

Telefónica

 movistar



Telefónica Chile and Telefónica Móviles Chile

7th Annual BBVA Latin America
Conference



May 3 and 4, 2017

TELEFONICA IN CHILE:

An integrated Fixed & Mobile digital telecom operator



MOBILE business

- Mobile Internet
- Roaming
- Voice

FIXED business

- Fixed Broadband
- Pay TV
- Digital services
- Voice

Residential,
SME and
Corporates
customers

MAIN CONSOLIDATED FIGURES (M+F) as of Dec.16 (US\$ bn)

1

US\$2.4bn
annual REVENUES

2

US\$0.73bn
annual
EBITDA

3

#1 Telco in Chile
in term of accesses
Total: 12.2 MM
Mobile: 9.1MM
Fixed: 3.1 MM

4

#1 Telco in Chile in
term of revenues
33% mkt. Share
Mobile: 19%
Fixed: 14%

Part of
TELEFONICA's Group
Telefonica

Global strategy
Sinergies and economies of scale
Development of new technologies
Business experience

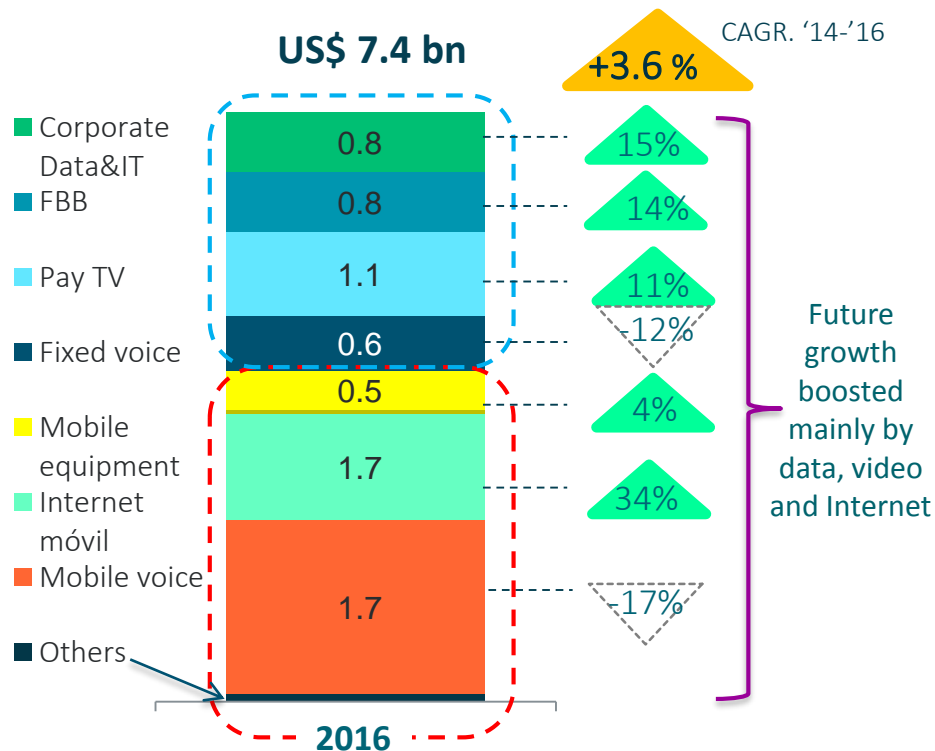
01 

TELECOM
INDUSTRY

01. The Chilean Telecom market

Revenue growth despite economy slowdown, tariff reduction and higher competition

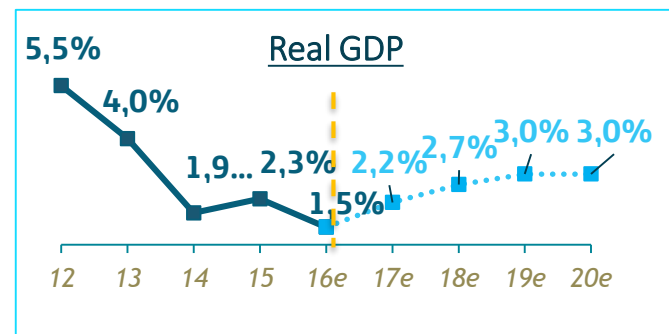
INDUSTRY REVENUE breakdown by business line:



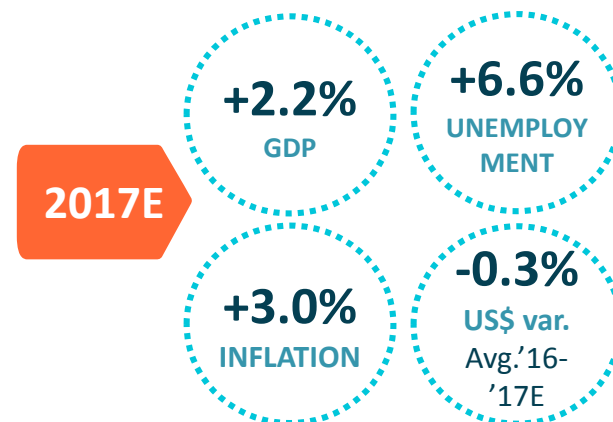
Future growth boosted mainly by data, video and Internet

- Increased competition (new entrants)
- Access charges tariff reduction in 2014 and additional reduction in the following years
- Elimination of "on-off net" tariffs

Economy slowdown in the last 5 years



ECONOMIC GROWTH PERSPECTIVES if global environment improves and local monetary policy becomes more expansive



01. Strong COMPETITION

Mobile In Mobile Business has generated significant levels of market turnover and ARPUs reduction

- **New entrants** focused on capturing market share in pre and post paid, with aggressive offers

Increasing market revolving

- More minutes, megas and social network for free, offers and handset subsidies

Number portability increased 3X in 2016 vs. 2015



- **Changes in customers behavior:**
 - ✓ Voice substitution by social networks and Internet
 - ✓ Increased usage of WIFI for mobile Internet (+76% increased in WIFI data)

Reduction of “top ups” in prepaid



- **Prepaid market contraction** after “ITX reduction” and elimination of “on-off net” in 2014

Fixed

Strong competition on BB and TV

- **Increased aggressiveness.** Our main competitor (a cable TV operator)
 - increased speeds
 - Improved its TV offer (HD channels)
- **Increased competition from “on demand” TV operators** (netflix, amazon), replacing, in part, the traditional linear TV
- **Residential BB** with 4G-LTE technology allowed mobile operators to compete with a bundled offer

