Telefónica

# Financial results

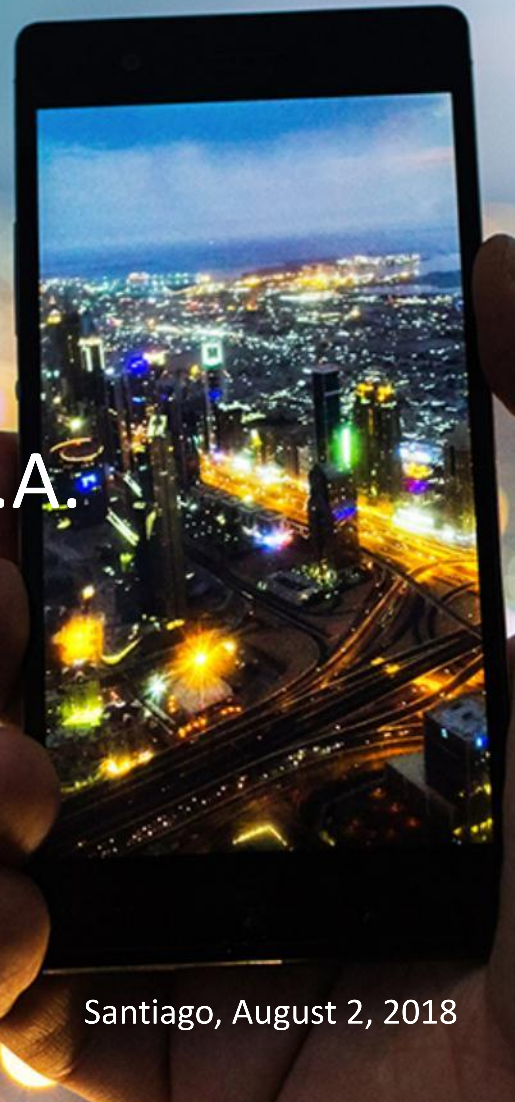
## accumulated as of June 18

# TELEFONICA MOVILES CHILE S.A.

(Mobile and Fixed businesses consolidated figures)

# & Telefónica Chile S.A.

(Fixed business figures)



Santiago, August 2, 2018

# 01 Businesses performance

*Note: accumulated figures as of June 18 vs. accumulated figures as of June 17*

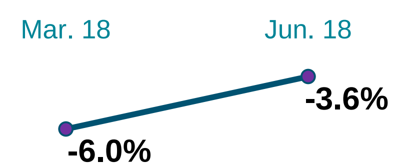
# Mobile POSTPAID: A positive commercial activity has improved revenues trend

% Var. Jun 18/17

**Pospaid REVENUES***

**-3.6%**

** Includes revenues from sales of equipment*



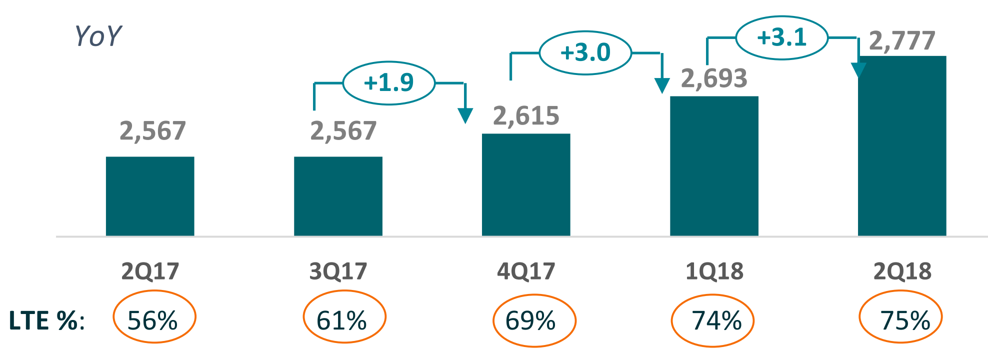

- CHURN downward trend
- Adds growth acceleration
- Higher portability NET GAIN in 1H18: 95 thousand
- 39%  Postpaid/Total Accesses*

** : % o/total accesses (Voice, MBB, M2M)*

**Revenues trend improves due to**:

- Success of more competitive new commercial plans launched in 2H17, as well as of new offers in 2Q18, which allow to safeguard and capture new customers:
  - More gigas, with social networks included.
  - "ModoNoMundial" campaign with "Rusia 2018" matches on live through the "MovistarPlay" app.
  - Mobile devices offers, standing out Galaxy S9 launching and Huawei P20 with "Movistar One"
- The above shows a positive commercial activity:

