

Telefonica

Quarterly Results **Telefonica del Peru S.A.A.**

July – September 2010

Significant Events 3Q10

A summary containing the most significant events from July 1st to September 30th of 2010 are detailed below:

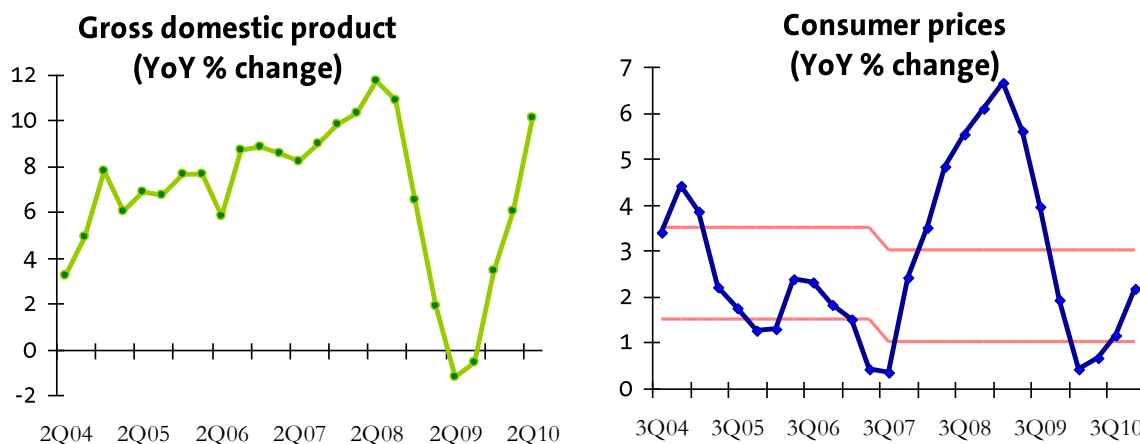
1. On July 21th, the Board of Directors approved the individual and consolidated financial statements for the second quarter of 2010, and designated Ernst&Young as auditors for 2010. Likewise, the board delegated management faculties to determine the appropriateness of the reorganization of Telemergencia business.
2. On August 19th, the affiliate Katalyx Peru S.A.C. modified its social denomination to Telemergencia S.A.C. and appointed Telefonica del Peru S.A.A (TdP) as its General Manager.
3. On August 20th, the Shareholders Meeting of Telefonica Servicios Digitales S.A.C. approved a raise of S/. 1 055 100 in its capital stock.
4. On September 29th, the Shareholders Meeting approved the separation of the equity portion associated with the Telemergencia business and its contribution to Telemergencia S.A.C. affiliate (before Katalyx Peru S.A.C.) through the form of a simple reorganization. Moreover, the equity portion owned by TdP was given as a capital contribution to Telemergencia S.A.C. affiliate through a simple reorganization. Likewise, the resignation of TdP as General Manager was accepted.
5. On September 30th, the transfer of the representative shares of Telemergencia S.A.C. to Prosegur Activa Holding S.L. Sociedad Unipersonal and Prosegur Activa España S.L. took place. Consequently, this affiliate was separated from Telefonica Economic Group.

Economic Environment

Economic recovery sped up in the 2Q10, and GDP growth rates were consistently above market expectations. Real GDP expanded at 10%YoY, the highest growth rate since 3Q08. Domestic demand recovery was driven by a robust private sector spending. Private consumption expanded 5,8%YoY, while private investment experienced a significant recovery (+25%YoY). This high growth rate is explained by the low comparative base of 2009, but more importantly by the recovery of pre-crisis investment level. Annualized nominal investment in 2Q10 was very near the all-time record set in 2008. The 2,6 p.p. (percentage points) contribution to growth by inventory gains reflected the dynamism of current sales and business confidence in the sustainability of growth.

