

2015 NEW CHALLENGES

TELEFONICA IN CHILE

Financial Results accumulated as of December 2015

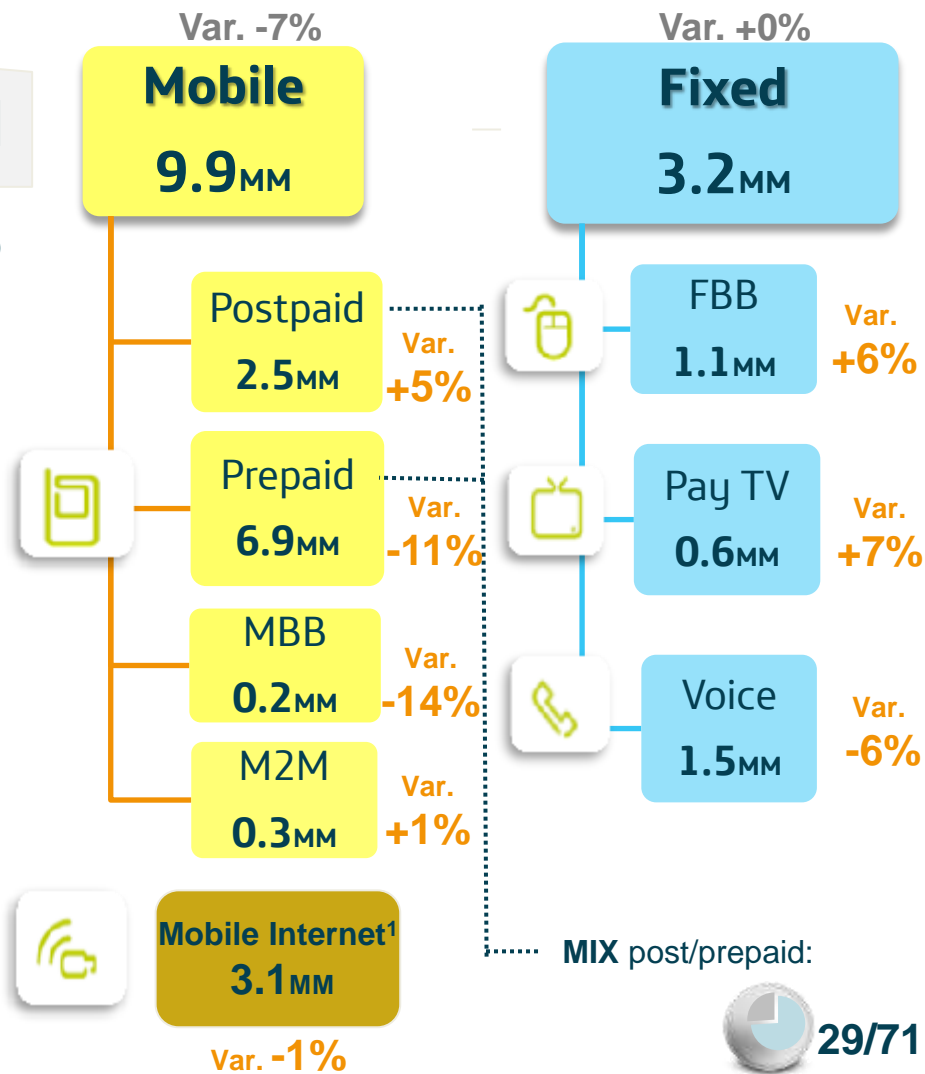
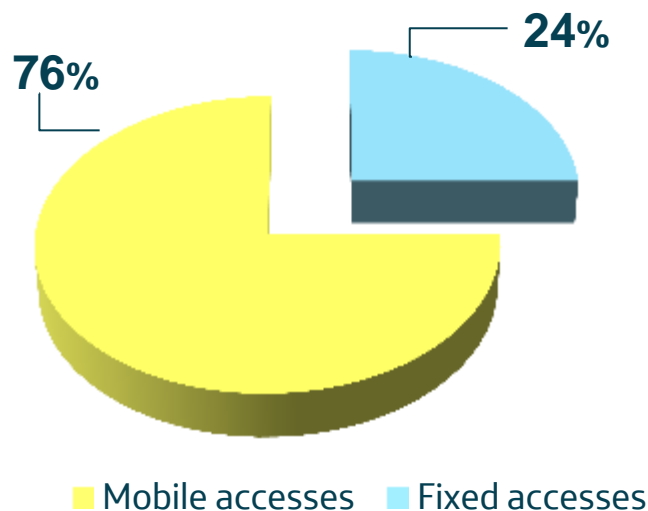
Telefónica Chile S.A. & Telefónica Móviles Chile S.A.

