatel – continue with their strategy of mainly focusing on the corporate business sector.

On the other hand, the long distance business shows high competition with several players both in the direct dial-up as well as the sale of prepaid cards. The application by the Regulator of the tariff imputation proof (minimum prices in domestic long distance) did not allow Telefónica del Perú to match the lower prices of the competition, which resulted in a traffic drop and the consequent reduction in the market share. On the other hand and in the case of public telephony, the competition – mainly Telmex – had an important growth in its plant.

## Operating revenues<sup>1</sup>

The **operating revenues** in the 2Q06 totaled S/. 1,115 million, 11.4% above the ones registered in the 2Q05, mainly as a result of registering the revenues from Telefónica Empresas S.A.A. starting November 2005. If we excluded the effect of Telefónica Empresas the increase in revenues would be reduced to 6.9%

Therefore, higher revenues are recorded in the businesses of Data and Information Technology (270.1%), Internet (45.7%), Cable TV (21.5%), Local Telephony (2.9%) and Others (3.0%), which offset the drop in revenues registered in the businesses of Long Distance (6.5%) and Public and Rural Telephony (3.7%).

For 1H06 the operating revenues totaled S/. 2,238 million, which represents an increase of 8.9% compared to the 1H05, as a result of higher revenues mainly in the businesses of Data and Information Technology (243.9%), Internet (43.9%) and Cable TV (20.4%), which offset the lower revenues registered in the businesses of Local Telephony (1.9%), Long Distance (4.6%), Public and Rural Telephony (1.0%) and Others (0.2%). If we excluded the effect of Telefónica Empresas the increase in revenues would be reduced to 4.6%

Furthermore, it is worth noting that the Company has developed a vast organizational effort to increase market penetration through the offering of services, in order to accommodate the specific needs of each market segment, as well as customer loyalty campaigns, which resulted in a significant increase in the number of clients of the main services it offers (basic telephony lines, broadband and cable TV). Therefore, by the end of the 2Q06, the total number of accesses showed an important annual growth of 8.2% in fixed telephony lines, 40.9% in broadband accesses, 17.5% in cable TV subscribers and 7.4% in public and rural telephony lines.

Regarding the performance of the businesses, the revenues from **Local Telephony** reached S/. 407 million in the 2Q06, an increase of 2.9% compared to the 2Q05, mainly explained by the y-o-y growth of 8.2% in the plant in service that reached 2.3 million lines, which offset the negative impact of the application of the productivity factor and the drop in traffic. As well, the revenues for the 1H06 showed a decrease of 1.9% compared to the 1H05, reaching S/. 821 million, mainly due to the negative impact of the application of the productivity factor of 10.07% and the drop in traffic, which despite the continuous growth of the plant, is being affected by a shift to the prepaid lines and by mobile to mobile traffic substitution.

**Long Distance** revenues fell 6.5% in the 2Q06 compared to the 2Q05, totaling S/. 123 million. The drop in revenues from DLD (9.9%), as a result of lower traffic from public telephones (coins and cards), were not offset by the higher revenues from ILD (1.8%), the latter as a result of the higher revenues from Incoming ILD, as well as revenues for outgoing ILD calls coming from mobile operators. The long distance market continues under pressure by a highly competitive environment, mainly in the prepaid card segment and public telephony from an informal nature, rendered through informal phone booths. Additionally, regulatory measures like the tariff imputation proof in DLD established by Osiptel have lowered volume traffic. Revenues in the 1H06 totaled S/. 255 million, 4.6% lower than in the 1H05, due to lower revenues in DLD in 9.0%. Such effect was partially offset by higher revenues in ILD in 6.9%, resulting from higher incoming traffic.

The revenues from **Public and Rural Telephony** reached S/. 190 million in the 2Q06, representing a 3.7% decrease when compared to 2Q05, while in the 1H06 reached S/. 403 million, 1.0% down from the ones of 1H05. The decrease is mainly due to the substitution effect from the mobile telephony and the competitive environment. This decrease took place despite the 7.4% y-o-y growth of the plant in service, as well as the 3.7% increase in the revenues of rural telephony, the latter as a result of the qualification of Telefónica as a Rural Operator.

**Cable Television** revenues reached S/. 86 million in the 2Q06, which represents a 21.5% increase compared to the 2Q05. Furthermore, the 1H06 showed a 20.4% growth compared to the 1H05, reaching S/. 171 million. This growth is explained by the y-o-y increase of 17.5% in the number of subscribers, reaching 490 thousand

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<sup>1</sup> On October 21, 2005, Telefónica del Perú S.A.A. acquired 97.86% of the capital stock of Telefónica Empresas S.A.A. The merger is effective from May on, as approved by the General Shareholders' Meeting held on April 24, 2006.

by the end of June 2006, as a result of the continuous commercial effort carried out to gain new clients, as well as the execution of a permanent program against illegal installations.

