

Telefónica

Quarterly Results
Telefónica del Perú S.A.A.

January – March 2010

Significant Events 1Q10

A summary containing the most significant events from January 1st to March 31th of 2010:

1. The Board of Directors, on February 5th, adopted the following agreements:
 - Accepted the resignation of Francisco Hernández Gonzáles to the position of Director of internal audit and designated Juan Diaz Carmona to replace him in that position.
 - Formulated the individual and consolidated financial statements corresponding to the fourth quarter 2009 and the preliminary annual ones.
 - Delegated faculties to Chairman, CEO and General Secretary to coordinate the General Shareholders' meeting.
2. On February 19th, Carlos Oviedo Valenzuela was promoted to Director of Latin America communication.
3. On March 11th, the board of Directors modified the organic structure of the company, integrating Finance and Management Control areas in a unique area in charge of Pedro Cortez Rojas. In addition, accepted the resignation of Juan Parra to the position of Vice-president of Management Control, who assumes new responsibilities in Telefonica Group. Andres Simons maintains its functions in charge of the Finance Direction.
4. On March 22th, the General shareholders' meeting decided the following:
 - Approved the social management and the economic results of 2009.
 - Approved as the definitive dividend, the dividend at the expense of the net profit of the year 2009, made on December of the past year.
 - Allocated the net profits of the year 2009 to the accumulated results account for its following application.
 - Authorized the Board of Directors to determine a provisional dividend at the expense of the definitive dividend that will be approved by the annual shareholders meeting in 2011 with respect to 2010 results.
 - Authorized the company so that, at the expense of the net profit and reserves of free disposition, by a maximum period of two years and for an amount not greater than 10% of the issued share capital, can acquire and maintain in portfolio shares of own issuance.
 - Delegated faculties to the board of Directors for the designation of external auditors for the exercise 2010.
 - Maintained the amounts of annual retribution for the Directors of the company as determined on March, 9th 1998.

Telefónica del Perú S.A.A.

Discussion and Analysis of the results of the first quarter ended on March 31st, 2010

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 4Q09, GDP had a growth of 3.4% compared to that quarter of the previous year, accumulating an expansion of 0.9% in 2009. The quarter result was the highest of the year, after two consecutive falling quarters (- 1.2% in 2Q09 and -0.6% in 3Q09). It emphasizes the behavior of the private consumption (67% of the global demand), which grew 2.8% with respect to the same period of the previous year, without registering negative rates in a year of crisis, in which private investment was contracted. In line with the behavior of the private consumption, employment at an aggregated level was stable throughout 2009

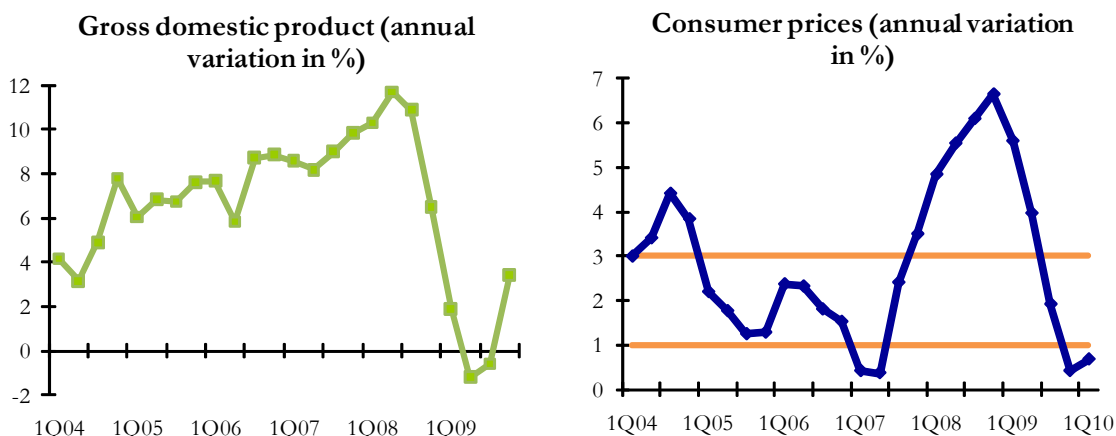
The acceleration of the rate of the public investment was greater in the last quarter of the year (a 33.1% growth) due to the continuity of the projects contemplated in the Plan of Economic Stimulus (PEE); nevertheless, the contraction of the private investment was severe (a 17% fall) although lower to that registered one in the previous quarter (a 22% fall), closing the year with a 15% fall, compared to a expansion of 25.8% in 2008. With respect to the variation of inventories, its adjustment, in 2009, contributed -3,6% to the growth of the GDP. On the other hand, exports fell 1.6% in the 4Q09, due to lower exported volumes of mining products as copper and zinc; whereas imports fell 14%. The accumulated fall of both variables was 2.5% and 18.4% in 2009, respectively.

