



TELEFONICA IN CHILE

Telefónica Chile &
Telefónica Móviles Chile

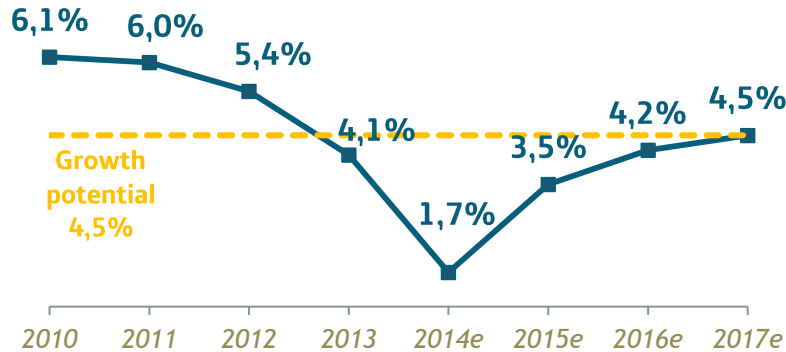


CHILE DAY
London, October, 2014

Economic slowdown in CHILE consistent with current global macroeconomic framework

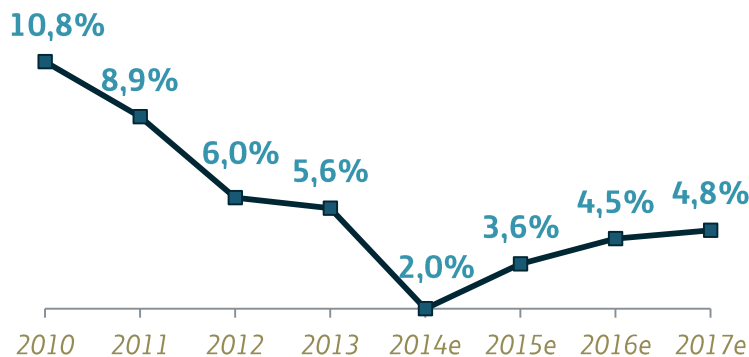


Real GDP Growth (1)

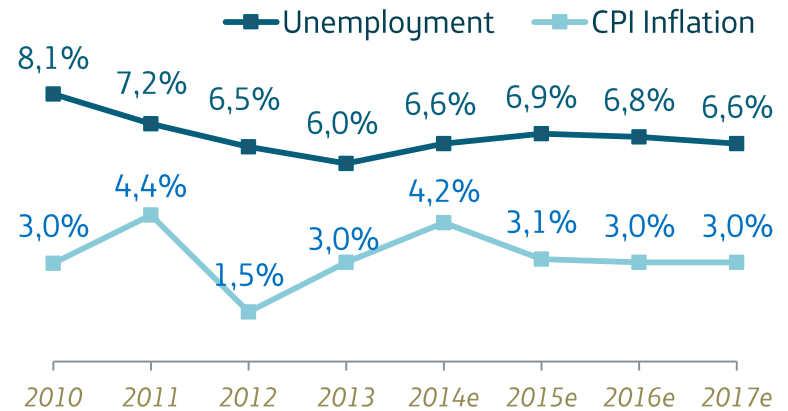


- Less favorable international financial conditions, decreasing commodity prices and a tax reform prompted up a contraction in Investment (last four quarters)
- Recovery shall be carried out by higher Government spending, loose monetary policy and increasing exports
- Announced labor and educational reforms may impact the speed of recovery in the short term

Real Households Consumption Growth (1)



Unemployment and CPI Inflation Rates (2)



(1) Sources: Central Bank of Chile and Telefonica estimates

(2) Sources: National Statistics Office and Telefonica estimates

TELEFONICA in Chile: an integrated DIGITAL telecom operator (F+M)