The revenues for **Internet** reached S/. 132 million in the 2Q06, an increase of 45.7% compared to the 2Q05. The increase is chiefly explained by the growth of the broadband plant in 40.9%, reaching 389 thousand lines in service through permanent commercial actions aimed to provide the customers with greater benefits. Also, the revenues for the 1H06 reached S/. 254 million, 43.9% higher than in the 1H05.

The revenues for **Data and Information Technology** reached S/. 81 million in the 2Q06, 270.1% higher than in the 2Q05, and S/. 153 million in the 1H06, 243.9% higher than in the 1H05. This increase is mainly explained by the additional recording of the revenues for these services, after the merger of Telefónica Empresas into the Consolidated Group of Telefónica del Perú.

## Operating expenses

The operating expenses in the 2Q06 totaled S/. 894 million, which represents an increase of 4.4% compared to the S/. 857 million registered in the 2Q05. This is chiefly explained by the merger of Telefónica Empresas and the costs associated with the plant expansion. Higher expenses were recorded for: general and administrative expenses in S/. 33 million, personnel expenses in S/. 18 million – due to a higher average headcount in 21.6%-, and materials and supplies in S/. 11 million. These increases were partially offset by the lower expenses recorded for: depreciation and amortization in S/. 16 million, provisions in S/. 11 million, and the lower interconnection expenses in S/. 7 million.

For 1H06 the operating expenses totaled S/. 1,809 million, which represent an increase of 5.6% compared to the 1H05, mainly as a result of higher general and administrative expenses of S/. 37 million, personnel expenses of S/. 36 million, depreciation and amortization expenses of S/. 31 million, materials and supplies expenses of S/. 19 million and management fee expenses of S/. 9 million, which offset the lower expenses in interconnection for S/. 29 million, and the lower expenses recorded for bad debt provisions of S/. 14 million, for the same reasons explained in the previous paragraph.

## Operating Result

The operating result for the 2Q06 increased 53.3% compared to the 2Q05, from S/. 144 million to S/. 220 million. Excluding the effect of Telefónica Empresas, the operating result increased 46%.

Likewise, in the 1H06 the operating result increased S/. 86 million compared to the 1H05, as a result of the higher revenues recorded in the businesses of Data and Information Technology and Internet, which compensated the higher operating expenses. Excluding the effect of Telefónica Empresas the operating result increased S/. 60 million.

## Non-operating Result

In the 2Q06, the non-operating result went from a loss of S/. 60 million in the 2Q05 to a loss of S/. 76 million in the 2Q06, reflecting a loss of S/. 15 million in foreign exchange in the 2Q06 compared to 2Q05, due to the impact of the generation of de new sol over the year in the net monetary position. Likewise, the net financial expenses show an increase of S/. 10 million as a result of the higher debt level, while other net revenues/expenses decreased S/. 8 million, mainly as a result of the lower registry of contingencies.

In the 1H06, the non-operating result improved S/. 16 million compared to the 1H05, chiefly as a consequence of a significant reduction of S/. 60 million in other net revenues/expenses (essentially by lower adjustments for contingencies), which offset the higher net financial expenses that rose S/. 26 million, as in the quarter. This was the result of the higher debt level and an increased loss of S/. 19 million in foreign exchange when compared to the 1H05, due to the same reasons stated in the previous paragraph.

## **Net result**

The net result reached S/. 75 million in the 2Q06, compared to the S/. 47 million in the 2Q05. An increase of 121.1% is recorded, from S/. 67 million in the 1H05 to S/. 147 million in the 1H06. This increase is mainly explained by the better operating result, product of the merger of Telefónica Empresas, as well as the better non-operating result.

## **Consolidated Balance Sheet**

The liquidity levels of the Company – measured by the current assets over current liabilities ratio – reached 0.66 in the 2Q06, slightly higher than the 0.64 recorded in the 1Q06, mainly as a consequence of the higher cash levels. Regarding the capacity for debt payment, the financial coverage ratio (debt – cash and cash equivalents / operating result + depreciation and amortization) slightly decreased from 0.95 in the 1Q06 to 0.93 in the 2Q06. Furthermore, the investments executed for the extension of the services reached S/. 184.3 million in the 2Q06.