BB Router
LTE



Wireless telephony

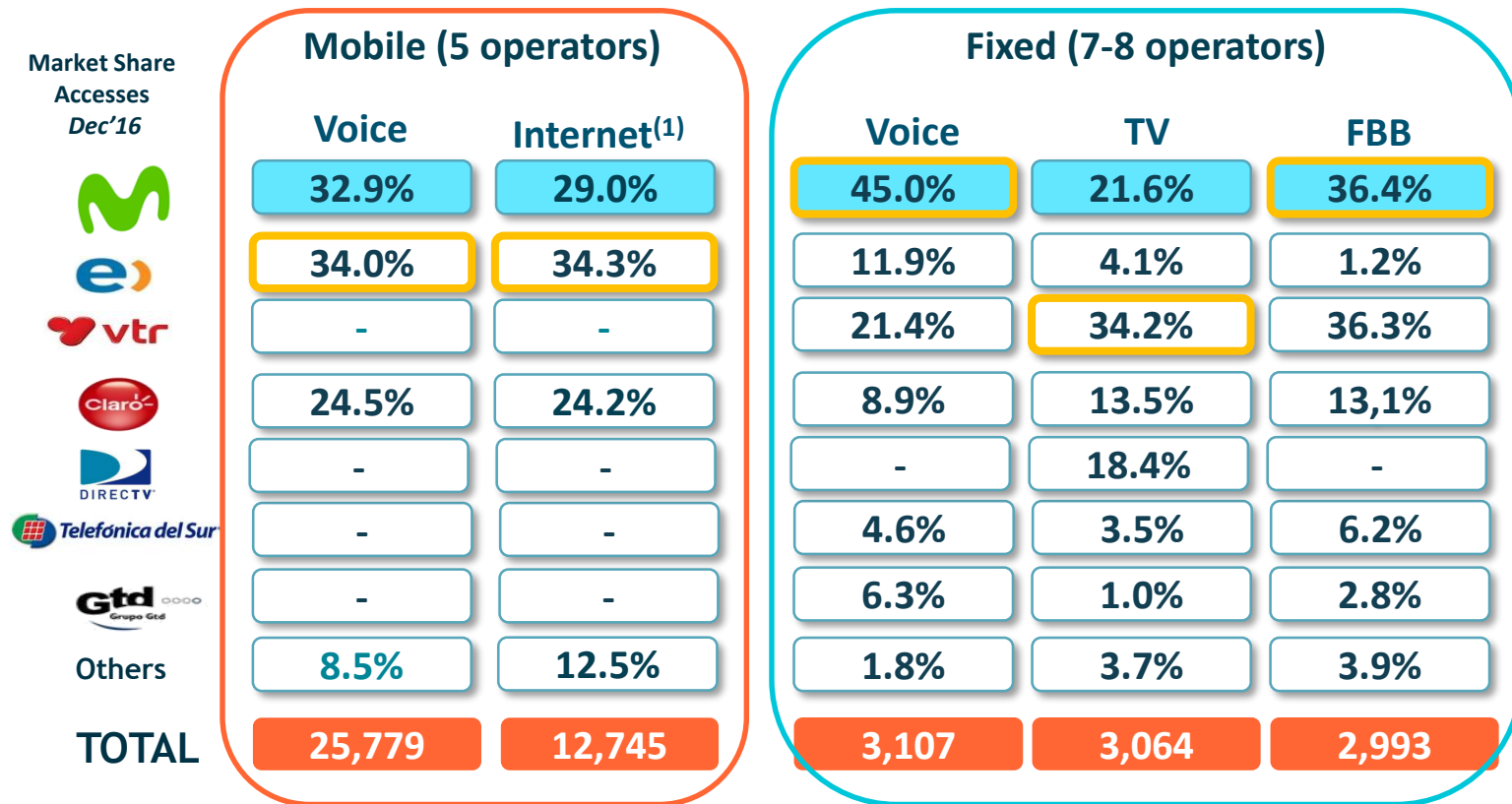


DTH TV



01. MARKET SHARE in Telecom industry

Telefónica well positioned in all businesses



(1) Mobile Internet (includes Navigation on mobile connections, MBB* and M2M*).

* MBB: Mobile Broadband (USB)
M2M: Machine-to-Machine

 #1 in the market

02



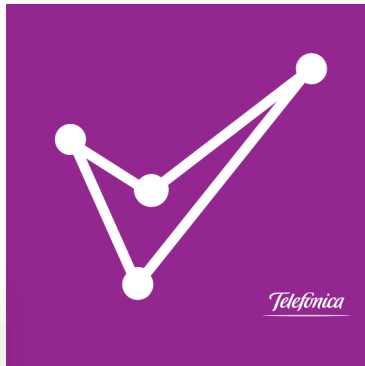
COMPANY STRATEGY & BUSINESS PERFORMANCE

Figures as of December 31, 2016,
1 US\$ = CL\$ 661.02 as of March 2017

02. A Global Strategy

Focus on Capturing Data Growth

The best Network



A suitable and simple Offer



The best customer experience



Digitalization in core business processes



Big Data and Innovation



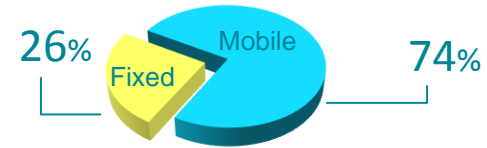
Efficiency



2016: ACCESSES mainly growing in PAY TV and mobile POSTPAID

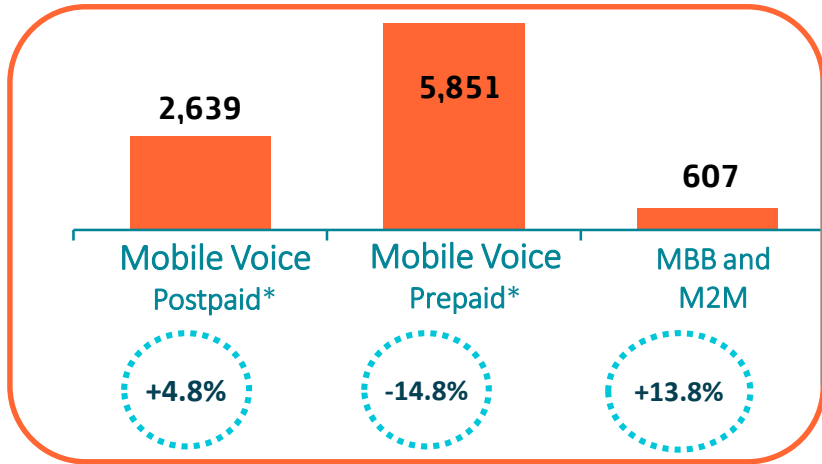


12.2 million



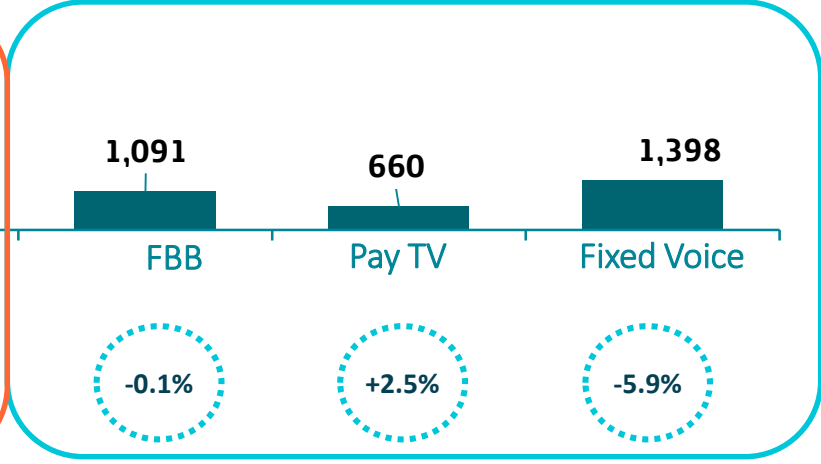
Var. Dec16/15
'000

Mobile Accesses (9.1 Million)