Postpaid customer base grows **+8.2%** as of June 18



# Mobile PREPAID: Remain growing in a highly competitive market

% Var. Jun 18/17

**Prepaid REVENUES***

**+0.7%**

** Including equipment sales revenues*

**Prepaid Accesses**

**-7.0%**

**5,310** accesses (thous.)

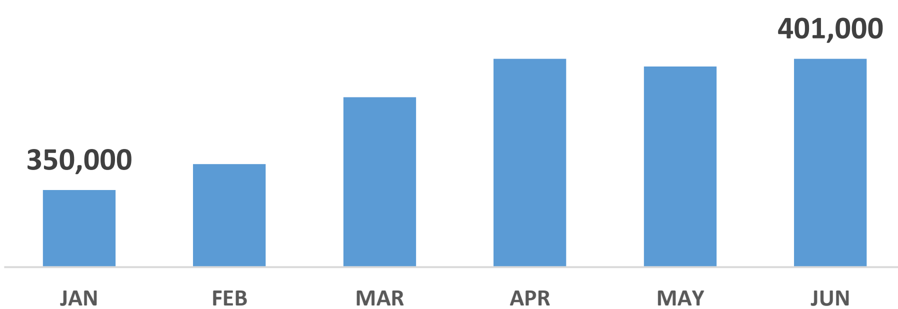
**1,320 thous. 4G customers**

- **PREPAID revenues grow +0.7%**, because of:
  - ✓ High revenues from equipment sales and "Preplans"

  Partially offset by:
  - ✓ Lower top ups (Voice services + Internet)
  - ✓ Less accesses due to aggressive competition

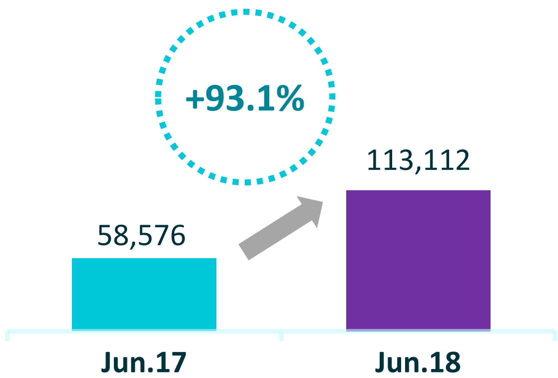
- **Prepaid accesses decrease -7.0%,** explained by:
  - Growing movement of prepaid customers towards postpaid plans
  - Portability Net Gain maintains a negative trend explained by the aggressive competition
- Upward trend of "Preplan" customer base in 2Q18

**Evolution of "Preplan" customer base**

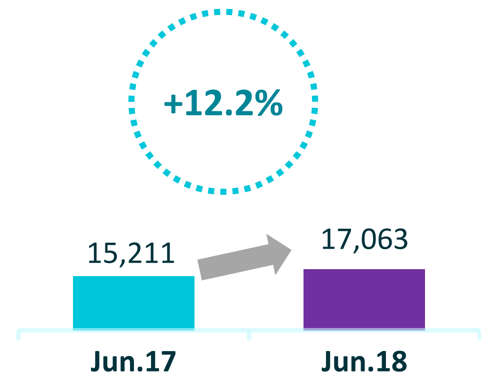


# Strong growth in Mobile Equipment sales and Broadband revenues

**SALES OF EQUIPMENT revenues**
(Ch$ million)




**MBB revenues**
(Ch$ million)




✓ Sales of Equipment revenues grow pushed by:

- Change to a new sales model in installments launched in 3Q17
- The attractive “Movistar One” offer
- Equipment sales campaigns: launching of Galaxy S9 and Huawei P20 as well as special offers as “Ciberdays” and “Mothers’ Day”

✓ MBB revenues increase due to:

- Postpaid MBB accesses growth: +8.4% (188 thous. customers)

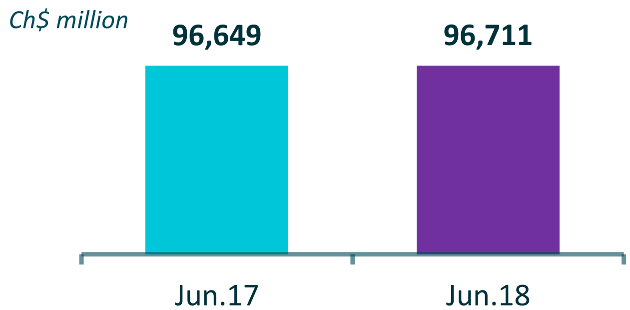
Pushed by:

✓ MIFI/Router service (“Banda Ancha Hogar 4G”)

✓ LTE MBB growing +13.6%: 152 thous customers (57% o/MBB accesses)

