

TELEFONICA IN CHILE

Financial Results
accumulated as of March 2014

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



Telefónica

Santiago, May 13, 2014

Telefónica

BUSINESS OVERVIEW

Total Accesses (F+M) grow 2%, YoY

Total Accesses F+M:

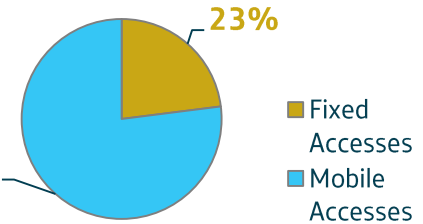
13.6 million



2%

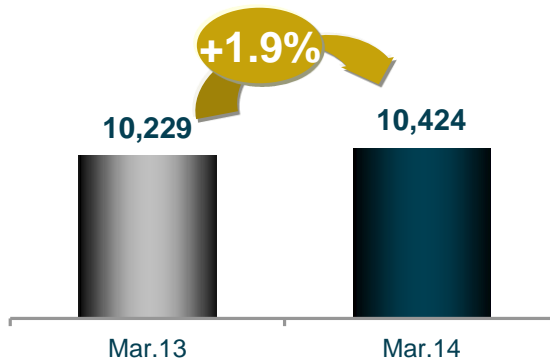
(y-o-y as of Mar.14)

77%



MOBILE business Voice + Mobile Internet

Total Accesses (*) Thousands

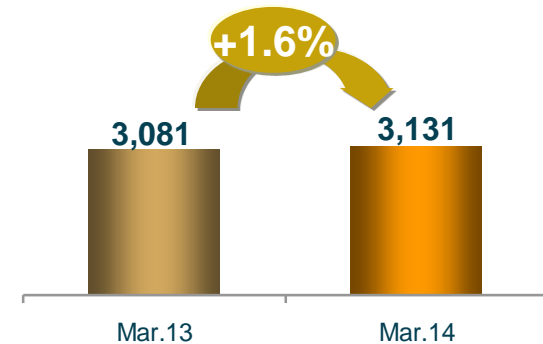


(*) Include Voice, MBB and M2M

- Growth in Voice and Internet accesses:
 - ✓ Voice (pre+postpaid): **+2.2%**
 - ✓ Mobile Internet (MBB+NEM+M2M): **+22.7%**

FIXED business Voice+FBB+pay TV

Total Accesses Thousands

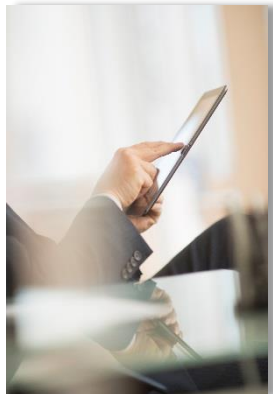
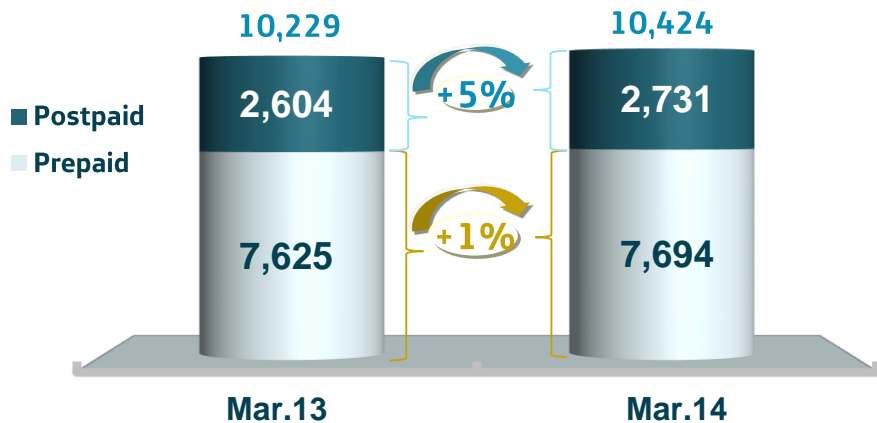


- Growth in FBB and pay TV accesses:
 - ✓ FBB: **+4.8%**
 - ✓ pay TV: **+19.3%**
 - ✓ Voice (lines): **-4.6%**