3.1 million
mobile Internet customers¹
Over 1.8 million 4GLTE
customers (Voice)

FIXED Accesses (3.1 Million)



324 thousand
High Speed (HS)
customers

55 thousand
IPTV customers

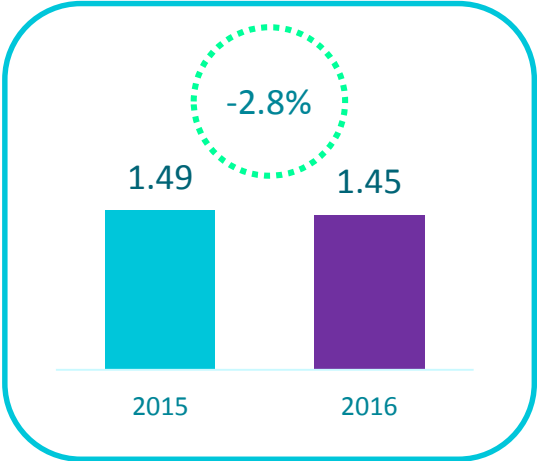
¹ Mobile Internet = MBB+Navigation in mobile

02. Postpaid and Mobile Internet revenues driving growth

Mobile Business
9,1 million accesses

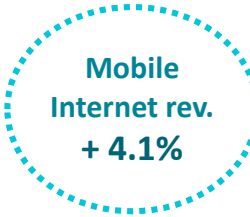


Revenues⁽¹⁾ (US\$ billion)



"Movistar One", you can upgrade your smartphone every 12 months

Var. % '15-'16



- Two digits growth in Postpaid Mobile Internet revenues (+11,0%)
- 2.64 mill. accesos en 2016 (+4,8%)
- Net gain in number portability, due to:
 - New commercial offer: + voice / + Internet / social networks & apps
 - 1.84 million customers 4G (+142%)
 - Movistar One: 60 thousand customers

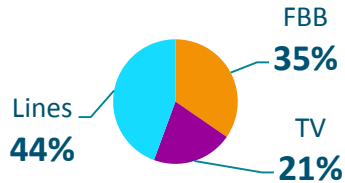


- Prepaid affected by intense competition (new entrants)
- 5.85 mill. accesos en 2016 (-14,8%)
- Recovery plan: New offer including social networks for free
 - "Prepago Ganador" including social networks for free
 - "Preplanes" – similar to postpaid plans
- 3,1 mill. customers with Mobile Internet
- Mobile Broad Band "BAM Hogar" (4G) → 74 th. clients a new source of revenues

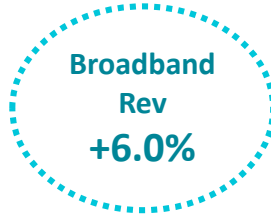
Mobile Internet PENETRATION: 34.5% o/total mobile accesses → high growth potential

02. Growth boosted by BB and TV and Data

Fixed
3,1 million accesses

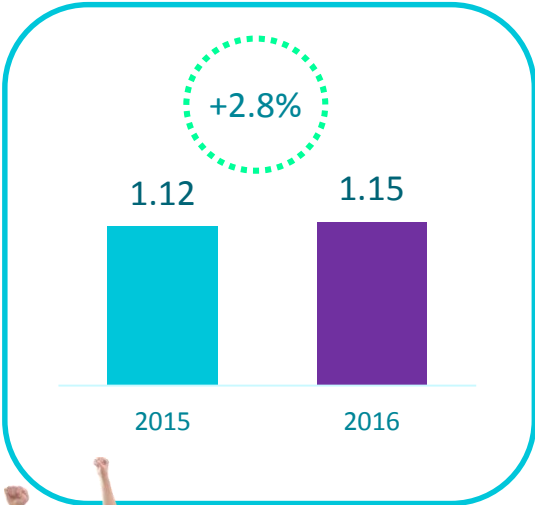


Var. % '15-'16



- 1.1 mill. accesses in 2016 (-0,1%)
- High speed (HS) growth focus and strategy of ADSL clients migration to HS, allowed to improve ARPU and Churn
 - FO and VDSL customers grew + 26,3%

Revenues⁽¹⁾ (US\$ billion)



- 660 th. accesses in 2016 (+ 2,5%)
 - Pushed by growth in DTH (+ 0.6%) and IPTV (+28.2%)

- Excluding revenues from equipment sales (set-top-box), revenues increased 5.4%, due to higher ARPU related to new plans with more HD channels and IPTV growth



- Revenue growth mainly explained by:
 - 7% growth in Corporate data due to new contracts in 2016
 - Digital services grew 24% mainly by Cloud (+57%) security services (+56%) and financial services (+3%)



02. New growth opportunities



- Strong Network
- Digitalization in business processes
- Bigdata



Driving innovation and growth

Business Convergency

Keep growing in Digital services

Digital services rev. **+24%**

Var. % '15-'16

Cloud

Security

Video

Financial ss.

E-health

Developing IoT

Smart Industry

+

Smart cities

Smart homes

Sensors and Connectivity + Analytics + IoT Platforms + Security + Apps

Eg. IoT products developed

- App to improve energy efficiency (mining)
- App to manage irrigation in agriculture
- Urban and rural mobility information for government and retails

Transformation of Video business

Boosting consumption of "on demand TV" in all our technologies (DTH and IPTV) and in all devices (TV set, smartphones and tablets)

- **Movistar Play**
- **ITV***

Continue to strengthen TV and Video content (1900 movies, 80 TV Series, film premieres and lineal channels)

Residential Broad Band (4G)

(Router LTE – Modem WiFi)