# Solid progress in Fiber Optic deployment has reinforced commercial Offer

**FBB revenues +0.1%**



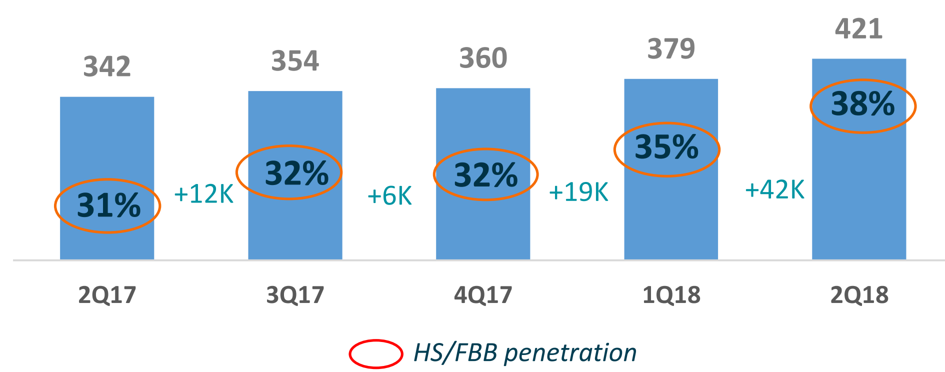

Jun 18/17 % Var.

**FBB accesses -1.3%**

**1,098** thous. accesses

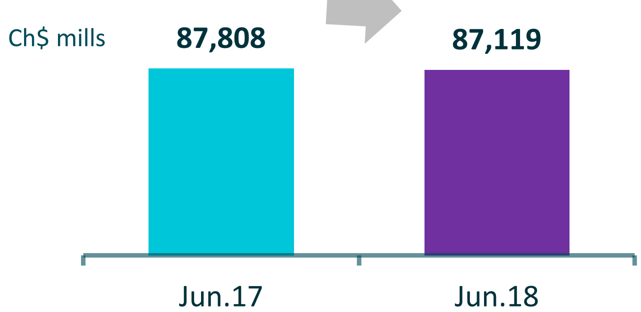
- ✓ FBB revenues remain stable despite a -1.3% drop in accesses
- ✓ Accesses decrease is explained by lower ADSL accesses (-9.9%); however, High Speed (HS) accesses grow +23.3%
- ✓ Fiber Optic (FO) deployment plan explains HS growth and allows tendency change in 2Q18
  - FO Home Passed (HP) reach 790 thous. as of Jun.18
  - Higher adds in 2Q18 vs. previous quarters
  - ADSL and FO customers migrations allow to reduce “churn” and improve customer experience
  - Stand out launching of a new FO plan with symmetric 600 megas, exceeding competition offer

**HS customers evolution**



# Pay TV business leverages its offer with new contents and “Movistar Play”

**Pay TV revenues -0.8%**




% Var. Jun 18/17

**Pay TV accesses +1.4%**

**679** thous. accesses


NETFLIX

✓ Pay TV revenues slightly decrease explained by:

- A 1.4% growth in accesses mainly pushed by IPTV, according to Broadband High Speed growth
  - IPTV customers = 66,690 (+13.0%)
  - DTH customers = 612,542 (+0.3%)

**Penetration: IPTV = 10%**

- The above partially offset by lower ARPU due to competitors commercial offers

- Contains offer reinforced with Movistar Play. During 2Q18 it should be pointed out:
  - **Launching of ModoNoMundial#**, allowing TV Movistar customers watch all Rusia 2018 football matches with Movistar Play (on live and HD, everywhere and at any time)
  - **“Movistar Series”**, launched in 1Q18, successfully remain among 7 channels with more audience (same type channels)
  - **NETFLIX agreement**, to include Netflix contains in the Movistar Play grid during 2H18





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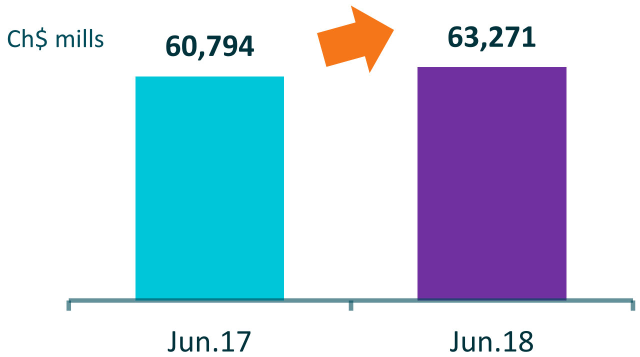
# Corporate Digital services and Private Data services remain growing

% Var. Jun 18/17

**Corporate Data services revenues +4.1%**




✓ Corporate Data services revenues grow 4.1% explained by:

**Digital services**

**+6.5% Var.**

- Mainly pushed by higher “Cloud” and “Security” services, related new projects

**Data Private services**

**+3.4% Var.**

- Higher revenues from sales of Data solutions and renewal of agreements

**2Q18 Projects:**

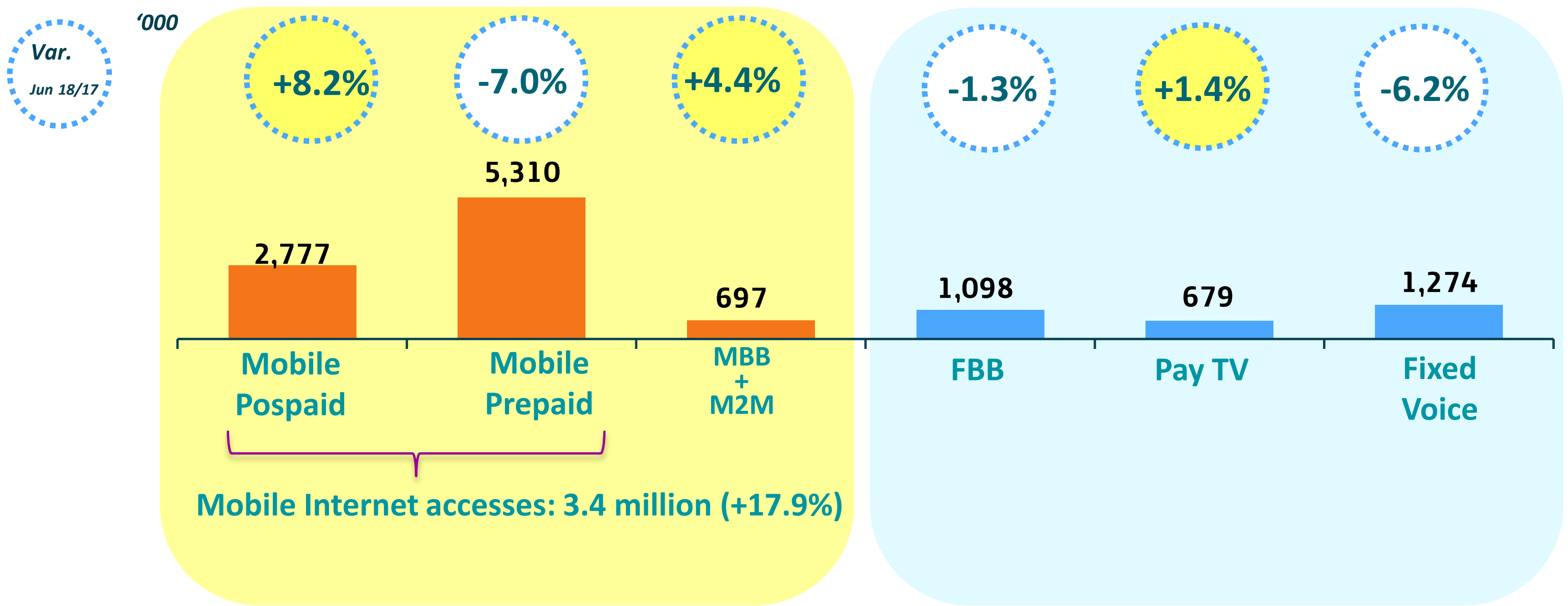
# Total Accesses showing growth in Pospaid, MBB and Pay TV

**TOTAL ACCESSES** (M+F) as of June 18

**11.8 million** / Var: -2.1%

MOBILE accesses: 8,784 thous.

Accesos FIXED accesses: 3,051 thous.



# 02 Financial performance

*Note: accumulated figures as of June 18 vs. accumulated figures as of June 17*

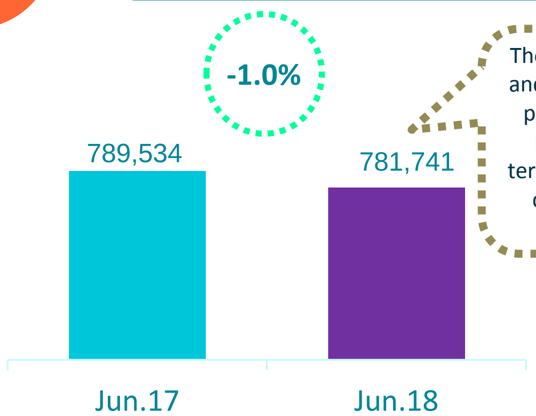
# Revenues, EBITDA, CapEx and OpCF evolution

