

Telefonica

Quarterly Results

Telefónica del Perú S.A.A.

October – December 2008

Significant events

A summary containing the most significant events between October 1st and December 31st, 2008 is presented below:

1. On October 2nd, the following events were informed:
 - The merger by absorption of Media Networks Peru S.A.C to Publishing Services of Peru S.A.C. , whose corporate body was extinguished on October 1st.
 - The segregation of the patrimonial block of Telefónica Multimedia S.A.C that was contributed to Media Networks Peru S.A.C through split.
 - The change of the official company name of Media Networks Peru S.A.C to Media Networks Latin America S.A.C.

2. On October 23th, the board of Directors decided to approve:
 - The individual and consolidate financial statements related to the third quarter of 2008.
 - Designated Francisco Hernández González, an Spanish citizen, as Internal Audit Director.

3. On October 12th, regarding the authorization and delegation of faculties conferred by the Board of Directors on October 25th, 2007, the firm transferred 4 496 984 representative shares of Teleatento of Peru S.A.C. share capital, that constituted its whole stake in this company (30%) to (i) Atento NV (Holland), (1 124 246 shares) (ii) to ATENTO HOLDING CHILE, S.A., (2 323 442 shares); and (iii) to the very Teleatento del Peru S.A.C., (1 049 296 shares).

4. On October 24th, the board of Directors agreed the following:
 - Approval of the Project of Merger by absorption between the firm and Telefónica Móviles Perú Holding S.A.A. (TMPH).
 - The Call for the general stockholders' meeting on December 22nd.

5. On December 12th, the general stockholders' meeting of Media Networks Latin America S.A.C decided an increase of capital of the firm from S/. 78 111 015 to S/. 111 164 354, maintaining the same number of shares of nominal value of S/. 1.00.

6. On December 22nd, the General Stockholders' meeting agreed the following:
 - The approval of the merger project between the firm and TMPH by which the former absorbed the latter on December 31st 2008, according to the terms established in the Project. Likewise, the following was agreed:
 - ✓ The increase of the share capital of S/. 356 770 987 to the sum of S/. 2 880 394 699, which is represented by 3 349 296 162 shares of S/.0.86 nominal value per share.
 - ✓ The modification of article 5 of the Social Statute, in agreement with the text anticipated in the Project.

Telefónica del Perú S.A.A.

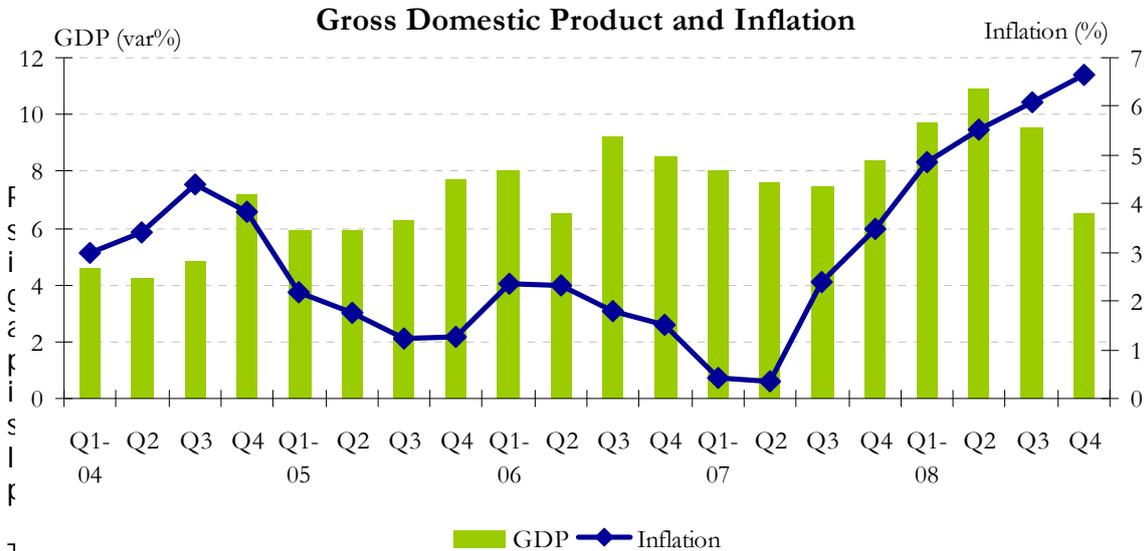
Discussion and Analysis of the fourth Quarter results ended on December 31, 2008.

