FitchRatings

Corporates
Telecommunications
Peru

Telefonica del Peru, S.A.A.

Fitch Ratings' downgrade of Telefonica del Peru, S.A.A.'s (TdP) Issuer Default Rating (IDR) to 'B+' from 'BB-', and our Negative Outlook, reflect weak 2023 operating performance and the near-term materialization of TdP's tax liability. The tax liability will result in a material deterioration in the leverage profile (including tax contingent obligation) over the rating horizon.

In addition, the company continues to operate in an intense competitive environment amid an uncertain economic backdrop in Peru. TdP benefits from its scale as the largest operator in the country, and a diversified product portfolio, while its negative free cash flow (FCF) has weighed on its financial profile.

Key Rating Drivers

Outstanding Tax Liability: As of Dec. 31, 2023, TdP had not finalized its required tax payment to SUNAT, Peru's tax agency. The final amount is pending a judicial decision, expected in the coming months. Fitch expects the total amount to be around PEN3.0 billion, a portion of which has already been paid in 2023 using funds from the PEN1.0 billion shareholder loan disbursed in 2023. Peruvian companies facing tax liabilities have the option to extend a portion of the final settlement payment up to six years by following standard procedures with the SUNAT.

Fitch expects the company will seek additional debt financing to service these payments (in addition to the capitalization of shareholder loans which have already been disbursed), and this will affect the financial profile.

Leverage Likely to Worsen: Fitch expects leverage to weaken over the rating horizon, given the expectation that a portion of the tax payments will be financed with debt financing. However, TdP has already received disbursements of a shareholder loan of PEN1 billion from its direct parent Telefonica Hispam, a portion of which has already been equitized as of December 2023. Fitch assumes some further shareholder support, but to what extent remains uncertain.

Relatively Weak Profitability, Negative FCF: Fitch expects FCF to remain negative and continue to weigh on the financial profile. Mobile and fixed revenue have both declined around 10% in 2023 as of result of intense competition. The EBITDA margin declined to around 11% in 2023 from 15% in 2022, mainly as a result of lower revenues. Fitch expects an acceleration of fiber rollout and low-single-digit ARPU growth to offset declining HFC and fixed voice, generating revenue growth in the low-single digits for the fixed business over the rating horizon.

Strong Diversification: TdP's business profile, particularly in terms of diversification, remains solid. It is well-diversified between fixed (47%) and mobile service (53%) offerings despite market share losses in recent years due to intense competition, most notably on the mobile side as Chile's Empresa Nacional de Telecommunicaciones S.A. (Entel, BBB-/Stable) and Bitel Peru (Viettel Group) continue to attract customers.

Linkages with Telefonica S.A.: Fitch rates TdP on a standalone basis due to the low legal, strategic, and operational incentives as related to the ultimate parent, Spain's Telefonica S.A. (TEF; BBB/Stable). TDP represents less than 3% of Telefonica's total EBITDA. However, Fitch expects Telefonica Hispam to provide some support to the company if needed to address the company's tax liability.

Ratings

Telefonica del Peru, S.A.A.

Long-Term IDR	B+
Long-Term Local-Currency IDR	B+
Senior Unsecured Debt - Long-Term Rating	B+

Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative

Click here for the full list of Ratings

2035 Climate Vulnerability Signal: 17

Applicable Criteria

Parent and Subsidiary Linkage Rating Criteria (June 2023)

Sector Navigators – Addendum to the Corporate Rating Criteria (November 2023)

Corporate Rating Criteria (November 2023)

Related Research

Global Corporates Macro and Sector Forecasts

Latin American Telecommunications Outlook 2024 (November 2023)

Latin American Telecommunications — Relative Credit Analysis Credit Analysis (November 2023)

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Financial Summary

(PEN 000)	2021	2022	2023	2024F	2025F	2026F
Gross revenue	7,049,215	7,156,328	6,476,335	6,619,618	6,786,758	6,913,690
EBITDA margin (%)	11.1	14.8	10.5	12.1	12.4	12.7
EBITDA leverage (x)	3.9	2.6	3.7	3.8	3.8	4.2
EBITDA net leverage (x)	3.1	2.2	3.0	3.3	3.5	3.8
EBITDA interest coverage (x)	2.4	2.7	1.0	4.5	3.7	3.1

F — Forecast
Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

TdP has a well-diversified business compared with regional peers, but its market position and profitability have been weakened as a result of intense competition in Peru. The financial profile has deteriorated since 2016, and Fitch expects cash flow to be pressured further by weak operating performance. In addition, leverage is likely to be elevated as a result of the tax liability, which Fitch expects will be funded partially with debt financing.

TdP's business position is roughly in line with sister company Telefonica Moviles Chile S.A. (TMCH, BBB-/Stable) in terms of service diversification and market position. TMCH is stronger financially, supported by lower leverage, while TdP has consistently lost share in both mobile and fixed, which has weighed on its profitability.