## **Telefónica Móviles Chile** (TMCH, Mobile+Fixed consolidated business)

M + F

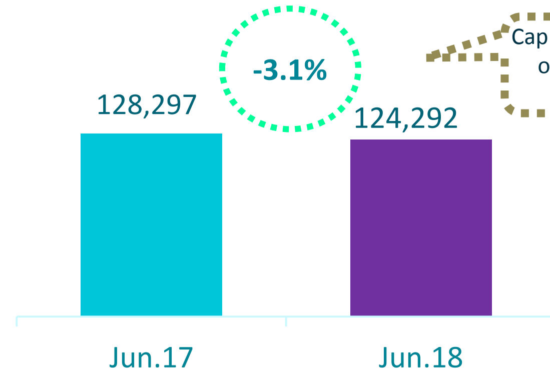
*Ch$ million*

### Revenues



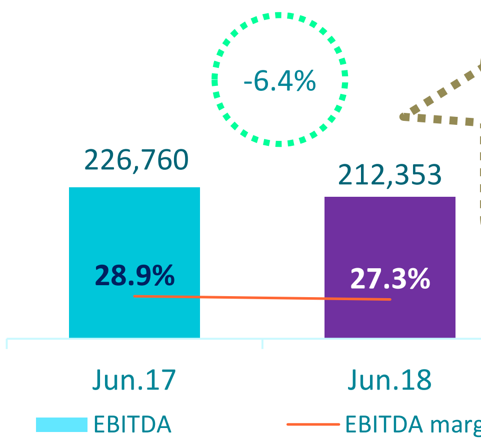

They fall due to lower fixed and mobile voice revenues, partially offset by higher revenues from mobile terminals, data services for companies and mobile wholesale services

### CapEx




CapEx oriented to fiber optic and 4G sites deployment

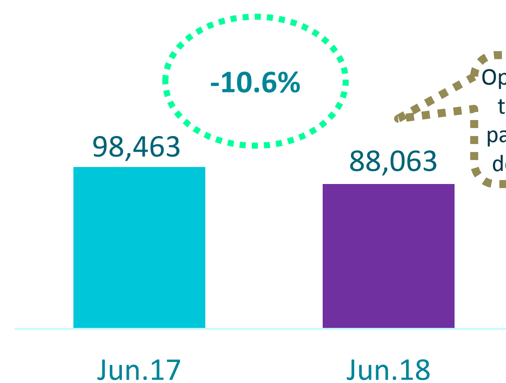
### EBITDA and EBITDA margin




Fall due to lower revenues (-1.0%) and increase in expenses (+ 1.2%) associated mainly with higher terminal expenses, leases and commissions. Excluding the effect of the application of IFRS 15 and 9 in 2018, EBITDA falls -2.9%

| | 1Q18 | 2Q18 |
|---|---|---|
| EBITDA margin | 26.5% | 27.8% |

### OpCF [EBITDA-CapEx]




OpCF decreases due to lower EBITDA, partially offset by a decrease in CapEx





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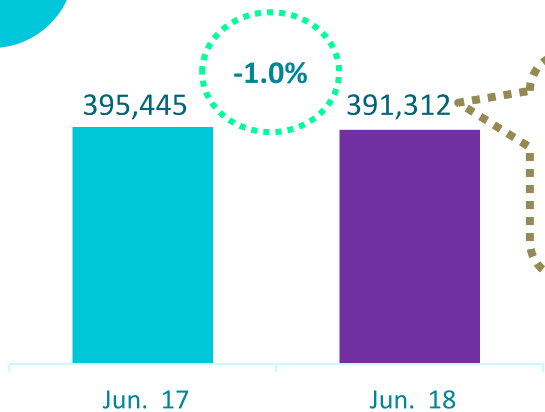
# Revenues, EBITDA, CapEx and OpCF evolution

## **Telefónica Chile** (TCH, Fixed business)

F

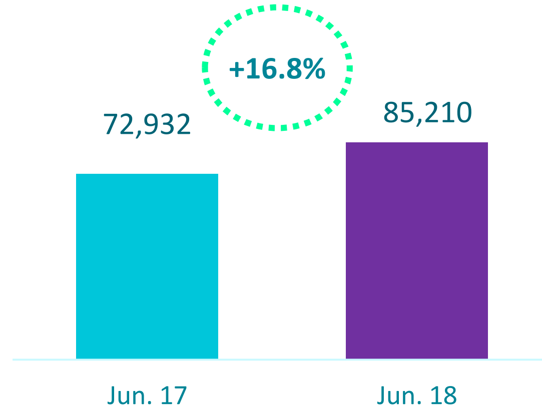
*Ch$ million*

### Revenues



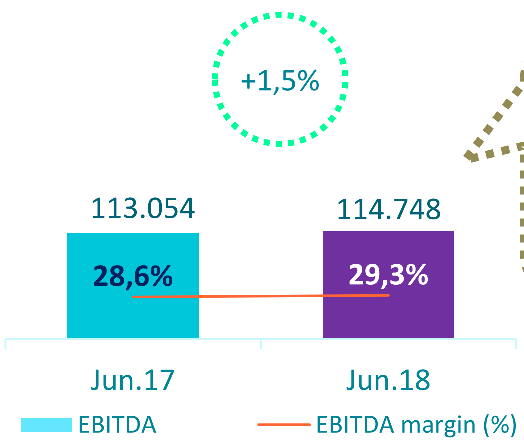

Revenues fall due to lower fixed voice revenues, partially offset by higher data services revenues for corporates

