

*Telefonica*

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

**January – March 2008**

## Significant Events 2008

A summary containing the most significant events from January 1st to March 31st, 2008 is presented below:

1. On February 13th, 2008, the Board of Directors:
  - Approved the preliminary individual and consolidated 2007 financial statements and the related to the fourth quarter 2007.
  - Delegated power on the company's management to set a date for the Annual Shareholders' Meeting, to establish the corresponding agenda, formulate proposals and, in general, take the necessary measures aiming to proceed normally in its development.
  - Authorized the allocation of funds in the form of deposit accounts, loans, lines of credit or investments in financial institutions, Telefonica S.A. or any of its subsidiaries, Peruvian or US Treasury bonds.
  
2. On March 25th, 2008, the Annual Shareholders' Meeting took the following resolutions:
  - Approved the individual and consolidated audited financial statements for the fiscal year 2007.
  - Delegated power to the Board of Directors to designate the external auditors for the fiscal year 2008.
  - Agreed to maintain the Directors' remuneration for the current year in line with the amounts set in the Annual Shareholder's meeting celebrated on March 9<sup>th</sup>, 1998.
  - Modified the Issuance of Obligations Agreement, to allow the Company, until March 25th, 2011, to issue (i) Bonds, being Registered or Bearer, with an specific Guarantee or without it, even for a total of USD 1 200 million in circulation, distributed in several trenches through programs to be executed during the above mentioned period expressed in national or foreign currency, to be offered on the national and international market; as well as (ii) short term instruments, being Registered or Bearer, with specific guarantee or without it, even for a total of US \$ 400 million in circulation, distributed in several trenches through the programs to be executed during the above mentioned period, expressed in national or foreign currency, to be offered in the national or international market. The Share holders' meeting determined that the principal of the issuance of these securities shall not exceed the amount of US \$ 1 500 million or its equivalent in national currency.
  - Authorized the acquisition of shares of own issuance.

## Telefónica del Perú S.A.A. and Subsidiaries

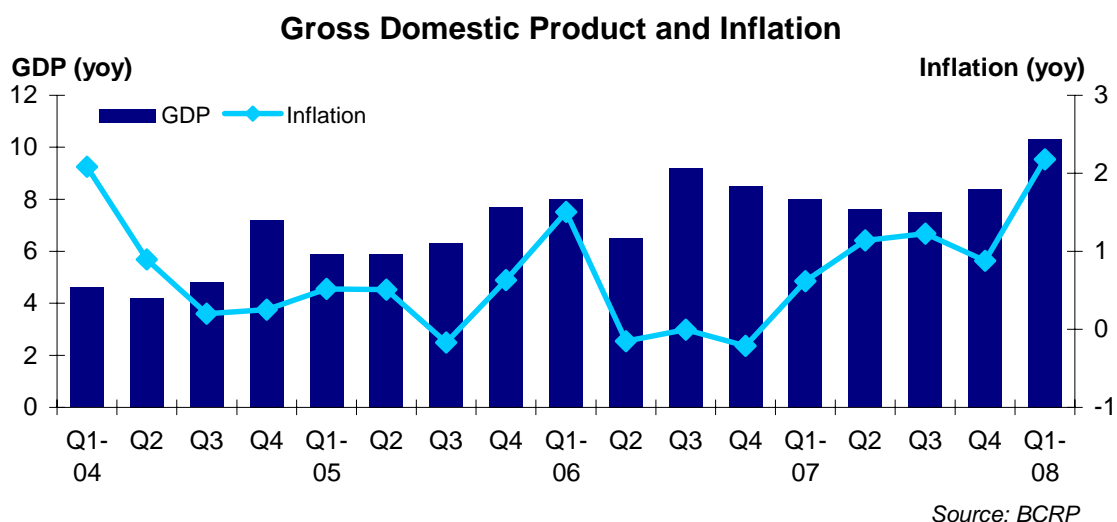
### Discussion and Analysis of the first Quarter results ended on March 31, 2008

