

Telefonica

Quarterly results
Telefónica del Perú S.A.A.

January – March 2009

Significant events 2009

A summary containing the most significant events from January 1st to March 31st, 2009 is presented below::

1. On January 14th, Telefónica del Perú S.A.A. (TDP) transferred the 99.99% of its shares in the shareholder's equity of Media Networks to Telefónica Internacional S.A. for a total of S/. 110,7 million.
2. On February 12th, TDP obtained the dealership of the Broadband project for isolated localities (BAS), that will allow Internet, fixed and public telephony service in 3,852 rural localities in the country..
3. On February 13th, the board of Directors took the following agreements:
 - Approved the individual and consolidated financial statements of the year 2008 as well as those of the 4th quarter 2008.
 - Accepted the resignation of Manuel Álvarez Trongé as interim director and designated Cristian Aninat for that post.
 - Accepted the resignation of Luis Delamer as Director of Strategy and Regulation, who also leaves vacant the Direction of Wholesale business.
4. On February 19th, the Transport and Communications Ministry resolved to renew the period of the Dealership contracts of TDP for the bearer and local telephony services in Lima province and Callao constitutional province as well as for the bearer, long distance national and international services, for a period of four years and two months, since June 27th,2019.
5. On March 30th, the annual Shareholders' meeting took the following resolutions:
 - Approved social management and economic results of 2008.
 - Allocated net profits 2008 to accumulated results for its further application.
 - Delegated authority in the Board of Directors to designate external auditors for the fiscal year 2009.
 - Establish the number of nine directors for the Board of Directors for the period 2009 – 2012.
 - Determined annual fee for Directors.

At the same date, it was celebrated Class B Shareholders Special Meeting, that proceeded to the re-election of the permanent and interim directors for the period 2009-2012.

Telefónica del Perú S.A.A.

Discussion and analysis of the First Quarter results ended on March 31st, 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.

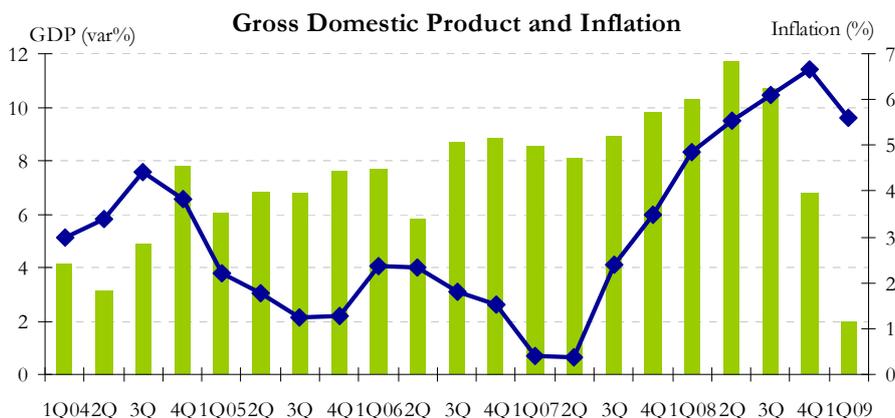
Economic Environment

In the last quarter of 2008, the Peruvian economy did not maintain the rhythm that presented in the previous quarters and registered a PBI growth of 6,7% compared to that of 2007. This figure implied a deceleration of 4 per cent compared to third quarter growth, tendency that began in October and that was accentuated in December, when PBI growth was only 4,9% over the same month of the previous year. Thus, Peru's growth was 9,8% in 2008, the highest value since 1994 and the third in 57 years. This expansive period, of 10 years, is not only one of the longest, but also a diversified by sectors; and one of the most stable, in terms of the volatility of the growth rate.

