TELEFONICA IN CHILE

Financial Results

accumulated as of December 2013

Telefónica Chile S.A. &
Telefónica Móviles Chile S.A.

Santiago de Chile, March 7, 2014

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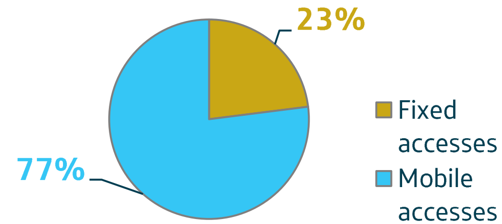
BUSINESS OVERVIEW

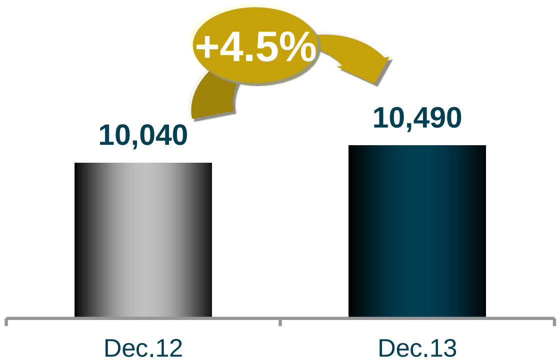
Total Accesses (Fixed+Mobile) increased 4% as of Dec. 2013 vs. previous year

Total Accesses F+M: $\overset{+}{\Delta}$ 4% → **13.6 mills.** →



MOBILE
VOICE + Mobile Internet

Total Accesses (*)
Thousands



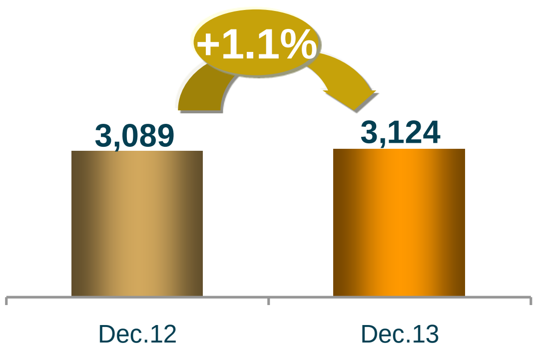
(*) Include Voice, MBB and M2M accesses

- Growth in Voice and Internet accesses:
  - ✓ Voice (pre+postpaid): **+5.1%**
  - ✓ Mobile Internet (MBB+NEM[1]+M2M): **+24.4%**

[1] NEM: navigation in mobile

FIXED
VOICE+FBB+payTV

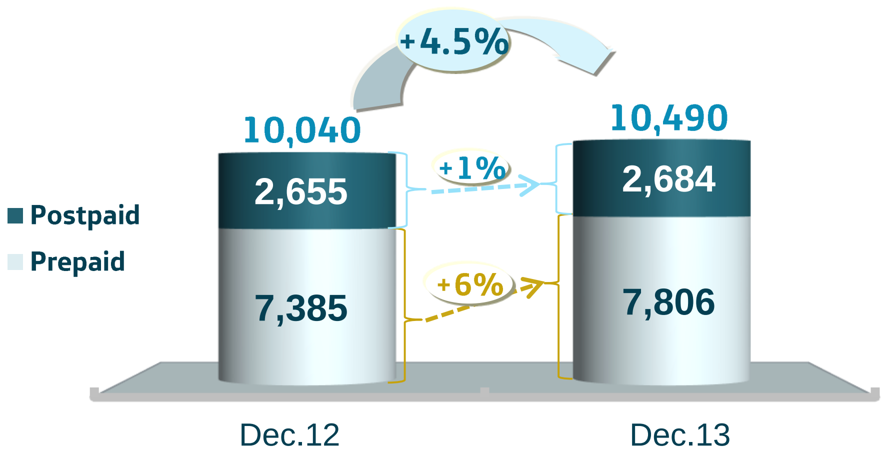
Total Accesses
Thousands



- Growth in FFB and pay TV accesses:
  - ✓ FBB: **+4.3%**
  - ✓ pay TV: **+18.7%**
  - ✓ Voice (lines): **-4.8%**