**TABLE 1**  
**TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES<sup>1/</sup>**  
**CONSOLIDATED INCOME STATEMENT (S/. 000)**  
(Prepared In Accordance With Peruvian GAAP)

	2Q05		2Q06		Var. Abs.	Var. %	6M05		6M06		Abs.Var.	Var. %
					2Q06-2Q05	2Q06-2Q05					6M06-6M05	6M06-6M05
		%		%		%		%		%		%
<b>Total Operating Revenues</b>	1 000 683	<b>100,0</b>	1 114 789	<b>100,0</b>	114 106	<b>11,4</b>	2 055 602	<b>100,0</b>	2 237 876	<b>100,0</b>	182 274	<b>8,9</b>
Local Telephone Service	395 275	<b>39,5</b>	406 542	<b>36,5</b>	11 267	<b>2,9</b>	836 789	<b>40,7</b>	820 906	<b>36,7</b>	(15 883)	<b>(1,9)</b>
Long Distance	131 922	<b>13,2</b>	123 299	<b>11,1</b>	(8 623)	<b>(6,5)</b>	267 354	<b>13,0</b>	254 985	<b>11,4</b>	(12 369)	<b>(4,6)</b>
Public Telephones	197 810	<b>19,8</b>	190 420	<b>17,1</b>	(7 390)	<b>(3,7)</b>	407 105	<b>19,8</b>	403 146	<b>18,0</b>	(3 959)	<b>(1,0)</b>
Cable TV	70 824	<b>7,1</b>	86 064	<b>7,7</b>	15 240	<b>21,5</b>	141 857	<b>6,9</b>	170 806	<b>7,6</b>	28 949	<b>20,4</b>
Data & Information Technology	22 017	<b>2,2</b>	81 480	<b>7,3</b>	59 463	<b>270,1</b>	44 381	<b>2,2</b>	152 627	<b>6,8</b>	108 246	<b>243,9</b>
Internet	90 470	<b>9,0</b>	131 849	<b>11,8</b>	41 379	<b>45,7</b>	176 717	<b>8,6</b>	254 285	<b>11,4</b>	77 568	<b>43,9</b>
Other	92 365	<b>9,2</b>	95 135	<b>8,5</b>	2 770	<b>3,0</b>	181 399	<b>8,8</b>	181 121	<b>8,1</b>	(278)	<b>(0,2)</b>
<b>Total Operating Costs &amp; Expenses</b>	856 991	<b>85,6</b>	894 496	<b>80,2</b>	37 505	<b>4,4</b>	1 713 279	<b>83,3</b>	1 809 111	<b>80,8</b>	95 832	<b>5,6</b>
Interconnection Expenses	161 443	<b>16,1</b>	154 943	<b>13,9</b>	(6 500)	<b>(4,0)</b>	331 521	<b>16,1</b>	302 596	<b>13,5</b>	(28 925)	<b>(8,7)</b>
Personnel	96 269	<b>9,6</b>	114 677	<b>10,3</b>	18 408	<b>19,1</b>	190 072	<b>9,2</b>	225 930	<b>10,1</b>	35 858	<b>18,9</b>
General and Administrative	260 040	<b>26,0</b>	292 926	<b>26,3</b>	32 886	<b>12,6</b>	537 233	<b>26,1</b>	574 427	<b>25,7</b>	37 194	<b>6,9</b>
Depreciation and Amortization	294 901	<b>29,5</b>	278 803	<b>25,0</b>	(16 098)	<b>(5,5)</b>	575 381	<b>28,0</b>	606 033	<b>27,1</b>	30 652	<b>5,3</b>