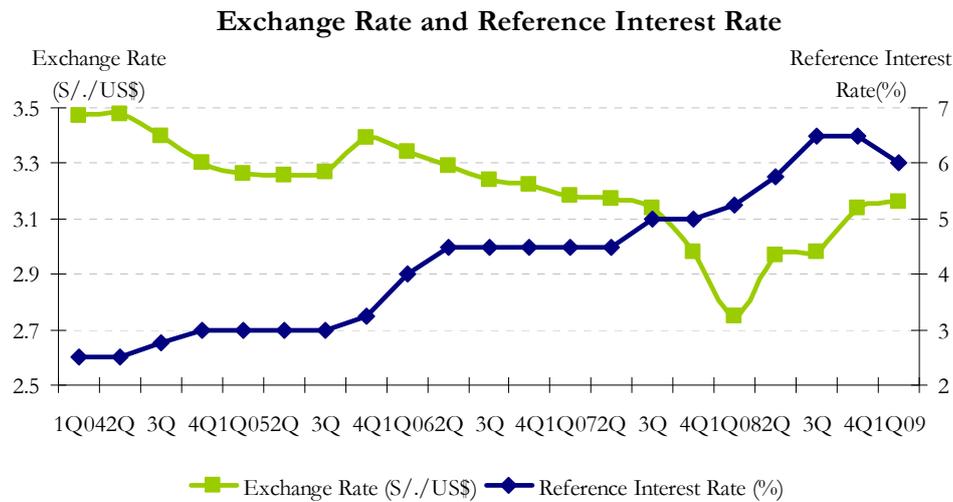
Besides, the economy grew in January 3,1%, compared to January 2008 (this rate was lower than that expected for the market of 4%). due to the contraction of the external demand and the persistence of the process of reduction of inventories initiated at the end of 2008. The sector of higher growth was mining and hydrocarbon, with an increase of 10,7% over the same month of the previous year, followed by services (+6%) and construction(+4,5%). These two last sectors, related to the internal demand, showed a deceleration of its growth compared to 2008, while other sectors showed falls, such as: fishing (-21.1%), farming(-1,5%) and manufacture(-2,7%).

In February, the economy registered a growth rate of 0,2% compared to February 2008, due to a higher deterioration than expected in the offer sectors (that had already showed deceleration in the previous periods), and a contagion of sectors related to the internal demand that had not been previously affected significantly. (Commerce in -0,7%, manufacture in -7.5% and electricity and water in -1.7%). On the other hand, construction and agriculture grew 4,7% and 4,0%, respectively, while other services (that includes governmental services) grew 3,5%. February result is mainly explained by: a) The increase of the base of comparison due to the growth of 13% of GDP in February 2008, and b) the persistence of the process of optimization in inventories that mainly affect the commercial and manufacturing sector. In addition, the effect of the leap year that reduces the number of days in activity.

On the other hand, the variation of the consumer price index (CPI), in march was 0,4%, respect to the previous month, similar to what expected for the market, but higher than the average of the last four months (0,2%). This result is explained for two seasonal factors. The first is the adjustment in prices of educational services for the beginning of the school period (adding 0,2% to the inflation of the month) and the second is the increase in prices of some aliments due to problems of supply related to climatic factors. Given this result, an inflation of 0,4% is accumulated in the first quarter of 2009 and 4,8% in the last 12 months, confirming the downward trend of the prices (from 6,7% of December 2008)



The Exchange rate, in the first quarter of 2009, presented mixed results. Up to February, the new sol depreciated to 3,5% respected to the end of 2008. Nevertheless, in march it appreciates 2,7% respected to the previous month until 3,16 new sol/dollar, tendency that continued in the first half of April due to, notwithstanding the deceleration of the domestic activity, the scenario in relation to the worldwide context is perceived as positive. Between January and April of 2009, the Peruvian Central Bank (BCRP) reduced its reference interest rate of monetary policy in 1,5% to 5%, that reflect the worry of a deceleration of the economical activity more than expected. The stronger aggressiveness in the monetary stimulus of BCRP at the beginning of April was welcomed, nevertheless the lost of attractive implied in the reduction of the differential between the interest rates of the Peruvian central bank and the FED.



The country risk in Peru, measured by the Emerging Markets Bond Index (EMBI+) of JPMorgan, dropped 25,5% to levels of 375 points in the first quarter of the year, slightly lower than those of other countries of the region. In this sense, the returns of the Peruvian treasury bonds maintained its reduction significantly in the first quarter (1,7% in average), with a higher frequency in the short part of the curve, with 0,8 and 1,2% of discount. Global Bonds followed the same trend, with 0,8 and 1,2% of discount in the total average and in the short part of the curve.

Competitive Environment

During the first quarter 2009, the market has been stable, notwithstanding an increase of competence in the segment of fixed wireless telephony is presumed.

Telefonica concentrated its efforts to give value-added services to its packeted offers through the launch of high-definition TV channels in its Premium packets. Meanwhile, financing was given for the selling of laptops to its duo and trio clients, as a part of its fidelization program.

Referring to Internet market, it is important the launching of the service "Speedy Control" with which Telefonica seek to increase its participation in the lower income segments.

Finally, it is important to highlight the awarding of the dealership won by the company to provide fixed telephony and internet access to 3,852 rural towns. This investment has

been made with a support of the Government for US\$48,8 million. In addition, it is important the renewal of the period of the dealerships of TDP until 2019.

Operating Results

Operating revenues

Operating revenues in 1Q09 reached S/.975 million, higher in 5,8% to that registered in 1Q08. The higher revenues were registered in the Internet businesses(+5,7%), Data and Information technology(+24,2%) and Others(+71,2%), which are partially offset by a decrease in Local Telephony(-9,7%), Long Distance Telephony(-4,5%), Public and Rural Telephony(-2,5%). It is important to highlight that "Others" contains Wholesale business revenues, the commercialization of television by subscription of duos and trio packets, and PDTI (posts of informatics' work), business with high potential of growth.