*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

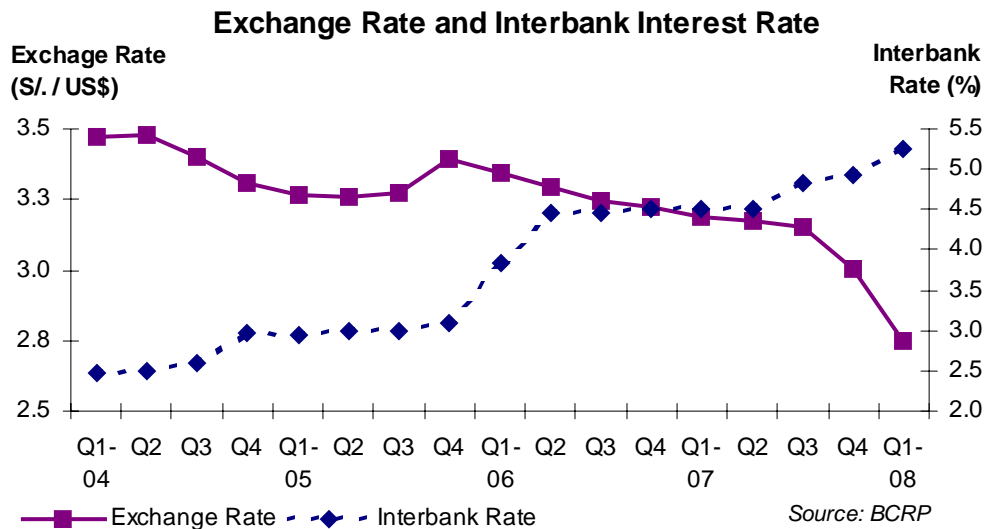
The economic dynamism observed during the last two quarters of the last year continued during the first quarter 2008. According to the last official estimates, the Gross Domestic Product (GDP) would have risen by 10,3% over the first quarter 2007. The sectors that lead the growth were: commerce, construction and non-primary manufacture. It is important to highlight internal demand, specially the increase of consumption, due to the increase of consumer trust, employment generation and the growing dynamism of consumption credits.

Regarding inflation, the Consumer Price Index recorded strong increases during the first three months of the year, fundamentally due to the higher international prices of soft commodities and a lower supply of agricultural products as a result of weather factors. Consequently, March inflation was 1,04% over the previous month, accumulating a variation of 2,18% in the first quarter, and 5,55% in the last twelve months (April 2007-March 2008)



In the Foreign exchange market, first quarter, 2008, the new sol was strongly re-valued, presented strong pressures to appreciate the New Sol, due to the solid macroeconomic foundations of Peru and a higher differential between the Federal Reserve reference interest rate and the Peruvian Central Bank reference interest rate. The Exchange rate for first quarter was S/2,749 per US dollar, that represented an appreciation of 9,07% compared to December 2007 (S/ 2,998). In this context, the Peruvian Central Bank purchased USD 7 409 millions over the first three months of the year, so that the Net International Reserves (RIN) increased to USD 33 576 million, 21% over the one registered in the previous year.

Regarding the financial sector, given the persistence of the markets volatility, as a result of the US financial crisis, the Lima Stock Exchange General Index presented a fall of 0,78% in the first quarter, 2008. The interbank interest rate was 5,25% by the end of the first quarter. Finally, since January 2008, the Peruvian Central Bank increased gradually the minimum reserve requirements and marginal reserve requirements, in national and foreign currency, that pressed on interest rates of both currencies.



## Competitive Environment

Telefónica del Perú has started 2008 by launching its “Duos” and “Trios” promotions, that include Telephony, Broadband, Subscription TV and most recently its flat fee service on telephony.

In the long distance market, Telmex has launched its plans “Control” and “Multidiscado 1909”, both without hourly restrictions. Telefonica’s response has consisted of the implementation of tariffs per second for its “Hola Perú” card and tariff reductions for long distance nacional calls originated in public telephones and finished in a mobile phone.

One of the operators in the long distance market is Perusat, which, since March, has implemented its IP voice technology in the fixed telephony market.

Telmex has been working to improve its infrastructure in different districts, to offer the “triple play” service that has been announced in the last months. To move forward its strategy, Telefonica has increased “Trio” options at lower prices.

In the broadband market, Telefonica has broadened its coverage in three departments: Ancash, Ica and Junín, as well as having reduced “Giga ADSL” tariff.