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

In the last quarter of the year, the peruvian economy slowed its rhythm of growth to 6,2% compared to the previous quarter, according to preliminary estimates. Labor-intensive sectors such as construction, non-primary manufacturing and commerce expanded 9,5% during the period, that contributed to the increase of urban employment in businesses of 10 to more employees (+7.5% in third quarter). On the expenditure side, in the fourth quarter of 2008, internal demand grew strongly although decelerating. Private consumption showed a growth rate of 7.4% (compared to 8.9% of the previous quarter) and the gross internal investment grew 18.0% (9.6% less than the previous quarter), with public expenditure growing to 6.3%.

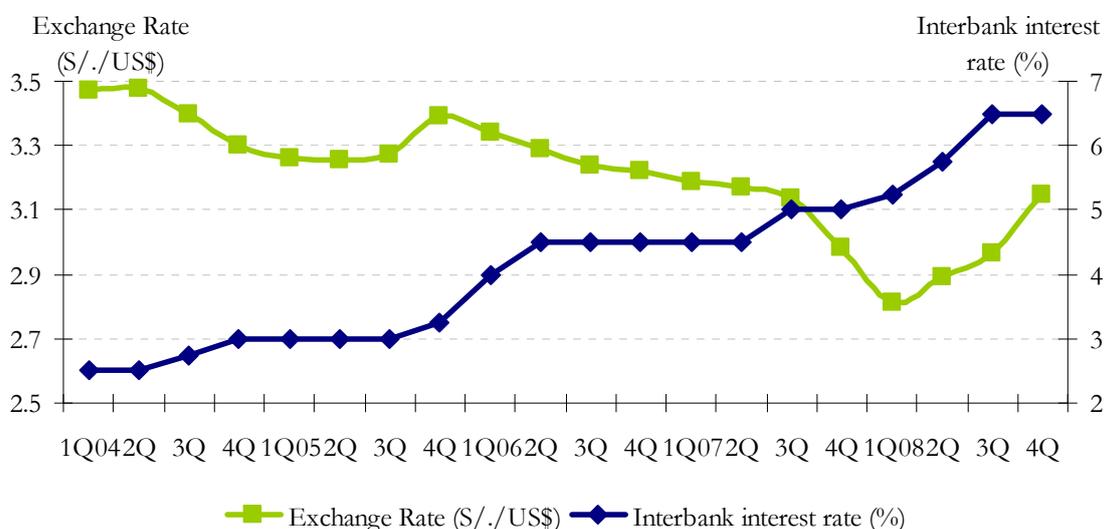
On the other hand, Consumer price index (CPI) evolution in 2008 was 6.7%, slightly lower to the one expected by the market, with an average of monthly inflation of 0.5%, managing to stay as one of the lowest levels in the region. This result was the consequence of two groups' behaviours: i) Food and drinks (47.6% of the basket of the CPI), that had the greatest increase (9.7%) due to the impact in the internal prices of products related to the main soft commodities and their little stock at the beginning of the year; and II) House Renting, Fuel and Electricity (8.9% of the basket of the CPI), that grew 5.4% due to the adjustment of the tariffs of public services of potable water (18.9%) and electricity (6.4%).



and depth of the crisis, as well as the behaviour of the main economies and the impact of this deceleration in the rest of the world, continued affecting the yield of the local stock-exchange market negatively. Thus, the General Index of the Lima stock-exchange (IGBVL) fell 37.3% in the fourth quarter of the 2008, after having fallen 31,0% in the previous quarter. Meanwhile, the reference interest rate of the BCRP did not change in the last quarter of the year, closing in 6,5% in 2008, because this institution preferred to

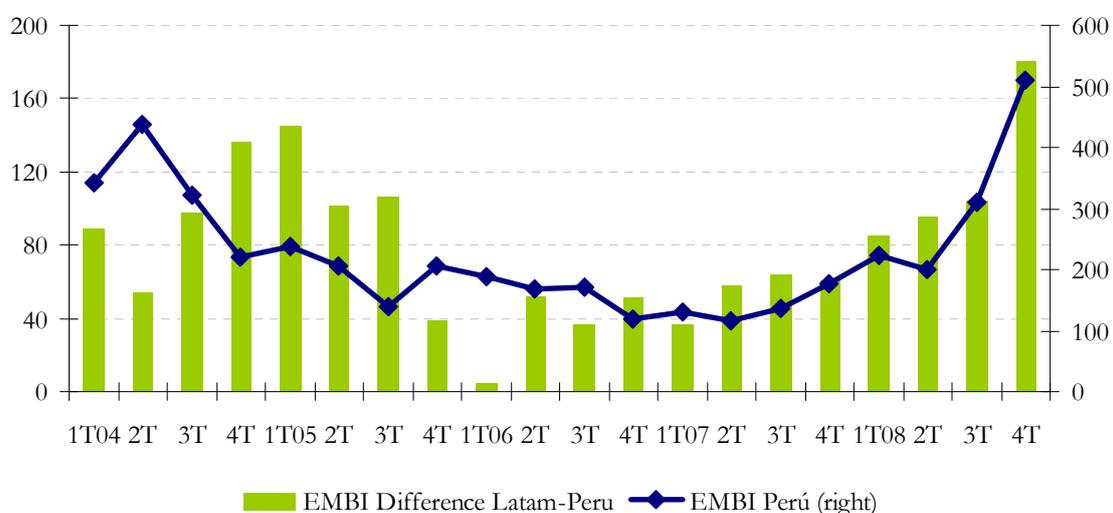
use other instruments of monetary policy, as legal reserve, in order to offer liquidity to the economy and to assure the normal behaviour the market.