### CapEx



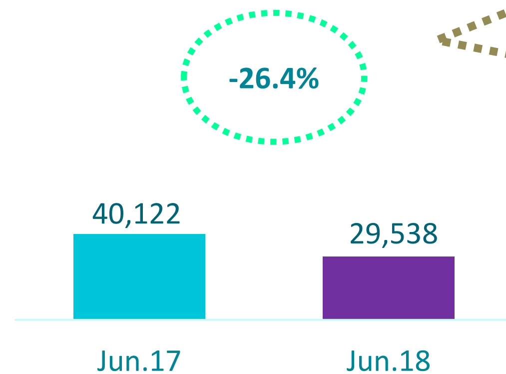

CapEx oriented to fiber optic deployment, with home passed growth in 2Q18

### EBITDA and EBITDA margin




EBITDA grows 1.5%, due to lower expenses (-2.1%) associated with lower media and content rental expenses, personnel and ITX

### OpCF [EBITDA-CapEx]



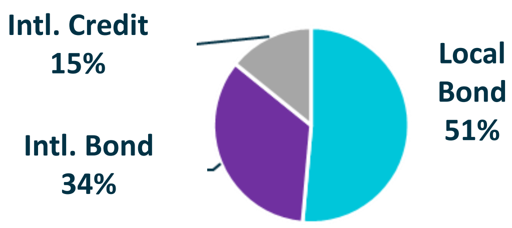

OpCF decreases due to CapEx increase related to FO deployment and partially offset by an increase in EBITDA

# Telefónica Móviles Chile: Accessibility to different markets. Payment capacity supported by EBITDA generation

M+F

**Debt structure**

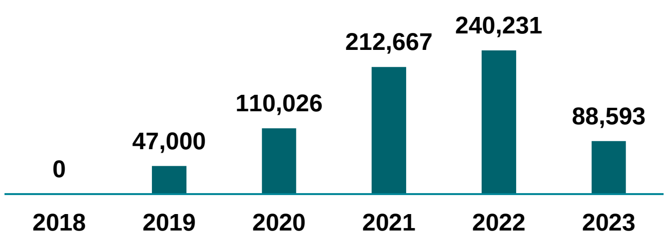
- ✓ Gross Debt as of Jun. 2018 → → Ch$699 bn
- ✓ Net Debt as of Jun. 2018 → Ch$532 bn
- ✓ AA+ (ICR/FITCH) BBB/BBB+ (S&P/ FITCH)




- ✓ Gross debt increases 1% with respect to the previous year due to the valuation effect of hedging instruments
- ✓ Net Debt decreases 1% due to higher cash balance compared to the previous year

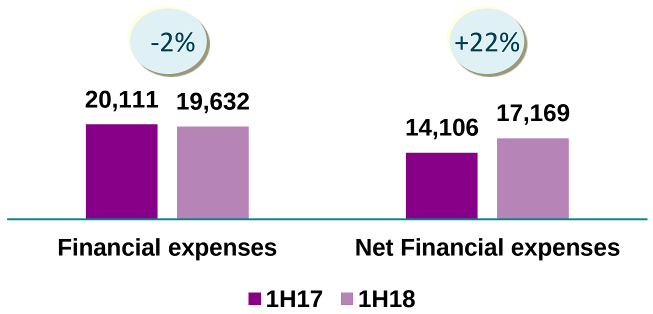
**Maturities profile** (Ch$ million)

- ✓ Payment capacity supported by 12-month EBITDA generation which, at June 2018, reached Ch$415 billion



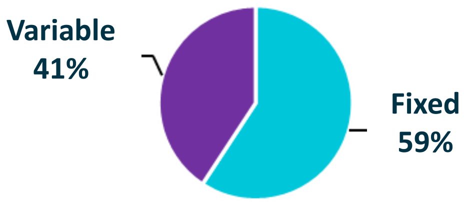

**Financial Expenses** (Ch$ million)

- ✓ Gross financial expenses decrease due to a fall in the market interest rate, from 2.98% to 2.5%, on average, applied on the floating rate Debt. Net financial expenses increase by lower average cash balance




**Currency and Interest rate hedging**

- 100% FX hedge
- Average interest rate of Gross Debt: 4.8% annual

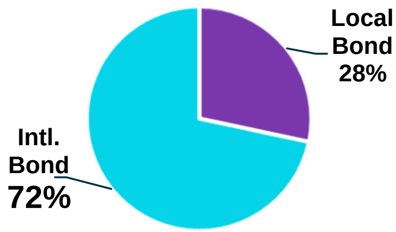


# Telefónica Chile: Debt concentrated in the long term. Efficient rate management allows financial expenses to be reduced.