Mobile accesses increase pushed by growth in Postpaid accesses

Postpaid and Prepaid accesses

Thousands



- **Growth in total Accesses** with Postpaid accesses that keep recovering
 - ✓ **Prepaid** accesses: **+0.9%**
 - ✓ **Postpaid** accesses: **+4.9%**, partially pushed by 4G launching, as well as commercial campaigns for reducing number portability
 - ✓ **Mix post/prepaid: 26/74**

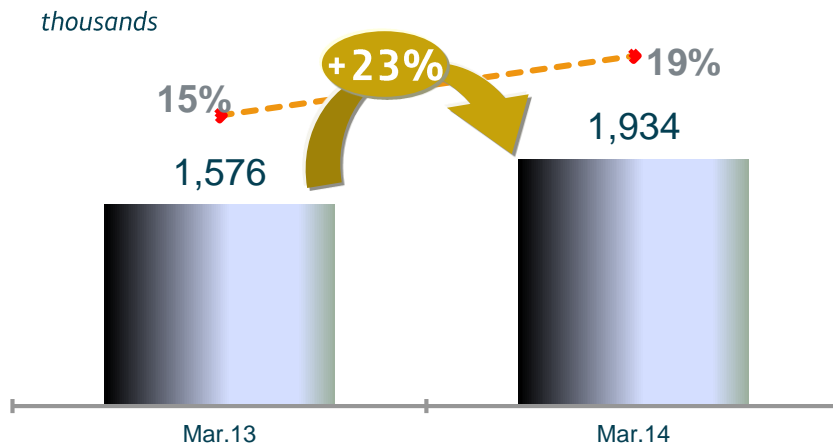
- **Total revenues** increase **+0.9%**. This **limited growth mainly due to:**
 - ✓ **Tariff reduction in mobile accesses charges**, which apply since Feb.14, impacts interconnection revenues by -45.9%: -\$17,588mm, offset by
 - ✓ **Mobile Internet revenues** which **increase +41.1%**

Excluding interconnection revenues, total revenues grow 9.6%

- **Market share** (by accesses): **39%**, maintaining leadership

Mobile Internet remains as a solid growth leverage

Mobile Internet accesses (1) and % o/total mobile accesses



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

* **NEM**: "Navigation in mobile". Do not include "NEM PPU" (NEM with pay per use)

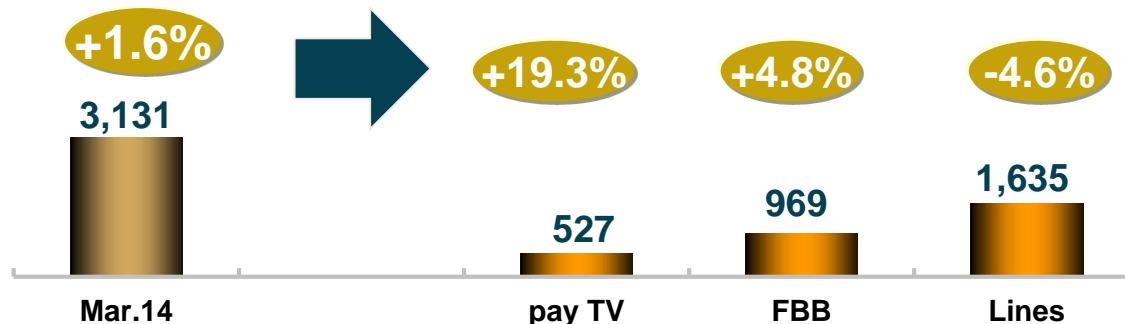


Since 4GLTE launching in 4Q13, T. Móviles Chile has already reached 50,000 customers, being the market leader

- **Mobile Internet accesses grow: +22.7%**, pushed by:
 - ✓ Growth in **NEM**: +39.6%, offset by
 - ✓ Mobile broadband (MBB) decrease: -20.0%
- **Mobile Internet revenues increase: +41.1%**, due to:
 - ✓ **NEM revenues increase: +59.0%** (with strong growth in prepaid and postpaid), diminished by
 - ✓ **MBB revenues decrease: -22.5%**, aligned with Company commercial strategy of downplay this line of business
- Increase in **smartphones customer base: +39.1%** (mar.14 vs. mar.13)

Pay TV and FBB businesses support growth in Fixed Accesses and Revenues

Total Fixed Accesses (thousands) / % y-o-y Var.