TdP is rated four notches below competitor Entel, as Entel has capitalized on its improved scale in Peru and sustained its strong operational performance in Chile. TdP's large fixed-line presence supports its business position in Peru, though Entel has a superior financial profile due to the continued strength in its Chilean operations and improving profitability metrics in Peru. TdP has a stronger liquidity position and more diversified business profile than Peruvian rival WOM Mobile S.A. (B-/Rating Watch Negative).

Navigator Peer Comparison

	IDR/Outlook	Operating Environment	Management and Corporate Governance	Market Position	Diversification	Technology and Infrastructure	Regulatory Environment	Profitability	Financial Structure	Financial Flexibility
AT&T Inc.	BBB+/Stable	aa	a	a	a	a	a	a	bbb	bbb+
Colombia Telecomunicaciones S.A. E.S.P. BIC	BBB-/Negative	bbb-	bbb-	bb+	bbb-	bb+	bbb	bb-	bb+	bb+
Empresa Nacional de Telecomunicaciones S.A.	BBB-/Stable	a-	bbb-	bbb	bbb-	bbb-	bbb	bb+	bbb-	bbb
Telefonica Celular del Paraguay S.A.E.	BB+/Stable	bb-	bbb-	bbb	bb	bbb-	bbb-	bbb+	bb+	bb
Telefonica del Peru, S.A.A.	B+/Negative	bb	bb+	bb	bbb-	bb+	bb	b	b+	b+
Telefonica Moviles Chile S.A.	BBB-/Stable	a	bbb	bb+	bbb-	bbb-	bbb	bb	bbb-	bbb-
Telefonica SA	BBB/Stable	a+	a-	a-	a	a	bbb	bbb-	bbb-	bbb+
Total Play Telecomunicaciones, S.A.P.I. de C.V.	CCC+/	bb-	b+	bb-	bb	bbb-	bb+	bbb-	b+	ccc+
UNE EPM Telecomunicaciones S.A.	B+/Evolving	bbb-	b+	bb	bbb-	bbb-	bbb	bb	bbb	b+
WOM Mobile S.A.	B-/RWN	a-	bb-	bb	bb	bb+	bbb	bb-	b+	b

Source: Fitch Ratings. Relative Importance of Factor: Higher, Moderate, Lower

Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Market Position	Diversification	Technology and Infrastructure	Regulatory Environment	Profitability	Financial Structure	Financial Flexibility
AT&T Inc.	BBB+/Stable	+5	+2	+2	+2	+2	+2	+2	-1	0
Colombia Telecomunicaciones S.A. E.S.P. BIC	BBB-/Negative	0	0	-1	0	-1	+1	-3	-1	-1
Empresa Nacional de Telecomunicaciones S.A.	BBB-/Stable	+3	0	+1	0	0	+1	-1	0	+1
Telefonica Celular del Paraguay S.A.E.	BB+/Stable	-2	+1	+2	-1	+1	+1	+3	0	-1
Telefonica del Peru, S.A.A.	B+/Negative	+2	+3	+2	+4	+3	+2	-1	0	0
Telefonica Moviles Chile S.A.	BBB-/Stable	+4	+1	-1	0	0	+1	-2	0	0
Telefonica SA	BBB/Stable	+4	+2	+2	+3	+3	0	-1	-1	+1
Total Play Telecomunicaciones, S.A.P.I. de C.V.	CCC+/	+4	+3	+4	+5	+7	+6	+7	+3	0
UNE EPM Telecomunicaciones S.A.	B+/Evolving	+4	0	+2	+4	+4	+5	+2	+5	0
WOM Mobile S.A.	B-/RWN	+9	+3	+4	+4	+5	+7	+3	+2	+1

Source: Fitch Ratings. Factor Score Relative to IDR: Worse positioned than IDR, Within one notch of IDR, Better positioned than IDR

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Stabilization of the ratings is dependent on the company achieving stability in market position and margin expansion above forecasts;
- Sustained neutral or positive FCF generation;
- Significant shareholder support from the parent resulting in leverage stabilizing would be positive for the rating.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Continued deterioration of margins and competitive position regardless of credit metrics;
- Total debt/EBITDA sustained above 5.5x or net debt/EBITDA above 5.0x;
- Inability to generate positive FCF on a sustained basis;
- Unfavorable financing structure of tax payments.

Liquidity and Debt Structure

Uncertain Liquidity: As of Dec. 31, 2023, the company had PEN297 million in short-term debt, and readily available cash of PEN521 million. TdP benefits from its manageable amortization schedule, with the majority of its debt maturing beyond 2025, including its PEN1.7 billion notes due in 2027. However, projected negative FCF, including the impact of material tax payments, implies that the company will need to secure external debt financing in the near term, assets sales, and/or further shareholder support in the near term. On the positive side, the company's existing debt is completely payable in Peruvian soles, limiting foreign-exchange risk for the company.