Santiago, March 2, 2016

BUSINESS OVERVIEW

Note: accumulated figures as of Dec. 15 vs. Dec. '14

BUSINESS OVERVIEW: Total accesses decrease due to decline in mobile Prepaid business caused by strong competition



Note: annual variations Dec.15 vs. Dec.14

¹ Mobile Internet = MBB+NEM* * NEM: "Navigation in Mobile"

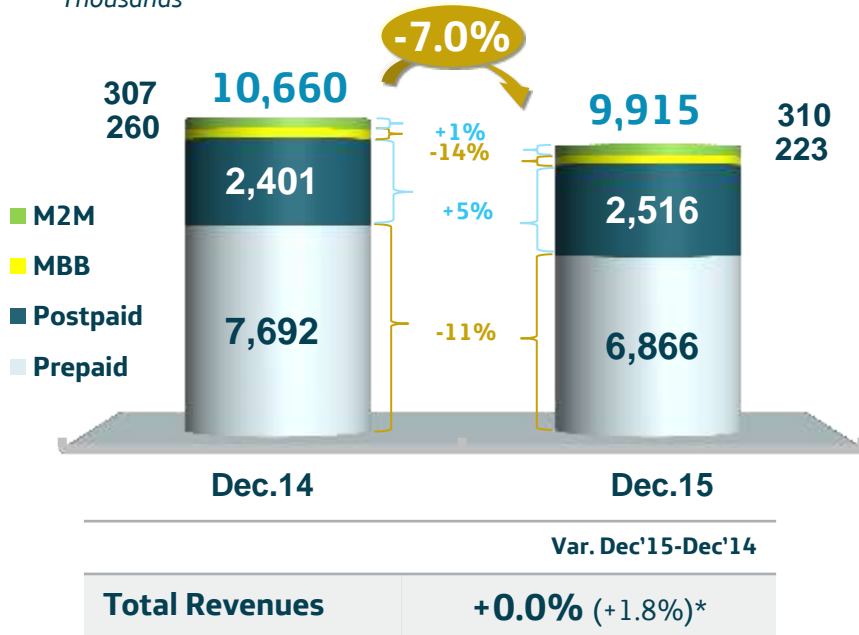
CHANGE IN CRITERIA → "NEM PPU" (navigation with pay per use) was included as Mobile Internet, since Jun. '15, and M2M is not included



MOBILE BUSINESS OVERVIEW: Postpaid mobile accesses increase pushed by 4G and positive evolution in number portability

Postpaid and Prepaid Accesses

Thousands



- **Postpaid Accesses: +4.8%**, pushed by:
 - ✓ **Growth in 4G : 794,316** customers (+230%)
 - ✓ **+78 thous.** customers → **Net gain in Postpaid number portability**
 - ✓ Successful offer of "Megaplanes" (+voice/+data)
- **Prepaid Accesses: -10.7%**, due to higher churn caused by competitors aggressive commercial initiatives
- **Mix post/prepaid: 29/71**

- **Mobile Total revenues** reached \$969,630 million as of Dec.15, **flat** vs. Dec.14 due to:
 - ✓ Drop in Voice, Equipment and Interconnection revenues (16% additional decrease in Access charges tariffs, since Jan'15) is offset by mobile Internet revenues (NEM) positive growth
 - ✓ Total Postpaid revs. (Voice+NEM): **+8.0%**, driven by NEM and customers loyalty campaigns
 - ✓ Total Prepaid revs. (Voice+NEM): **-11.0%**, affected by lower accesses, less "re-charges" (caused by use of free WiFi) and competitors aggressive campaigns
 - ✓ Applying equivalent tariffs, Total revenues increased **+1.8%***

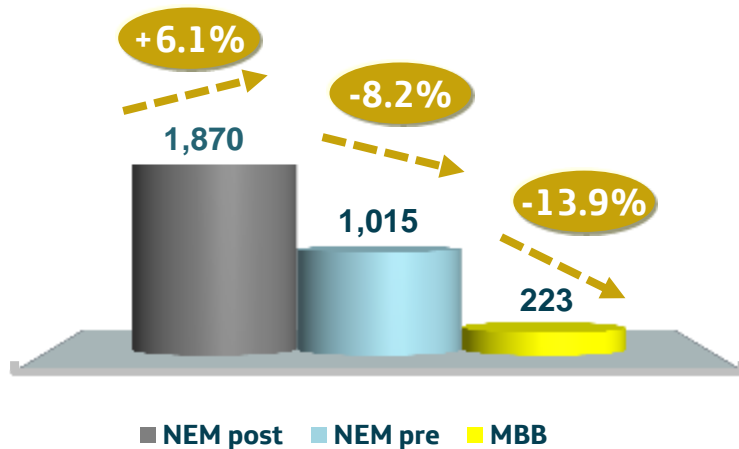
*: Equivalent tariffs means to apply 2014 tariffs to 2015 real traffics