## Operating Results

### Operating Revenues

Operating Revenues for 1Q08 reached S/. 1 035 million, a 7,1% decrease over 1Q07. This result is mainly due to lower revenues in Public and Rural Telephony (-40,8%), Local Telephony (-7,2%), Long Distance Telephony (-19%) and others (-3,7%), which could not be offset by the increase in Internet revenues (24,1%), Subscription TV (13%) and Data and Information Technology (3%).

The company continues to develop its commercial strategy based on market penetration through the offer of services to attend each market segment, focusing its efforts in promotional campaigns – commercialization of Telefonica “Trio”-. Thus, in the end of 1Q08, the total number of accesses in service shows an annual growth for the last twelve months of (i) 19,4% in Broadband, fundamentally for the strong growth in Speedy clients -new ladder of speeds-. (ii) 12,9% in Subscription TV with the incorporation of satellite technology for those clients who live in remote places, and (iii) 6,6% in Public and Rural Telephony, in spite of a more competitive environment and the substitution of its service for the mobile telephony.

As for the performance of the businesses, **Local Telephony** revenues for 1Q08 decreased 7,2% over 1Q07, reaching S/.369 million. This reduction can be chiefly explained by the 7,1% lower of monthly fee due to a fall of 8% in average tariff – caused by implementation of the productivity factor and the execution of agreements established with the Government. There was a 22% reduction in the invoiced traffic due to the new lines per second, a reduction of invoiced Fixed-mobile traffic of 10,8% as a result of mobile substitution and a reduction of Pre-paid cards by 33,1%.

Regarding plant in service, it dropped 0,5% compared to the previous year, reaching 2 377 million accesses in 1Q08.

**Long Distance** revenues in the 1Q08 totaled S/. 79 millions, a 19,0% reduction over 1Q07. The decrease in National long distance (-25,6%) and international long distance (-10,3%) are mainly explained by the pre-selection effect.

On the other hand, **Public and Rural Telephony** revenues in the 1Q08, reached S/.117 million, 40,8% lower than those recorded in the 1Q07. The reduction is mainly due to the substitution effect of the mobile telephony and the more competitive environment. This decrease occurs despite the 6,6% y-o-y climb of the plant in service, reaching 154 357 lines by 1Q08.

Regarding **Subscription TV** business, revenues totaled S/.112 million in the 1Q08, a 13% y-o-y increase. Meanwhile, accesses are 633 thousand by 1Q08, growing 12,9%, as a result of the increase in DTH plant for new commercial models, despite new policies in the Billing and Collection Direction set at the beginning of 2008 to reduce the plant.

**Internet** revenues totaled S/.192 millions in 1Q08, a 24,1% increase over 1Q07. This increase is chiefly explained by a 19,4% growth in broadband plant that reaches 594 thousand accesses. It is worth to mention that the plant growth has been supported by several promotional campaigns that the company has developed in the first quarter, highlighting the commercialization of “trio” Telefonica since August 2007, and the launch of the new ladder of speeds since November 2007.

Revenues from **Data and Information Technology** reached S/.70 million in the 1Q08, 3,0% over the 1Q07. These results are chiefly explained by the execution of important projects in Managed Telephony, Selling of Central Stations and Information technology projects. .

### Operating Expenses

Operating expenses in 1Q08 decreased 1,0%, reaching S/.925 million, which represents a drop of S/.9 million, fundamentally due to a decrease in interconnection and carrier settlements expenses for S/.38 million and depreciation and amortization expenses for S/.15 million. These expense reductions were partially offset by the increase of S/.27 million of provisions, S/.17 million of

personnel expenses – due to the increase of the average personnel in 3,1%-, S/.9 million of administrative and general expenses and S/.3 million of supplies expenses.

### **Operating Result**

Operating result in 1Q08 reached S/.110 million, which represents a reduction of S/.70 million compared to 1Q07, mainly, due to lower total revenues of S/.79 million.