Bundling of services push growth → Increase in “tríos”: +20% and “dúos” (FBB+payTV): +14%

FBB: High Speed Accesses push growth

- FBB accesses grow due to high speeds accesses**
 - ✓ VDSL : 83,086 (+32%)
 - ✓ F.O. : 38,776 (+146%)
 - ✓ ADSL : 854,884 (+0.6%)

} *High Speeds accesses*
- FBB revenues (22.8% o/ total) grow +10.1%**, due to higher ARPU from High Speed plans and bundling of services
 - High speeds /Total speeds: 12.6%
 - “Tríos”, “Dúos” (FBB+pay TV) and “single” FBB increase
- MOVISTAR maintains market leadership: 51.2% MShare**

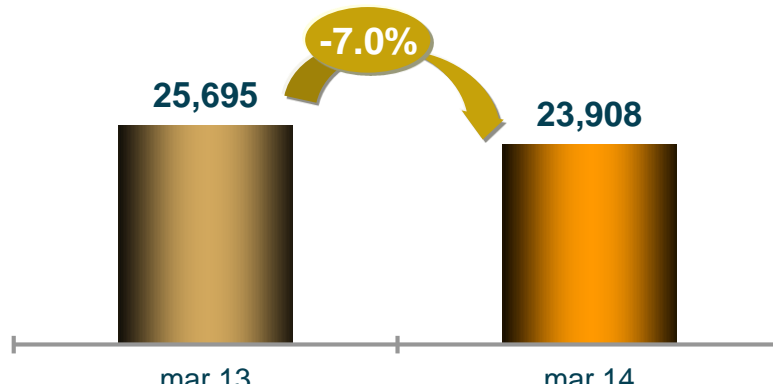
Pay TV growth in Accesses and ARPU

- Pay TV accesses: +19.3%**, pushed by:
 - ✓ DTH customer base: +17.2%
 - ✓ IPTV customer base: 12,998 (vs. 2,747 as of Mar.13)
- Pay TV revenues increase +28.9%**, (18.8% of total revenues), due to higher ARPU related to IPTV growth and launching of new plan “Preferred HD” in 1Q14
- MOVISTAR launches a new service “Movistar Play”**: movies and series via website

Noticeable growth in Digital Services for Corporate Communication business

Corporate Communications revenues

Ch\$ Million



Main projects in 1Q14



Corporate Communications

- Corporate Communications revenues drop 7.0%, meaning 15% of total consolidated revenues

✓ Lower revenues are mainly due to the end of Minsal (“Red Ministerio de Salud”) project, at ending 2013

✓ Partially offset by **growth in Digital Services: +23%**, pushed by Cloud Computing and Financial Services, which grew 18% and 300%, respectively. Digital Services represent 19% of data services in the Corporate Communications business



New Fixed Access Charges tariffs apply for T. Chile and a gradual process to eliminate DLD initiates in Chile

In May 2014, Fixed Access Charges (“CAF”) tariffs must be set for Telefónica Chile, for the next 5 years

- According to a preliminary report (“*Informe de Objeciones y Contraproposiciones*” or “*IOC*”) issued by SUBTEL, the new Tariff Decree might set up a decline of 46% in CAF tariffs
- CAF revenues represent 2.6% over Company’s total revenues
- This CAF tariff setting process only impacts revenues
- Company’s estimated impact in 2014 (from May '14 to Dec.'14) vs. 2013, considering the tariff reduction defined in the *IOC*:
 - ✓ Total revenues: - 1.4%

In Mar. '14, the process to eliminate the existing Domestic Long Distance tariff began in Chile, by Regions. Since its implementation, any telephone call inside of the country is priced at a unique local tariff. This process will finish in Santiago, in Aug. '14