** Mix: include post- and prepaid MBB, respectively

MOBILE BUSINESS OVERVIEW: MOBILE INTERNET revenues grow driven by NEM

Mobile Internet ACCESSES ⁽¹⁾

'000
Var. Dec'15/Dec'14



Var. Dec'15-Dec'14

Mobile Internet Revenues ⁽¹⁾ +31%

(1) Mobile Internet = MBB+NEM² ² NEM: "Navigation in Mobile"

Positive evolution in PENETRATION of NEM customers: 29% o/total accesses → ample growth potential

Mobile Internet revenues (NEM+MBB) reached Ch\$264,606 million as of Dec.15, growing **+31%**, explained by:

- **Growth in NEM revenues: 35%**

- ✓ **Postpaid NEM revenues: +39.9%** pushed by:

- **+6.1% postpaid NEM accesses**, due to 4G and positive evolution in number portability and successful customers loyalty campaigns
 - Higher ARPU due to 4G plans

- ✓ **Prepaid NEM revenues grow +23.9%**, pushed by:

- Higher data consumption
 - 4G in Prepaid: **+69 thous. customers**
 - "Mi Movistar" app which makes easier to manage balance of minutes and "re-charge" on line to incentivate consumption

The above offsets prepaid NEM accesses decrease (-8%) due to aggressive commercial campaigns of competitors

- **MBB revenues decrease -8.2%** due to decline in accesses (-14%) according to commercial strategy

*CHANGE IN CRITERIA → since Jun'15, "NEM PPU" (navigation with "pay per use") was included as Mobile Internet access. M2M is not included

"Moving technology closer to corporates and persons to provide them an easier life"

FIXED BUSINESS OVERVIEW: High Speed and IPTV customer base strengthening encourages revenues rise

FBB



+ 5.7%

1,092 thous. accesses

Growth in "High Speed" and loyalty plan

More simple new offer with higher speeds

+ 50.4%

"High speed" customer base
+ 250 thou. F.O. and VDSL accesses
 ("high speed" acces. / FBB acces.= 23.5 %)

+ 9.9%

Higher FBB revenues of **Ch\$183,623 mill.**, due to higher ARPU related to "high speed" accesses and new commercial offer

Pay TV



+ 7.2%

645 thous. accesses

Driven by DTH (5.2%) and IPTV (48.3%) growth

Piracy impacts *churn* rate

+48%

IPTV customer base reaches **42,661** accesses
 New Premium Plans HBO Max HD and Fox+ HD

+ 25.1%

Higher pay TV revenues of **Ch\$170,234 million**, arising from higher ARPU, due to growth in IPTV customers, clients with HD plans and revenues from equipment adds (excl. "equipment", revs. grow 19%)

VOICE



-6.1%

1,486 thous. lines

Decrease in lines in service is offset by FBB and pay TV growth, allowing to maintain stable **total accesses (+0.2%)**

We keep focused on ADSL and "High Speed" customer migrations

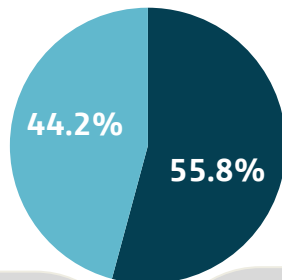
We double average speed for FBB customers



Corporate and Business segment

Revenues from Corporate and Business segment

Mobile business



Fixed business



Mobile revenues from corporate and business segment increase **+3.1%**

due to:

- **+25.8%** increase in **mobile Internet revenues**, which offset a **-4,0%** drop in Voice and Other revenues
- ✓ Data plan accesses (**NEM**): **+4.5%**

Fixed revenues from corporate and business segment increase **+2.4%** due to:

- **+11.7%** increase in **Corporate Communications revenues** (representing 15.2% of total fixed revenues), explained by:
 - ✓ Higher revenues from **Data services (+11%)**, from Private IP networks, Internet, Satellite services and Data equipments, pointing out ACHS and ABC Din projects
 - ✓ **Digital services grow +38%**, driven by “Cloud” (+31%) and “M2M” Teleinformatic investment project (management of lighting for Municipalities)
- **BAF (+3.4%)** and **TV (+19.5%)** revenues growth for corporates, compensated by Voice and Others revenues decrease of **9.9%**

Launching Security Center SOC

Datacenter acquisition

Itelecom.