### **Non operating Result**

The Non operating loss increased in S/.26 million, from S/.40 million in 1Q07 to S/.65 million in 1Q08. This evolution is explained fundamentally by an increase of S/.24 millions in net financial expenses, due to the increase in debt, the negative impact of the exchange rate that reached S/.16 millions in 1Q08 compared to S/.5 negative million in 1Q07 and the higher participation in net results of related parts of S/.9 millions.

### **Net Result**

The net result reached S/.22 million in 1Q08, compared to S/.81 million in 1Q07. Such drop is explained as a result of a lower operating result and a higher loss in non-operating result.

### **Consolidated Balance Sheet**

The current assets reached S/.1 320 million at the end of 1Q08, which represented a decrease of S/.84 million compared to 4Q07. In addition the current liabilities decreased in S/.409 million, due to the decrease of accounts payable. Consequently, at the end of 1Q08, the current liquidity ratio was 0,58, slightly higher than that observed in 4Q07 (0,52) ,

On the other hand, Net fixed asset was S/. 3 929 million, a decrease of S/.161 million compared to 4Q07.

Furthermore, total debt increased to S/.3,745 million, compared to the previous quarter. Finally, Shareholders' Equity increased S/.18 million compared to 4Q07, reaching S/.3 005 million in 1Q08.

**CHART 1**  
**TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENTS IN NUEVOS SOLES (000) AS OF MARCH 31th, 2008**  
**( Prepared in Accordance with Peruvian GAAP)**

	1Q07		1Q08		Abs. Var. 1Q08-1Q07	Var. % 1Q08-1Q07
		%		%		%
<b>Total Operating Revenues</b>	1,114,445	<b>100.0</b>	1,035,029	<b>100.0</b>	(79,416)	<b>(7.1)</b>
Local Telephone service	397,789	<b>35.7</b>	368,968	<b>35.6</b>	(28,821)	<b>(7.2)</b>
Public Telephones	197,329	<b>17.7</b>	116,864	<b>11.3</b>	(80,465)	<b>(40.8)</b>
Internet	154,392	<b>13.9</b>	191,629	<b>18.5</b>	37,237	<b>24.1</b>
Subscription TV	99,106	<b>8.9</b>	111,998	<b>10.8</b>	12,892	<b>13.0</b>
Long Distance	97,823	<b>8.8</b>	79,220	<b>7.7</b>	(18,603)	<b>(19.0)</b>
Business Communications	68,444	<b>6.1</b>	70,490	<b>6.8</b>	2,046	<b>3.0</b>
Others	99,562	<b>8.9</b>	95,860	<b>9.3</b>	(3,702)	<b>(3.7)</b>
<b>Total Operating Cost and Expenses</b>	934,034	<b>83.8</b>	924,692	<b>89.3</b>	(9,342)	<b>(1.0)</b>
Interconnection Expenses	169,302	<b>15.2</b>	131,633	<b>12.7</b>	(37,669)	<b>(22.2)</b>
Personnel	108,212	<b>9.7</b>	125,651	<b>12.1</b>	17,439	<b>16.1</b>
General and Administrative	293,636	<b>26.3</b>	302,610	<b>29.2</b>	8,974	<b>3.1</b>
Depreciation and Amortization	286,845	<b>25.7</b>	272,040	<b>26.3</b>	(14,805)	<b>(5.2)</b>
Management Fee	13,154	<b>1.2</b>	-	<b>-</b>	(13,154)	<b>(100.0)</b>
Materials and Supplies	23,288	<b>2.1</b>	26,277	<b>2.5</b>	2,989	<b>12.8</b>
Provisions	13,212	<b>1.2</b>	39,836	<b>3.8</b>	26,624	<b>201.5</b>
Others Net	26,385	<b>2.4</b>	26,645	<b>2.6</b>	260	<b>1.0</b>
<b>Operating Income</b>	180,411	<b>16.2</b>	110,337	<b>10.7</b>	(70,074)	<b>(38.8)</b>
<b>Operating income before other revenues and expenses net</b>	206,796	<b>18.6</b>	136,982	<b>13.2</b>	(69,814)	<b>(33.8)</b>
Interest Income	8,815	<b>0.8</b>	4,639	<b>0.4</b>	(4,176)	<b>(47.4)</b>
Interest Expenses	(45,059)	<b>(4.0)</b>	(64,554)	<b>(6.2)</b>	(19,495)	<b>43.3</b>
Exchange Gain (Loss)	(4,934)	<b>(0.4)</b>	(15,502)	<b>(1.5)</b>	(10,568)	<b>214.2</b>
Participation of affiliates results	1,653	<b>0.1</b>	10,307	<b>1.0</b>	8,654	<b>523.5</b>
<b>Non Operating Results</b>	(39,525)	<b>(3.5)</b>	(65,110)	<b>(6.3)</b>	(25,585)	<b>64.7</b>
<b>Income before Taxes and Participations</b>	140,886	<b>12.6</b>	45,227	<b>4.4</b>	(95,659)	<b>(67.9)</b>
<b>Worker's Participation</b>	(16,060)	<b>(1.4)</b>	(6,636)	<b>(0.6)</b>	9,424	<b>(58.7)</b>
<b>Income tax</b>	(43,781)	<b>(3.9)</b>	(16,865)	<b>(1.6)</b>	26,916	<b>(61.5)</b>
<b>Net Income</b>	81,045	<b>7.3</b>	21,726	<b>2.1</b>	(59,319)	<b>(73.2)</b>