- Estimated impact in 2014 vs. 2013:
 - ✓ Total revenues: - 0.7%

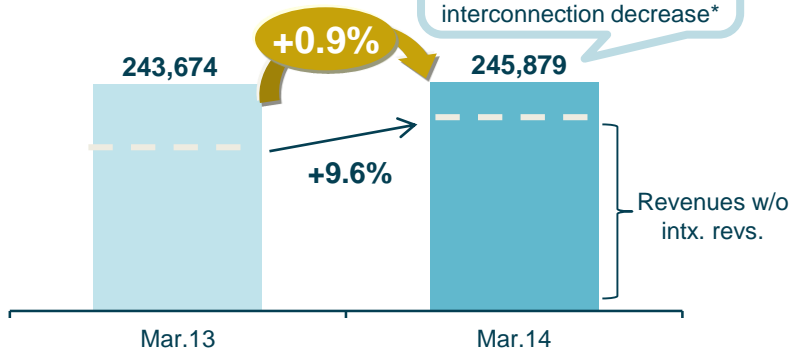
FINANCIAL OVERVIEW

Revenues and EBITDA evolution

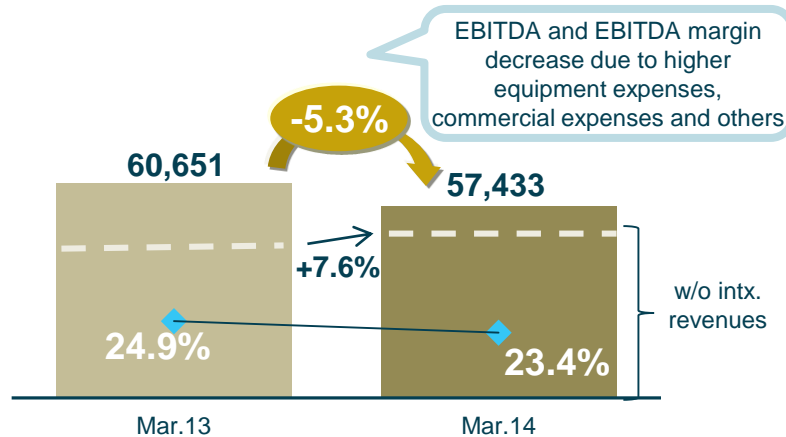
MOBILE

Total revenues

(Ch\$ Million)



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

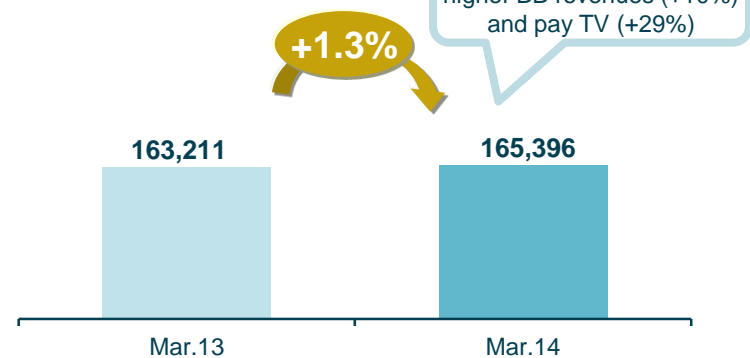


(*) Mobile Access Charges tariffs decrease (-73%) since Feb.'14.

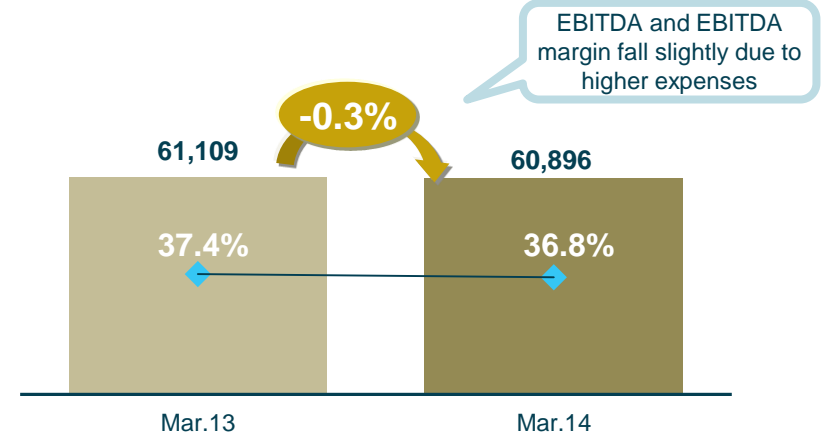
FIXED

Total revenues

(Ch\$ Million)