Exchange rate and Interbank Interest Rate



Peru's country risk, measured by JP Morgan's Emerging Markets Bond Index (EMBI+), increased 199 points reaching 509 points in fourth quarter of 2008, below the increase suffered by the same indicator for the set of the countries of the region (276 points). The EMBI+ deterioration is explained by the emerging markets risk aversion due to the financial crisis.

Country risk Indicator 2004-2008 (in bps.)



Competitive environment

The fourth quarter of 2008 was a period of a stable market, in which the operators focused to strengthen their positions and strategies devoting greater effort to the packaged offers.

The businesses used packaging offers as a service differentiator of their offers in the subscription television market. The operators are focused to re-invent the market with several launchings of commercial offers such as changes in the used technology. Thus, Telefonica initiated the implementation of his digital offer, in Lima, increasing the variety of options to have digital television in home, as the high resolution TV channels.

Similarly, to increase the value of the packaged offers, by the end of the year, Telefonica launched an offer of laptops led to clients who had products packaged in "trios".

Operating Results

Operating Revenues

Operating revenues of 4Q08 reached S/. 984 million, 4,3% higher than those registered in 4Q07. The highest revenues were registered in Data and Information Technology business (+44.3%), Internet (+17.5%) and others businesses (+32.5%), although partially offset by the fall in Public and Rural Telephony (- 22.1%), Local Telephony (- 6.7%) and Long Telephony Distance (- 1.7%).

On the other hand, the operational revenues of 12M08 reached S/. 3 756 million, a 5,0% fall compared to 12M07, due to lower Public and Rural Telephony revenues (- 32.8%), Local Telephony (- 8.4%) and Long Telephony Distance revenues (- 18.6%). Notwithstanding, higher revenues were observed in Internet (+20.2%), Data and Information Technology (+17.9%) and Others (+8.3%).

Telefónica del Peru continues its penetration strategy through the display of its service offering for each segment of the market, through several campaigns - commercialization of "tríos" and "dúos" telefónica - and the fidelization of its clients with the aim to ample the base of accesses in the market. Thus, by the year 2008, total accesses shows a inter-annual growth of (i) 22.0%, in broadband accesses, essentially by the strong increase of Speedy clients, which was favoured by the new levels of speeds and (ii) 7.4% in accesses of Public and Rural Telephony, in spite of the mobile substitution, that has implied an increase in the number of lines dropped, as well as a more competitive environment. The Internet business of the company has been increased by the incorporation of more than 5 thousand accesses of Global Star Com, a company that operates in the southern part of the country.

As for the performance of the business, Local Telephony revenues reached in 4Q08 S/. 342,3 million, a 6.7% fall compared to 4Q07. This is mainly explained by lower revenues in interconnection traffic (from other mobile and fixed telephony operators), a 17.2% fall as an effect of the mobile substitution. Likewise, there were lower revenues in invoiced traffic, with a fall of 16.6% as a result of: (i) the introduction of per second invoicing lines and flat fee lines, (ii) lower cards revenues (- 37.6%) ,by the higher level of competition, and (iii) lower revenues in monthly fee (- 1.3%) due to a lower client base. Similar behaviour is observed in 12M08 that totalizes S/.1 414.2 million, that represents a reduction of 8.4% compared to that of 12M07. This is also explained for lower income in

interconnection traffic to other operators (- 17.2%), invoiced traffic (- 9.3%) and the monthly rent (- 4.9%).