Management Fee	9 887	<b>1,0</b>	14 403	<b>1,3</b>	4 516	<b>45,7</b>	20 302	<b>1,0</b>	29 250	<b>1,3</b>	8 948	<b>44,1</b>
Materials and Supplies	18 746	<b>1,9</b>	29 622	<b>2,7</b>	10 876	<b>58,0</b>	34 891	<b>1,7</b>	54 102	<b>2,4</b>	19 211	<b>55,1</b>
Provisions	24 627	<b>2,5</b>	13 552	<b>1,2</b>	(11 075)	<b>(45,0)</b>	41 899	<b>2,0</b>	28 136	<b>1,3</b>	(13 763)	<b>(32,8)</b>
Own Work Capitalized	(8 922)	<b>(0,9)</b>	(4 430)	<b>(0,4)</b>	4 492	<b>(50,3)</b>	(18 020)	<b>(0,9)</b>	(11 363)	<b>(0,5)</b>	6 657	<b>(36,9)</b>
<b>Operating Income</b>	143 692	<b>14,4</b>	220 293	<b>19,8</b>	76 601	<b>53,3</b>	342 323	<b>16,7</b>	428 765	<b>19,2</b>	86 442	<b>25,3</b>
<b>Other Income (Expenses)</b>			-									
Interest Income	5 156	<b>0,5</b>	8 363	<b>0,8</b>	3 207	<b>62,2</b>	8 313	<b>0,4</b>	14 763	<b>0,7</b>	6 450	<b>77,6</b>
Interest Expenses	(35 123)	<b>(3,5)</b>	(47 874)	<b>(4,3)</b>	(12 751)	<b>36,3</b>	(63 715)	<b>(3,1)</b>	(96 651)	<b>(4,3)</b>	(32 936)	<b>51,7</b>
Others Net	(29 760)	<b>(3,0)</b>	(21 319)	<b>(1,9)</b>	8 441	<b>(28,4)</b>	(95 801)	<b>(4,7)</b>	(35 208)	<b>(1,6)</b>	60 593	<b>(63,2)</b>
Net Currency Exchange (Loss) 2/.	108	<b>0,0</b>	(14 991)	<b>(1,3)</b>	(15 099)	<b>(13 980,6)</b>	(1 729)	<b>(0,1)</b>	(20 280)	<b>(0,9)</b>	(18 551)	<b>1 072,9</b>
<b>Non Operating Income</b>	(59 619)	<b>(6,0)</b>	(75 821)	<b>(6,8)</b>	(16 202)	<b>27,2</b>	(152 932)	<b>(7,4)</b>	(137 376)	<b>(6,1)</b>	15 556	<b>(10,2)</b>
<b>Income Before Taxes and Participation</b>	84 073	<b>8,4</b>	144 472	<b>13,0</b>	60 399	<b>71,8</b>	189 391	<b>9,2</b>	291 389	<b>13,0</b>	101 998	<b>53,9</b>
Worker's Participation	(10 713)	<b>(1,1)</b>	(18 295)	<b>(1,6)</b>	(7 582)	<b>70,8</b>	(32 654)	<b>(1,6)</b>	(38 192)	<b>(1,7)</b>	(5 538)	<b>17,0</b>
Income Tax	(26 381)	<b>(2,6)</b>	(51 007)	<b>(4,6)</b>	(24 626)	<b>93,3</b>	(90 101)	<b>(4,4)</b>	(105 837)	<b>(4,7)</b>	(15 736)	<b>17,5</b>
<b>Net Income</b>	46 979	<b>4,7</b>	75 170	<b>6,7</b>	28 191	<b>60,0</b>	66 636	<b>3,2</b>	147 360	<b>6,6</b>	80 724	<b>121,1</b>