ESG Considerations

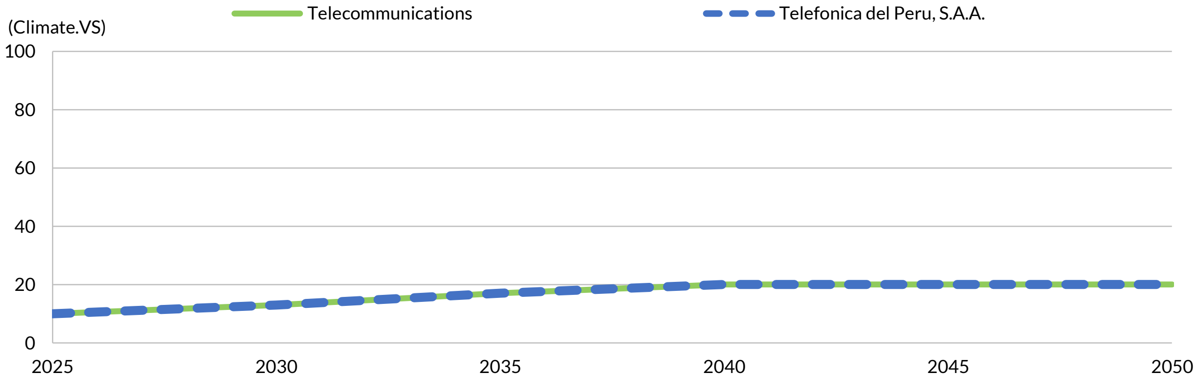
The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Climate Vulnerability Considerations

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's Corporate Rating Criteria.

The 2022 revenue-weighted Climate.VS for Telefonica del Peru for 2035 is 17 out of 100, suggesting low exposure to climate related risks in that year. For further information on how Fitch perceives climate-related risks in the telecommunications sector, see Technology, Media and Telecommunications -Long-Term Climate Vulnerability Signals.

Climate.VS Evolution
As of 31 December 2022



Source: Fitch Ratings

Liquidity and Debt Maturities

Cash and Maturities Report

(PEN 000)	31 Dec 22	31 Dec23
Total cash and cash equivalents	432,987	520,844
Short-term investments		
Less not readily available cash and cash equivalents	—	—
Fitch-defined readily available cash and cash equivalents	**432,987**	**520,844**
Availability under committed lines of credit	—	—
Total liquidity	432,987	520,844
LTM EBITDA after associates and minorities	1,058,645	682,082
LTM FCF	-487,254	-624,923

Source: Fitch Ratings, Fitch Solutions, Telefonica del Peru, S.A.A.

Scheduled debt maturities

(PEN 000)	31 Dec 23
2024	297,632
2025	671,730
2026	646,610
2027	665,704
2028	196,187
Thereafter	75,021
Total	**2,552,884**

Source: Fitch Ratings, Fitch Solutions, Telefonica del Peru, S.A.A.

Key Assumptions

- Revenue growth in the low-single digits over the rating horizon;
- Low-single-digit growth in mobile subscribers and growth in ARPUs;
- Fixed revenues remaining relatively flat, near PEN3.2 billion over the rating horizon;
- Continued double-digit declines in fixed-line voice subscribers, partially offset by broadband subscribers growing in the low-single digits, with fixed ARPUs growing in the low-single-digit percentage range;
- EBITDA margins gradually improving to around 13% over the rating horizon;
- Capital expenditures around 10% of revenues;
- Material tax payments pressure FCF over the rating horizon;
- Expectation of some shareholder support from Telefonica Hispam to help pay tax liability.

Summary of Financial Adjustments

Standard lease adjustments.

