

Telefonica

Quarterly Results
Telefónica del Perú S.A.A.

April – June 2010

Significant Events 2Q10

A summary containing the most significant events from April 1st to June 30th of 2010 is detailed below:

1. On May 24th, Telefónica Servicios Comerciales S.A.C. approved a dividend payment of S/. 5 million against accumulated results as of December 2009. The company established the payment day on May 27th 2010.
2. On June 07th, the amortization of 2 037 213 Class B stocks was registered. Consequently, new capital stock of the company dropped up to S/. 2,878,642,696.
3. On June 18th, Star Global Com S.A.C. approved a dividend payment of S/. 4 million against accumulated results as of December 2009. The company established the payment day on June 24th 2010.
4. On June 28th, the Board of Directors delegated management to determine the appropriateness of the ownership transfer of a maximum of 571 towers, and the establishment of its terms and conditions.
5. On July 1st, Telefónica del Perú S.A.A. approved a dividend distribution of S/. 320 million at a rate of S/. 0,0956006107909878 per share. The company established the record day on July 19th 2010 and the payment day on July 26th 2010.
6. On July 8th, flourished the registration of Telefónica Servicios Integrados S.A.C. legal termination, company eliminated from the corporate perimeter of the Group.

Competitive Environment

During 2Q10, Telefónica del Perú (TdP) kept focus on nationwide packaged service offerings. Commercial actions for both residential and business segment were aimed to offer higher value products and higher quality services.

Within an environment of mass broadband, TdP launched "*Internet 50*", a product which addresses the specific needs of low-income segment.

Also, in the context of 2010 FIFA World Cup, Pay TV companies increased their sales from high definition services, especially Cable Mágico and DirecTV.

On the regulatory side, OSIPTEL recently announced an annual productivity factor of 5,98% for the period September 2010 - August 2013.

Finally, it is worth pointing out that on May 26th, TdP successfully delivered 100% of the project BAS, or Satellite broadband for isolated communities, facilities. Today, 3 852 isolated locations of 179 provinces, 24 departments, enjoy Internet and fixed telephone services, which benefits more than 1,7 million of peruvians.

Operating Results

Operating Revenues

Operating Revenues for 2Q10 reached S/. 967 million, which were 0,4% higher compared to 2Q09. The increase in revenues is explained by the growth in: Pay TV business (+20,1%), Data and Information Technology (+15,0%), Internet (+11,8%) and Public and Rural Telephony (+6,5%), which were partially offset by the fall of Interconnection and Circuits Services (-12,8%), Local Telephony (-6,8%), Long Distance Telephony (-8,3%) and others (-37,3%).

Operating revenues for 6M10 reached S/. 1 905 million, which decreased 1,7% year-over-year, because of lower revenues from Interconnection and Circuits Services (-15,2%), Long Distance Telephony (-10,7%), Local Telephony (-6,8%) and Others (-105,5%). Nevertheless, the following businesses showed higher revenues: Pay TV¹ (+33,7%), Data and Information Technology (+15,8%), Internet (+10,9%) and Public and Rural Telephony (+6,1%).

Telefónica del Perú S.A.A maintains its commercial penetration strategy by offering segmented services, through diverse campaigns - commercialization of Telefonica's trios and duos packages - and its loyalty campaign, which aims to multiply the number of accesses in the market. Thus, by 2Q10, total operating accesses showed a year-over-year growth of 10,7%², in broadband accesses, essentially by the strong increase in Speedy clients due to greater supply of multi-products (TV, Speedy and line), as well as the commercialization of complete Internet connection³.

Local Telephony revenues reached S/. 303 million for 2Q10, 6,8% below 2Q09. This is mainly explained by the reduction of 2,2% in the Fixed-Other operator traffic (mobile

¹ Income from Pay TV service integrated into duo and trio packages of TdP, without the income generated by single-product services subsidiaries.

² Year-over-year growth corresponds to individual TdP excluding those of its subsidiaries.

³ Product which includes three Internet services: Speedy, Speedy Speedy Wi Fi and mobile, and is exclusively for packaged customers.

and fixed) as a result of the mobile substitution and lower revenues in the Invoiced Fixed - Fixed Traffic (-32,4%, minutes out of the offered packet of minutes) given the migration towards flat price lines and per second pricing lines. Moreover, the monthly rent income registered a fall of 3,7% as a result of a smaller subscriber base.

Similar behavior is observed for 6M10 where revenues reached S/. 614 million, which were 6,8% lower compared to 6M09 due to lower revenues in other operators interconnection traffic (-3,2%) and monthly rent (-3,5%), as explained before.

Revenues from Long Distance reached S/. 63 million, decreased 8,3% compared to 2Q09. This fall is the result of lower revenues in long national distance (LDN) of 1,6% and in long international distance (LDI) of 14,6% which are explained by the effect of the pre-selection and the lower use of prepaid cards due to the mobile substitution. Likewise, Long Distance revenues for 6M10 registered a fall of 10,7% and totaled S/. 129 million. The lower accumulated earnings in LDN and LDI are explained by the effects mentioned before and the reductions were 1,9% and 18,6% respectively on a year-over-year basis.