binaria
GRUPO CIB

COLLAHUASI

Projects in 4Q15:

enersis
americas
Grupo Enel



CapEx devoted to obtain the best high speed network, reaching operative and quality of service improvements

**CAPEX 2015
(F+M)
Ch\$314 bn**

HIGH SPEED

+841	New 4G sites	MOBILE
+206	New 3G sites	
+ 66 thou.	High speed <i>home passed</i>	FIXED
+ 596 thou.	Instalations in house	
+10 thou.	Links for Corporates	

Improvements for our customers ('15/'14):

-14%

Voice cut rate

-20%

Voice Access failures rate

+9%

ISN personal attention in branch office

+13%

ISN Call Center

+30%

ISN *On Line* channel

**ISC¹ Total Company
7.43**
(+0.03 vs. competitors)

ISC¹: consumer satisfaction index

FINANCIAL OVERVIEW

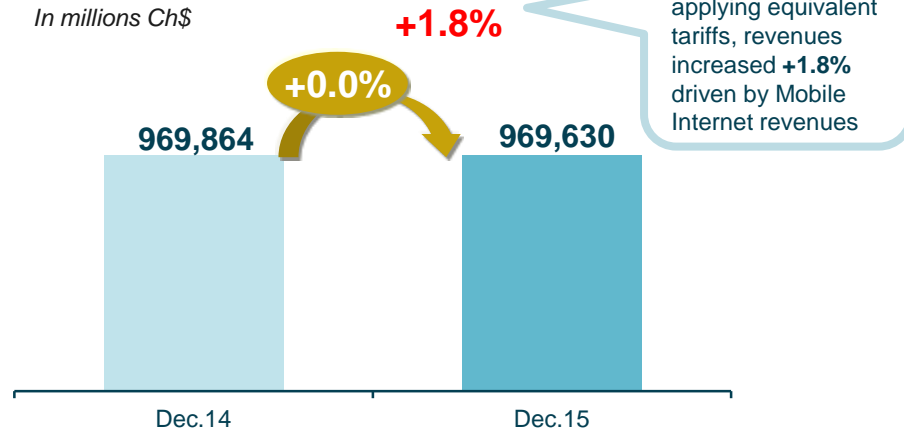
Note: accumulated figures as of Dec. 15 vs. Dec.'14

MOBILE FINANCIAL OVERVIEW: Revenues, EBITDA, CAPEX and OpCF evolution

MOBILE

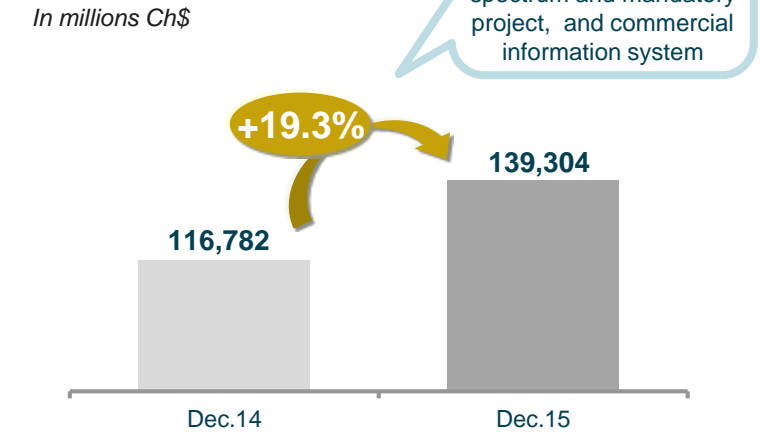
Total Revenues*

In millions Ch\$



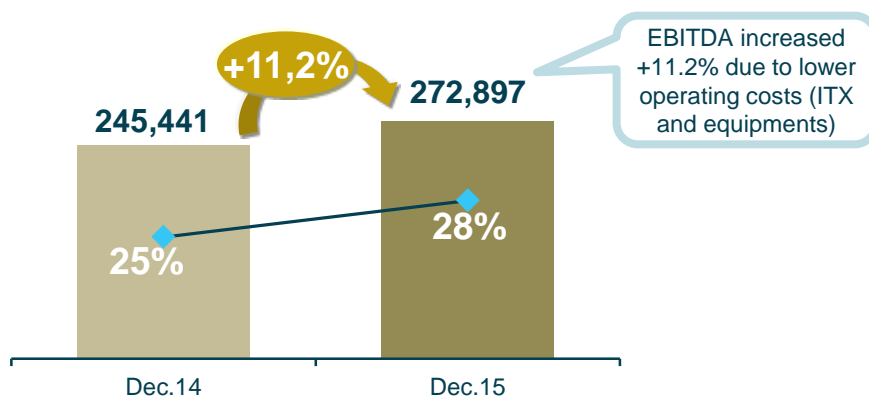
CAPEX

In millions Ch\$



EBITDA* and EBITDA margin (%)