**CHART 2**  
**TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET IN NUEVOS SOLES (000) AS OF MARCH 31th, 2008**  
**( Prepared in Accordance with Peruvian GAAP)**

ASSETS						LIABILITIES AND SHAREHOLDERS' EQUITY				
	1Q08	4Q07	3Q07	2Q07	1Q07	1Q08	4Q07	3Q07	2Q07	1Q07
CURRENT ASSETS						CURRENT LIABILITIES				
Cash and Banks	222,462	392,026	579,242	420,408	190,406	Overdrafts	5,345	10,619	22,331	12,190
Accounts receivable-Net	784,711	823,149	912,209	807,370	694,816	Accounts payable	503,572	630,491	586,323	603,292
Affiliated company loans	-	-	339,350	348,370	350,020	Accounts payable - Affiliated company	35,753	39,677	23,622	24,644
Accounts receivable - Affiliated company	-	-	-	-	-	Other Accounts payable	758,965	1,129,398	684,769	672,634
Other Accounts receivable	21,119	22,556	19,018	24,877	21,702	Bank Loans <sup>1/</sup>	337,763	436,059	173,049	176,854
Materials and Supplies	97,422	84,206	74,698	46,902	46,348	Commercial Papers <sup>1/</sup>	169,374	128,858	126,701	68,992
Prepaid taxes and expenses and others	194,735	82,867	80,141	83,643	107,017	Current portion of Bonds <sup>1/</sup>	260,151	112,950	128,392	122,078
						Current portion of Long-term Debt <sup>1/</sup>	216,799	208,753	286,633	261,287
Total Current Assets	1,320,449	1,404,804	2,004,658	1,731,570	1,410,309	Total Current Liabilities	2,287,722	2,696,805	2,031,820	1,941,971
Other Accounts Receivable- Long term	2,723	1,506	-	-	-	BONDS <sup>1/</sup>	1,852,308	1,891,653	1,574,246	1,576,645
LONG-TERM INVESTMENTS	1,528,139	1,517,506	18,161	15,738	13,715	LONG-TERM DEBT <sup>1/</sup>	909,023	784,021	491,812	473,912
DEFERRED CHARGES	61,458	54,584	58,206	65,822	34,425	GUARANTY DEPOSITS AND OTHERS	60,998	60,396	63,131	62,630
PROPERTY, PLANT	16,729,739	16,674,187	16,717,215	16,586,590	16,476,282	DEFERRED LIABILITIES DUE TO INCOME TAXES AND WORKERS PARTICIPATION	652,695	627,295	890,626	942,038
Accumulated Depreciation	(12,777,065)	(12,560,879)	(12,455,900)	(12,229,189)	(11,998,698)	DEFERRED EARNINGS - NET	38,210	40,236	40,531	35,713
	3,952,674	4,113,308	4,261,315	4,357,401	4,477,584	SHAREHOLDERS EQUITY				
Write-off Provision	(23,654)	(23,654)	(23,654)	(23,654)	(23,654)	Capital Stock	2,590,787	2,591,451	2,591,451	2,591,451
	3,929,020	4,089,654	4,237,661	4,333,747	4,453,930	Additional Capital	4,964	4,964	4,964	4,964
NET INTANGIBLE ASSETS	1,964,592	2,019,539	2,049,326	2,098,633	2,149,077	Legal Reserve	76,206	76,206	76,206	76,206
						Freely distributable reserves	249,407	249,407	249,407	249,407
TOTAL ASSETS	8,806,381	9,087,593	8,368,012	8,245,510	8,061,456	Other reserves	8,624	10,969	4,944	444
						Retained Earnings	75,437	54,190	348,874	290,129
						TOTAL SHAREHOLDERS' EQUITY	3,005,425	2,987,187	3,275,846	3,212,601
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,806,381	9,087,593	8,368,012	8,245,510