Mobile accesses grew in 2013 pushed by commercial activity and postpaid growth recovery

Postpaid and Prepaid accesses
Thousands

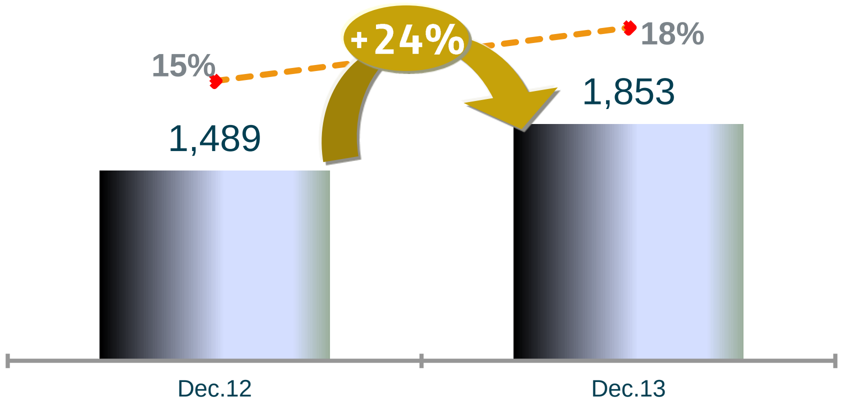


- **Total accesses growth** in a very competitive environment
  - ✓ **Prepaid** accesses: **+5.7%**, due to new commercial offers and new adds of customers with their own equipment as result of portability
  - ✓ **Postpaid** accesses: **+1.1%**, grow pushed by commercial offer and more adds of clients with multimedia plans
  - ✓ **Mix** post/prepago: **26/74**
- **Total revenues increase +1.7%** (excluding extraordinary revenues, revenues grow **+3.4%**), mainly due to:
  - ✓ Mobile **Internet revenues** increase **+27.3%**
  - ✓ Revenues from **Equipment sales** grow **+20.2%**
- **Market share** (accesses): **38.7%,** maintaining leadership

Mobile Internet: growth driver in mobile business

Mobile Internet accesses (1)
and **% over total mobile accesses**

Thousands



(1) Mobile Internet = MBB+NEM+M2M*

** **¨NEM: "Navigation in mobile.** "NEM PPU" (NEM with pay per use) is not included*

- **Growth in mobile Internet accesses: +24%**, pushed by:
  - ✓ New offer: Voice+Internet for all new plans since 1Q13
  - ✓ Growing *smartphones* customer base, that increase by 44% (dec.13 vs. dec.12)
- **Mobile Internet revenues increase by +27.3%**, due to:
  - ✓ **growth in NEM revenues: +57.1%** (with strong growth in prepaid and postpaid), which **offset MBB revenue decrease**: **-31%**, aligned with Company commercial strategy

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MOVISTAR – First to launch 4GLTE services (Nov.13) nationwide

4GLTE network reinforce our competitive offer

- Speed x10 and on-the-spot
- Num. clients as of Dec.13: 12,540 (28,000 after 3Mo from launching)
- 95% co-localization of nodes

NATIONAL PRESENCE

We will arrive at the main cities

Ch$	Minutes	SMS	Threshold Gb
29,990	**330**	**unlimited**	**2**
39,990	**550**	**unlimited**	**3,5**
49,990	**770**	**unlimited**	**5**
59,990	**990**	**unlimited**	**6,5**
69,990	**1,100**	**unlimited**	**10**