- Explosive growth
- Allows to strength competitiveness

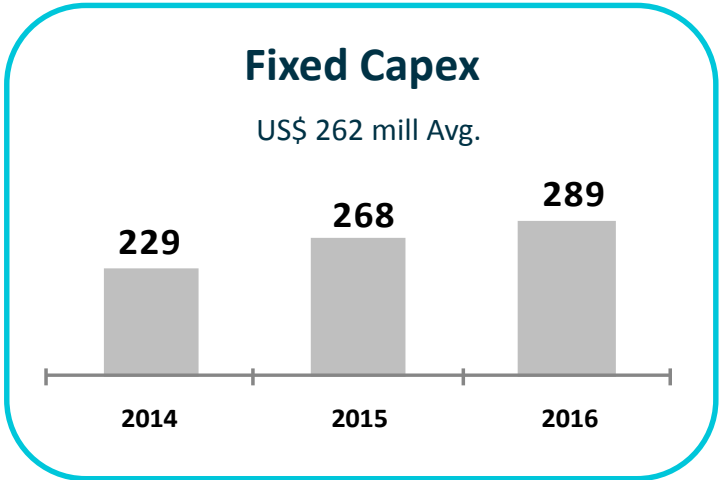
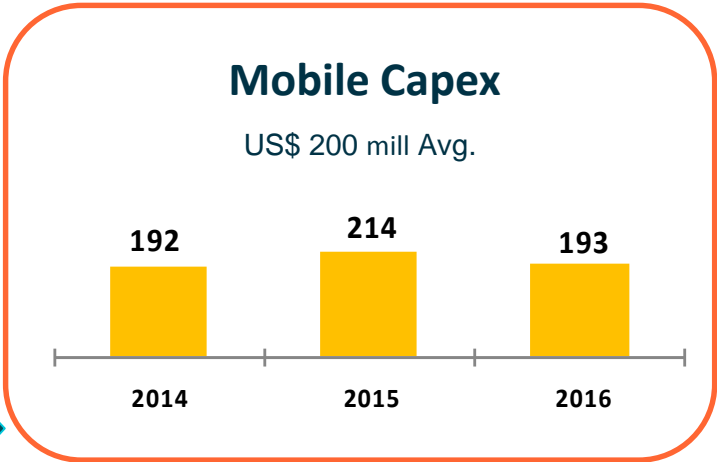
75k clients in Dec. 16 (x3)

- ✓ Offer where there is no fixed network or F.O.
- ✓ Higher speed and better customer experience
- ✓ New Trio wireless, bundling with DTH TV and FWT for voice

0.2 STRENGTHENING OUR NETWORK permanently

Focus on High speed

CAPEX (F+M)
US\$1,4 bn.
in three years



In the last 3 years

+1,445 New 4G sites

+354 New 3G sites

To face exponential Data growth:

+45% Video +170% Fixed +158% Mobile

+ 228 th. High speed (F.O. home passed)

+ In-house instalations and link for corprates

+ Data Center

03



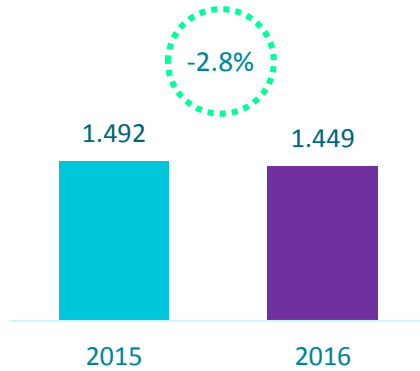
COMPANY
FINANCIALS

03.maintaining Revenues growth and strong EBITDA

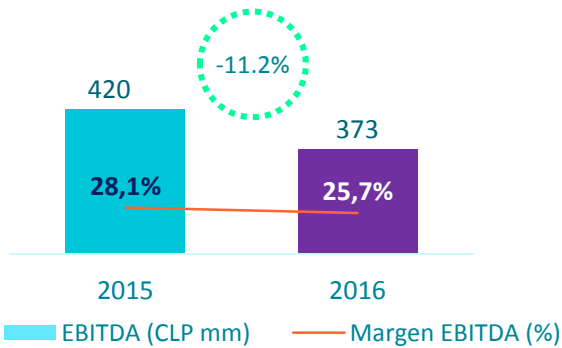
Mobile

(US\$ million)

Revenues⁽¹⁾



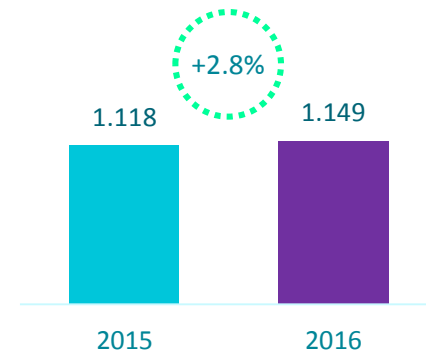
EBITDA y EBITDA margin



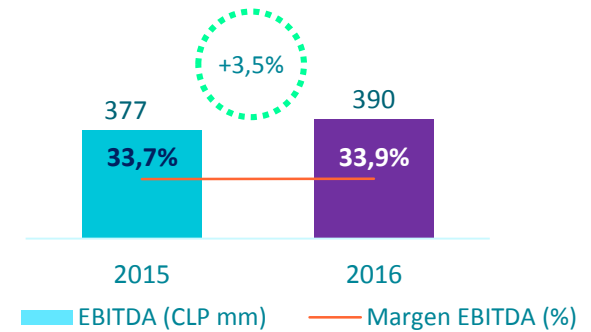
Fixed

(US\$ million)