Public Telephony and Rural Telephony revenues reached S/. 114 million for 2Q10, which resulted in a 6,5% increase year-over-year. In one hand, the Urban Telephony revenues reached S/. 106 million, which were 9,0% higher compared to 2T09. This is as consequence of the impact of the modification of tariff plans and better management of Public Telephony sites (installation and reallocation of equipment in sites of higher returns). By the other hand, Rural Telephony revenues reached S/. 8 million, 17,0% below 2Q09 due to the fall of traffic as a result of the mobile substitution.

Similarly, revenues from Public Telephony and Rural Telephony for 6M10 reached S/. 233 million, which were 6,1% higher compared to the registered for 6M09. From the total of revenues, S/. 216 million were related to Urban Telephony which raised 10,0% year-over-year. By the other hand, Rural Telephony revenues totaled S/. 17 million for 6M10, which were 27,7% below of the registered for 6M09.

In relation to Pay TV business, the revenues from it reached S/. 51 million for 2Q10, which grew 20,1% compared to 2Q09 because of the commercial impulse in the duo and trio packages. By the other hand, revenues for 6M10 reached S/. 102 million and resulted in a 33,7% increase year-over-year. If subsidiary revenues were considered, year-over-year growth would be 9,2% for 2Q10 (revenues of S/. 138 million) and 12,0% for 6M10 (revenues of S/. 275 million).

By the other hand, revenues from Internet reached S/. 230 million for 2Q10, which increased 11,8% year-over-year. This raise was supported, mainly by the growth of the broadband base in 10,7%, which allowed to reach 823 thousand accesses. This increase is product of diverse promotion campaigns designed to attract new clients, which facilitated the access to services and the migration to higher speed levels strategy. This translated in an improvement in the ARPU or average revenue per user and the launch of new services for the low-income segment ("*Internet 50*"). Also, revenues for 6M10 reached S/. 451 million, which were 10,9% higher compared to 6M09 due to the same reasons mentioned.

Interconnection and Circuits revenues reached S/. 86 million for 2Q10, which dropped 12,8% year-over-year. This decrease is explained by a 31,8% reduction of fixed network termination charge, which was modified from US\$ 0.01208 to US\$ 0.00824 as of September of 2009, as well as to lower traffic. For 6M10, revenues reached S/. 169 million and decreased 15,2% compared to 6M09, reduction also explained by lower completion charge and traffic.

Revenues from Data and Information Technology reached S/. 104 million for 2Q10, which resulted in a 15,0% growth year-over-year. This result is mainly explained by the higher equipment and technology projects sales. Revenues for 6M10 totaled S/. 209, which increased 15,8% compared to 6M09.

Operating Expenses

Operating expenses for 2Q10 reached S/. 857 million, 2,9% higher compared to 2Q09. This increase is mainly explained by higher provisions (+236,3%) due to the reversion of management estimates done for 2Q09 relative to Payroll Adequacy, general and administrative expenses(+1,9%), materials and supplies(+11,4%) and personnel(+3,9%). This increase was partly offset by lower depreciation y amortization (-12,2%), as well as lower interconnection expenses (-15,4%).

Likewise, Operating expenses for 6M10 decreased 1,6% compared to 6M09 and totaled S/. 1 659 million. This reduction is mainly due to lower depreciation y amortization expenses (-20,2%), interconnection expenses(-8,2%)and other expenses (-197,4%). This reduction was partly offset by higher provisions (+108,6%)as explained before and general and administrative expenses(+3,1%).

Operating Result

Operating result for 2Q10 reached S/. 111 million, a 15,1% fall compared to 2Q09; meanwhile for 6M10 it totaled S/. 246 million, a 2,6% fall year-over-year. The relative better results for 6M10 is mainly product of the offset of lower revenues from regulated services by higher revenues from Internet, Data and Information Technology, Pay TV by Subscription and Public Telephony and Rural Telephony businesses , as well as lower operating expenses.

Non Operating Result

Non-operating result reached for 2Q10 S/. 95 millions, which resulted in an increase of 5,4% on a year-over-year basis. For 6M10, non-operating result totaled S/. 192 million, a 0,9% increase compared to 6M09. In both cases, the growth is product of higher participation of affiliate results, particularly Telefónica Móviles. Net financial expenses for 2Q10 were reduced by S/. 1 million, but increased S/. 4 million for 6M10 , on a year-over-year basis for both cases.

Net Result

Net result reached S/. 169 million for 2Q10, 3,0% higher compared to 2Q09. This increase is mainly explained by the better non operating result. Net result for 6M10 totaled S/. 324 million which decreased 9,5% compared to 6M09 as a result of lower operating results.

Balance Sheet

Current Assets reached S/. 1,708 million for 2Q10, S/. 302 million higher compared to 1Q10. Likewise, current liabilities in 2Q10 increased S/. 103 million. On the other hand, net fixed assets totaled S/. 3 181 million, which reflects a decrease of S/. 85 million over 1Q09 results.

Finally, net financial debt on June 2010 reached S/. 3 200 million, S/. 136 million higher compared to 1Q10. Similarly, as a result of quarterly results, net shareholders equity increased S/. 181 million compared to 1Q10 and totaled S/. 3 702 million.

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 ^{2/}	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 ^{2/}	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.