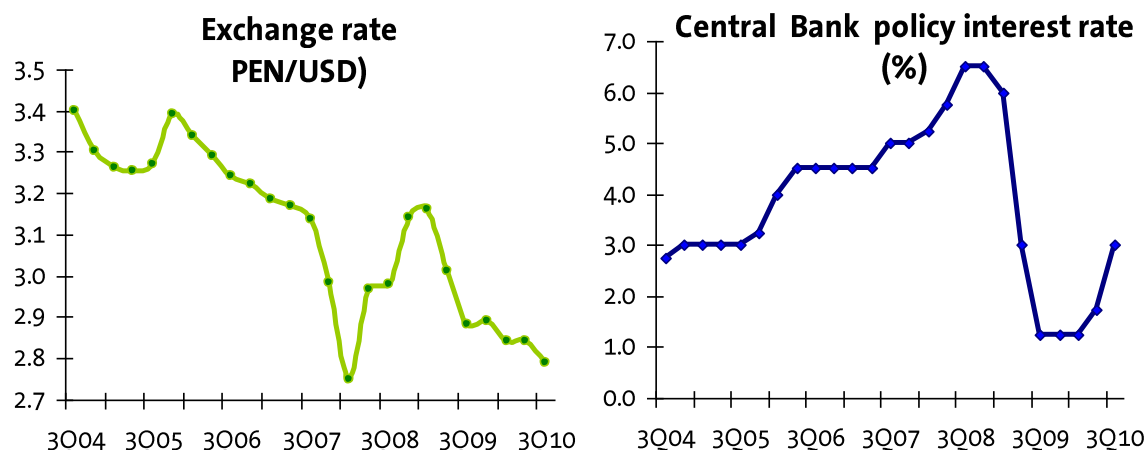
Public expenditure contribution to domestic demand recovery was significant, especially due to high public investment growth rates (45%YoY). Net exports remained a negative drag on GDP overall growth. External demand remained weak with real exports expanding only by 0,4%YoY. On the other hand, imports growth further accelerated to 23%YoY, in line with consumption and investment dynamism. Private sector employment grew about 7%YoY on the Jul-Aug-10 period, buoyed by investment and fast recovery of credit and consumption. This strongly suggests that the macroeconomic investment-consumption- employment virtuous cycle reactivation is well in place.

Non-primary sectors -especially those related to domestic demand- were the most dynamic in the 2Q10. Construction (22%YoY) led growth by sector, due to the resilience of the residential housing booming cycle; while commerce grew 11%YoY, reflecting the sharp rebound in consumption, mainly in durable goods retail. Furthermore, primary manufacturing grew 22%YoY, thanks to high demand for machinery, equipment and intermediate goods for the consumption industry. Central Bank's last estimate (Sep-10) for 2010 GDP growth is around 8% and 6% for 2011.



Consumer prices dynamics are stable. However, correction in some surplus-side constraints in agricultural production resulted in a negative MoM inflation rate at the end of 3Q10 (-0,03%). Year-to-date inflation is 2% and 2,4%YoY, within the Central Bank's inflation target range, between 1% and 3%. We expect no external price shocks this year.

The stabilization in growth and inflation leading indicators on Oct-10 led to a pause in the cycle of monetary stimulus withdrawal by the Central Bank. Monetary policy interest rate stays at 3% (from an all-time low of 1,25% on Apr-10). Moreover, in the absence of liquidity constraints in financial system, the Central Bank increased the reserve requirements for PEN and USD deposits, which reflected in corporate and commercial interest rates raises.



The PEN appreciated 3,2%YoY and 1,4%QoQ as investors' appetite shifted from USD denominated assets to strong macro fundamentals (fiscal solvency, rapid recovery of domestic demand) emerging countries' currencies. Moreover, the strength of PEN is supported by positive USD inflows in the balance of payments, due to capital and trade flows. The trade balance for Jan-Jul-10 was USD 3 530 million. The Central Bank withdrew some of this USD excess (USD 5 556 million YtD) through open market operations, in order to slow down the PEN appreciation pace.