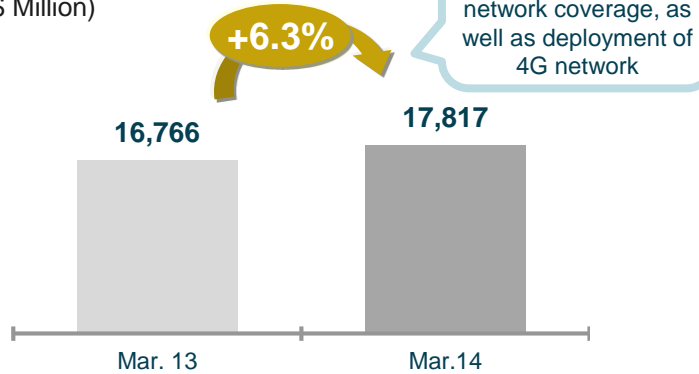
EBITDA (Ch\$ Million) and EBITDA margin (%)



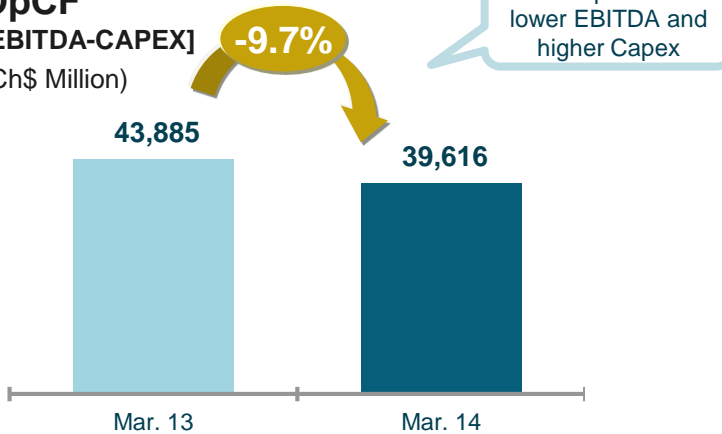
CAPEX and OpCF evolution

MOBILE

CAPEX (Ch\$ Million)

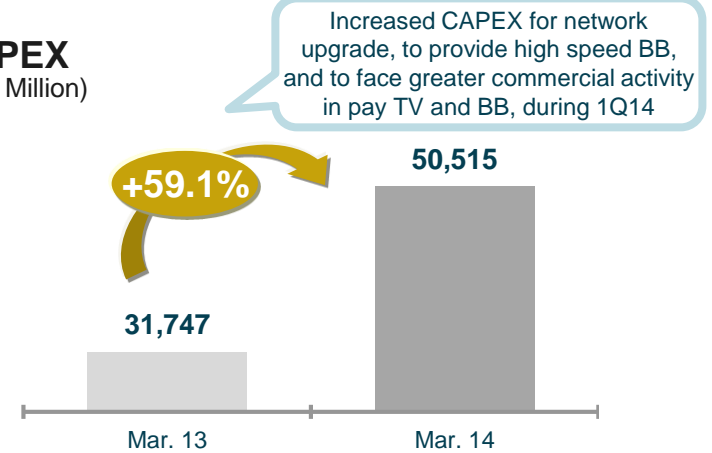


OpCF [EBITDA-CAPEX] (Ch\$ Million)

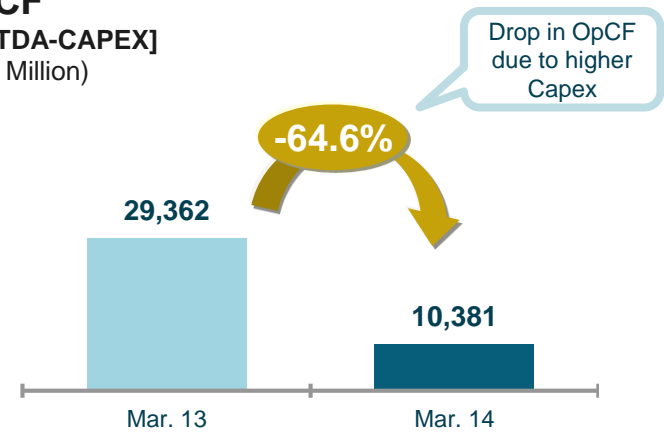


FIXED

CAPEX (Ch\$ Million)