Financial Data

(PEN 000)	2021	2022	2023	2024F	2025F	2026F
Summary income statement						
Gross revenue	7,049,215	7,156,328	6,476,335	6,619,618	6,786,758	6,913,690
Revenue growth (%)	7.2	1.5	-9.5	2.2	2.5	1.9
EBITDA before income from associates	784,667	1,058,645	682,082	797,930	838,334	877,264
EBITDA margin (%)	11.1	14.8	10.5	12.1	12.4	12.7
EBITDA after associates and minorities	784,667	1,058,645	682,082	797,930	838,334	877,264
EBITDAR	784,667	1,058,645	682,082	797,930	838,334	877,264
EBITDAR margin (%)	11.1	14.8	10.5	12.1	12.4	12.7
EBIT	-410,021	-70,110	-454,574	-372,825	-367,544	-364,790
EBIT margin (%)	-5.8	-1.0	-7.0	-5.6	-5.4	-5.3
Gross interest expense	-219,115	-218,990	-187,167	-179,185	-228,371	-286,311
Pretax income including associate income/loss	-1,045,530	-435,895	-712,587	-543,010	-586,915	-642,101
Summary balance sheet						
Readily available cash and equivalents	610,520	432,987	520,844	345,423	262,366	354,975
Debt	3,022,976	2,797,385	2,552,884	2,994,252	3,222,522	3,725,912
Lease-adjusted debt	3,022,976	2,797,385	2,552,884	2,994,252	3,222,522	3,725,912
Net debt	2,412,456	2,364,398	2,032,040	2,648,829	2,960,156	3,370,937
Summary cash flow statement						
EBITDA	784,667	1,058,645	682,082	797,930	838,334	877,264
Cash interest paid	-320,942	-395,281	-704,697	-179,185	-228,371	-286,311
Cash tax	-127,104	-598,934	-17,857	—	—	-96,315
Dividends received less dividends paid to minorities (inflow/outflow)	—	—	—	—	—	—
Other items before FFO	-138,608	-272,057	-16,735	—	—	—
FFO	201,403	-197,880	-48,997	627,745	618,964	503,638
FFO margin (%)	2.9	-2.8	-0.8	9.5	9.1	7.3
Change in working capital	212,933	202,992	78,940	19,624	22,319	16,950
CFO (Fitch-defined)	414,336	5,112	29,943	647,369	641,282	520,588
Total non-operating/nonrecurring cash flow	—	—	—	-1,023,000	-240,000	-240,000
Capex	-741,758	-492,356	-654,849	—	—	—
Capital intensity (capex/revenue) (%)	10.5	6.9	10.1	—	—	—
Common dividends	-15	-10	-17	—	—	—
FCF	-327,437	-487,254	-624,923	—	—	—
FCF margin (%)	-4.6	-6.8	-9.6	—	—	—
Net acquisitions and divestitures	181,198	204,409	37,956	—	—	—
Other investing and financing cash flow items	7,853	-2,339	-9,663	—	—	—
Net debt proceeds	-127,783	107,651	684,487	441,368	228,270	503,390
Net equity proceeds	—	—	—	—	—	—
Total change in cash	-266,169	-177,533	87,857	-175,421	-83,057	92,609
Leverage ratios (x)						
EBITDA leverage	3.9	2.6	3.7	3.8	3.8	4.2
EBITDA net leverage	3.1	2.2	3.0	3.3	3.5	3.8
EBITDAR leverage	3.9	2.6	3.7	3.8	3.8	4.2
EBITDAR net leverage	3.1	2.2	3.0	3.3	3.5	3.8
FFO adjusted leverage	5.8	14.9	3.9	3.8	3.8	4.8
FFO adjusted net leverage	4.6	12.6	3.1	3.3	3.5	4.3
FFO leverage	5.8	14.9	3.9	3.8	3.8	4.8
FFO net leverage	4.6	12.6	3.1	3.3	3.5	4.3
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-560,575	-287,957	-616,910	-2,003,158	-952,610	-931,369
FCF after acquisitions and divestitures	-146,239	-282,845	-586,967	-1,355,789	-311,327	-410,781
FCF margin after net acquisitions (%)	-2.1	-4.0	-9.1	-20.5	-4.6	-5.9

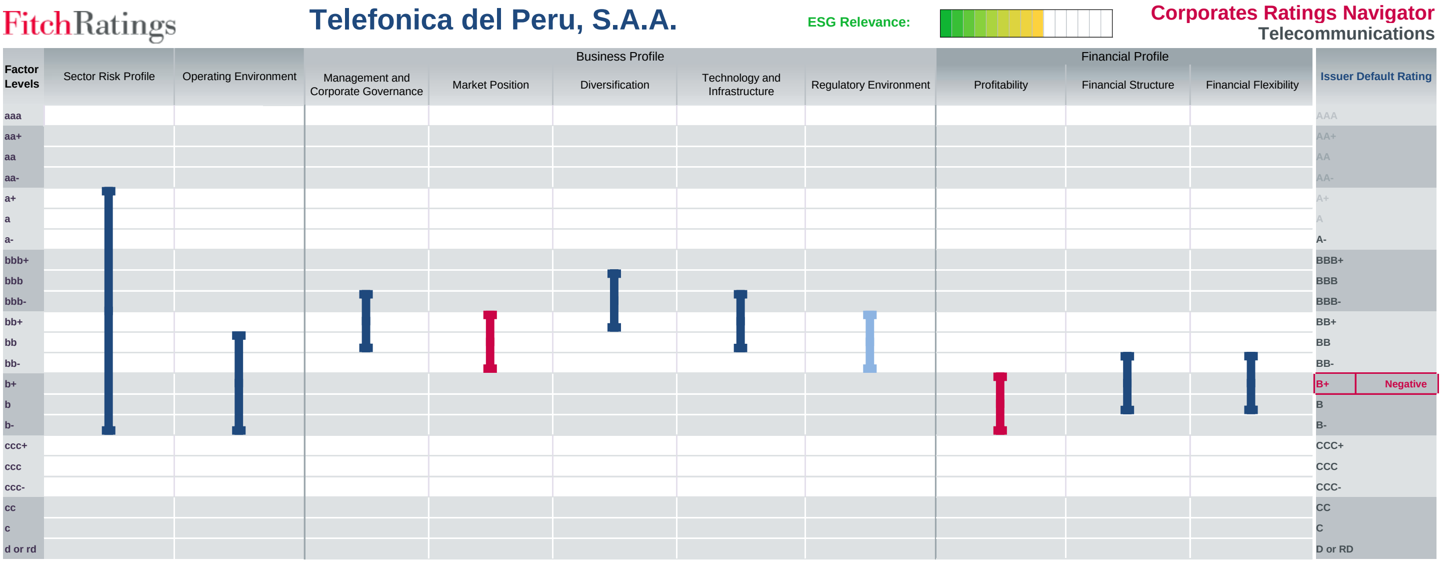
(PEN 000)	2021	2022	2023	2024F	2025F	2026F
Coverage ratios (x)						
FFO interest coverage	1.6	0.5	0.9	4.5	3.7	2.7
FFO fixed-charge coverage	1.6	0.5	0.9	4.5	3.7	2.7
EBITDAR fixed-charge coverage	2.4	2.7	1.0	4.5	3.7	3.1
EBITDAR net fixed-charge coverage	2.5	2.7	1.0	4.7	3.8	3.2
EBITDA interest coverage	2.4	2.7	1.0	4.5	3.7	3.1
Additional metrics (%)						
CFO-capex/debt	-10.8	-17.4	-24.5	-2.7	-2.2	-4.6
CFO-capex/net debt	-13.6	-20.6	-30.8	-3.0	-2.4	-5.1
CFO/capex	55.9	1.0	4.6	88.9	90.0	75.3