By the sectorial side, the positive result in the fourth quarter of the year is attributed to the sectors that already came with an important growing rate, such as construction and services, which grew 14.8% and 5.6%, respectively. The farming sector grew 1.9% with respect to the fourth quarter of 2008, impelled by the greater production of crops oriented to the internal market; whereas the mining and hydrocarbons sectors registered a 1.6% contraction, due to a smaller production in the metallic mining. Nevertheless, the sectors more affected by the crisis began to show clearer signs of recovery in the last quarter of the year. Among these are non-primary manufacture and commerce, which showed lower rates of fall with respect to the quarter. In that sense, non-primary activities grew 4.4%, whereas the primary activities fell 1.4%.

On February 2010, GDP grew 5.9% with respect to the same month of the previous year, over the growth rate of 5.5% expected by the consensus of the market. The sectors of greater expansion were construction (16.1%) and the finance (14.5%); whereas the only sector that had a negative result was fishing (- 15.7%) due to seasonal factors. It is important to highlight that the manufacture sector grew 7.2%, accumulating his third consecutive month of positive result, mainly explained by the growth of non-primary subsector (9.8%), in the activities related to the construction, mining and textile industry.

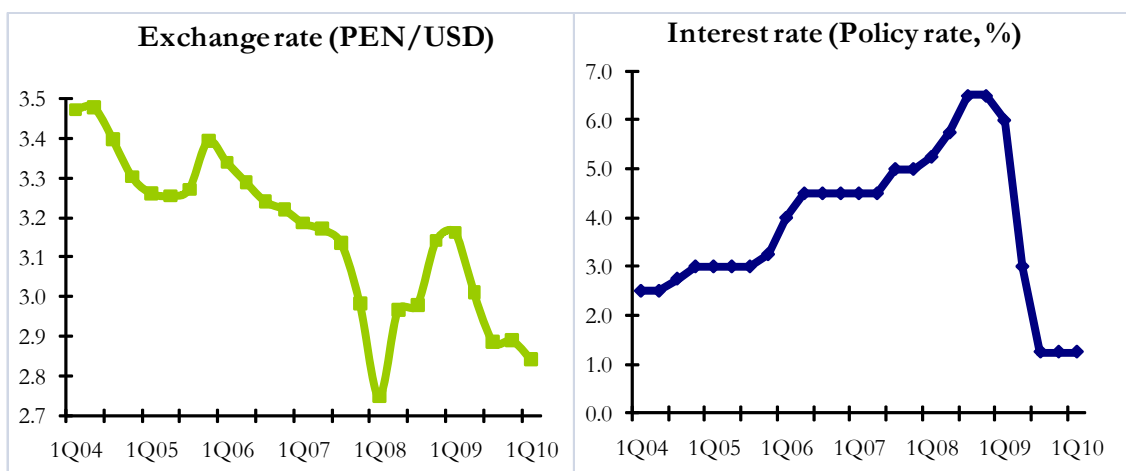
On the other hand, the variation of the Consumer Price Index (IPC) in March 2010 was 0.3% compared to the previous month. The accumulated inflation in the first quarter of 2010 was 0.9%, higher to that of the previous year (0.4%), but still being located below the inferior limit of the range goal (2% +/- 1%). The group of the consumption basket that registered important increases during 1Q10 was Foods and Drinks (2.6%); nevertheless, House Renting, Fuel and Electricity, as well as Transport and Communications decelerated their rate of fall and would have touched bottom in 1Q10.

In inter-annual terms, the inflation registers an increasing grasp, mainly due to the reversion of the external shocks in foods and fuels happened in 2009. In the same sense, the prices of some goods and services that are more related to the evolution of the domestic demand (dressing and footwear, as well as furniture and equipment) began to show signs of fatigue in their deceleration, fact that has guided the expectations of inflation of the market to be located within the range goal of the Central Bank by 2010 ends.