Peru's country risk, reflected in the JP Morgan's Emerging Markets Bond Index (EMBIG), had a predominantly downward trend. In the 3T10, country risk dropped 66 bps to 142 bps. This lower relative risk perception of Peru is reflected in the downward trend of global bonds' interest rate curve. The sovereign bond interest rates were affected in some extent by the withdrawal of monetary stimulus, especially in the short term. With respect to the long term interest rates, the sovereign bonds curve reflects significant demand from offshore investors, in line with low inflation and currency appreciation expectations. Finally, in Aug-10, Standard and Poor's upgraded Peru's PEN sovereign debt outlook from stable to positive.

Competitive Environment

During the third quarter of 2010, residential and business segments of Telefonica del Peru kept focus on the migration of its current services to higher value ones, through the campaign "Positive Option 2", which provides a three month trial of improved service¹ by the same amount regularly billed.

The company is currently designing accessible tariffs plans to provide broadband and pay TV services to low-income market segments.

Finally, it was made public the union between Telmex and Claro, directed to a converged supply which is orientated to single-label identification among its clients.

Operating Results

Operating Revenue

Operating Revenue for 3Q10 reached S/. 954 million, which were 2,9% lower compared to 3Q09. The following lines of business showed a decrease in revenue: Long Distance

¹ In accordance with the client's profile, it is determined the convenience of a migration to a Duo package.

Telephony (-17,6%), Local Telephony (-8,3%), Interconnection and Circuits Services (-0,9%), and other services (-50,4%), which were partially offset by the raise of Pay TV business (+5,3%), Data and Information Technology (+4,4%) and Public and Rural Telephony (+1,9%).

Likewise, Operating Revenue for 9M10 reached S/. 2 859 million, which decreased 2,1% year-over-year, because of lower revenue from Long Distance Telephony (-12,9%), Interconnection and Circuits Services (-10,8%), Local Telephony (-7,3%) and Others (-87,6%). Nevertheless, the following businesses showed higher revenue: Pay TV² (+22,6%), Data and Information Technology (+11,7%), Internet (+9,3%) and Public and Rural Telephony (+4,7%).

Local Telephony revenue reached S/. 293 million for 3Q10, 8,3% below 3Q09. This is mainly explained by the reduction of 10,1% in the Fixed-to-Other operator traffic (mobile and fixed networks) as a result of the fixed-for-mobile substitution. Similarly lower monthly line rental income of 3,8% was reported as a consequence of the new productivity factor application (5,98% for 2010-2013), higher than the 6,42% rate for 2007-2010, and the decrease of revenue in the Fixed-to-Fixed networks traffic (-21,6%). This last one was due to lower consumption (-26,3%) and lower income from flat and semi-flat fee phone plans.

Similar behavior was observed in the 9M10, where revenue reached S/. 907 million, which were 7,3% lower compared to 9M09 due to lower revenue in other operators interconnection traffic (-3,2%) and in the monthly line rental (-3,6%).

Revenue from **Long Distance** reached S/. 57 million (-17,6% YoY). This lower revenue is explained by the fixed-to-mobile substitution, lower use of prepaid cards and the launch of Area Virtual Movil³ since September 4th. Lower international long distance (LDI) revenue (-14,6%YoY) was negatively impacted by the higher use of Voice over Internet (IP). The accumulated Long Distance earnings for 9M10 reached S/. 187 million (-12,9%YoY). As in the case of quarterly results, lower earnings in LDN and LDI for 9M10 were -8,1%YoY and -17,3%YoY respectively.

Public Telephony and Rural Telephony revenue reached S/. 114 million for 3Q10, which resulted in a 1,9%YoY increase. On one hand, the Urban Telephony revenue reached S/. 105 million, which were 3,4%YoY higher, as consequence of the modification of tariff plans and improved management of the payphone park (installation and reallocation in higher returns areas). By the other hand, Rural Telephony revenue reached S/. 9 million (-11,9%YoY) due to lower traffic as a result of the fixed-to-mobile substitution. Similarly, revenue from Public Telephony and Rural Telephony for 9M10 reached S/. 347 million, which were 4,7%YoY higher. This result is explained by S/. 321 million of Urban Telephony, which raised 7,8%YoY and S/. 26 million of Rural Telephony, which fall 22,7%YoY.