OpCF [EBITDA-CAPEX] (Ch\$ Million)



Diversified Debt structure and ample maturity profile

MOBILE

Gross Debt as of Mar. 2014 → Ch\$ 470 bn
 Net Debt as of Mar. 2014 → Ch\$ 207 bn

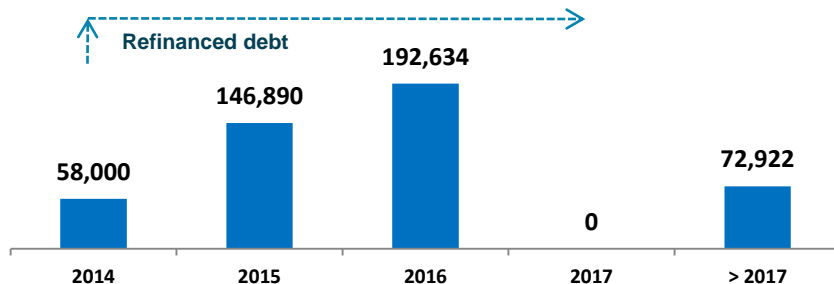
Structure:



Avg. Debt rate 5.8%

- ✓ **Gross debt:** increases in Ch\$69 billion due to a Local Bond Serie F issue (Oct. 13)

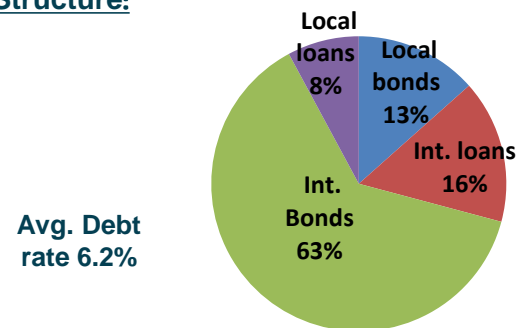
Debt Maturities profile



FIXED

Gross Debt as of Mar. 2014 → Ch\$ 384 bn
 Net Debt as of Mar. 2014 → Ch\$ 308 bn

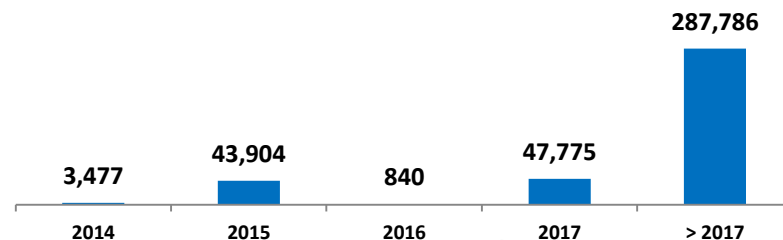
Structure:



Avg. Debt rate 6.2%

- ✓ **Gross debt:** decreased in Ch\$162 billion mainly due to amortization of an International Credit (May 13) as well as Local Bonds Serie M and Serie N (Mar. 14), and partially offset by a Local Bond issue Serie Q (Mar. 14)