+ MEGAS + MINUTES + SMS UNLIMITED

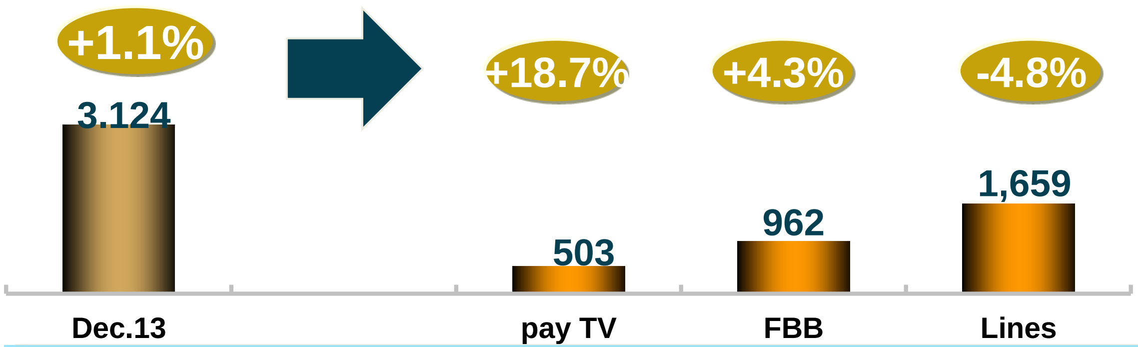
14 equipments

Best *smarthphones* portfolio in the market

MOVISTAR obtains Block A in bidding for 700 MHz band → complementary for its 4G network

Pay TV and FBB support Fixed Accesses growth

Total Accesses (Ths) / % y-o-y variation



Bundling drives growth → Increase in *"tríos"* (+20%) and *"dúos"* FBB+payTV (+14%)

FBB: High speed accesses drive growth

- **FBB accesses: +4.3%:**
  - ✓ **VDSL** : 76,162 **(+28%)**
  - ✓ **F.O.** : 30,647 **(+155%)**
  - ✓ ADSL : 854.884 (+1%)

  High speed accesses: 11.1% of total (since 4 to 150Mbs)
- **FBB revenues** (21.2% o/ total) **grow +9.3%**, due to higher ARPU from high speed plans

- Movistar launches a **new service "Movistar Play"**: movies and series through a website

payTV growth in accesses and ARPU

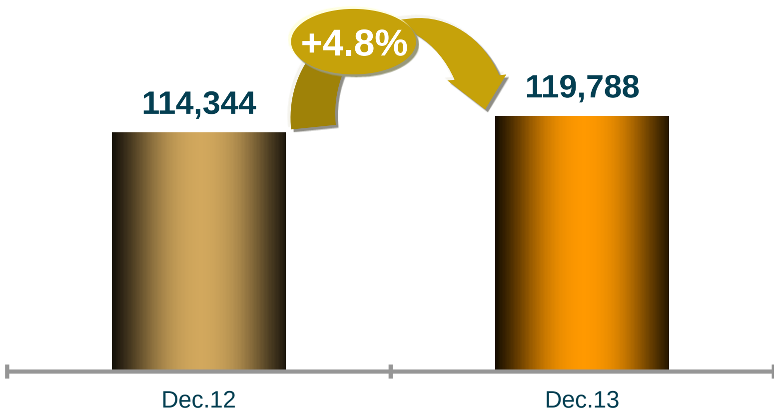
- **Pay TV accesses: +18.7%**, explained by:
  - ✓ DTH customer base: **+16.8%**
  - ✓ **IPTV** customer base: **9,671 clients** (vs. 1,277 clients in Dec.12)
- **Pay TV revenues increase +5.0%,** (15.8% of total revenues), affected by a change in the accounting registration of decoders sales, which are registered in 36 fees since Jan. 13 (100% at sale, previously). In comparable bases, pay TV revenues would have increase by +18%

Total Fixed revenues **(Dec.'13/Dec.'12)**: **-1.2%** (without decos effect: **+0.4%**)

Corporate Communications supporting growth

Corporate Communications revenues

Ch$ Million



Main projects in 4Q13

Elecciones 2013

Growth in Corporate Communications

- **Corporate Communications revenues grow 4.8%** and stand for 17.3% over total consolidated revenues
- **Growth** mainly driven by:
  - ✓ 6.2% increase in IP data networks, 6,4% in Corporate Internet and 35% in TV for corporates
  - ✓ Strong growth in Digital Services (+40%), pushed mainly by digital line of business: Cloud Computing and Security of information, with accumulated growths of 43% and 19%, respectively