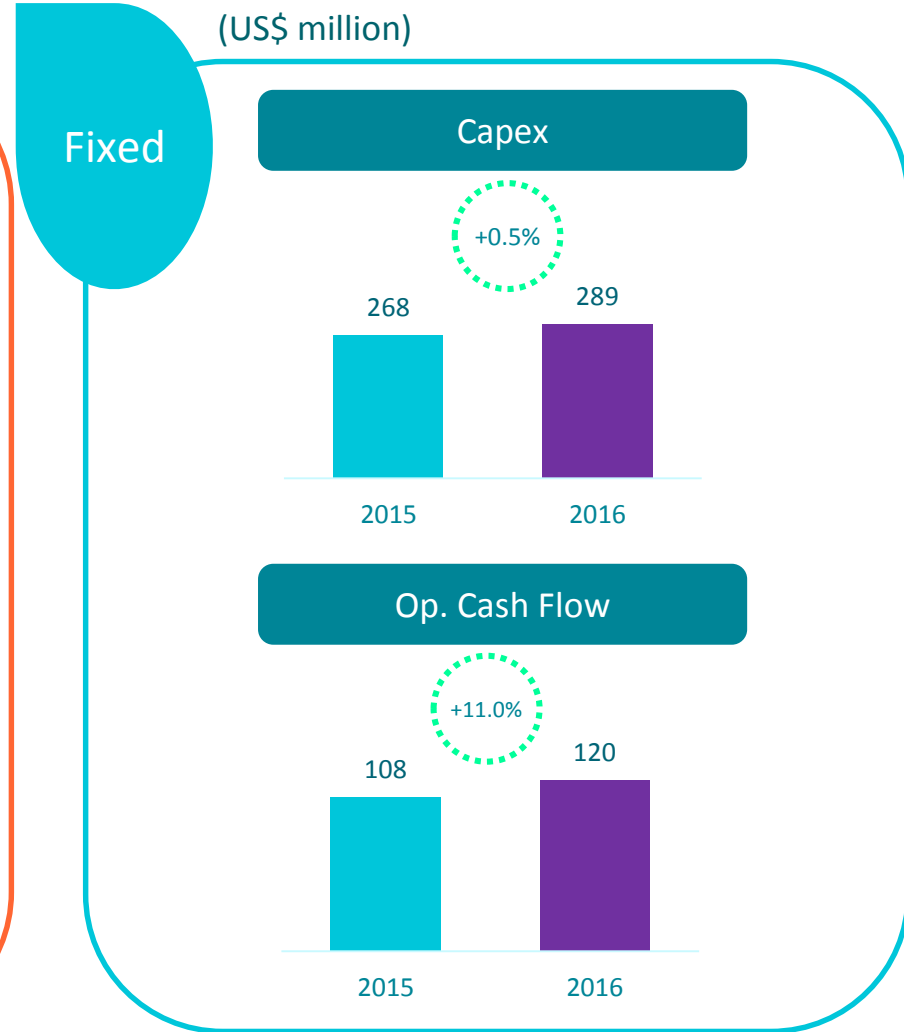
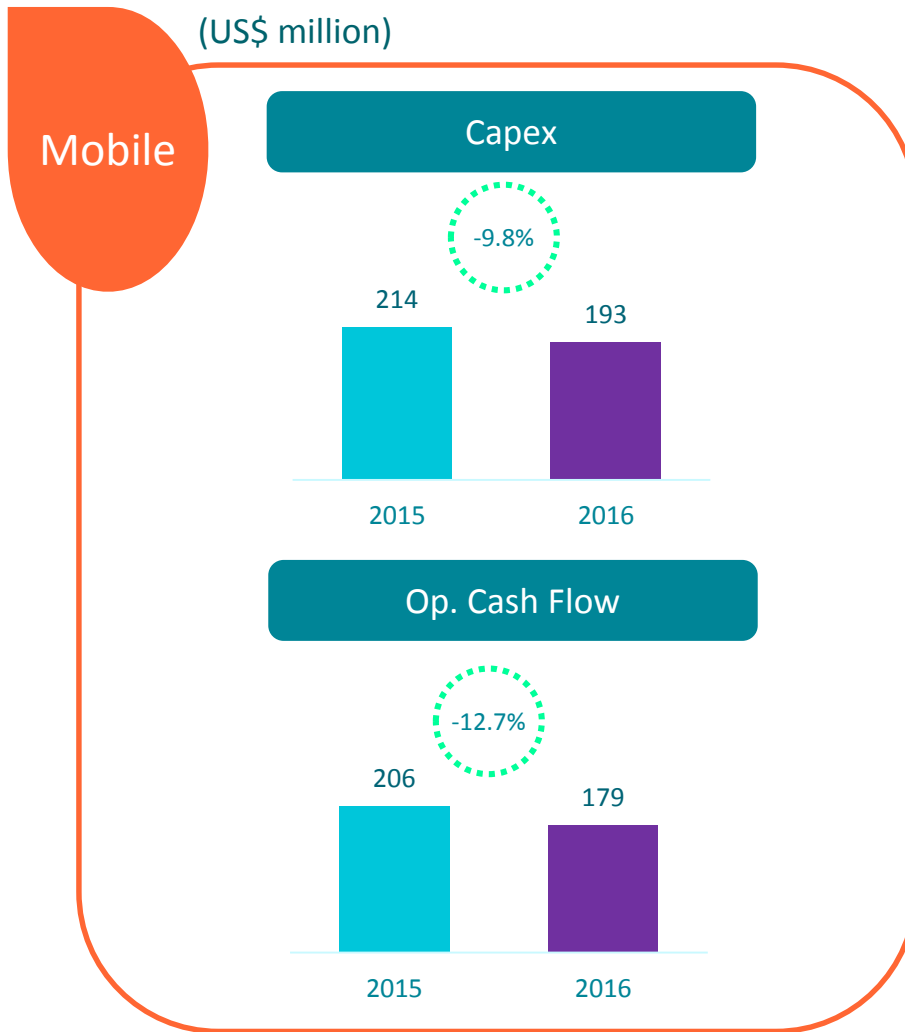
Revenues⁽¹⁾