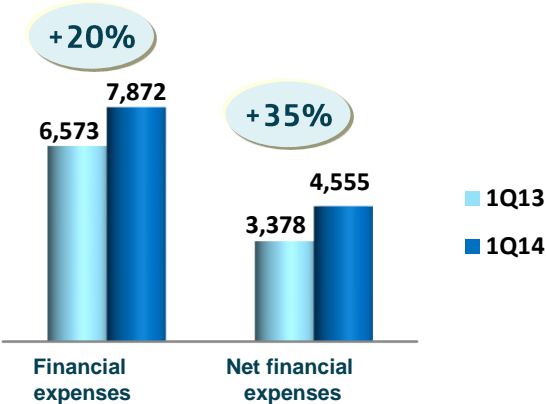
Debt Maturities profile



Hedging strategies offset higher financial expenses

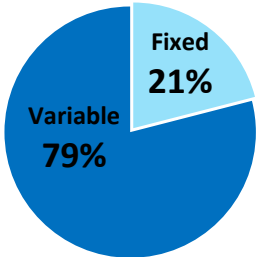
MOBILE

Financial Expenses Ch\$ million



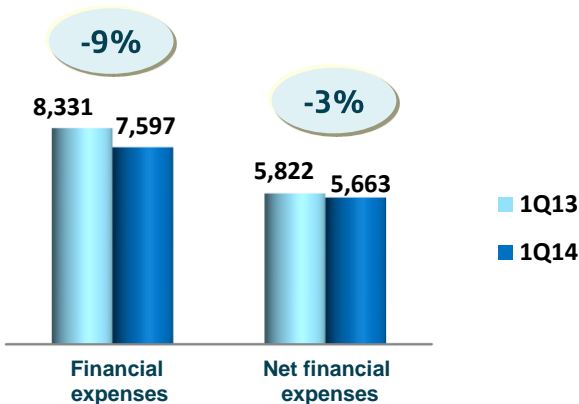
✓ Gross and Net financial expenses increased by higher Debt vs. 2013

Currency and Interest rate hedging



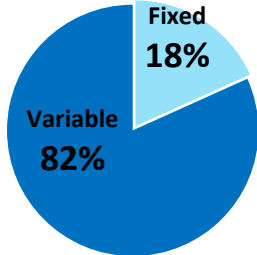
FIXED

Financial Expenses Ch\$ million



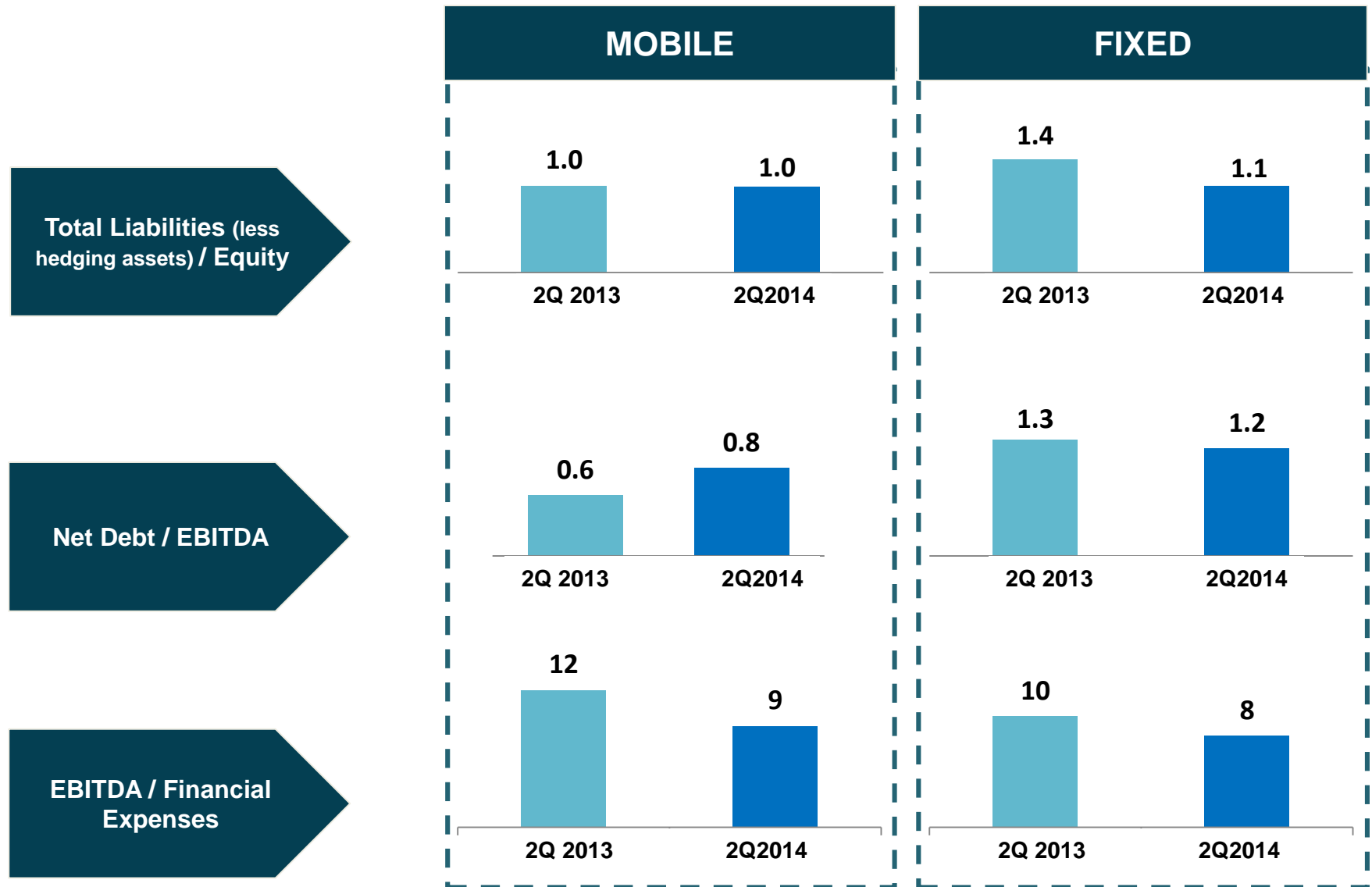
✓ Gross and Net financial expenses decreased by lower average financial debt compared to previous year