FINANCIAL OVERVIEW

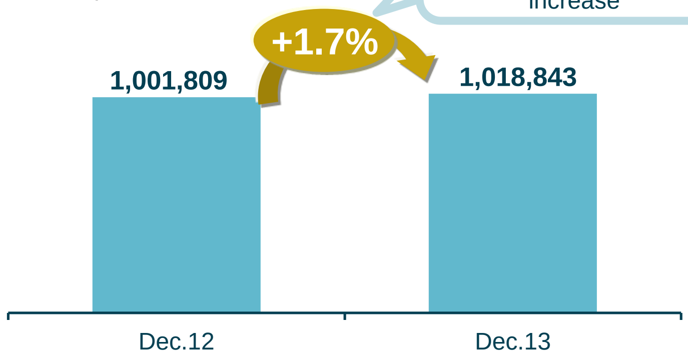
Revenues and EBITDA evolution

MOBILE

Total revenues

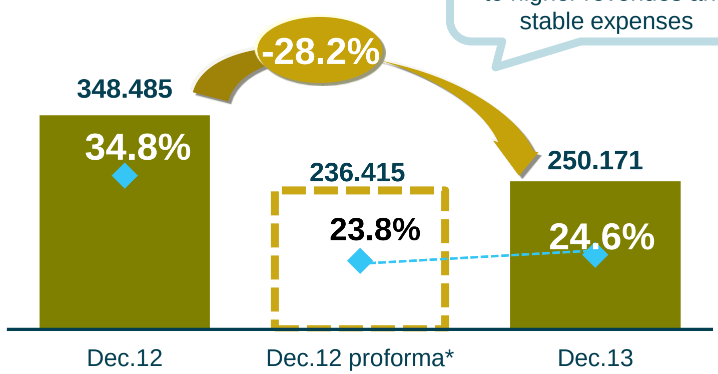
(Ch$ Million)

Revenues grow due to mobile Internet, equipment and customer base increase



EBITDA (Ch$ Million) and EBITDA margin (%)

EBITDA and EBITDA margin proforma* grow due to higher revenues and stable expenses



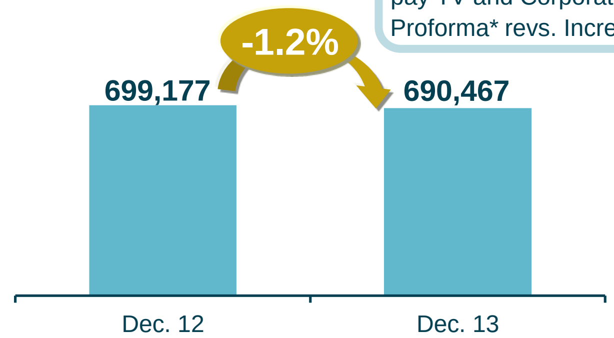
* Proforma figures: same criteria in 2012 and 2013 related to the impact of a contractual change in the accounting registration of postpaid equipments, from CAPEX to OPEX, since Oct. 12

FIXED

Total revenues

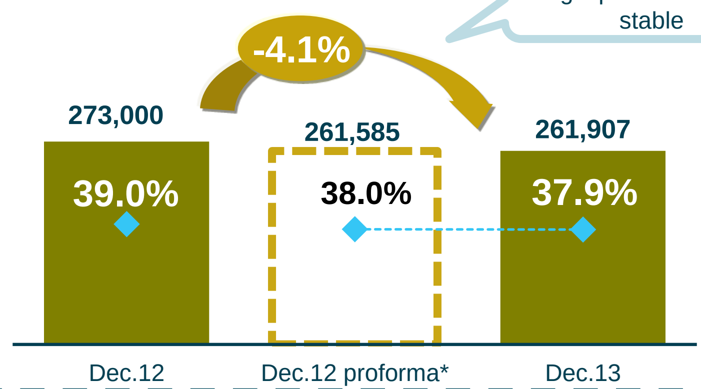
(Ch$ Million)