EBITDA y EBITDA margin

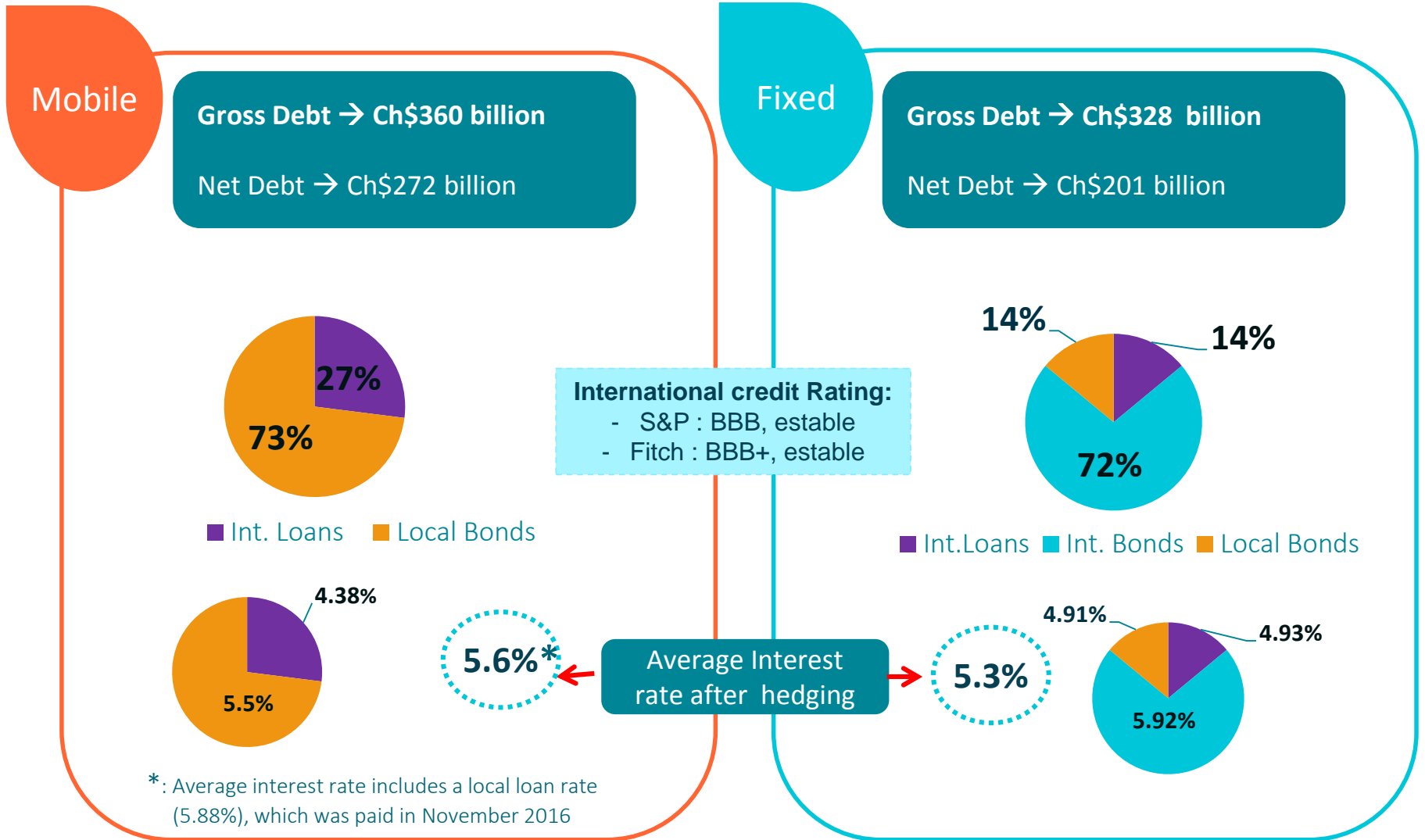


03. A Positive Cash Flow generator



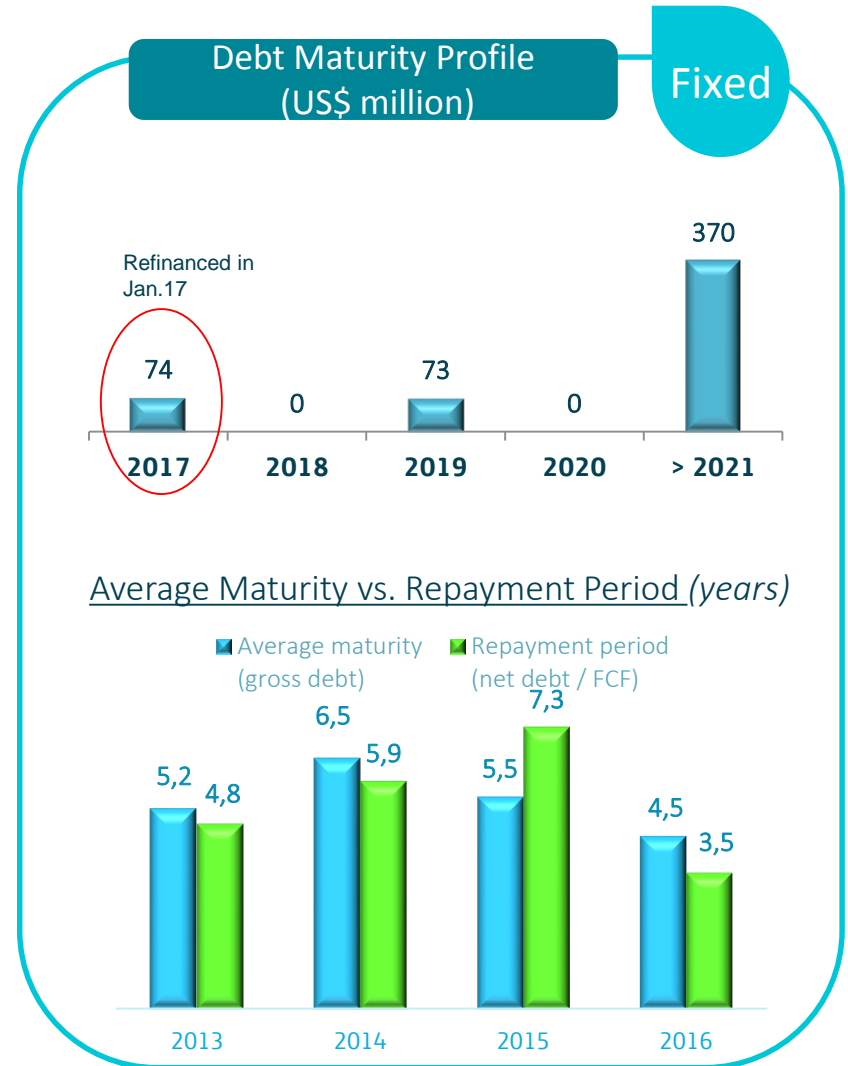
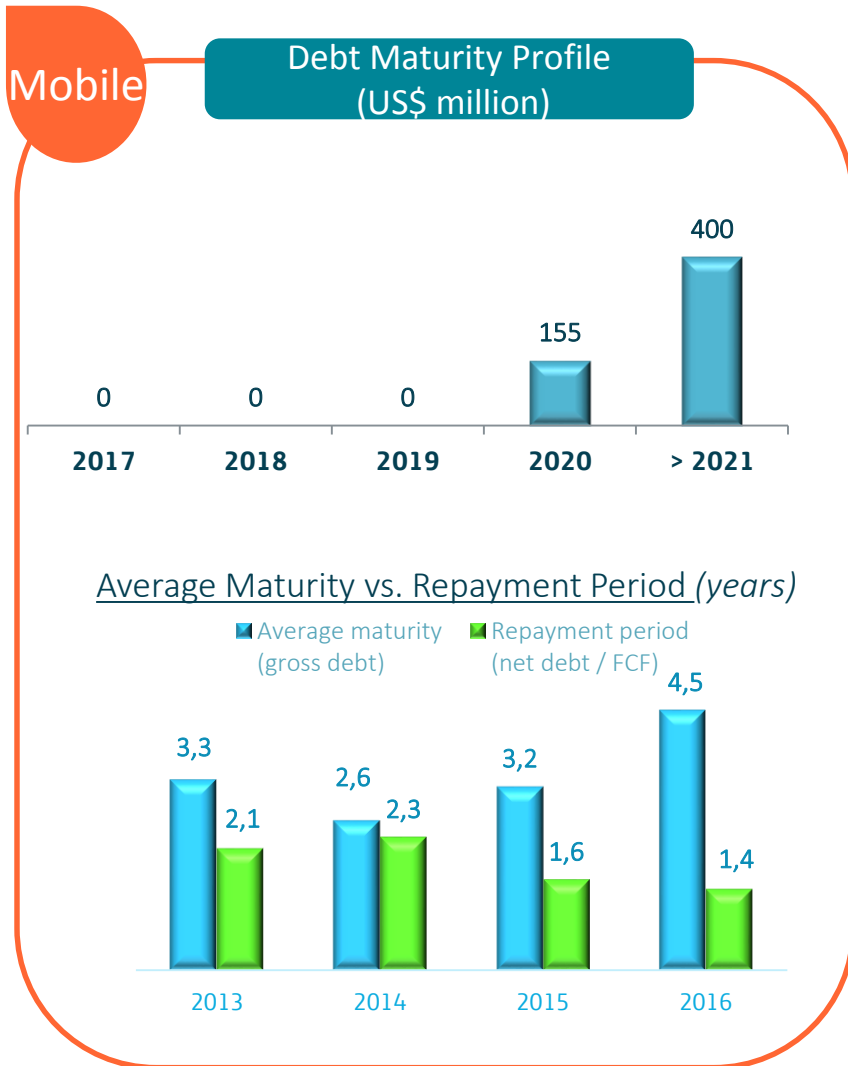
03. Diversified Debt structure

with excellent access to both, local and international markets



03. Strong debt repayment capacity

Avg. maturity of debt HIGHER THAN time of repayment



03. Telefónica Chile issued Local Bond - Series T

January 2017

- In January 19, 2017, Telefónica Chile successfully placed a Bond issued in the local market to refinance debt maturing in April 2017
- Terms and conditions:

Amount:	Ch\$ 48,000 mill. (US\$ 74 mill.)
Currency:	Chilean Peso
Term:	6.5 years
Placement rate:	4.55% annually
Spread:	81 bps over Central Bank Bonds
Capital amortization:	5 instalments: July 5, 2020; January 5, 2021; July 5, 2021; January 5, 2023 and July 5, 2023
Financial covenants:	None

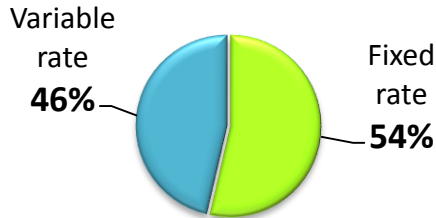
- ✓ The 4.55% interest rate is the lower rate, in recent times, for corporate issues in Pesos with “duration” close to 5
- ✓ 2.4x oversubscription.
- ✓ Book runners: Banchile Corredores de Bolsa and BBVA Corredora de Bolsa

03. Foreign exchange and interest rate hedging

- ✓ Interest rate hedging according to market conditions to capture opportunities

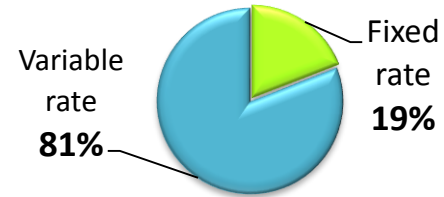
Mobile

Currency and Interest rate hedging



Fixed

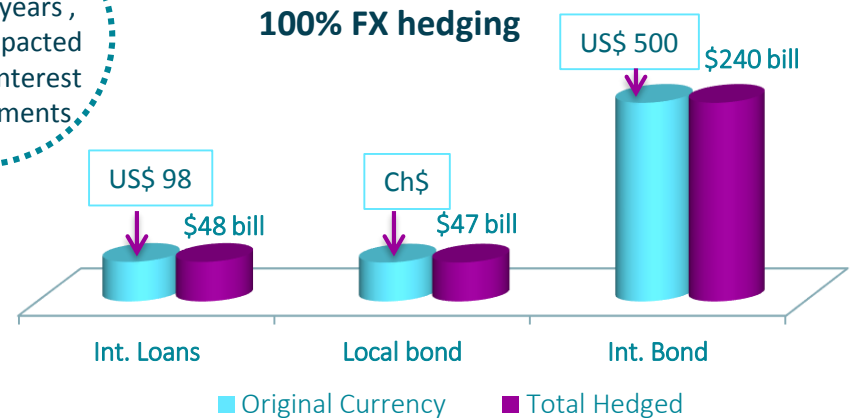
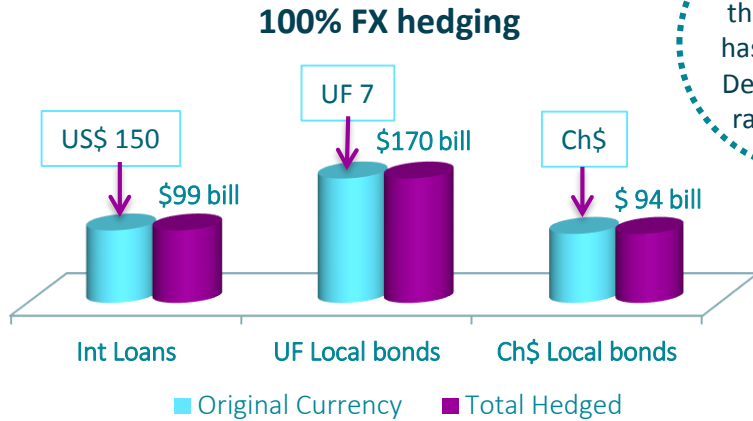
Currency and Interest rate hedging



- ✓ The Company covers foreign exchange risk of debt through cross currency swaps until maturity date

All figures in US\$ millions unless other are indicated

+18,7% CLP depreciation in the last 3 years, has not impacted Debt nor interest rates payments.

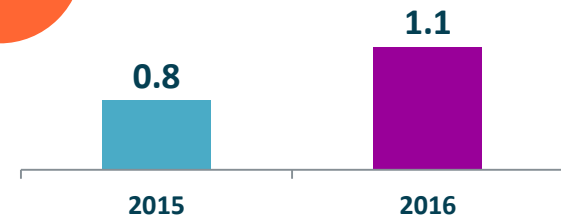


- ✓ In addition the Company hedge foreign exchange risk over the annual budget of capex and opex (55% of capex and 30% of opex are FX currency).

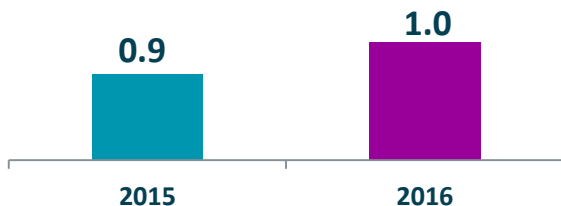
03. SOUND Financial ratios

Mobile

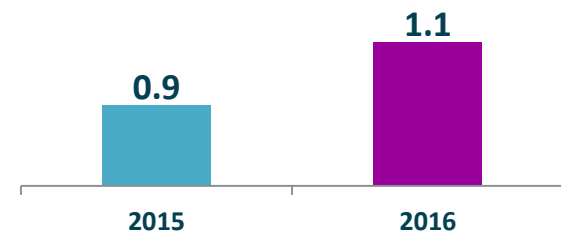
Current assets/
current liabilities



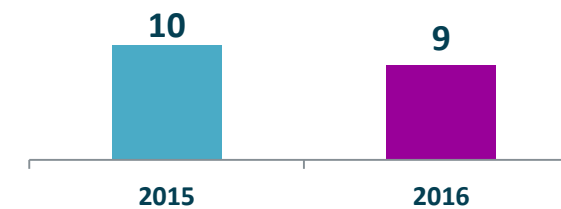
Total liabilities (less)
hedging assets /
Equity ¹