CFO – Cash flow from operations
Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented above is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



Bar Chart Legend:	
Vertical Bars = Range of Rating Factor	Bar Arrows = Rating Factor Outlook
Bar Colors = Relative Importance	⇧ Positive
Higher Importance	⇩ Negative
Average Importance	⇳ Evolving
Lower Importance	□ Stable

FitchRatings

Telefonica del Peru, S.A.A.

Corporates Ratings Navigator
Telecommunications

Operating Environment

bb+	Economic Environment	bb	Below average combination of countries where economic value is created and where assets are located.
bb	Financial Access	a	Strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	b	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'b'.
b-			
ccc+			

Management and Corporate Governance

bbb	Management Strategy	b	Strategy lacking cohesion and/or some weakness in implementation.
bbb-	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bb+	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bb	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bb-			

Market Position

bbb-	Market Position	bbb	Strong and sustainable market share in primary markets (>20%).
bb+	Competition	b	Primary markets characterized by high competitive intensity and/or no barrier to entry/exit.
bb	Scale - EBITDA	b	<$500 million
bb-			
b+			

Diversification

bbb+	Service Platform Diversification	bbb	Operates several service platforms in primary markets but one is dominant.
bbb	Geographic Diversification	bb	Limited geographic diversification.
bbb-			
bb+			
bb			

Technology and Infrastructure

bbb	Ownership of Network	bb	Even balance between ownership and leasing of infrastructure.
bbb-	Network and Service Quality	bb	Questionable network coverage and capacity and/or poor service quality. Latest technology not deployed.
bb+			
bb			
bb-			

Regulatory Environment

bbb-	Regulatory Risk	bb	Medium or trending higher.
bb+			
bb			
bb-			
b+			

Profitability

bb-	Volatility of Cash Flow	b	Volatility and visibility of cash flow viewed as a negative outlier for the industry.
b+	EBITDA Margin	b	20%
b			
b-			
ccc+			

Financial Structure

bb	EBITDA Leverage	b	5.5x
bb-	EBITDA Net Leverage	b	5.3x
b+	(CFO-Capex)/Debt	ccc	Flat to Negative
b			
b-			

Financial Flexibility

bb	Financial Discipline	bbb	Financial policies less conservative than peers but generally applied consistently.
bb-	Liquidity	b	Liquidity ratio below 1.0x. Overly reliant on one funding source.
b+	EBITDA Interest Coverage	b	3.5x
b	FX Exposure		
b-			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

Telefonica del Peru, S.A.A. has 9 ESG potential rating drivers
- Energy and fuel use in networks and data centers
- Networks exposed to extreme weather events (e.g. hurricanes)
- Data security; service disruptions
- Impact of labor negotiations and employee (dis)satisfaction
- Social attitudes toward network infrastructure
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	9	issues	3
not a rating driver	0	issues	2
	5	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

FitchRatings

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Corporates Ratings Navigator
Telecommunications

Credit-Relevant ESG Derivation

Telefonica del Peru, S.A.A. has 9 ESG potential rating drivers

- Telefonica del Peru, S.A.A. has exposure to energy productivity risk but this has very low impact on the rating.
- Telefonica del Peru, S.A.A. has exposure to extreme weather events but this has very low impact on the rating.
- Telefonica del Peru, S.A.A. has exposure to customer accountability risk but this has very low impact on the rating.
- Telefonica del Peru, S.A.A. has exposure to labor relations & practices risk but this has very low impact on the rating.
- Telefonica del Peru, S.A.A. has exposure to social resistance but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	9	issues	3
not a rating driver	0	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	3	Energy and fuel use in networks and data centers	Profitability	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	3	Networks exposed to extreme weather events (e.g. hurricanes)	Profitability	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Data security; service disruptions	Competitive Position; Profitability	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Competitive Position; Profitability	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Social attitudes toward network infrastructure	Diversification; Technology and Infrastructure; Profitability	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.
The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.
The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