Revenue from **Pay TV business** reached S/. 51 million for 3Q10, which grew 5,3%YoY, mainly explained by the service bundle packaging Duos and Trios. Revenue for 9M10 reached S/. 153 million and resulted in a 22,6%YoY increase. Considering Telefonica Multimedia's revenue, year-over-year growth would be 1,8% for 3Q10 (S/. 134 million) and 8,4% for 9M10 (S/. 409 million).

Internet revenue reached S/. 232 million in 3Q10, which increased 6,5%YoY. This raise was supported mainly by the growth of the broadband clients' base in 8,5%, (+826 000 accesses), as a result of various customer acquisition campaigns, offering of higher speed service (which improved the ARPU) and the development of new services for the low-

² Income from Pay TV service integrated into duo and trio packages of TdP, without the income generated by single-product services from affiliates.

³ National Long Distance (LDN) Fixed-to-Mobile calls are billed as local calls.

income segment (like “Internet 50”). Revenue reached S/. 683 million year-to-date, 9,3% higher than that of 9M09.

Interconnection and Circuit revenue reached S/. 88 million in 3Q10, 0,9%YoY lower. This decrease reflects the 31,8% reduction of fixed network termination charges, which was changed from US\$ 0.01208 to US\$ 0.00824 as of September 2009, as well as the lower traffic carried. In a year-to-date basis, revenue reached S/. 257 million (-10,8%YoY), explained by the same reasons.

Revenue from **Data and Information Technology** reached S/. 106 million in 3Q10, a 4,4%YoY increase, mainly explained by higher sales of data services and telephone exchanges. As of 9M10, revenue reached S/. 316 million, 11,7%YoY higher, due to an increase in information technology projects (especially those provided to Lima’s city council), and data services.

Operating Expense

Operating expense in 3Q10 reached S/. 724 million, 8,3%YoY lower. This decrease was mainly explained by lower Interconnection and Circuit expense (-20,5%YoY), depreciation and amortization (-12,7 %), materials and supplies (-7,0%), general and administrative expenses (-2,5%); partly offset by higher personnel expenses (+56,6%). The positive net effect of the provisions and other income and expenses in 3Q10 (S/. 43 million) was considerably higher than that of 3Q09 (S/. 2 million).

Operating expense for 9M10 decreased 3,7%YoY and totaled S/. 2 383 million. This reduction is mainly due to lower depreciation and amortization expense (-17,8%), and interconnection expenses (-12,4%), partly offset by increases in personnel expenses (+13,7%), materials and supplies expenses (+2,3%) and general and administrative expenses (+1,2%). The positive net effect of the provisions and other income and expense year to date was S/. 16 million, higher than the registered for 9M09 (S/. 44 million).

Operating Result

Operating result in 3Q10 reached S/. 230 million, (18,8%YoY higher). Meanwhile, for 9M10 it totaled S/. 477 million, 2,6%YoY higher. In both cases, the increase is mainly due to higher Internet, Data and Information Technology, Pay TV, Public and Rural Service income, as well as lower operating expense, which offset the lower regulated businesses income.

At the same time, operating result benefited from the sale of non-strategic assets, which maximized the use of capital.

Non Operating Result

Non-operating result reached S/. 154 million in 3Q10, reflecting an increase of 32,4%YoY. Year to date, non-operating result amounted S/. 346 million (12,8%YoY increase). In both cases, the growth is product of higher participation of affiliate results, particularly Telefonica Moviles.

Net Result

Net result reached S/. 154 million in 3Q10, 23,3%YoY higher. Net result in 9M10 was S/. 628 million, up 3,8%YoY, due to better operating and non-operating results.