Currency and Interest rate hedging



← 100% Debt in CLP →

Financial ratios remain solid and stable



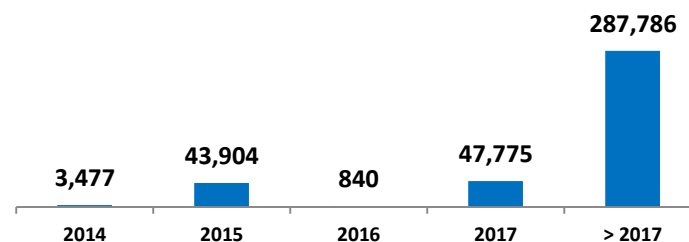
Financing for T. Chile – March 2014

- On Mar. 26, 2014, T. Chile successfully completed a local bond issue in Chilean pesos, in order to early refinance its 2015 financial commitments

Terms and conditions

Amount	CLP 47,000 million (approx. US\$84 million)
Currency	CLP
Rate	6,10% annually
Spread over BCP 5Y	128 bps
Term	5 años (bullet)
Maturity	Mar. 14, 2019
Local Rating	AA / AA
Covenants	No covenants and/ or control clause

New maturity profile (million CLP)



- This transaction generated a great demand among investors (2.3x) and the rate run 20 bps during the auction
- The spread of 128 bps over BCP 5Y (4.82%) has been the lowest rate, in Chilean pesos, since year 2010, taking into account term and credit quality similar issues
- Main investors: mutual funds and brokers

Summary of Financial Results

accumulated as of March 2014

<i>Million Ch\$ IFRS</i>	T. Móviles Chile		w/o intx. %Var. '14/'13	T. Chile	
	Jan-Mar '14	% Var. '14/'13		Jan-Mar '14	% Var. '14/'13
Total revenues	245,879	+0.9%	+9.6%	165,396	+1.3%
Operating expenses	-188,446	+3.0%		-104,500	+2.3%
EBITDA	57,433	-5.3%	+7.6%	60,896	-0.3%
EBITDA margin	23.4%	-1.5 pp		36.8%	-0.6 pp
Depreciation and Amortization	-23,069	-47.7%		-44,527	+19.5%
Operating Income	34,364	+107.6%		16,369	-31.4%
Net interest income and others	-3,423	+31.6%		-5,634	-0.3%
Taxes	-5,194	+114.3%		-1,365	-64.0%
Net income before minority interest	25,747	+123.3%		9,370	-34.0%
Net income	25,747	+123.3%		8,482	-36.2%

Summarizing ...

- Total Accesses grow **+2%**
- T. Móviles's total revenues affected by -73% drop in access charges tariffs, since Feb.14. Total revenues, without interconnection revenues, increased **+9.6%**, mainly explained by:
 - Growth in accesses and voice revenues, which increased **+2.2%** and **+1.6%**, respectively, and
 - Growth in mobile Internet accesses and revenues, which increased **+23%** and **+41%**, respectively, driven by NEM (“navigation in mobile”)
- FBB revenues increased **+10%**, driven by high speeds in BB. Pay TV revenues increased **+29%**, due to accesses growth and higher ARPU
- Digital Services grew **+23%**, which represents 19% of Data revenues from Corporate Communication business
- EBITDA margin in Fixed business: **36.8%**
- EBITDA margin in Mobile business: **23.4%**



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