1/ Starting November 2005 the financial statements of Telefonica del Perú S.A.A. And Subsidiaries include the results of Telefónica Empresas S.A.A.

2/ Starting January 1, 2005 and in accordance with the Consejo Normativo de Contabilidad by-law N°031-2004, the financial statements will not be adjusted for inflation for accounting matters.

**TABLE 2**  
**TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES <sup>1/</sup>**  
**CONSOLIDATED BALANCE SHEET (\$/. 000) <sup>2/</sup>**

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY				
	2Q06	1Q06	4Q05	3Q05	2Q05	2Q06	1Q06	4Q05	3Q05	2Q05
CURRENT ASSETS						CURRENT LIABILITIES				
Cash and Banks	732 870	463 660	634 189	331 241	768 061	Overdrafts	5 658	8 670	5 531	4 759
Negotiable securities	10 984	48 170	38 327	52 315	41 823	Accounts payable	488 406	449 169	512 924	421 070
Accounts receivable - net	670 744	651 315	698 615	585 709	591 746	Other accounts payable	751 773	802 696	1 087 407	1 112 183
Other accounts receivable	85 366	128 212	107 202	93 975	91 969	Provision for severance indemnities	5 580	12 305	5 132	9 749
Materials and supplies	38 479	41 667	39 583	41 828	39 280	Bank Loans <sup>3/</sup>	242 617	238 353	241 775	225 625
Prepaid taxes and expenses and others	53 172	37 272	45 068	53 244	56 542	Current portion of long-term debt	407 290	123 719	44 983	49 623
						Current portion of bonds	521 808	492 479	392 628	278 100
						Commercial Papers	-	25 000	126 900	282 900
Total Current Assets	1 591 615	1 370 296	1 562 984	1 158 312	1 589 421	Total Current Liabilities	2 423 132	2 152 391	2 384 009	2 228 276
LONG-TERM INVESTMENTS	10 188	11 907	10 703	11 678	10 755	LONG-TERM DEBT <sup>3/</sup>	359 689	542 314	637 535	636 661
DEFERRED CHARGES	32 678	33 438	10 487	8 266	8 699	BONDS	1 064 817	1 111 200	1 193 707	710 849
PROPERTY, PLANT AND EQUIPMENT	16 127 608	16 025 628	15 995 439	15 790 375	15 642 038	GUARANTY DEPOSITS	65 269	76 218	83 308	106 929
Accumulated Depreciation	(11 234 004)	(10 975 249)	(10 675 496)	(10 372 035)	(10 109 099)	DEFERRED TAXES	539 373	593 804	667 357	785 815
	4 893 604	5 050 379	5 319 943	5 418 340	5 532 939	SHAREHOLDERS' EQUITY				
Write-Off Provision	(18 363)	(18 363)	(30 777)	(83 085)	(88 510)	Capital stock	1 908 681	1 907 139	1 924 595	1 924 595
						Treasury Shares			(21 896)	(21 896)
	4 875 241	5 032 016	5 289 166	5 335 255	5 444 429	Legal reserve	58 603	58 603	33 275	33 275
Other Assets, Net	296 609	306 217	328 891	213 974	209 744	Retained earnings	390 120	315 518	273 096	167 248
						Other reserves	(3 353)	(3 313)	-6 026	
TOTAL ASSETS	6 806 331	6 753 874	7 202 231	6 727 485	7 263 048	TOTAL SHAREHOLDERS' EQUITY	2 354 051	2 277 947	2 203 044	2 103 222
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6 806 331	6 753 874	7 202 231	6 727 485

1/ Starting November 2005 the financial statements of Telefonica del Perú S.A.A. And Subsidiaries include the results of Telefónica Empresas S.A.A.

2/ Starting January 1, 2005 and in accordance with the Consejo Normativo de Contabilidad by-law N°031-2004, the financial statements will not be adjusted for inflation for accounting matters.

3/ Include the passive position of financial derivatives instruments.

**TABLE 3**  
**TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES**  
**Data for each period**

	2Q05	3Q05	4Q05	1Q06	2Q06	Abs.Var. 2Q06 - 2Q05	2Q06/ 2Q05
<b>TELEFONÍA BÁSICA</b>							
<b>Fixed-Wire Telephone Service: Local+Long Distance</b>							
Lines Installed	2 396 113	2 455 347	2 509 789	2 538 949	2 580 737	184 624	7,7
Net gains (loss) of lines in service	46 115	49 558	46 470	37 746	40 690	(5 425)	(11,8)
Lines in Service, including public phones (1)	2 250 663	2 302 585	2 348 139	2 388 836	2 434 290	183 627	8,2
Local Traffic - Minutes (000) (2)	1 247 663	1 236 312	1 205 026	1 216 188	1 176 153	(71 509)	(5,7)
Long Distance - Minutes (000) (3)	286 576	294 434	329 467	319 281	306 661	20 085	7,0
Number of Employees (Telefónica del Perú and Subsidiaries) (4)	5 280	5 371	6 163	6 504	6 340	1 060	20,1
Number of Employees (Telefónica del Perú)	3 170	3 196	3 449	3 452	3 917	747	23,6
Lines in Service per Employee (Telefónica del Perú) (5)	710	720	681	692	621	(88,5)	(12,5)
Digitalization Rate (%)	96,7	96,7	96,8	96,8	97,2	0,5	0,5
Lines in Service per 100 inhabitants	8,1	8,3	8,4	8,5	8,7	0,6	7,4
<b>PUBLIC TELEPHONES</b>							
Lines in Service (6)	134 423	137 226	136 486	139 499	144 339	9 916	7,4
<b>INTERNET</b>							
Subscribers (7)	276 151	310 470	340 436	359 672	389 119	112 968	40,9
<b>CABLE TV</b>							
Subscribers	417 535	437 172	462 211	474 710	490 442	72 907	17,5

(1) Excluding Cellular Public Phones and rurals

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

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

(4) Includes personnel of Telefonica Empresas starting November 2005

(5) Since November 2005, includes personnel of Telefonica Empresas.

(6) Includes Public Telephone, Cellular and Rural Telephones.

(7) Includes Speedy Traditional , Speedy Business, GIGA ADSL , Cablenet, and starting 2006 includes accesses to Optic Fiber .