Balance Sheet

Current Assets reached S/. 1 525 million in 3Q10, 10,7%QoQ lower, due to a decrease in dividend remittance from Telefonica Moviles. Current liabilities by the end of 3Q10 increased S/. 126 million up to S/. 2 147 million, as a result of higher Other Accounts Payable and higher current debt payments. On the other hand, net fixed assets amounted S/. 3 173 million, reflecting a 0,3%YoY decrease.

Finally, net financial debt as of September 2010 reached S/. 3 176 million, S/. 24 million lower than in 2Q10. Similarly, as a result of quarterly results, net shareholders equity in 3Q10 increased S/. 21 million over 2Q10, and amounted S/. 3 862 million.

	3Q09		3Q10		Abs. Var 3Q10-3Q09	Var. % 3Q10-3Q09	9M09		9M10		Abs. Var 9M10-9M09	Var. % 9M10-9M09
		%		%		%		%		%		%
Total Operating Revenues	982,627	100.0	953,947	100.0	(28,680)	(2.9)	2,920,939	100.0	2,859,414	100.0	(61,525)	(2.1)
Local Telephone Service	319,595	32.5	292,978	30.7	(26,617)	(8.3)	978,720	33.5	907,246	31.7	(71,474)	(7.3)
Public and Rural Service	111,769	11.4	113,947	11.9	2,178	1.9	331,466	11.3	347,025	12.1	15,559	4.7
Internet	217,958	22.2	232,023	24.3	14,065	6.5	624,994	21.4	683,327	23.9	58,333	9.3
Long Distance	69,646	7.1	57,406	6.0	(12,240)	(17.6)	214,296	7.3	186,595	6.5	(27,701)	(12.9)
Data and Infotmation Technology	101,825	10.4	106,337	11.1	4,512	4.4	282,495	9.7	315,510	11.0	33,015	11.7
Interconnection and Citcuits	88,667	9.0	87,837	9.2	(830)	(0.9)	288,116	9.9	256,914	9.0	(31,202)	(10.8)
Pay TV ^{1/}	48,681	5.0	51,262	5.4	2,581	5.3	125,120	4.3	153,434	5.4	28,314	22.6
Others	24,486	2.5	12,157	1.3	(12,329)	(50.4)	75,732	2.6	9,363	0.3	(66,369)	(87.6)
Total Operating Costs and Expenses	788,753	80.3	723,641	75.9	(65,112)	(8.3)	2,474,101	84.7	2,382,655	83.3	(91,446)	(3.7)
Interconnection Expenses	136,505	13.9	108,469	11.4	(28,036)	(20.5)	405,277	13.9	355,181	12.4	(50,096)	(12.4)
Personnel	68,555	7.0	107,331	11.3	38,776	56.6	288,575	9.9	327,981	11.5	39,406	13.7
General and Administrative ^{1/}	318,133	32.4	310,145	32.5	(7,988)	(2.5)	927,818	31.8	938,623	32.8	10,805	1.2
Depreciation and Amortization	224,402	22.8	195,809	20.5	(28,593)	(12.7)	697,334	23.9	573,123	20.0	(124,211)	(17.8)
Management Fee	8,496	0.9	7,527	0.8	(969)	(11.4)	24,745	0.8	32,507	1.1	7,762	31.4
Materials and Supplies	38,726	3.9	35,999	3.8	(2,727)	(7.0)	124,605	4.3	127,410	4.5	2,805	2.3
Provisions	19,287	2.0	67,473	7.1	48,186	n.a.	55,503	1.9	143,033	5.0	87,530	n.a.
Voluntary Retirement Program	(8,048)	(0.8)	(159)	(0.0)	7,889	(98.0)	(38,707)	(1.3)	(159)	(0.0)	38,548	(99.6)
Other Net revenues and expenses	(17,303)	(1.8)	(108,953)	(11.4)	(91,650)	n.a.	(11,049)	(0.4)	(115,044)	(4.0)	(103,995)	n.a.
Operating Results	193,874	19.7	230,306	24.1	36,432	18.8	446,838	15.3	476,759	16.7	29,921	6.7
Operating results before other net revenues and expenses	176,571	18.0	121,353	12.7	(55,218)	(31.3)	435,789	14.9	361,715	12.6	(74,074)	(17.0)
Interest Gain	6,470	0.7	5,313	0.6	(1,157)	(17.9)	14,492	0.5	10,487	0.4	(4,005)	(27.6)
Interest Expenses	(58,386)	(5.9)	(57,715)	(6.1)	671	(1.1)	(180,325)	(6.2)	(180,563)	(6.3)	(238)	0.1
Exchange gain (loss)	1,514	0.2	(4,748)	(0.5)	(6,262)	(413.6)	(2,399)	(0.1)	(10,425)	(0.4)	(8,026)	334.6
Participation of affiliates results ^{2/}	166,492	16.9	210,820	22.1	44,328	26.6	474,991	16.3	526,517	18.4	51,526	10.8
Non Operating Results	116,090	11.8	153,670	16.1	37,580	32.4	306,759	10.5	346,016	12.1	39,257	12.8
Income Before Taxes and Participations	309,964	31.5	383,976	40.3	74,012	23.9	753,597	25.8	822,775	28.8	69,178	9.2
Workers' Participations	(16,726)	(1.7)	(21,744)	(2.3)	(5,018)	30.0	(39,793)	(1.4)	(52,744)	(1.8)	(12,951)	32.5
Income Tax	(47,014)	(4.8)	(58,710)	(6.2)	(11,696)	24.9	(109,294)	(3.7)	(142,410)	(5.0)	(33,116)	30.3
Net Income	246,224	25.1	303,522	31.8	57,298	23.3	604,510	20.7	627,621	21.9	23,111	3.8