In relation to the exchange rate, in 1Q10, the New Peruvian Sol was appraised 1.7%, registering 2.84 New Sol per dollar, by the close of March. The relative stability of the local currency is explained by the lower risk aversion to emerging markets, the weakness of the American dollar against other hard currencies, the more attractive perspective on the balance of payments against to what was expected in 2009, the partial return of the market to consider the macroeconomic foundations of the New Sun and the active intervention of the Central bank in the exchange market.

In 1Q10, the Central Bank maintained its reference rate at 1.25%, the same level since August 2009. The expectations of the market about the beginning of a gradual increase of rates aim at the second quarter of the year, in line with the best results expected of the local economic activity and with an increase in the rate of the inflation. It is important to highlight that Central Bank has indicated its intention to maintain its reference interest rate in low levels for a prolonged period, until observing an economic growth that does not show inflationary pressures.



Peru country risk, approximated by the Emerging Markets Bond Index (EMBI+) of JP Morgan, fell to 149 points in March (16 points less than the level in December 2009). The registered level was similar to the one of May 2008 and slightly represented a greater improvement compared to the other countries of the region. Global bonds followed the same grasp, accumulating an adjustment in their rates of -0.22% on average, compared to December 2009, with a deeper fall in the short section of the curve (- 0.44% in Global 2015), due to the greater preference of liquidity. Nevertheless, yields of sovereign bonds of Peru were increased in 1Q10 with respect to the previous quarter (+0.21% on average), with a higher increase in the long section of the curve (+0.35% on average).

Competitive Environment

During 1Q10, competition focused in the supply of packaged services, both in Lima and provinces. Given this context, the commercial actions of Telefónica were mainly led to the premium residential and businesses segments, through discounts in packages and in long distance plans, directed to catch new clients and fidelize the already existing ones.

Also Telefonica announced its proposal to spread the broadband service in all the country. Leading this initiative, it is carrying out actions for the unfolding of a new network of 1,200 km of optical fiber in the Central and South highlands of the country. Aiming this objective, investments on infrastructure and telecommunications for USD 1,500 million for the period 2010-2013 were announced. In the same line, Telefonica launched Internet 50, a broadband service designed to offer Internet to the sectors with low penetration, at a cost of 50 new sol.

On the other hand, following the international tendencies of fixed-mobile mergers, Slim Group announced in January the merger between Telmex and Claro at a regional level. It is important to mention that Telefónica Group already operates internationally integrated, since year 2006. Thus, the Peruvian market of telecommunications advances towards the consolidation and the convergence.

Operating Results

Operating Revenues

Operating revenues in 1Q10 reached S/. 938 million, 3,8% lower to 1Q09, due to lower revenues in Local Telephony (- S/.. 23 million), Interconnection and Circuits Services (- S/. 18 million), Long Distance Telephony (- S/. 10 million) and Others Businesses (- S/. 45 million), these results were partially offset by the increase in Internet (+S/. 20 million), Television by Subscription(+S/. 17 million), Data and Information Technology (+S/. 15 million) and Public and Rural Telephony (+S/. 6 million).

Telefónica del Peru maintains its commercial penetration strategy through its supply of services directed to each segment of market (commercialization of "Trios" and "Duos"), as well as its fidelization campaign for clients. Thus, by the close of 1Q10, total Broadband accesses shows a inter-annual growth of 10.3%, due to the increase of clients in Speedy, given the greater supply of multi-products (TV, Speedy and voice), and the commercialization of "Speedy Total" (complete connection to Internet). Finally, a growth of 27.8% in the number of Television by Subscription clients was observed, thanks to the actual model of commercialization of multi-products packages ("Trios" and "Duos" TV).

Local Telephony revenues reached S/311 million in 1Q10, a fall of 6.8% compared to 1Q09. This is mainly explained by the lower revenues in interconnection traffic (from other mobile and fixed operators) that showed a decrease of 4.2% due to mobile

substitution. Monthly rent revenues dropped 3.2%, due to a lower base of clients in 4.1% compared to the previous year. In addition, a 31.8% fall in invoiced traffic revenues due to a 35.6% lower consumption of minutes.

Long Distance revenues reached S/. 66 million, which represents a fall of 12.8% compared to 1Q09. A 2.3% and 22.2% fall in long national distance revenues (LDN) and in long international distance (LDI), respectively, are mainly explained by the effect of the pre-selection and the lower use of prepaid cards due to the mobile substitution.