Revenues decrease due to lower Voice revs. offset by higher FBB, pay TV and Corporate Comm. revs. Proforma* revs. Increase by **+0,4%**



EBITDA (Ch$ Million) and EBITDA margin (%)

EBITDA and EBITDA margin proforma* remain stable



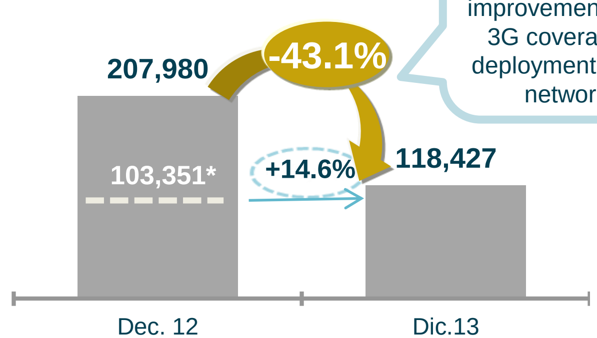
* Proforma figures: same criteria in 2012 and 2013 related to the impact of change in the accounting registration of sales of additional TV decoders, in 36 fees, since Jan.13. Previously they were registered in 100% at sale

CAPEX and OpCF

MOBILE

CAPEX
(Ch$ Million)

Higher CAPEX (proforma*) Orientedto quality improvements and 3G coverage + deployment of 4G network



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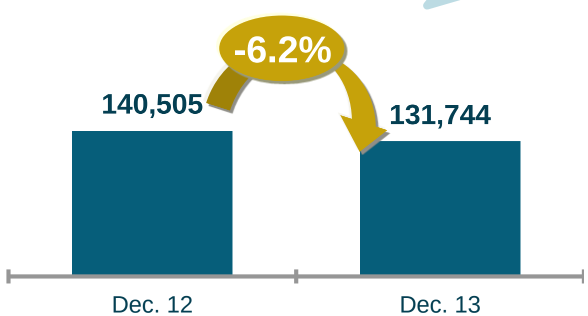
OpCF
[EBITDA-CAPEX]
(Ch$ Million)

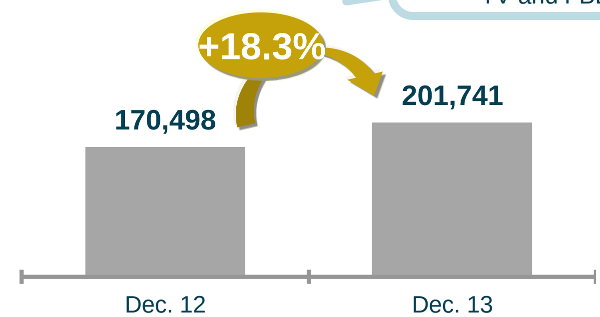
Lower FCO due to higher Capex



FIXED

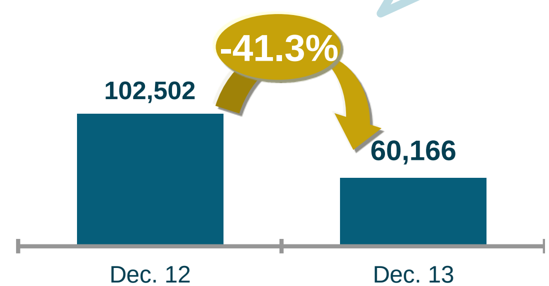
CAPEX
(Ch$ Million)

Higher CAPEX related to high speed and commercial activity in pay TV and FBB



OpCF
[EBITDA-CAPEX]
(Ch$ Million)