US\$3.3bn
annual
REVENUES¹

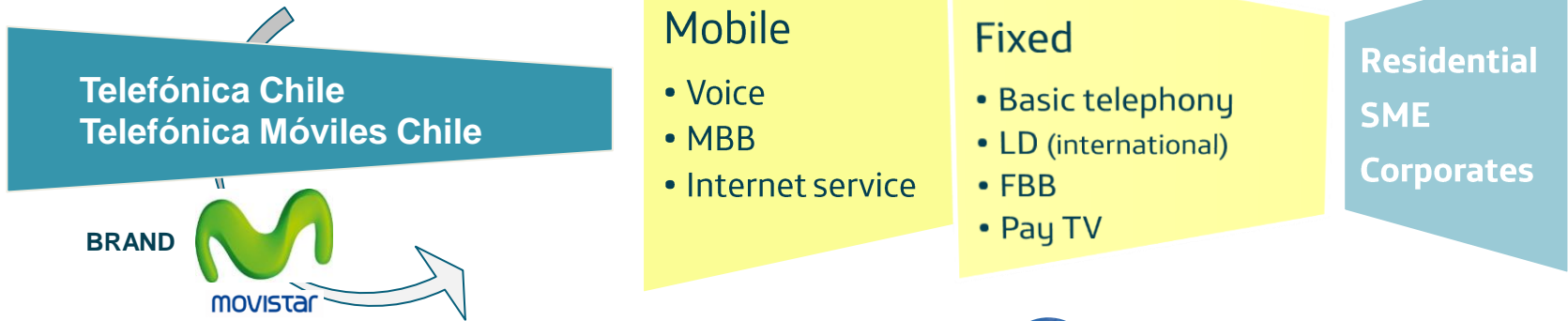
US\$1.0bn
annual
EBITDA¹

#1 Telco in Chile
In terms of Accesses
and Revenues

13.6 MM
accesses²
Mobile: 10.4 MM
Fixed: 3.2 MM

34% mkt. share
o/ Industry total Revs.

TELEFONICA in Chile:



PART OF one of the
most important global
telcos in the world



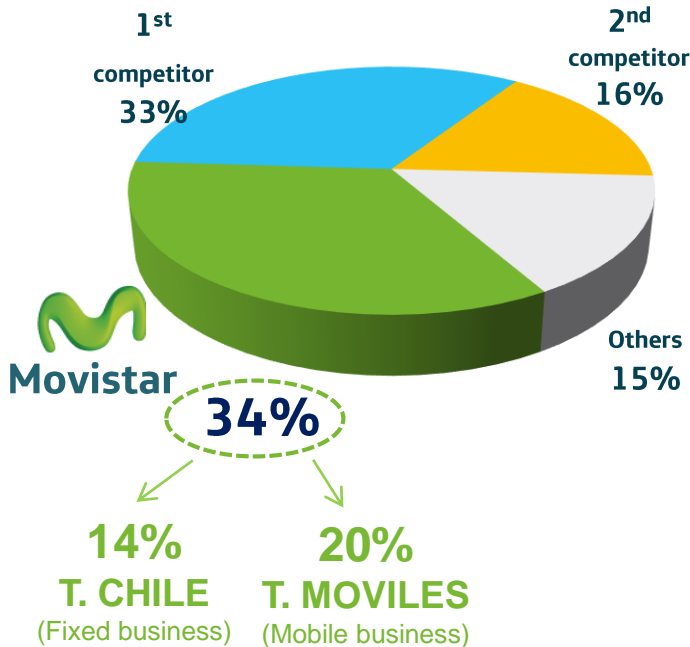
(1) Annual figures as of Dec. '13. Converted into U.S. Dollars at exchange rate: Ch\$524.61 (as of Dec. '13)