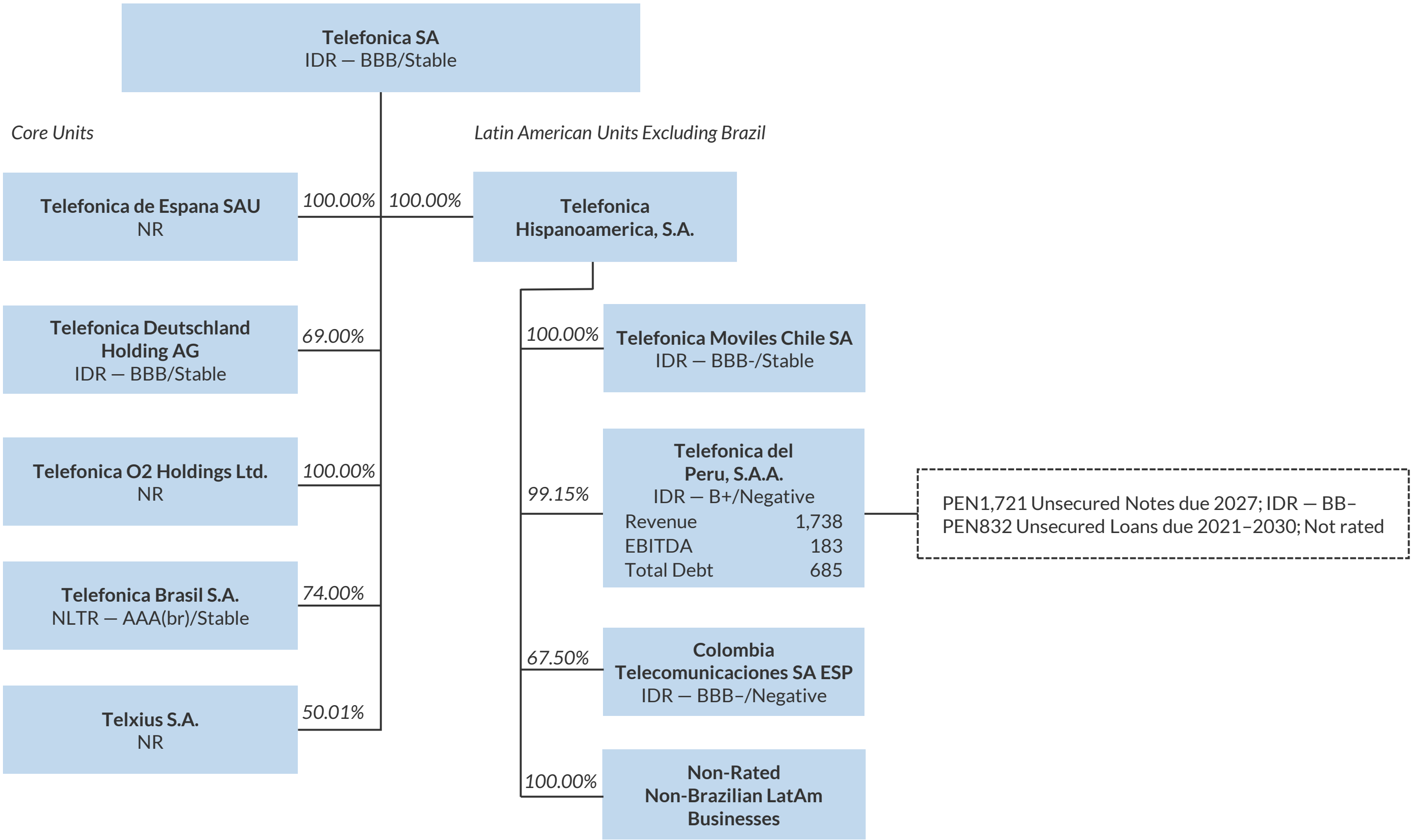
CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram

Organizational Structure — Telefonica del Peru, S.A.A.
(USD Mil., LTM as of Dec. 31, 2023)



NLTR – National Long-Term Rating. IDR – Issuer Default Rating. Note: Ownership percentage based on total Telefonica Group holding interest.
Source: Fitch Ratings, Fitch Solutions, Telefonica del Peru, S.A.A.