1/ They include the pasive net position of financial derivatives instruments.



**CHART 3**  
**TELEFONICA DEL PERU S.A.A. AND SUBSIDIARIES**  
**Statistical Data, End of Period Figures**

	1Q07	2Q07	3Q07	4Q07	1Q08	Abs. Var. 1Q08 -1Q07	1Q08/ 1Q07
<b>FIXED TELEPHONY</b>							
Lines Installed	2,662,887	2,700,519	2,702,707	2,708,119	2,710,893	48,006	<b>1.8</b>
Lines in Service (1)	2,535,213	2,563,020	2,558,085	2,558,947	2,551,986	16,773	<b>0.7</b>
Lines in Service per Employee (Telefónica del Perú) (2) (7)	639	646	625	608	652	13	<b>2.0</b>
Lines in Service per 100 inhabitants (%)	9.1	9.2	9.1	9.1	9.1	(0)	-
<b>BASIC TELEPHONY</b>							
Lines in Service	2,389,147	2,407,571	2,391,920	2,389,099	2,377,653	(11,494)	<b>(0.5)</b>
<b>PUBLIC TELEPHONES</b>							
Lines in Service (3)	144,868	149,286	154,583	152,463	154,357	9,489	<b>6.6</b>
<b>BROADBAND</b>							
Lines in Service (4)	497,305	527,399	555,423	571,587	593,626	96,321	<b>19.4</b>
<b>SUBSCRIPTION TV</b>							
Lines in Service	561,098	599,974	628,014	640,045	633,410	72,312	<b>12.9</b>
<b>TRAFFIC</b>							
Local Traffic- Minutes (000) (5)	1,181,462	1,154,636	1,105,993	1,082,547	976,777	(204,685)	<b>(17.3)</b>
Long Distance- Minutes (000) (6)	343,781	350,984	374,019	373,948	372,501	28,720	<b>8.4</b>
<b>NUMBER OF EMPLOYEES</b>							
Telefónica del Perú (2) (7)	3,970	3,970	4,091	4,206	3,915	(55)	<b>(1.4)</b>
Telefónica del Perú and Subsidiaries (8)	5,343	5,388	5,644	5,780	5,262	(81)	<b>(1.5)</b>

(1) It includes Basic, Public and Rural Telephony, without Cellular phones

(2) Since August 2007 a transfer of Corporate areas from Telefonica del Perú to Telefónica Móviles was implemented. (Convergence Fixed-Mobile Project)

(3) It includes Fixed and Mobile Public Telephony, Fixed and Mobile Rural Telephony.

(4) It includes Residential Speedy, Speedy Business, Giga ADSL and Cablenet and optical fiber accesses.

(5) It includes invoiced Fixed-Fixed Traffic (voice and internet), Mobile-Fixed and Fixed-Mobile.

(6) It does not include prepaid cards, includes plans of minutes in packets.

(7) On August 2007, Móviles personell is transfered to TdP (Fixed-Mobile Convergence Project) and in February and March 2008, the personnel that join the Voluntary Retirement Program is recorded.

(8) On July 2007, the subsidiary TSDigitales hire personell from outsourcing companies (Legal Norms) and on August 2007, personnel from Telefónica Móviles is transfered to Telefonica del Perú (Fixed-Mobile Convergence Project). On the other hand, on February and March 2008, the personnel that join the Voluntary Retirement Program is recorded.