(2) As of Jun. '14

MOVISTAR is the largest revenue contributor to an industry that keeps growing

MOVISTAR is mainly focused on mobile data, pay TV and high speeds

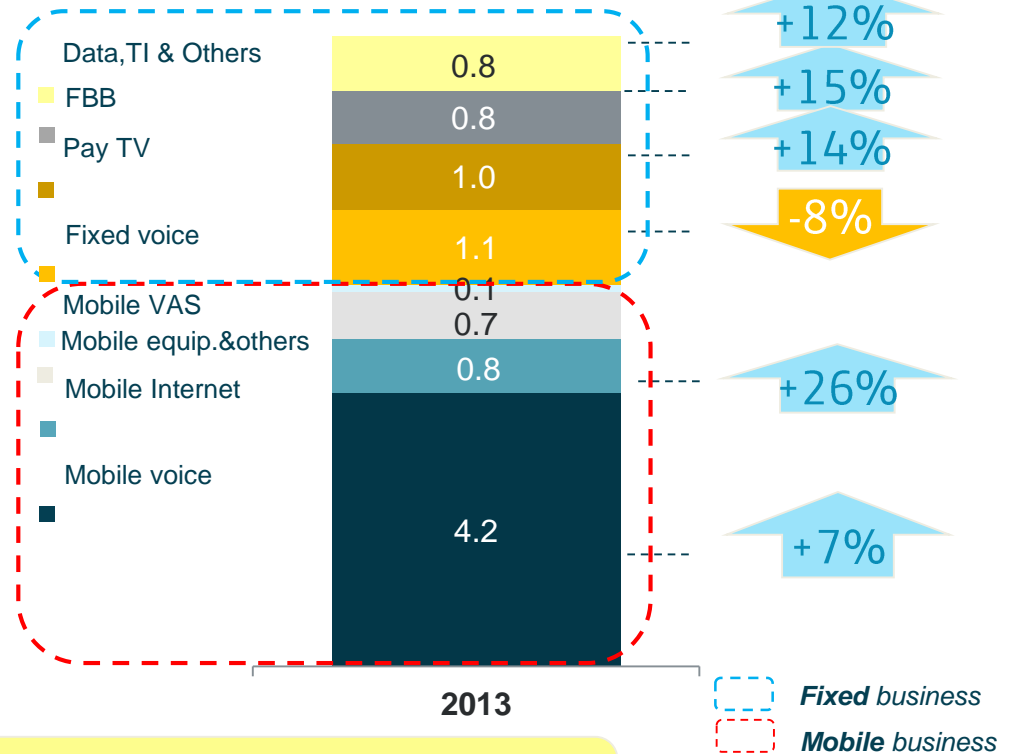
MARKET SHARE by revenues:



1 US\$ = Ch\$495.42 (avg. year 2013)
Source: Telefónica in Chile

INDUSTRY REVENUE breakdown by business line:

US\$ 9.6 bn*



As result of economic slowdown and access charges reduction, industry is expected to grow around 4.5% ('14-'17)

With a leadership position in the Telecom industry

The best positioned to capture market opportunities

Market Share
by accesses
As of Jun. '14



Others

TOTAL

FIXED (7-8 players)

	Voice	Pay TV	FBB
Movistar	50.9%	20.2%	39.9%
Entel	6.7%	2.9%	1.5%
Vtr	22.6%	36.4%	37.1%
Claro	8.0%	18.0%	10.9%
DIRECTV	-	15.7%	-
Telefónica del Sur	4.3%	2.9%	5.8%
Gtd	5.7%	0.8%	2.0%
Others	1.9%	3.2%	2.9%
TOTAL	3,188	2,771	2,480

MOBILE (3 players)

	Voice	MBB (1)
Movistar	38.6%	39.2%
Entel	36.5%	39.0%
Vtr	-	-
Claro	22.5%	18.4%
DIRECTV	-	-
Telefónica del Sur	-	-
Gtd	-	-
Others	2.5%	3.4%
TOTAL	25,294	10,244

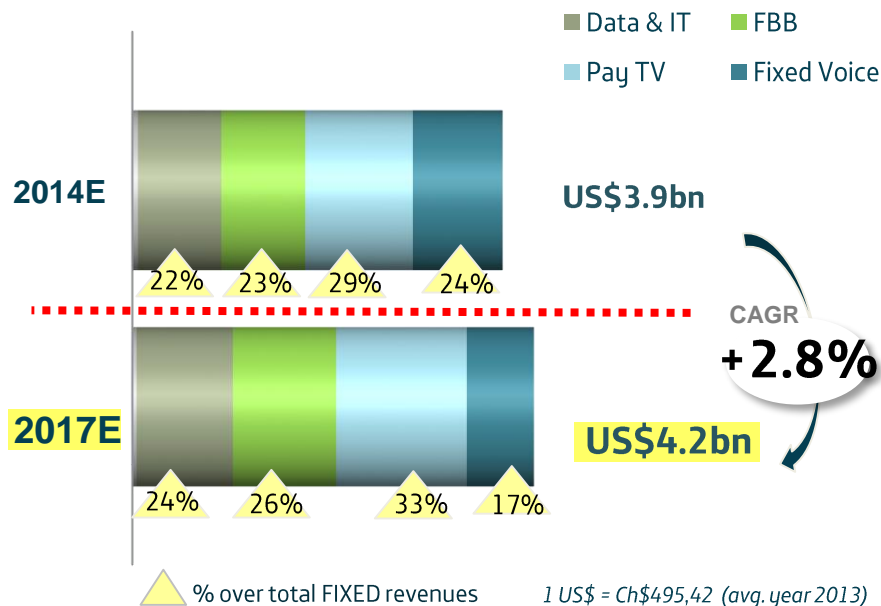
(1) Mobile Internet connections 2G, 3G and 4G (including MBB SS*, MBB BS* and M2M*).