Drop in OpCF due to lower revenues and higher Capex



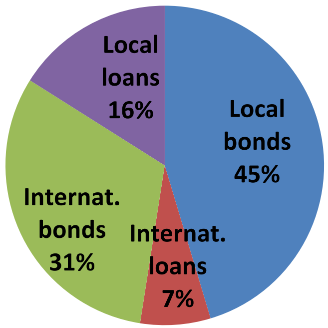
Diversified Debt structure

MOBILE

Gross Debt as of Dec. 2013 → Ch$ 465 bn

Net Debt as of Dec. 2013 → Ch$ 191 bn

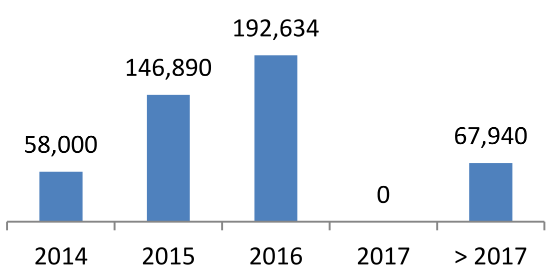
Structure:



Avg. Debt rate 6.5%

- ✓ **Gross Debt**: increase due to a local bond issue amounting to Ch$69bn
- ✓ **Net Debt**: remains stable vs. previous year

Debt Maturities profile

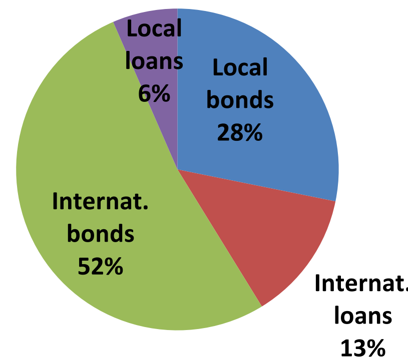


FIXED

Gross Debt as of Dec. 2013 → Ch$ 455 bn

Net Debt as of Dec. 2013 → Ch$ 282 bn

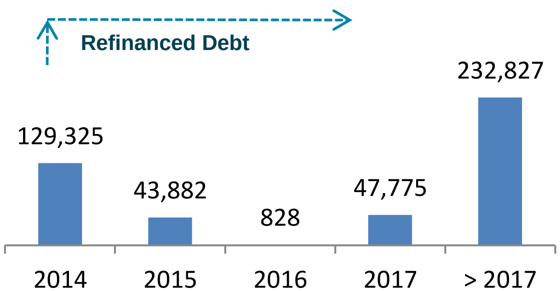
Structure:



Avg. Debt rate 6.5%

- ✓ **Gross Debt:** decrease Ch$86bn mainly due to redemption of an international loan (May13)

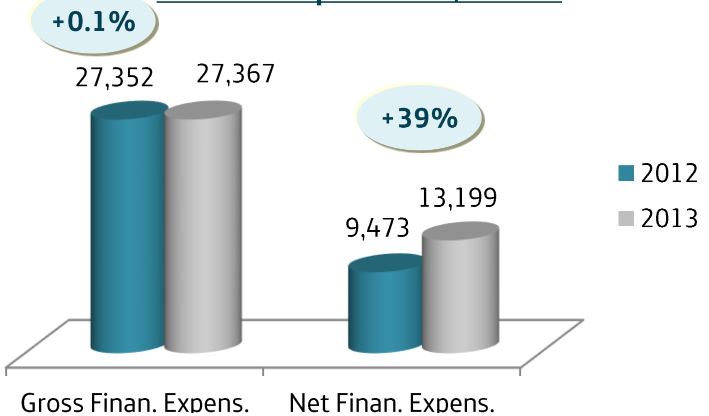
Debt Maturities profile



Hedging and investment strategies offset higher financial expenses

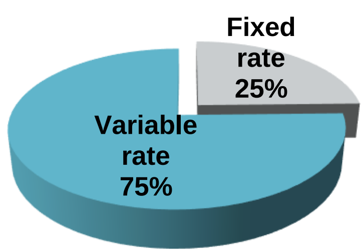
MOBILE

Financial Expenses Ch$ million



- ✓ Financial expenses increase due to an increase in gross Debt (Local Bond Oct. 13)
- ✓ Net Financial expenses increase due to lower financial investments balances vs. year 2012