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (USDm)	EBITDA margin (%)	EBITDA leverage (x)	EBITDA net leverage (x)	EBITDA interest coverage (x)
Telefonica del Peru, S.A.A.	B+						
	BB-	2023	1,738	10.5	3.7	3.0	1.0
	BB+	2022	1,879	14.8	2.6	2.2	2.7
	BBB-	2021	1,769	11.1	3.9	3.1	2.4
Telefonica Moviles Chile S.A.	BBB-						
	BBB-	2023	2,053	12.4	5.7	3.2	5.3
	BBB+	2022	1,967	15.9	4.6	2.8	5.3
	BBB+	2021	1,842	20.2	5.0	2.4	9.6
Colombia Telecomunicaciones S.A. E.S.P. BIC	BBB-						
	BBB-	2022	1,403	16.8	3.3	2.9	2.5
	BBB-	2021	1,451	24.4	3.0	2.6	4.0
	BBB-	2020	1,520	26.6	3.6	3.1	4.3
Empresa Nacional de Telecomunicaciones S.A.	BBB-						
	BBB	2022	2,990	23.9	3.1	2.6	5.8
	BBB-	2021	2,816	26.9	2.5	2.0	4.4
	BBB-	2020	2,889	25.8	3.2	2.1	5.8
UNE EPM Telecomunicaciones S.A.	B+						
	BBB-	2022	1,130	24.1	2.2	2.1	2.8
	BBB-	2021	1,284	24.3	2.6	1.9	3.4
	BBB	2020	1,406	27.2	2.1	1.6	3.3
AT&T Inc.	BBB+						
	BBB+	2022	120,741	34.4	3.4	3.3	6.0
	BBB+	2021	168,864	30.6	3.7	3.3	7.1
	A-	2020	171,760	31.9	3.3	3.1	6.8

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

(PEN 000 as of 31 December 2023)	Notes and formulas	Standardised values	Lease treatment	Other adjustments	Adjusted values
Income statement summary					
Revenue		6,476,335	—	—	6,476,335
EBITDA	(a)	-347,697	-285,892	1,315,671	682,082
Depreciation and amortization		—	216,729	-1,353,385	-1,136,656
EBIT		-347,697	-69,163	-37,714	-454,574
Balance sheet summary					
Debt	(b)	—	-1,208,516	3,761,400	2,552,884
Of which other off-balance-sheet debt		—	—	—	—
Lease-equivalent debt		—	—	—	—
Lease-adjusted debt		—	-1,208,516	3,761,400	2,552,884
Readily available cash and equivalents	(c)	520,844	—	—	520,844
Not readily available cash and equivalents		—	—	—	—
Cash flow summary					
EBITDA	(a)	-347,697	-285,892	1,315,671	682,082
Dividends received from associates less dividends paid to minorities	(d)	—	—	—	—
Interest paid	(e)	-2,446,608	69,163	1,672,748	-704,697
Interest received	(f)	22,220	—	-14,010	8,210
Preferred dividends paid	(g)	—	—	—	—
Cash tax paid		57,652	—	-75,509	-17,857
Other items before FFO		2,277,770	—	-2,294,505	-16,735
FFO	(h)	-436,663	-216,729	604,395	-48,997
Change in working capital		41,672	—	37,268	78,940
CFO	(i)	-394,991	-216,729	641,663	29,943
Non-operating/nonrecurring cash flow		—	—	—	—
Capex	(j)	-1,825,267	—	1,170,418	-654,849
Common dividends paid		-51	—	34	-17
FCF		-2,220,309	-216,729	1,812,115	-624,923
Gross leverage (x)					
EBITDA leverage	b / (a+d)	—	—	—	3.7
(CFO-capex)/debt (%)	(i+j) / b	—	—	—	-24.5
Net leverage (x)					
EBITDA net leverage	(b-c) / (a+d)	1.5	—	—	3.0
(CFO-capex)/net debt (%)	(i+j) / (b-c)	426.3	—	—	-30.8
Coverage (x)					
EBITDA interest coverage	(a+d) / (-e)	-0.1	—	—	1.0

CFO – Cash flow from operations
Note: The standardised items presented above are based on Fitch's taxonomy for the given sector and region.
Reported items may not match the Fitch taxonomy, but they are captured into corresponding lines accordingly.
Debt includes other off-balance-sheet debt.
Source: Fitch Ratings, Fitch Solutions, Telefonica del Peru, S.A.A.

FX Screener

FX risk is not material for Telefonica del Peru. The company's revenues and operating expenses are mostly PEN-denominated, as is the company's debt.