Public Telephony and Rural Telephony revenues reached S/. 119 million in 1Q10, 5,7% higher than 1Q09 results. Urban Telephony reached S/. 111 million, 11,1% higher than 1Q09, due to the recovery of traffic given the impact of the modification of the tariff plans and to the best management of the Public Telephony base. On the other hand, Rural Telephony revenues reached S/. 8 million, 36,5% lower than 1Q09, due to the fall of the traffic as a result of the mobile substitution.

Television by Subscription revenues reached S/. 51 million in 1Q10, an increase of 50.6% compared to 1Q09, as a result of the effort in the commercialization of the packages "Duo" and "Trio". Packaged clients base reached 202 thousand clients in 1Q10.

Internet revenues reached S/. 221 million in 1Q10, 9.9% higher than those results in 1Q09. This increase is mainly explained by the growth of broadband base in 10,3%, that has reached 791 thousand accesses. This growth is the consequence of the campaigns that facilitated the access to the services and of the migration strategy to higher speed levels and that was translated in an improvement in the ARPU (Average Revenue Per User) of the product.

Interconnection and Circuits revenues reached S/. 83 million in 1Q10, 17.6% lower than results in 1Q09. This decrease is explained by a 31.8% reduction of the completion charge in the fixed network, which was modified from US\$ 0.01208 to US\$ 0.00824 as of September of 2009, as well as to the lower traffic.

Data and Information Technology reached S/. 105 million in 1Q10, 16,5% higher than 1Q09. This increase is mainly explained by important equipment sales projects and Information technology projects, as well as major sales to government clients.

Operating Expenses

Operating expenses in 1Q10 reached S/. 803 million, a 5.9% fall compared to 1Q09. This reduction is mainly explained by lower depreciation and amortization (S/. 65 million), personnel (S/. 3 million) and other net revenues and expenses (S/. 3 million). These reductions were partly offset by higher general and administrative expenses (S/. 13 million) and provisions (S/. 5 million).

Operating Result

Operating result in 1Q10 reached S/. 136 million, an increase of 10.7% compared to 1Q09. This as a result of the reduction of depreciation and amortization expenses, that allowed compensating the lower operating revenues.

Non Operating Result

Non-operating result dropped S/.3 million in 1Q10, as a result of a slight increase in net financial expenses.

Net Result

Net result reached S/. 155 million in 1Q10, compared to S/. 194 million registered in 1Q09. This reduction is mainly explained by a fall of S/. 3 million in non-operating result and by higher workers shares and income tax in S/. 49 million.

Balance Sheet

Current Assets reached S/. 1,406 million by 1Q10, an increase of S/.12 million compared to 4Q09. Current Liabilities fell S/. 80 million. Thus, by 1Q10, current liquidity ratio reached a level of 0.73, higher than in 4Q09 (0.70).

On the other hand, Net fixed assets were of S/.3,266 million, S/.124 million less than 4Q09 results.

Finally, net financial debt reached S/.3,336 million in 1Q09, S/.26 million higher than in 4Q09. Net Shareholders Equity increased S/. 152 million compared to 4Q09, totalling S/.3 702 million in 1Q10. This increase is the result of the earnings in1Q10

SHEET 1

TELEFONICA DEL PERU S.A.A.

INDIVIDUAL INCOME STATEMENTS IN ADJUSTED SOLES (000) AS OF MARCH 31, 2010 1/

(Prepared In Accordance With Peruvian GAAP)