F

## Debt structure

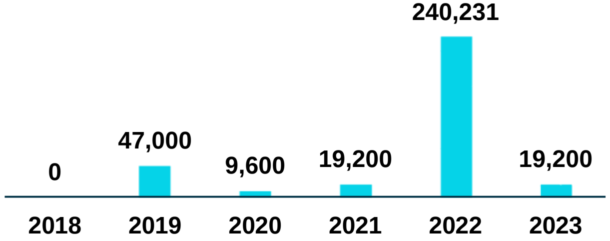
- ✓ Gross Debt as of Jun. 2018 → Ch$341 bn
- ✓ Net Debt as of Jun. 2018 → Ch$273 bn
- ✓ AA (ICR/FITCH) BBB/BBB+ (S&P/FITCH)




- ✓ Gross debt increases 4% with respect to the previous year due to the valuation effect of hedging instruments
- ✓ Net Debt increases 11% in relation to the same period due to a lower cash balance

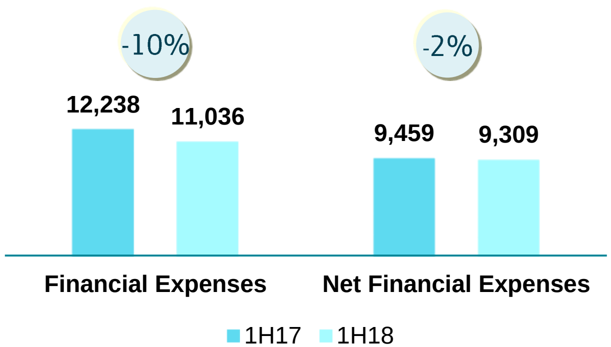
## Maturities profile Million Ch$

- ✓ Next debt maturity: Local Bonds for Ch$47 mills in March 2019



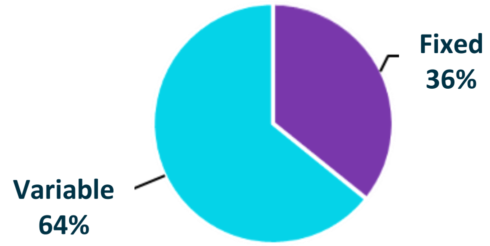

## Financial Expenses Ch$ million

- ✓ Gross and Net financial expenses decrease due to decreases in the market interest rate from 2.98% to 2.5% on average, driven by the significant percentage of floating rate debt




## Currency and Interest rate hedging

- 100% FX hedge
- Average interest rate of Gross Debt: 4.5% annual

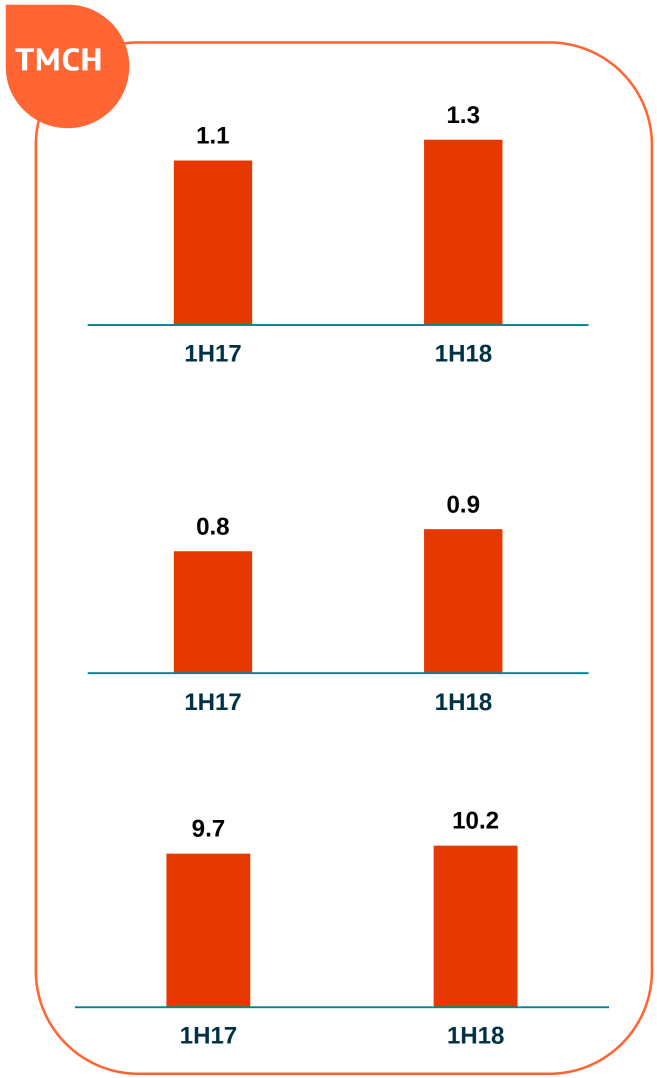


# Financial ratios remain solid on individual and consolidated basis

Net Debt/ EBITDA

Total liabilities (less) hedging assets / Equity[1]