1/ Correspond to revenues from Pay TV services included in packages "Duos" and "Trios". General and Administrative expenses include expenses from TV wholesale service of Telefonica 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 from 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 SEPTEMBER 30, 2010
(Prepared In Accordance With Peruvian GAAP)

ASSETS						LIABILITIES AND STOCKHOLDERS' EQUITY					
	3Q10	2Q10	1Q10	4Q09	3Q09		3Q10	2Q10	1Q10	4T09	3T09
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and Banks	233,732	274,588	218,966	176,551	102,618	Overdrafts	99	3,175	474	-	3,949
Accounts receivable - net	886,135	895,310	894,556	961,295	937,007	Accounts payable	666,772	645,412	575,262	666,669	537,871
Affiliated Accounts Receivable - Affiliated Accounts	27,405	27,182	23,000	24,572	25,257	Other accounts payable	718,523	653,406	650,771	693,533	691,838
Dividends receivable ^{2/}		219,990	-	-	-	Bank Loans 1/		15,005	10,008	-	-
Other accounts receivable	212,051	132,048	126,235	112,992	97,287	Commercial Papers 1/		62,439	62,195	-	34,893
Materials and supplies	108,438	98,600	91,352	67,842	87,685	Current portion of bonds 1/	426,205	345,093	294,690	237,300	172,377
Prepaid taxes and expenses and others	57,033	60,301	51,505	50,857	90,380	Current portion of long-term debt 1/	335,378	296,036	324,296	400,387	434,683
Total current assets	1,524,794	1,708,019	1,405,614	1,394,109	1,340,234	Total current liabilities	2,147,177	2,020,566	1,917,696	1,997,889	1,875,611
OTHER LONG TERM ACCOUNTS RECEIVABLE	51,435	52,084	52,341	53,162	3,785	BONDS 1/	2,006,802	2,028,036	2,065,039	2,094,221	2,140,875
LONG-TERM ACCOUNT RECEIVABLE	1,563,670	1,357,438	1,429,939	1,276,269	1,589,295	LONG-TERM DEBT 1/	640,768	727,882	799,023	755,237	725,591
DEFERRED CHARGES	80,538	83,847	62,214	65,523	80,334	GUARANTY DEPOSITS AND OTHERS	60,610	60,196	59,584	57,580	55,864
PROPERTY, PLANT	16,565,091	16,466,831	16,373,100	16,364,504	16,723,021	DEFERRED LIABILITIES DUE TO INCOME TAXES AND WORKERS PARTICIPATION	301,549	316,402	350,169	368,270	414,865
Accumulated depreciation	(13,392,420)	(13,285,828)	(13,107,346)	(12,975,116)	(13,396,970)	DEFERRED EARNINGS - NET	109,688	117,015	125,411	134,278	25,609
	3,172,671	3,181,003	3,265,754	3,389,388	3,326,051	SHAREHOLDERS' EQUITY					
White-off Provision	-	-	-	-	(6,400)	Capital Stock	2,878,643	2,878,643	2,878,643	2,878,643	2,878,643