Telefonica maintains its commercial strategy of penetration through the offer of services for each segment of the market, through different campaigns-commercialization of trios and duos- and the fidelization of clients. Thus, by the end of 1T09, the total of active accesses shows an interannual growth of (i)21% in broadband accesses, fundamentally for the strong increase of Speedy clients-new ladder of velocities- and (ii)9,3% in accesses in Public and Rural Telephony, notwithstanding the growth in the substitution of its services for mobile telephony, that has boosted a growth in the number of dropped lines.

Revenues of Local Telephony reached in the 1Q09 S/.333,5 million, inferior amount in 9,7% compared to 1Q08, mainly for the lower revenues in exit traffic to other webs (Either to mobile or to fixed services) that shows a drop of 21%. That fall is the result of the mobile substitution and for lower revenues in the fixed-fixed invoiced traffic that dropped in 30,3% (as a consequence of the migration to plain tariff lines and per second tariff lines). Adding this effect, Other revenues in monthly rent presented a drop in 2,7% as a result of a reduction of 3,6% of the plant (2 292 901 accesses in 1T09).

Long Distance revenues dropped 4,5% in 1Q09 compared to 1Q08, totalling S/.75,7 million. This drop is a result of lower revenues in national long distance (LDN) in 14,4% that, as Local Telephony, is explained mainly by the effect of the mobile substitution, the strong competition in pre-paid cards, and a lower base of plans. Meanwhile, International Long Distance revenues (LDI) present an increase of 6,4% due to higher revenues in LDI and a ample base of plans.

On the other hand, Public and Rural revenues reached S/.112,2 million in 1Q09, 2,5% lower to 1Q08. The reduction is mainly a consequence of the mobile substitution in rural telephony, nevertheless the interannual growth of 9,3% in the plant in service (161,339 lines in the urban area and 7,392 lines in the rural area by the end of 1Q09).

In addition, Internet revenues reached S/.201,5 million in 1Q09, 5,7% higher to 1Q08. This increase mainly explains the growth of the broadband plant in 21%, that has allowed to reach a plant in service of 718 mil accesses

Data and Information Technology revenues reached S/.89,9 million in 1Q09, 24,2% higher than in 1Q08. This results are mainly explained by the realization of major projects in Managed Telephony, Selling of Central Stations and Information technology Projects.

Other revenues reached S/.162,4 million in 1Q09, S/.67,5 higher than in 1Q08, mainly by the effect of the increase in S/.33 million of the televisión by subscription revenues in duo and trio packets and revenues of PDTI (System posts) of S/.25 million.

Operating Expenses

Operational expenses in 1Q09 increased in 5,9% compared to 1Q08, reached S/.853 million, that represents an increase of S/.47 million, as a result of higher general and administrative expenses (+S/.57 million), Personnel (+S/. 28 million, as a result of the registration of personnel transferred from Telefónica Móviles to TDP), materials and supplies (+S/. 18 million) and interconnection expenses (+S/. 3 million). These increases were partially offset for lower depreciation and amortization record (- S/. 43 million), other revenues and net expenses (- S/. 21 million) and the provisions in (- S/. 4 million).

Operating Results

Operating Results in 1Q09 reached S/.123 million, that represents an increase of 5,6% (+S/.6,5 million) compared to 1Q08, as a result of higher total revenues of S/.53,7 million.

Non-Operating Result

Non-Operating result reached S/.100,4 million in 1Q09, as opposed to the loss recorded in 1Q08 (S/.24,9 million). Non-operating result is basically explained by better results of subsidiaries in S/.103,4 million.

Net Result

Net Result reached S/.193,9 million in 1Q09, compared to S/.68,7 million in 1Q08. That increase basically explains the higher operating and non-operating results.

Balance Sheet

Current Asset reached S/.1343 million by the end of 1Q09. It represented an increase of S/.86 million compared to 4Q08. Besides, Current Liability decreased in S/.65 million. Thus, by the end of 1Q09, current liquidity rate reached 0.65, higher than observed in 4Q08 (0.59)

On the other hand, net fixed Assets was S/.3450 million, a decrease of S/.139 million compared to 4Q08.

Net Financial Debt reached 1Q09 S/.3,287 million, S/.157 million lower than in 4Q08. Net Shareholder's Equity fell in S/.7,8 million compared to 4Q08, reaching S/.3,963 million in 1Q09. That reduction is the result of the re-purchase of shares by TDP, occurred in January 2009, for a total of S/.3 million and the effect of the re-purchase of shares of T.Móviles by TDP for S/.162 million.