Long Distance revenues dropped 1.7% in 4Q08 compared to 4Q07, totalizing S/. 81,1 million. The lower revenues in national long distance (NLD) of 13.5%, are mainly explained by the pre-selection effect, the mobile substitution and the strong competition in pre-paid cards. On the other hand, international long distance revenues (ILD), although reduced by the effects before mentioned, were compensated with revenues from the cession of rights by use of the Pan-American Cable (maritime cable). Regarding the result of 12M08, S/. 313,1 million, a 18.6% fall is observed due to lower revenues in NLD (- 25.4%) and ILD (- 10.3%) because of the same effects above mentioned.

On the other hand, Public and Rural Telephony revenues reached S/. 108,2 million in 4Q08, 22.1% less than that recorded in 4Q07. The reduction is mainly explained by informal telephony and mobile phone substitution. Nevertheless, the downward tendency of lines in service has been reverted in the last months reaching an inter-annual growth of the plant in service of +7.4%, reaching 157 thousand lines in the urban area and 7 thousand lines in rural area, by the end of 2008, as a result of the new plans to mobile phones, that have stimulated the recovery of the traffic. Finally, 12M08 revenues reached S/. 443,5 million, 32.8% lower compared to 12M07.

Internet revenues totalled S/. 213,3 million in 4Q08, a 17.5% increase over 4Q07. This increase is chiefly explained by a 22% growth in the broadband client base that reached 697 thousand accesses, including more than 5 thousand accesses of Global Star Com. On the other hand, 12M08 revenues reached S/. 806,7 million, 20.2% more than that of 12M07.

Data and Information Technology revenues reached S/. 82 million in 4Q08, 44.3% higher over 4Q07, and S/. 344 million in 12M08, that represent a 17.9% increase over 12M07. These results are mainly explained by the execution of important projects in Managed Telephony, Selling of Central stations and TI projects.

Operating Expenses

Operating expenses in 4Q08 fell 35,0% compared to 4Q07, reaching S/. 894 million, which represents a drop of S/. 481 million. It is important to highlight that in 4Q07 S/. 445,7 million was registered for the Retirement Program. Lower expenses were registered in depreciation and amortization (- S/. 106 million), other revenues and expenses (- S/. 8 million) and personnel expenses (- S/. 7 million) due to the reduction of the personnel in 3,2%. These reductions were partially offset by the increase in materials and supplies (+S/. 33 million), provision expenses (+S/. 14 million), interconnection expenses (+ S/. 8 million) and general and administrative expenses (+S/. 7 million).

Cumulative operating expenses in 12M08 were reduced in 13,0% compared to 12M07, reaching S/. 3 371 million, which represents a S/. 505 million drop, chiefly due to the Retirement Program, lower depreciation and amortization expenses (-S/. 154 million), interconnection expenses (- S/. 52 million) and personnel expenses (- S/. 18 million). These savings were partly offset by materials and provisions expenses (+S/. 66 million), general and administrative expenses (+ s. 46 million), provisions (+S/. 37 million), as well as other revenues and expenses in S/. 15 million.

Operating Result

The operating result in 4Q08 totalled S/. 90 million, which represents an increase of S/. 521 million compared to 4Q07. Operating result in 12M08 reached S/. 385 million, an

increase of S/. 308 million compared to 12M07, as a result of the Retirement program in 2007 and higher Internet, Data and Information Technology revenues. If the Retirement Program and Other Income and Expenses are excluded from Operating expenses, it would be obtained an increase of the Operating Result of S/. 83,9 million compared to 4Q07 and a decrease of 20.4% compared to 12M07

Non-operating Result

The non-operating result increased in S/.7 million, from S/. 73 million in 4Q07 to S/. 80 million in 4Q08. This improvement is basically explained by the best results of the related companies in S/. 71 million.

On the other hand, in 12M08, the non-operating result shows an increase of S/. 217 million compared to 12M07, as a consequence of the increase of results in related companies in S/. 340 million.

Net Income

Net income reached S/. 158 million in 4Q08, over a S/. 208 million loss in 4Q07. In cumulative terms, net income increased in S/. 469 million. This increase is basically explained by the higher non-operating result.

Balance General

Current assets reached S/. 1 257 million at the end of 4Q08. Such amount represents a decrease of S/. 99 million compared to 3Q08. Likewise, Current liabilities fell in S/. 69 million, due to the decrease of debts owed to banks. Thus, at the end 4Q08, current liquidity ratio was 0.59, less than in 3Q08 (0,62).

On the other hand, net fixed assets totalled S/. 3 595 million, a fall of S/. 11 million compared to 3Q08.

Net financial debt reached S/. 3 444 million in 4Q08, an increase of S/. 36 million compared to 3Q08, including a reduction of 73,6% of the debt owed to banks .

Finally, shareholders' equity fell S/.11 million compared to 3Q08, reaching S/. 3 955 million in 4Q08, due to dividends paid.