

FITCH: TELEFONICA CHILE'S REORGANIZATION PLAN - NO RATING IMPACT

Fitch Ratings-Chicago-10 March 2017: Fitch Ratings believes that the reorganization of the Telefonica Chile Group will have no credit impact for the current creditors of Telefonica Moviles Chile S.A. (TMCH) and Telefonica Chile S.A. (TCH), as the credit profiles of the group will remain largely unchanged.

TMCH announced its board of directors' approval on the group reorganization plan on March 6, 2017, which will result in a merger between the company and its parent, Inversiones Telefonica Moviles Holding S.A. (ITMH), with the latter being the surviving entity. ITMH is a holding company for the group in Chile that also owns 97.9% of TCH, which is the fixed-line operator. As a result, the ratings of the newly merged ITMH will be based on the full consolidation of TMCH, TCH, and ITMH, which does not have any operations. The extraordinary shareholders meeting will be convened on March 22, 2017 to approve the transaction. All of TMCH's existing debt will be assumed by the merged entity, and ITMH will change the legal name to Telefonica Moviles Chile S.A. upon the consummation of the merger. The merger is expected to be completed on May 1, 2017, if approved by the shareholders.

Fitch believes that the credit quality of the group will not change following the merger. Fitch currently rates both TMCH and TCH at 'BBB+', and ITMH's new ratings will be at the same level of 'BBB+' based on the consolidated credit profile of the group. TCH and TMCH both have solid financial profiles for a 'BBB+' rating level, and their current ratings already incorporate a degree of financial and operational linkage between them given the flexible intercompany loans, integrated business strategy under the common management and brand unity, as well as sales coverage. This relationship will remain intact, as TCH will become a subsidiary of TMCH following the merger.

The ratings also reflect Telefonica Chile Group's entrenched leading positions in the Chilean telecommunications market, strong brand recognition and network competitiveness, and sound financial profile backed by solid cash flow generation. Fitch does not foresee any material change to these credit qualities in the short- to medium-term.

TMCH's existing ratings will be withdrawn upon the completion of the merger as Fitch will assign a new rating to ITMH, and the ratings for TMCH's local debt, which will be transferred to ITMH, will remain at its current level of 'AA(cl)'. All TCH's existing ratings will also remain the same.

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