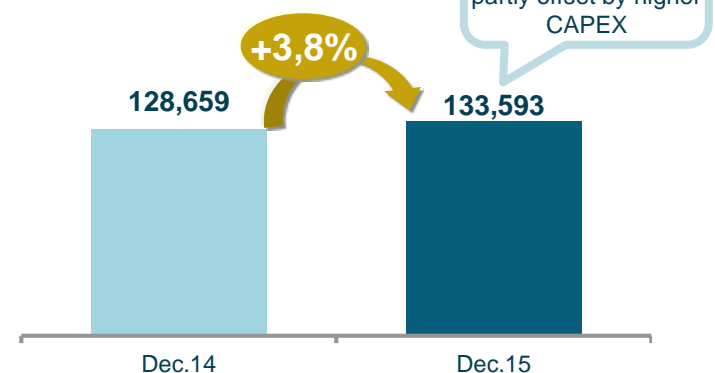
In millions Ch\$



OpCF

[EBITDA-CAPEX]

In millions Ch\$

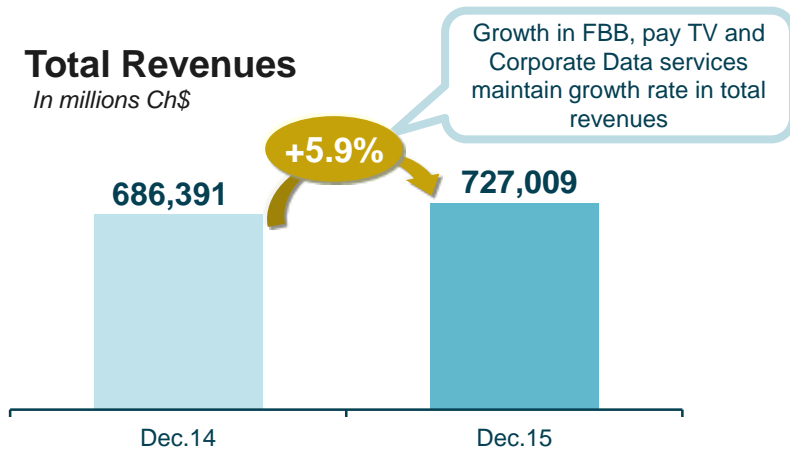


(*) Mobile revs. and EBITDA impacted by an additional mobile ITX cut-off (-16%), in Jan.15. "Equivalent tariffs" means that numbers are recalculated with real traffics in '14 and '15 but priced at '14 tariffs

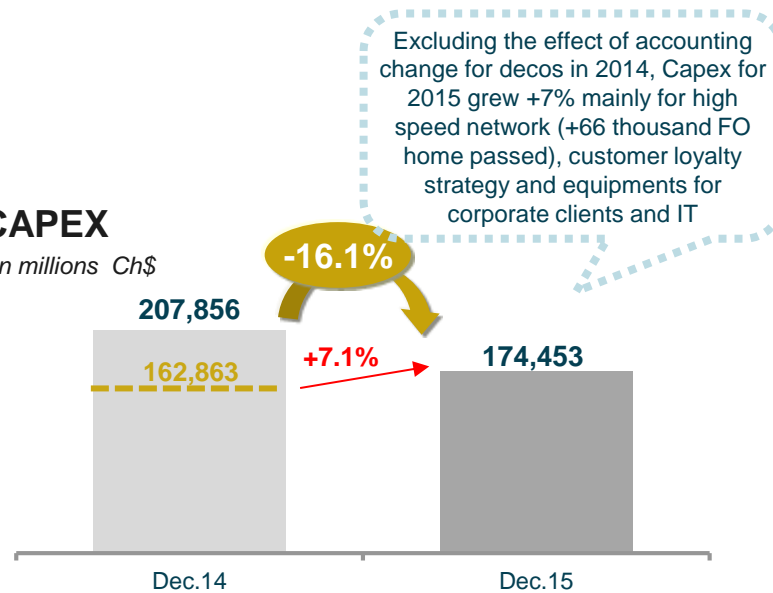
FIXED FINANCIAL OVERVIEW: Revenues, EBITDA, CAPEX and OpCF evolution