	1Q09	%	1Q10	%	Abs.Var. 1Q10-1Q09	Var. % 1Q10-1Q09
Total Operating Revenues	975,386	100.0	938,373	100.0	(37,013)	(3.8)
Local Telephone Service	333,503	34.2	310,829	33.1	(22,674)	(6.8)
Public Telephones	112,243	11.5	118,663	12.6	6,420	5.7
Internet	201,497	20.7	221,421	23.6	19,924	9.9
Long Distance	75,747	7.8	66,015	7.0	(9,732)	(12.8)
Data and Information Technology	89,932	9.2	104,788	11.2	14,856	16.5
Interconnection and Circuits	100,840	10.3	83,118	8.9	(17,722)	(17.6)
Television by Subscription ^{1/}	33,930	3.5	51,111	5.4	17,181	50.6
Others	27,694	2.8	(17,572)	(1.9)	(45,266)	n.a.
Total Operating Costs and Expenses	852,742	87.4	802,570	85.5	(50,172)	(5.9)
Interconnection Expenses	134,560	13.8	133,150	14.2	(1,410)	(1.0)
Personnel	117,300	12.0	113,952	12.1	(3,348)	(2.9)
General and Administrative ^{1/}	308,179	31.6	321,145	34.2	12,966	4.2
Depreciation and Amortization	221,350	22.7	156,349	16.7	(65,001)	(29.4)
Management Fee	8,434	0.9	12,586	1.3	4,152	49.2
Materials and Supplies	42,571	4.4	43,186	4.6	615	1.4
Provisions	21,646	2.2	26,560	2.8	4,914	22.7
Other Expenses	(1,298)	(0.1)	(4,358)	(0.5)	(3,060)	235.7
Operating Results	122,644	12.6	135,803	14.5	13,159	10.7
Operating results before other net revenues and expenses	121,346	12.4	131,445	14.0	10,099	8.3
Interest Gain	4,703	0.5	3,982	0.4	(721)	(15.3)
Interest Expenses	(60,146)	(6.2)	(64,238)	(6.8)	(4,092)	6.8
Exchange gain (loss)	(3,373)	(0.3)	(3,326)	(0.4)	47	(1.4)
Participation of affiliates results ^{2/}	159,265	16.3	160,800	17.1	1,535	1.0
Non Operating Results	100,449	10.3	97,218	10.4	(3,231)	(3.2)
Income Before Taxes and Participations	223,093	22.9	233,021	24.8	9,928	4.5
Workers' Participation	(7,900)	(0.8)	(21,168)	(2.3)	(13,268)	167.9
Income Tax	(21,329)	(2.2)	(57,153)	(6.1)	(35,824)	168.0
Net Income	193,864	19.9	154,700	16.5	(39,164)	(20.2)

1/ Correspond to revenues for Television by subscription services included in packages "Duos" and "Trios". General and Administrative expenses include expenses from TV wholesale service of Telefónica Multimedia S.A.C. to Telefonica del Perú.

2/ Correspond to affiliates results Star Global Com S.A.C., Telefónica Móviles S.A., Servicios Globales de Telecomunicaciones S.A.C., Telefónica Servicios Digitales S.A.C., Telefónica Servicios Comerciales S.A.C., Telefónica Servicios Integrados S.A.C., Telefónica Multimedia S.A.C. The results of Media Networks Latin America S.A.C. were registered up until January 13th, 2009, because on the following day, the company was sold to Telefónica Internacional S.A.

SHEET 2
TELEFONICA DEL PERU S. A. A.
INDIVIDUAL BALANCE SHEET IN NUEVOS SOLES (000) AS OF DECEMBER 31, 2009 1/
(Prepared In Accordance With Peruvian GAAP)