Source: Subtel June 2014

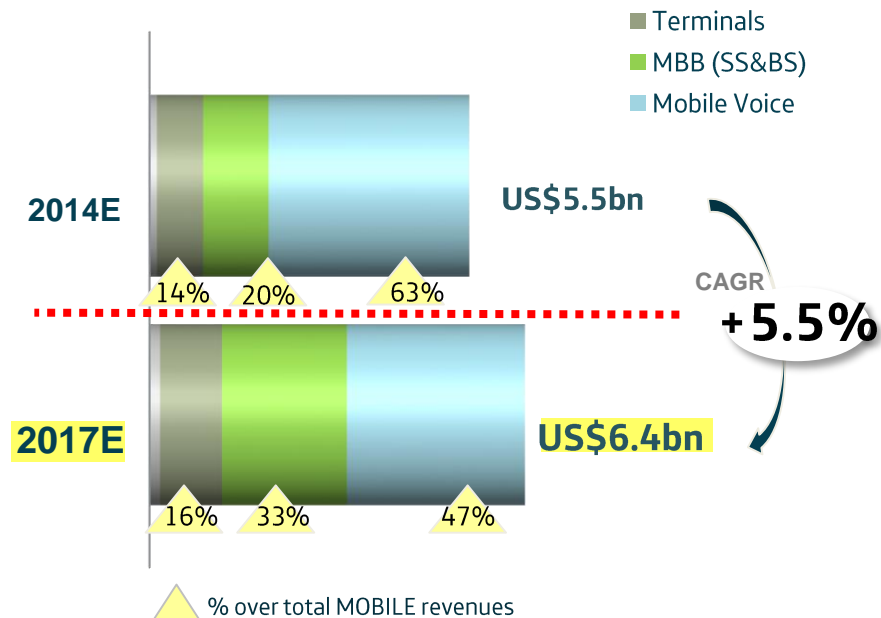
* :MBB SS: MBB small screen
MBB BS: MBB big screen
M2M: machine-to-machine

...and a **sustained GROWTH POTENTIAL**, driven by Fixed and Mobile High Speed BB services

FIXED industry revenues



MOBILE industry revenues



Penetration:

	2013	2014E	2017E
Fixed voice (% hh.)*	38%	37%	33%
FBB (% hh.)*	41%	43%	51%
Pay TV (% hh.)*	44%	48%	55%
Mobile Voice (% inhab.)	145%	148%	149%
MBB SS** (% inhab.)	31%	41%	60%
MBB BS** (% inhab.)	7%	7%	7%

* residential services over total households (hh)

** MBB SS: mobile broadband small screen; BS: big screen;

Telecom sector **will keep growing above GDP growth** despite some relevant industry changes:

- Decrease in Mobile access charges
- Decrease in Fixed access charges
- Elimination of DLD
- "on-off net" tariffs convergence

Recent regulatory matters

TDLC * bundling conditions

- TDLC authorized bundling of services F+M, for residential customers, without discounts (Supreme Court ruling)
- Discount in “fixed” or “mobile” bundling offer must be equal or lower than the cheapest product

LTE/4G concessions

- In 2012, MOVISTAR was granted 40 MHz, in the 2.6 GHz band, allowing us to offer 4G services (Payment: US\$500,000)
- In Feb. 14, MOVISTAR was granted “Block A: 2x10 MHz” in the 700 MHz spectrum (Payment: US\$8 MM)

DLD elimination

- Domestic Long Distance service has been eliminated in Chile sequentially between March and Aug. 2014
- Estimated impact on EBITDA/revenues in TCH → -0.5%