EBITDA / Financial Expenses





[1] *Operating leases are not included*

# Application of IFRS 15 and 9 as of Jan. 1, 2018

**IFRS 15: Changes in the recognition of revenues and costs derived from contracts with combined offers:**

- ✓ Changes in revenue mainly apply to mobile contracts that include "equipment and service fee".
- ✓ Subsidies or discounts with respect to market value must be recorded proportionally to both elements of the contract, equipment and service fee, therefore :
  - In $T_0$, a higher revenue than the value invoiced by the "equipment" is recognized and the difference is recorded as a "contractual asset" that is amortized as a lower revenue for service monthly fee, during the life of the contract (18 months).
  - Additionally, each year, lower revenues are recorded for discounts that apply to the "service fee" of current contracts subscribed in previous years (previous years adjustment).
- ✓ Costs derived from contracts with new clients are deferred during the period of the contract (18 months), (mainly commissions and costs of TV decoders)

**IFRS 9: New criteria for uncollectible records and valuation of financial instruments according to their purpose**:

- ✓ The expected loss of accounts receivable is determined based on the behavior of payment of the last 12 months; previously, the loss was determined based on the delinquency incurred.

## EFECTS IN RESULTS:

| Adjustments of IFRS 15 and 9 | Jan-Jun 2018 | | |
|---|---|---|---|
| *MM$* | Impacts on 2018 | Adjustment from previous years | Total |
| Revenues | 13,320 | -22,648 | -9,328 |
| Expenses | 1,562 | - | 1,562 |
| EBITDA | 14,882 | -22,648 | -7,766 |

## INITIAL NET ADJUSTMENT:

✓For the application of these standards the retrospective method was used, recording an initial **net adjustment of -20,201 million against Equity**

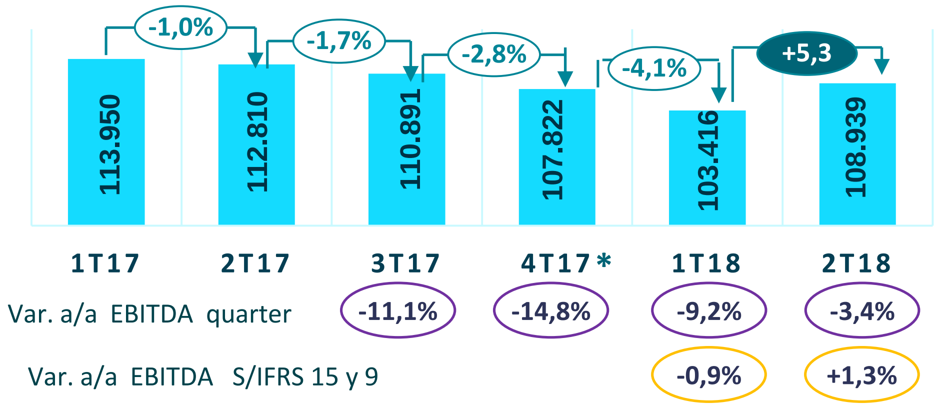
- ✓Adjustments for contracts in force, prior to 31.12.17
- ✓Uncollectible adjustments from previous periods
- ✓Deferred taxes associated with previous adjustments

# Summary of Financial Results

## accumulated as of June 30

| *Ch$ Million IFRS* | TMCH (M+F) Jan-Jun 18 | TMCH (M+F) % Var. '18/'17 | TCH Jan-Jun 18 | TCH % Var. '18/'17 |
|---|---|---|---|---|
| Total revenues | 781,741 | -1.0% | 391,312 | -1.0% |
| Operat. expenses (w/o deprec.) | (569,387) | 1.2% | (276,564) | -2.1% |
| **EBITDA** | **212,353** | **-6.4%*** | **114,748** | **1.5%** |
| **EBITDA margin** | **27.3%** | **-1,6pp** | **29.3%** | **+0.7 pp** |
| Depreciation and amortization | (142,125) | -0.4% | (84,476) | -2.6% |
| **Operating income** | **70,229** | **-16.5%** | **30,272** | **15.0%** |
| Net interest income & Others | (17,338) | 29.4% | (9,523) | 3.2% |
| Taxes | (9,240) | -107.1% | (4,879) | **c.s.** |
| **Net income before minority interest** | **43,621** | **-78.2%** | **15,871** | **-9.5%** |
| **Net income** | **43,552** | **-78.2%** | **10,106** | **-29.5%** |

**Quarterly EBITDA** (Consolidated)




EBITDA recovering growth path in 1H18

**: Excludes extraordinary expenses due to personnel reorganizstion*

# Summarizing…

- ✓ In the Mobile Business we have managed to maintain our growth in Postpaid due to the good performance in the commercial dynamics. Also noteworthy is the growth in revenues from the equipments sales, services to wholesalers and MBB.
- ✓ We continue to grow in optical fiber, in network deployment, commercial growth and customer loyalty.
- ✓ Maintained growth in business services driven by digital services and private data networks.
- ✓ EBITDA reaches Ch$212 billion, with EBITDA margin of 27.3%