FIXED

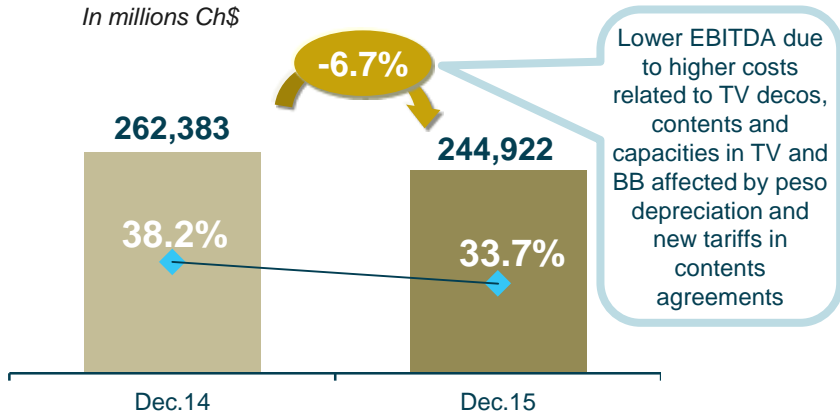
Total Revenues
In millions Ch\$



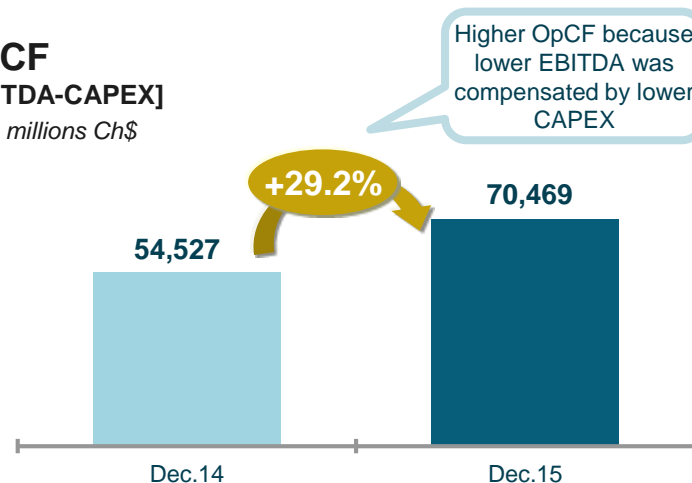
CAPEX
In millions Ch\$



EBITDA* and EBITDA margin (%)
In millions Ch\$



OpCF [EBITDA-CAPEX]
In millions Ch\$

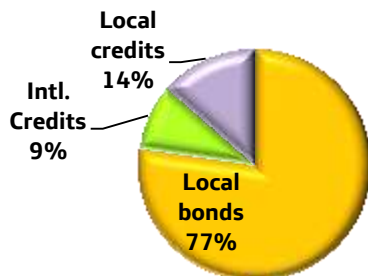


FINANCIAL OVERVIEW: Diversified Debt structure, with accessibility to local and international markets

MOBILE

Gross Debt as of Dec. 2015 → Ch\$367 thou. mills.
 Net Debt as of Dec. 2015 → Ch\$232 thou. mills.

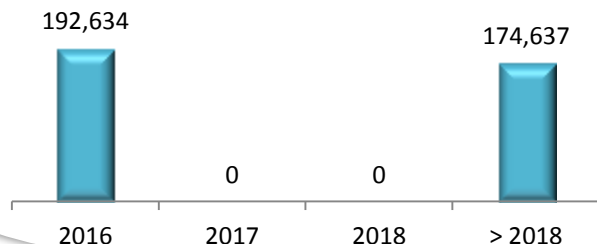
STRUCTURE:



- ✓ **Gross Debt:** decreased 6.7% to Ch\$367 bn (Dec.15 vs. Dec.14), mainly due to:
 - ✓ Local bond issuance in July and August for a total amount of Ch\$100 bn
 - ✓ Payment of International Bond in November (Ch\$147 bn)
- ✓ **Net Debt:** decreased Ch\$33 bn, in the same period, due to lower gross Debt and Cash balance

MATURITIES PROFILE:

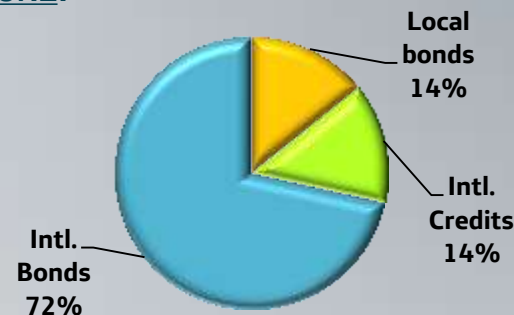
In millions Ch\$



FIXED

Gross Debt as of Dec. 2015 → Ch\$326 thou. mills.
 Net Debt as of Dec. 2015 → Ch\$239 thou. mills.