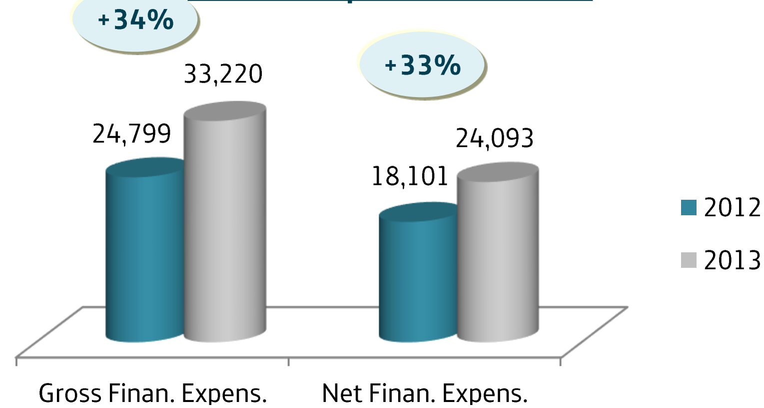
Currency and Interest rate hedging



DEBT 100% in Ch$

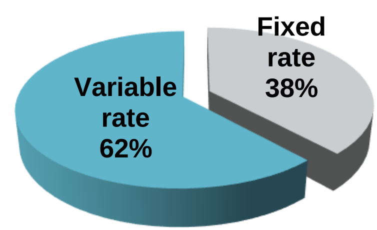
FIXED

Financial Expenses Ch$ million

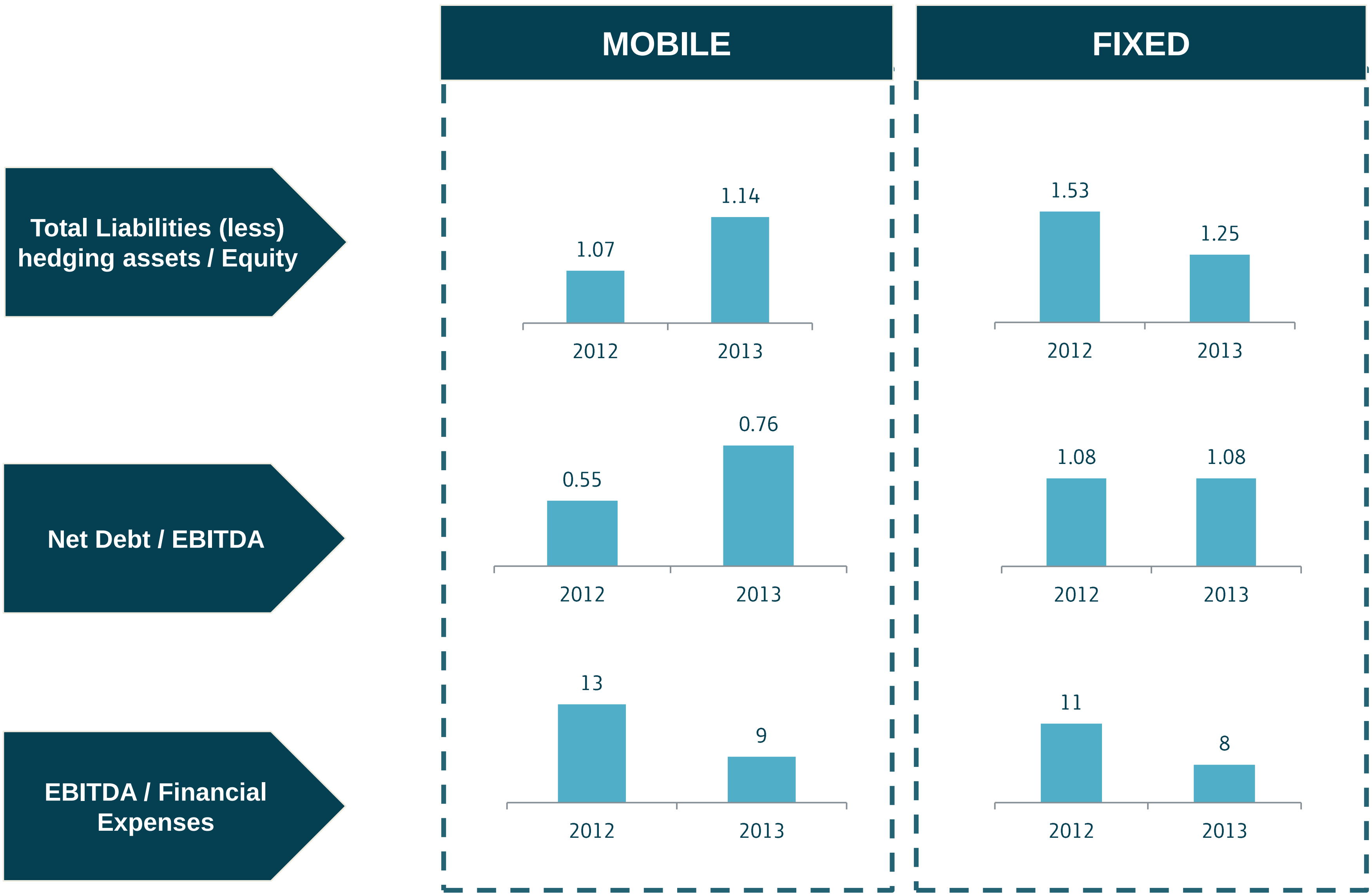


- ✓ Financial expenses increase due to higher financial Debt (debt in Oct.12)
- ✓ Net Financial expenses increase due to higher debt partially offset by an increse in financial revenues related to hedging and investment strategies

Currency and Interest rate hedging



Financial ratios remain sound



Mobile Access Charges tariff setting

Jan.14, Access Charges were set, for all market operators, for next 5 years

Mobile Access charges
by minute (Ch$)

- In Telefónica Móviles Chile, access charges revenues impact its revenues and costs, consequently, net impact is mitigated
- Access charges represent 16% over total revenues and 20% over total costs
- Expected annual impact calculated over year 2013 figures:

  ✓ Total Revenues: - 9%
  ✓ Total Costs: -12%
  ✓ EBITDA/revenues: -1.3%

Summary of Financial Results

Accumulated as of Dec. 2013

Million Ch$ IFRS	T. Móviles Chile Jan-Dec 13	% Var. '13/'12	% Var. '13/'12 proforma*	T. Chile Jan-Dec 13	% Var. '13/'12	%Var. '13/'12 Proforma**
Total revenues	1,018,843	+1.7%	**+1.7%**	690,467	-1.2%	**+0.4%**
Operating expenses	-768,672	+17.7%	**+1.4%**	-428,560	+0.6%	
