

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 dúo 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 2T09; 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

| | 1Q10 | 4Q09 | 3Q09 | 2Q09 | 1Q09 |
|--|------------------|------------------|------------------|------------------|------------------|
| CURRENT ASSETS | | | | | |
| Cash and Banks | 218,966 | 176,551 | 102,618 | 166,470 | 136,748 |
| Accounts receivable - net | 894,556 | 961,295 | 937,007 | 908,782 | 788,116 |
| Affiliated Accounts Receivable-Affiliated Accounts | 23,000 | 24,572 | 25,257 | 31,653 | 31,964 |
| Dividends receivable ^{2/} | - | - | - | 149,993 | - |
| Other accounts receivable | 126,235 | 112,992 | 97,287 | 93,954 | 112,255 |
| Materials and supplies | 91,352 | 67,842 | 87,685 | 92,062 | 81,446 |
| Prepaid taxes and expenses and others | 51,505 | 50,857 | 90,380 | 155,352 | 191,987 |
| Total current assets | 1,405,614 | 1,394,109 | 1,340,234 | 1,598,266 | 1,342,516 |
| Other Long Term Accounts receivable | 52,341 | 53,162 | 3,785 | 3,785 | 3,785 |
| LONG-TERM ACCOUNT RECEIVABLE | 1,429,939 | 1,276,269 | 1,589,295 | 1,419,227 | 1,447,170 |
| DEFERRED CHARGES | 62,214 | 65,523 | 80,334 | 82,544 | 84,755 |
| PROPERTY, PLANT | 16,373,100 | 16,364,504 | 16,723,021 | 16,618,443 | 16,493,040 |
| Accumulated depreciation | (13,107,346) | (12,975,116) | (13,396,970) | (13,229,365) | (13,036,960) |
| | 3,265,754 | 3,389,388 | 3,326,051 | 3,389,078 | 3,456,080 |
| Write-off Provision | - | - | (6,400) | (6,400) | (6,400) |
| | 3,265,754 | 3,389,388 | 3,319,651 | 3,382,678 | 3,449,680 |
| Net Intangible assets and Goodwill | 2,803,287 | 2,779,670 | 2,830,045 | 2,866,657 | 2,913,277 |
| TOTAL ASSETS | 9,019,149 | 8,958,121 | 9,163,344 | 9,353,157 | 9,241,183 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | 1Q10 | 4Q09 | 3Q09 | 2Q09 | 1Q09 |
|--|------------------|------------------|------------------|------------------|------------------|
| CURRENT LIABILITIES | | | | | |
| Overdrafts | 474 | - | 3,949 | 2,358 | 10,059 |
| Accounts payable | 575,262 | 666,669 | 537,871 | 543,347 | 535,335 |
| Other accounts payable | 650,771 | 693,533 | 691,838 | 743,912 | 727,197 |
| Bank Loans ^{2/} | 10,008 | - | - | - | 69,921 |
| Commercial Papers ^{1/} | 62,195 | - | 34,893 | - | - |
| Current portion of bonds ^{2/} | 294,690 | 237,300 | 172,377 | 171,754 | 169,510 |
| Current portion of long-term debt ^{1/} | 324,296 | 400,387 | 434,683 | 441,675 | 537,702 |
| Total current liabilities | 1,917,696 | 1,997,889 | 1,875,611 | 1,903,046 | 2,049,724 |
| BONDS ^{1/} | 2,065,039 | 2,094,221 | 2,140,875 | 2,145,338 | 1,989,714 |
| LONG-TERM DEBT ^{1/} | 799,023 | 755,237 | 725,591 | 690,974 | 657,385 |
| GUARANTY DEPOSITS AND OTHERS | 59,584 | 57,580 | 55,864 | 56,388 | 55,334 |
| DEFERRED LIABILITIES DUE TO INCOME TAXES AND WORKERS PARTICIPATION | 350,169 | 368,270 | 414,865 | 454,874 | 498,913 |
| DEFERRED EARNINGS - NET | 125,411 | 134,278 | 25,609 | 26,319 | 26,894 |
| SHAREHOLDERS' EQUITY | | | | | |
| Capital stock | 2,878,643 | 2,878,643 | 2,878,643 | 2,877,748 | 2,877,748 |
| Additional Capital | 83,403 | 83,403 | 83,405 | 84,300 | 84,414 |
| 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 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 accesess 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.