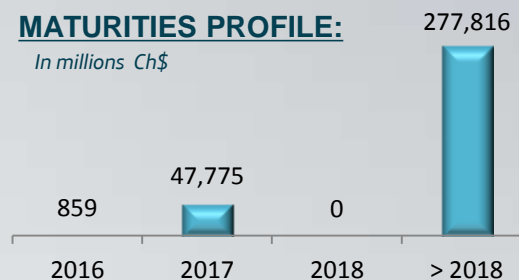
STRUCTURE:



- ✓ **Gross Debt:** the level of Debt remains stable in relation to Dec. 14.
- ✓ **Net Debt:** increased Ch\$39 bn due to lower average Cash balance as of Dec.15

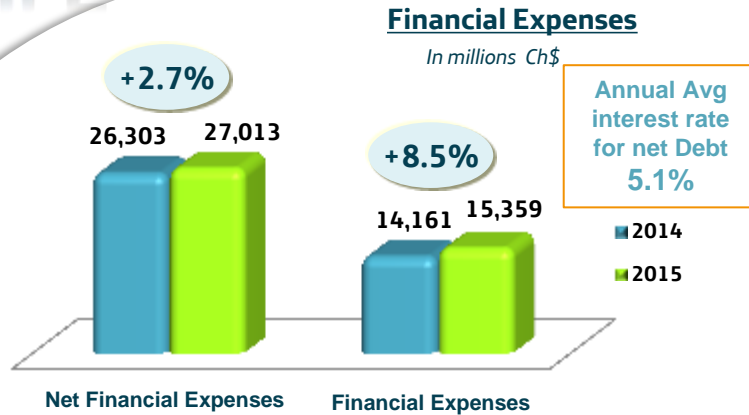
MATURITIES PROFILE:

In millions Ch\$



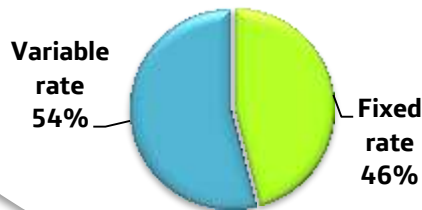
FINANCIAL OVERVIEW: Efficiency in interest rates management allows to diminish Financial Expenses

MOBILE



- ✓ Gross and Net Financial Expenses increased due to higher balance of avg. gross Debt partly offset by lower average interest rate (TPM), from 3.75%, in 2014, to 3.06%, in 2015 (higher proportion of Debt at variable interest rate)

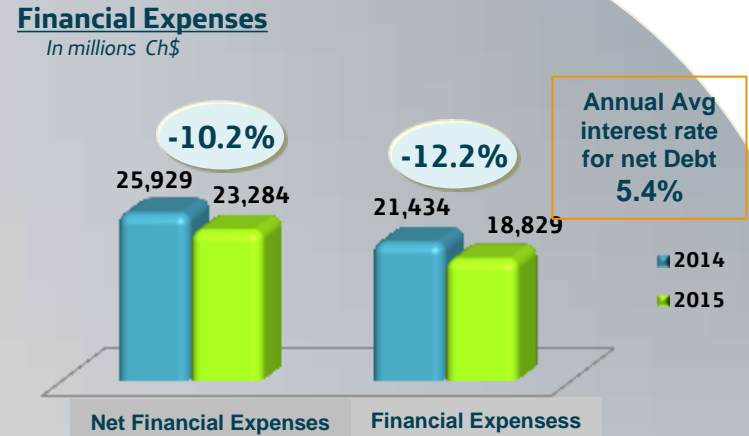
Currency and Interest rate hedging



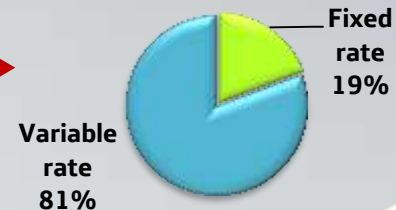
100% FX hedge
CLP depreciation of 15% (avg. Jan-Dec 15 vs. avg. Jan-Dec 14) has not impacted payment of Debt (principal or interest)

FIXED

Currency and Interest rate hedging



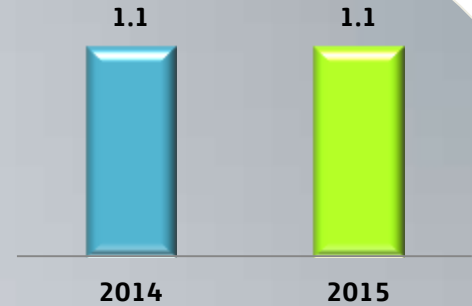
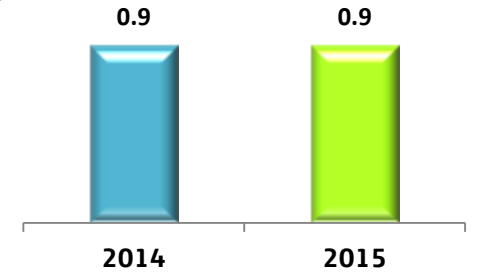
- ✓ Gross and Net Financial Expenses decrease due to lower average financial Debt as compared to previous year and reduction of market interest rate (81% of Debt at variable rate)