EBITDA	**250,171**	**-28.2%**	**+2.7%**	**261,907**	**-4.1%**	
EBITDA margin	**24.6%**	**-11.4 pp**	**+0.8 pp**	**37.9%**	**-1.1 pp**	
Depreciation and Amortization	-125,248	-42.1%		-167,648	+2.3%	
Operating Income	**124,923**	**-5.5%**		**94,259**	**-13.6%**	
Net interest income and others	-9,240	+47.1%		-23,944	+32.9%	
Taxes	-22,460	-9.2%		-20,755	-28.1%	
Net income before minoritary interest	**93,222**	**-7.9%**		**49,560**	**-20.8%**	
Net income	**93,222**	**-7.9%**		**45,737**	**-22.6%**	

* Proforma figures: same criteria in 2012 and 2013 related to the impact of a contractual change in the accounting registration of postpaid equipments, from CAPEX to OPEX, since Oct. 12

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Summarizing…

- Growth in Total Accesses: **4%**
- Growth in mobile Internet accesses and revenues, which increase **24%** and **27%**, respectively, driven by NEM
- FBB revenues increase by **9%**, pushed by high speed and pay TV revenues, excluding effect of change in accounting registration of decoders, they show an increase of **18%**
- **5%** growth in Corporate Communications revenues
- EBITDA margin in Fixed business: **37.9%**
- EBITDA margin in Mobile business: **24.6%**
- It is important to underline Digital Services increase
- **4GLTE, nationwide, since Nov. 13**

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Telefónica