ASSETS						LIABILITIES AND STOCKHOLDERS' EQUITY					
	1Q10	4Q09	3Q09	2Q09	1Q09		1Q10	4Q09	3Q09	2Q09	1Q09
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and Banks	218,966	176,551	102,618	166,470	136,748	Overdrafts	474	-	3,949	2,358	10,059
Accounts receivable - net	894,556	961,295	937,007	908,782	788,116	Accounts payable	575,262	666,669	537,871	543,347	535,335
Affiliated Accounts Receivable-Affiliated Accounts	23,000	24,572	25,257	31,653	31,964	Other accounts payable	650,771	693,533	691,838	743,912	727,197
Dividends receivable ^{2/}	-	-	-	149,993	-	Bank Loans ^{1/}	10,008	-	-	-	69,921
Other accounts receivable	126,235	112,992	97,287	93,954	112,255	Commercial Papers ^{1/}	62,195	-	34,893	-	-
Materials and supplies	91,352	67,842	87,685	92,062	81,446	Current portion of bonds ^{1/}	294,690	237,300	172,377	171,754	169,510
Prepaid taxes and expenses and others	51,505	50,857	90,380	155,352	191,987	Current portion of long-term debt ^{1/}	324,296	400,387	434,683	441,675	537,702
Total current assets	1,405,614	1,394,109	1,340,234	1,598,266	1,342,516	Total current liabilities	1,917,696	1,997,889	1,875,611	1,903,046	2,049,724
Other Long Term Accounts receivable	52,341	53,162	3,785	3,785	3,785	BONDS ^{1/}	2,065,039	2,094,221	2,140,875	2,145,338	1,989,714
LONG-TERM ACCOUNT RECEIVABLE	1,429,939	1,276,269	1,589,295	1,419,227	1,447,170	LONG-TERM DEBT ^{1/}	799,023	755,237	725,591	690,974	657,385
DEFERRED CHARGES	62,214	65,523	80,334	82,544	84,755	GUARANTY DEPOSITS AND OTHERS	59,584	57,580	55,864	56,388	55,334
PROPERTY, PLANT	16,373,100	16,364,504	16,723,021	16,618,443	16,493,040	DEFERRED LIABILITIES DUE TO INCOME TAXES AND WORKERS PARTICIPATION	350,169	368,270	414,865	454,874	498,913
Accumulated depreciation	(13,107,346)	(12,975,116)	(13,396,970)	(13,229,365)	(13,036,960)	DEFERRED EARNINGS - NET	125,411	134,278	25,609	26,319	26,894
	3,265,754	3,389,388	3,326,051	3,389,078	3,456,080	SHAREHOLDERS' EQUITY					
Write-off Provision	-	-	(6,400)	(6,400)	(6,400)	Capital stock	2,878,643	2,878,643	2,878,643	2,877,748	2,877,748
	3,265,754	3,389,388	3,319,651	3,382,678	3,449,680	Additional Capital	83,403	83,403	83,405	84,300	84,414
Net Intangible assets and Goodwill	2,803,287	2,779,670	2,830,045	2,866,657	2,913,277	Legal reserve	230,791	149,626	149,626	149,626	149,626
						Freely distributable Reserves	-	-	229,967	249,407	249,407
						Other reserves	(15,762)	(12,643)	(21,222)	(23,709)	27,600
						Retained earnings	525,152	451,617	604,510	738,846	574,424
TOTAL ASSETS	9,019,149	8,958,121	9,163,344	9,353,157	9,241,183	TOTAL SHAREHOLDERS' EQUITY	3,702,227	3,550,646	3,924,929	4,076,218	3,963,219
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9,019,149	8,958,121	9,163,344	9,353,157	9,241,183

1/ It includes the net passive position of financial derivatives instruments.

2/ Correspond to declared dividends for Telefónica Móviles S.A. affiliate, paid on July 2009.

SHEET 3 (1)
TELEFONICA DEL PERU S.A.A.
Statistical Data, End of Period Figures

	1Q09	2Q09	3Q09	4Q09	1Q10	Var. Abs 1Q10 -1Q09	1Q10/ 1Q09
FIXED TELEPHONY							
Lines Installed	2,668,325	2,581,260	2,573,340	2,573,852	2,564,028	(104,297)	(3.9)
Lines in Service (2)	2,479,580	2,446,922	2,406,074	2,373,262	2,373,520	(106,060)	(4.3)
Lines in Service per Employee (Telefónica del Perú) (3)	606	584	571	561	555	(51)	(8.4)
Lines in Service per 100 inhabitants (%)	8.9	8.7	8.5	8.4	8.1	(0.8)	(9.0)
BASIC TELEPHONY							
Lines in Service	2,292,901	2,258,035	2,224,123	2,201,431	2,198,325	(94,576)	(4.1)
PUBLIC TELEPHONES							
Lines in Service (4)	168,731	171,931	167,271	161,500	165,564	(3,167)	(1.9)
BROADBAND							
Lines in Service (5)	718,004	744,048	761,644	767,279	791,336	73,332	10.2
PAY TV							
Lines in Service (6)	680,927	703,239	723,357	686,295	712,287	31,360	4.6
TRAFFIC							
Local Traffic - Minutes (000) (7)	669,305	665,544	589,051	545,986	489,913	(179,392)	(26.8)
Long Distance - Minutes (000) (8)	327,204	330,979	343,233	359,885	347,926	20,722	6.3
NUMBER OF EMPLOYEES							
Telefónica del Perú (3)	4,090	4,187	4,214	4,232	4,274	184	4.5

(1) Includes Accesses from affiliates but Telefónica Móviles.

(2) Includes Basic, Rural and Public Telephony, without mobile phones

(3) Since April 2009, 47 workers were transferred from Telefonica Servicios Comerciales (TSC) to Telefónica del Perú.

(5) Includes fixed and mobile Public Telephony, fixed and mobile Rural Telephony

(5) Includes Residential Speedy, Speedy Business, Giga ADSL and Cablenet, and acceses of optical fiber.

(6) Includes Cable TV and Satellite TV DTH

(7) Includes F2F billing (voice and internet), F2M and M2F.

(8) Excludes Prepaid cards, includes packeted minute plans.