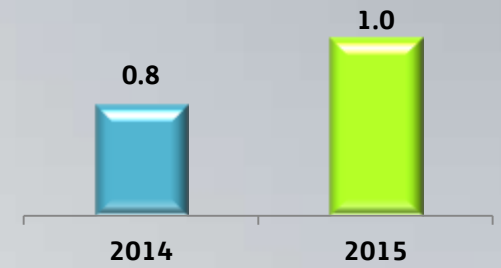
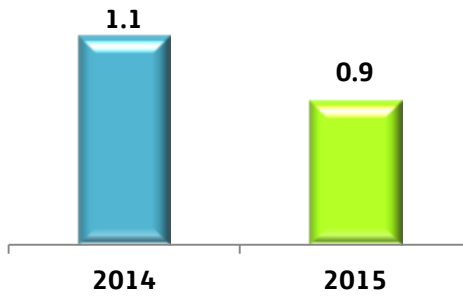
MOBILE

FIXED

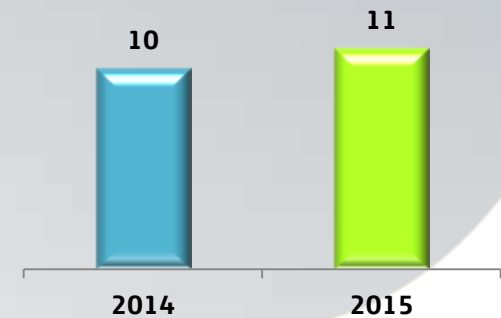
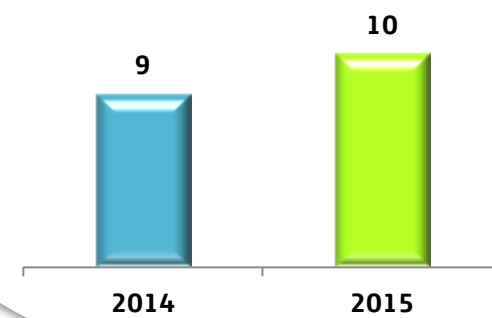
**Total liabilities
(less) hedging assets
/ Equity ⁽¹⁾**



**Net Debt /
EBITDA ⁽¹⁾**



**EBITDA / Financial
Expenses**



⁽¹⁾ Operating leases are not included

FINANCIAL OVERVIEW: Summary of Financial Results

Accumulated as of Dec. 15

Million Ch\$ IFRS	T. MOVILES CHILE			T. CHILE	
	Jan-Dec 15	% Var. '15/'14	Equiv.ITX tariffs* %Var. '14/'13	Jan-Dec 15	% Var. '15/'14
Total revenues	969,630	0.0%	+1.8%	727,009	+5.9%
Operating expenses	-696,733	-3.8%		-482,087	+13.7%
EBITDA	272,897	+11.2	+11.6%	244,922	-6.7%
EBITDA margin	28.1	+2.8pp		33.7%	-4.5 pp
Depreciation and amortization	-102,864	+8.1%		-192,214	+6.4%
Operating income	170,033	+13.2%		52,708	-35.5%
Net interest income and others	-10,274	-9.0%		-18,191	-13.1%
Taxes	-35,506	+12.9%		-5,458	-70.5%
Net income before minority interest	124,253	+15.6%		29,059	-31.2%
Net income	124,253	+15.6%		24,584	-37.5%

(*) Mobile revs. and EBITDA impacted by an additional mobile ITX cut-offs (-16%), in Jan. 15.
 "Equivalent ITX tariffs" means real traffics in 2014 and 2015 priced at 2014 tariffs

... as final balance for 2015

MOBILE business

- Customers and Revenues from POSTPAID grew driven by 4G and positive net gain in number portability in Postpaid
- PREPAID containment strategies: 4G offer in Prepaid
- Increase in Mobile INTERNET revenues drives growth in total revenues
- EBITDA margin improvement: 28%
- Increase in OpCF

FIXED business

- Increase in BB and TV clients and high-value customer base drive revenue growth
- Revenues from Data Communications for Corporates recover growth
- EBITDA margin: 34%
- Increase in OpCF



Telefónica