

MOODY'S

RATINGS

Rating Action: Moody's Ratings downgrades Telefonica del Peru to C on filing for bankruptcy procedures; outlook stable

10 Mar 2025

New York, March 10, 2025 -- Moody's Ratings (Moody's) has today downgraded Telefonica del Peru S.A.A. (TdP)'s corporate family rating (CFR) and senior unsecured ratings to C from Caa3. The outlook was revised to stable from negative.

Following today's actions, all TdP's ratings will be withdrawn, in accordance with our Policy for Withdrawal of Credit Ratings. We view TdP's bankruptcy procedure filing as a default on all its debt.

RATINGS RATIONALE

The downgrade follows TdP's filing for Ordinary Bankruptcy Procedure (PCO) before the National Institute for the Defense of Competition and the Protection of Intellectual Property (Indecopi) to restructure its financial obligations and tax commitments with Superintendencia Nacional de Aduanas y de Administración Tributaria (SUNAT). We view that losses to existing unsecured creditors could be higher than 50%.

According to the General Law of Bankruptcy System, Indecopi has a maximum period of 90 business days to approve or deny the company's petition. Under Peruvian bankruptcy law, the PCO petition does not immediately suspend the company's debt obligations. The stay will apply once Indecopi approves the request. Until then, the company must continue to operate as usual and is required to fulfill its financial obligations. However, given TdP's fragile liquidity position and no indication of support from its ultimate parent, Telefonica S.A. (Baa3 stable), there is a high likelihood of either a debt restructuring or a distressed debt exchange in the near term, resulting in losses to creditors.

Telefonica del Peru's liquidity position has deteriorated significantly over the past years due to the combination of the company's persistently weak operating performance and the sizable tax liability currently in the process of being settled with the Peruvian tax authority, SUNAT. Despite having received liquidity support from

Telefonica Hispanomérica to address the tax settlement with SUNAT and other operating cash needs, liquidity remains under pressure. TdP's ultimate parent, Telefonica, has explicitly declared that the additional PEN1.55 billion in liquidity support approved in February must be used strictly for operational cash needs. We estimate Telefonica del Peru's free cash flow generation to remain negative at least until 2026, further pressuring liquidity.

The downgrade also reflects governance considerations as key drivers of the rating action including the company's operating track record, which has been impacted by loss of profitability and market share since 2014, resulting in extreme liquidity deterioration and high refinancing risk. These factors are reflected in the company's Financial Strategy and Risk Management assessment of 5, and the overall exposure to governance risks (Issuer Profile Score or "IPS") of G-5. The ESG Credit Impact Score is CIS-5, since ESG considerations are a constraint for the rating.

The stable outlook reflects the extended restructuring process initiated by the PCO filing, which will require time to achieve a more sustainable capital structure. Additionally, given TdP's precarious liquidity situation and expected weak cash flow generation, the expected recovery rate is not anticipated to change in the short term.

Although Telefonica del Peru benefits from its scale as the largest telecommunications operator in Peru, the company faces significant competitive and operational challenges. Despite significant efforts to improve profitability over the last three years, while experiencing a decrease in fixed line services due to competition against HFC, operating costs continue to increase, mainly due to the efforts to convert its copper and HFC network to fiber and have not been followed by improvement in revenues. Moody's-adjusted EBITDA margin dropped to about 7.6% as of year-end 2024, which negatively compares with the 25.6% achieved as of year-end 2023. Moody's adjusted leverage has increased to 7.4x as of December 2024 up from 2.3x at year-end 2023, mainly due to the significant EBITDA deterioration over the period.

Since 2019, Telefonica del Peru's ultimate parent company, Telefonica S.A., has prioritized markets where it perceives long-term sustainable growth and has worked to reduce its exposure to businesses in Hispano America, including Telefonica del Peru. Given this context, the rating incorporates no financial support from the parent.

Telefonica del Peru is the largest telecommunications company in Peru, with a mobile market share of around 27.5% and 32.3% in the fixed internet segment as of September 2024, according to the Peruvian telecommunications regulator — OSIPTEL. The company is an integrated telecommunications service provider offering mobile, fixed, pay-TV and business-to-business services through its Movistar brand. Telefonica del Peru is Peru's largest telecommunications company in terms of revenue, and a leader in all segments, with more than 12.6 million revenue-generating units (RGUs) in mobile and almost 3.3 million RGUs in fixed broadband and pay TV. For full year 2024, the company generated revenue of around PEN6.0 billion (\$1.6 billion). Telefonica del Peru is controlled by Telefonica Hispanoamerica which

indirectly holds 99% of its shares. The remaining are traded on the Lima Stock Exchange — Bolsa de Valores de Lima.

Subsequent to today's actions, all Telefonica del Peru's ratings will be withdrawn as we consider the filing for bankruptcy procedure as a default by TdP in all of its debt. Please refer to Moody's Ratings' Withdrawal of Credit Ratings Policy, available on our website, <https://ratings.moodys.com>, for more information.

The principal methodology used in these ratings was Telecommunications Service Providers published in November 2023 and available at <https://ratings.moodys.com/rmc-documents/411275>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at <https://ratings.moodys.com/rmc-documents/435880>.

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