Net Debt / EBITDA ¹

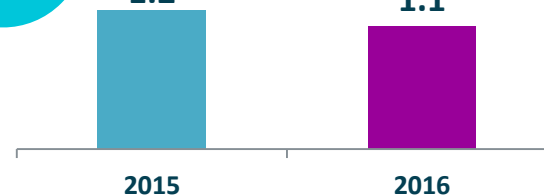


EBITDA / Financial
Expenses



Fixed

1.2



1.1

1.1

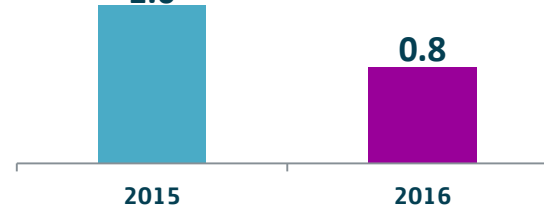


1.1

2015

2016

1.0

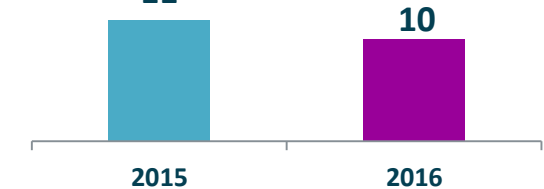


0.8

2015

2016

11



10

2015

2016

¹ Operating leases are not included

03. Merger of TMCH and ITMH



Merger by absorption

- Merger by absorption of TMCH⁽¹⁾ into ITMH⁽¹⁾ (its parent company, acquiring all its assets and liabilities by exchange of shares



ITMH: the legal successor

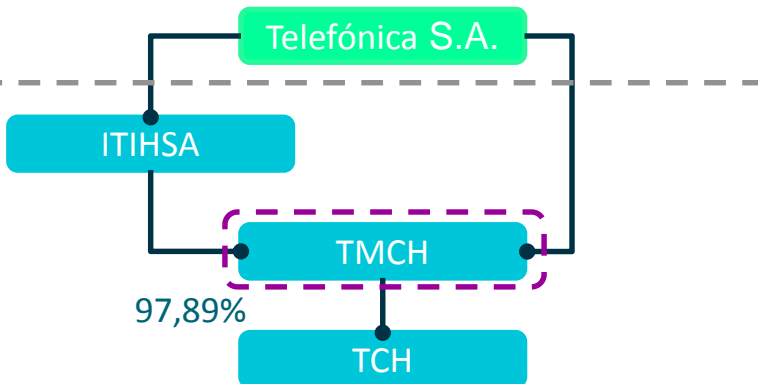
- ITMH will be the legal successor of the former TMCH (1), and shall succeed it in all its obligations and rights



New merged company

- Maintains fiscal number (RUT) of ITMH and change name to TMCH⁽¹⁾, therefore it will consolidate the financial statements of TCH (F+ M)

New structure



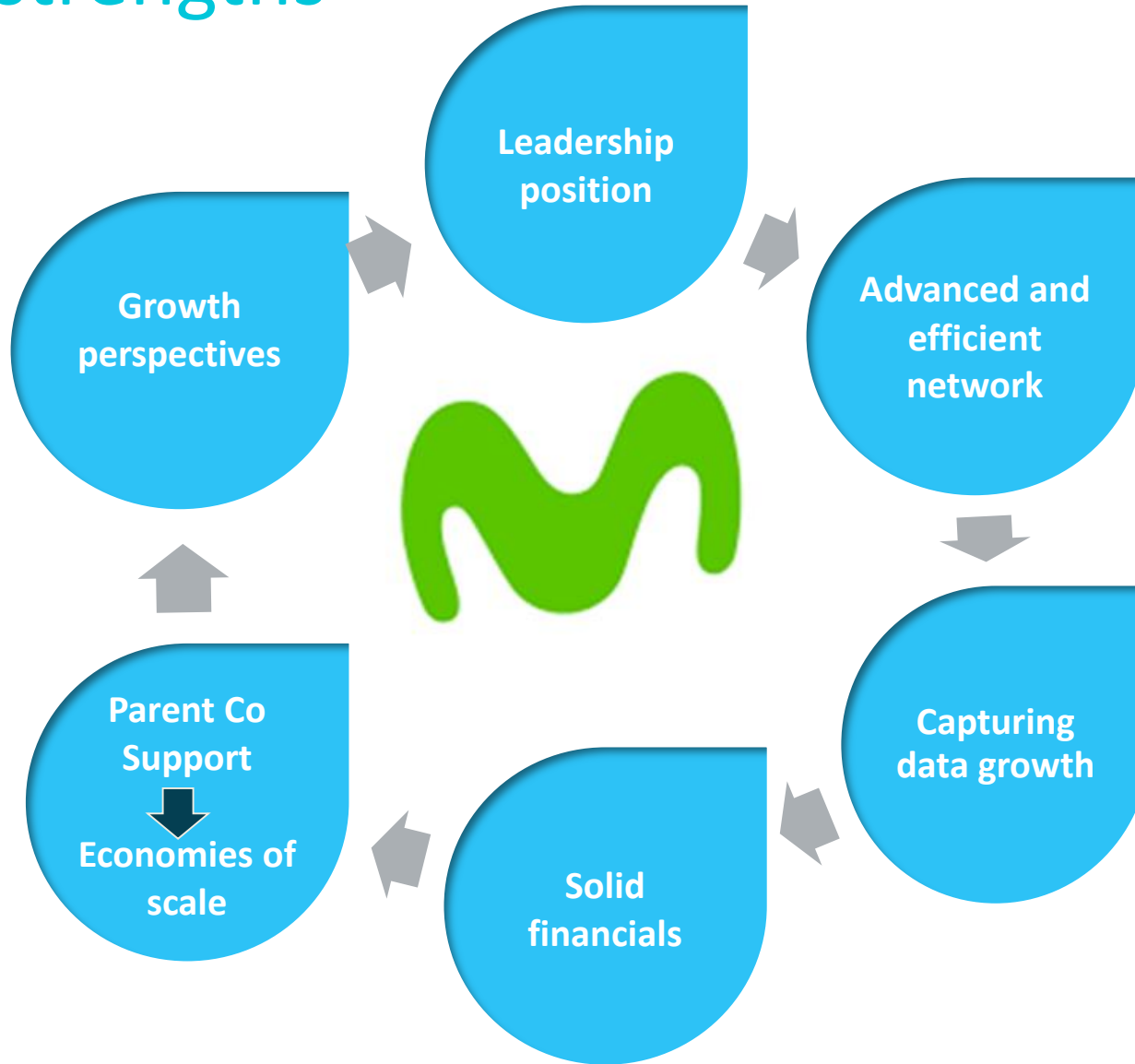
Merger will be effective on May 2, 2017

Main Objectives and effects.

- ✓ Simplification of corporate structure allows cost savings and a fiscal benefit (goodwill)
- ✓ More efficiency in the management of cash, debt and financing
- ✓ Consolidation of Financial Statements of TCH (1) and TMCH (1) allow better comparison with industry peers
- ✓ Maintaining sound financial ratios

(1) TCH: Telefónica Chile S.A.; TLD: Telefónica Larga Distancia S.A.; TMCH: Telefónica Móviles Chile S.A. ITMH: Inversiones Telefónica Móviles Holding S.A.

Our strengths



Telefonica

