

Fitch Downgrades Spain's Telefonica to 'BBB+'; Stable Outlook

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Fitch Ratings-London-11 April 2006: Fitch Ratings has today downgraded Telefonica SA's ("Telefonica") Issuer Default Rating ('IDR') to 'BBB+' from 'A-' (A minus). The Short-term rating is affirmed at 'F2'. At the same time, Telefonica Finance USA LLC's preference shares are downgraded to 'BBB-' (BBB minus) from 'BBB'. Telefonica Europe BV's unsecured bonds, guaranteed by Telefonica SA, are downgraded to 'BBB+' from 'A-' (A minus). The Outlook remains Stable. This rating action reflects Fitch's perception that management is not strongly prioritising a reduction in debt and leverage, while it remains proactive and opportunistic on the pursuit and execution of M&A. Fitch's rating action on 11 January 2006 had noted that sustained leverage (net debt to EBITDA) in the order of 3x was too high for a 'A-' (A minus) rating and that management would work to reduce leverage to a sustainable level of net debt plus cash commitments of 2.5x or less in the medium term. In Fitch's view the application of any cash proceeds arising from the recent divestment in Sogecable and the likely sale of TPI in a permanent reduction of net debt and leverage would have been consistent with the maintenance of an 'A-' (A minus) rating by bringing closer the realisation of the de-leveraging goal.. However with the announced acquisition of the Colombia Telecom stake, the total purchase price of USD368 million reflecting an equity injection into the company, plus consolidated liabilities estimated by Fitch to be in the order of USD2.5 billion, offsets any potential debt reduction from the potential sale of TPI. In Fitch's view, the shift in the balance of Telefonica's business portfolio following the planned disposal of TPI, its yellow pages subsidiary and the investment in 50% plus one share in Colombia Telecom reflect an increase in business risk The Stable Outlook reflects Fitch's expectation that the business can maintain a leverage profile consistent with the 'BBB+' rating, which affords greater flexibility in terms of meeting its de-leveraging targets. Contact: Raymond Hill, London, Tel: +44 (0) 20 7417 4314; Erwin Van Lumich, Barcelona, +34 (0) 93 323 8403. Media Relations: Alex Clelland, London, Tel: +44 20 7862 4084. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.