B+ and Below Considerations

Considerations	B+	B	B-	CCC+	CCC	CCC-	CC	Trend	Fitch's View
Business model	Robust	Sustainable	Intact	Redeemable	Compromised	Disrupted	Irredeemable	◀▶	Most diversified telecom operator in Peru, with strong-but-declining market shares.
Strategy/ execution risk	Limited	Moderate	Meaningful	Challenging yet achievable	Uncertain	Highly speculative	Not credible	◀▶	The company is shifting towards an asset-light business model. On the fixed side, TdP is rapidly shifting to FTTH. Competition in both mobile and fixed is intense.
Cash flow	Consistently positive	Neutral to positive	Volatile	Mostly negative	Constantly negative	Accelerating cash outflow	Irreversible outflow	◀▶	Consistently negative FCF due to weak EBITDA margin.
Leverage profile	Clear deleveraging path	Deleveraging capacity	High but sustainable	Significant outlier	Unsustainable	Disproportionate and increasing	Unrecoverable	◀▶	Leverage likely to increase following the finalization of tax payments, and to stabilize thereafter.
Governance and financial policy	Committed	Some commitment to deleveraging	Aggressive	Ineffective	Uncommitted	Hostile	Inevitable balance-sheet restructuring	◀▶	Fully owned by Telefonica Hispam, a subsidiary of Telefonica SA.
Refinancing risk	Limited	Manageable	High	Off-market options	Excessive	Unavailable	Imminent	◀▶	Strong access to banks and local capital markets
Liquidity	Comfortable	Satisfactory	Limited	Minimal headroom	Poor/partly funded	Unfunded	De facto insolvent	◀▶	Liquidity supported by recent shareholder loans.
Conclusion	B+								

Source: Fitch Ratings

Recovery Analysis

Issuer	Telefonica del Peru, S.A.A.		
Issuer Default Rating	B+	**As of**	31 December2023
Sector	Telecommunications	**Currency**	(PEN 000)
Country	Peru	**Country group**	D

Going concern (GC) enterprise value (EV)	
GC EBITDA	568,874
EBITDA multiple (x)	4.5
GC value from alternative method	-
Additional value from affiliates, minority interest, other	-
GC EV	**2,559,932**

Liquidation value	**Book value**	**Advance rate (%)**	**Available to creditors**
Cash	520,844	0	-
Accounts receivable	632,233	80	505,786
Inventory	241,136	50	120,568
Net property, plant and equipment	4,595,451	50	2,297,726
Liquidation value of off-balance-sheet assets	-	100	-
Additional value from affiliates, minority interest, other	-	100	-
Total liquidation value			**2,924,080**

EV for claims distribution	
Greater of GC enterprise or liquidation value	2,924,080
Less administrative claims	292,408
Total EV	**2,631,672**

Distribution of value

					Before country-specific considerations			**After country-specific considerations**		
Priority	**Amount**	**Concession allocation**	**Value recovered**	**Recovery (%)**	**Recovery Rating**	**Notching**	**Rating**	**Recovery Rating**	**Notching**	**Rating**
Unsecured	3,291,884	0	2,631,672	80	RR3	+1	BB-	RR4	0	B+

Source: Fitch Ratings, Fitch Solutions, Telefonica del Peru, S.A.A.

Going Concern Recovery Approach

Fitch's undertakes a bespoke recovery analysis for issuers with IDR of 'B+' and below, per its criteria. The bespoke recovery analysis assumes TdP would be considered a going concern in bankruptcy and would be reorganized rather than liquidated. TdP's PEN569 million going concern EBITDA is based on Fitch's expectation of intense competition in the Peruvian telecommunications market. The enterprise value/EBITDA multiple applied is 4.5x; this reflects TdP's deteriorating operational performance and financial profile, despite its strong market position.

Fitch applies a waterfall analysis to the post-default enterprise value based on the relative claims on the debt in the capital structure. The agency's debt assumptions consider the company's total debt at December 31, 2023 plus Fitch's expectation of additional external debt needed to finance the payment of the tax liability. Fitch's assumption is that the debt and the additional net liability are treated as pari passu. These assumptions result in a Recovery Rating (RR) for the unsecured bonds within the 'RR4' range, which, per Fitch's criteria, leads to a rating in line with the IDR of 'B+'.

Parent Subsidiary Linkage Analysis

Key Risk Factors and Notching Approach

Parent	Telefonica SA
Parent LT IDR	BBB
Subsidiary	Telefonica del Peru, S.A.A.
Subsidiary LT IDR	B+
Path	Stronger Parent
Legal incentive	Low
Strategic incentive	Low
Operational incentive	Low
Notching matrix outcome	Standalone
Override applied	No
Notching approach	—

Source: Fitch Ratings

Stronger Parent Notching Matrix

Strategic incentives and operational	Both low	One medium, one low	Both medium or one high, one low	One strong, one medium	Both high
With low legal incentive	Standalone	BU+1[a]	BU+2[a]	TD-1[b]	Equalized
With medium legal incentive	BU+1[a]	BU+2[a]	TD-1[b]	Equalized	Equalized
With high legal incentive	Equalized	Equalized	Equalized	Equalized	Equalized

[a] BU rating outcomes are capped at TD-1 where the subsidiary's Standalone Credit Profile (SCP) is more than one notch away from the consolidated profile, but the subsidiary's rating will be equalized where the subsidiary's SCP is one notch below the consolidated profile. [b] TD-1 rating outcomes will be equalized where the subsidiary's SCP is one notch below the consolidated profile. BU – Bottom-up, notched from the lower SCP. TD – Top-down, notched from the consolidated profile.
Source: Fitch Ratings

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.