	3,172,671	3,181,003	3,265,754	3,389,388	3,319,651	Additional Capital	83,403	83,403	83,403	83,403	83,405
						Legal reserve	230,791	230,791	230,791	149,626	149,626
						Freely distributable Reserves	-	-	-	-	229,967
						Other reserves	(9,350)	(4,565)	(15,762)	(12,643)	(21,222)
						Retain earnings	678,073	694,551	525,152	451,617	604,510
NET INTANGIBLE ASSETS AND GOODWILL	2,735,046	2,770,529	2,803,287	2,779,670	2,830,045	TOTAL SHAREHOLDERS' EQUITY	3,861,560	3,882,823	3,702,227	3,550,646	3,924,929
TOTAL ASSETS	9,128,154	9,152,920	9,019,149	8,958,121	9,163,344	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	9,128,154	9,152,920	9,019,149	8,958,121	9,163,344

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

2/ Correspond to declared dividends for Telefonica Moviles S.A.

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

	3Q09	4Q09	1Q10	2Q10	3Q10	Abs. Var 3Q10- 3Q09	3Q10/ 3Q09
FIXED TELEPHONY							
Lines Installed (1)	2,573,340	2,573,852	2,564,028	2,547,468	2,517,948	(55,392)	(2.2)
Lines in Service (2)	2,406,074	2,373,262	2,373,520	2,369,824	2,354,096	(51,978)	(2.2)
Lines in Service per Employee (Telefónica del Perú) (3)	571	561	555	556	556	(15)	(2.6)
Lines in Service per 100 inhabitants (%)	8.5	8.4	8.1	8.1	8.0	(0.5)	(5.9)
BASIC TELEPHONY							
Lines in Services	2,224,123	2,201,431	2,198,325	2,191,769	2,174,028	(50,095)	(2.3)
PUBLIC TELEPHONES							
Lines in Service (4)	167,271	161,500	165,564	169,797	172,288	5,017	3.0
BROADBAND							
Lines in Service (5)	761,644	767,279	791,336	823,321	826,354	64,710	8.5
PAY TV							
Lines in Service (6)	723,357	686,295	712,287	724,274	711,092	(12,265)	(1.7)
TRAFFIC							
Local Traffic - Minutes (000) (7)	589,051	545,986	489,913	458,439	433,147	(155,904)	(26.5)
Long Distance - Minutes (000) (8)	343,233	359,885	347,926	384,376	369,407	26,174	7.6
NUMBER OF EMPLOYEES							
Telefónica del Perú (3)	4,214	4,232	4,274	4,260	4,235	21	0.5

(1) Includes Accesses from affiliates but Telefonica Moviles.

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

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

(4) Includes fixed and mobile Public Telephony, fixed and mobile Rural Telephony.

(5) Includes Residential Speedy, Speedy Business, Giga ADSL and Cablenet, and accesos de optical fiber.

(6) Includes Cable TV and Satellite TV DTH

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

(8) Excluded prepaid cards, includes packeted minute plans.