New Fixed and Mobile access charges

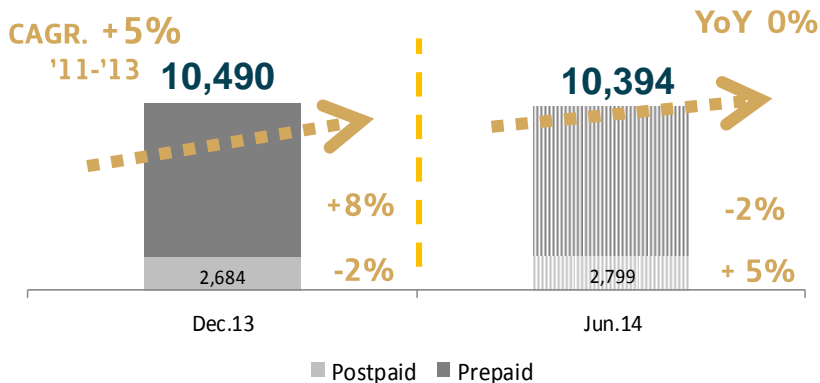
- In Jan. 2014 → new mobile access charges tariffs were set for all industry operators (-75% reduction). Estimated impact on EBITDA/revenues** { in TMCH → -1.3%
in TCH → +0.2%
- In May 2014 → new fixed access charges tariffs were set for Telefonica Chile (-43.5% reduction). Estimated impact on EBITDA/revenues** in TCH → -2.1%

*TDLC: Chilean Antitrust Commission (“Tribunal de Defensa de la Libre Competencia”)

** Calculated over 2013 total revenues

MOBILE BUSINESS REVIEW: 4G technological renovation in MOBILE business enhances growth allowing ARPU increases

Total Mobile Accesses¹ ('000)



MIX post/prepaid:



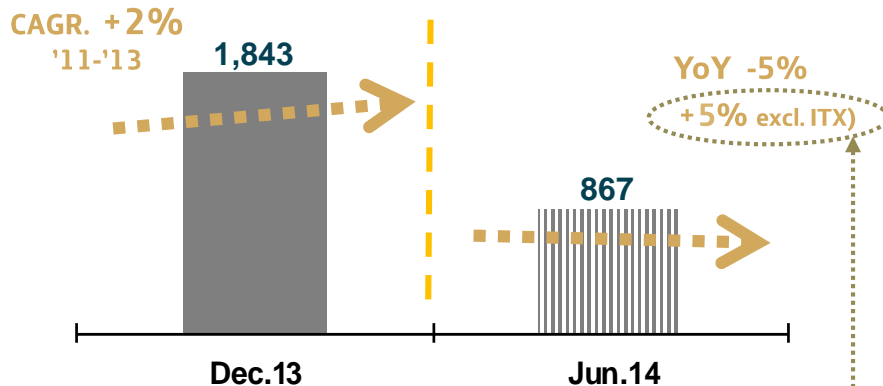
Focus on profitable growth:

Growth in Postpaid

- ✓ 4G renewed offer (50% market share in 4G) → simple and unique price grid 4G/3G
- ✓ 4G improves customer experience demanding upgrade in plans (higher ARPU and lower Churn)
- ✓ extra consumption handled with “packs of minutes”
- ✓ Customized smartphones subsidies and promoting customer adds “SIM only”
- ✓ Postpaid plans with voice + data (95% adds)

Mobile revenues²

US\$ million



Growth in Prepaid

- ✓ Promoting Internet use: “Blocks of time” (by day, week,..)
- ✓ Increasing penetration of lower cost smartphones and promoting new customers adds “SIM only”
- ✓ Selective migration to postpaid

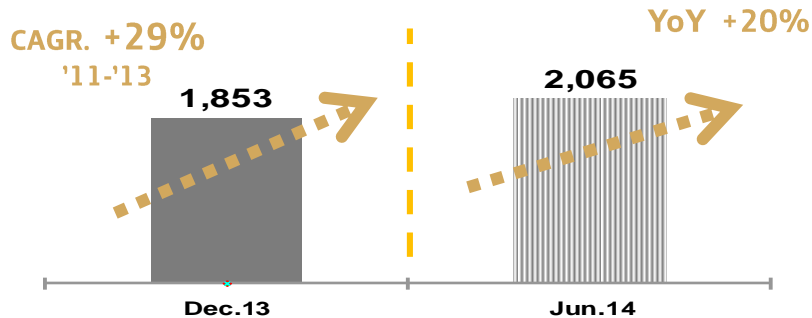
Tariffs decrease in Mobile interconnection charges (ITX), since Feb '14, impacts revenues. Excluding ITX, Mobile total revs.: +5.2%

¹ Voice, Broadband and M2M (“machine-to-machine”)

² Do not include extraordinary revenues from sale of assets
Exchange rate as of Jun '14: Ch\$552.72 /1US\$

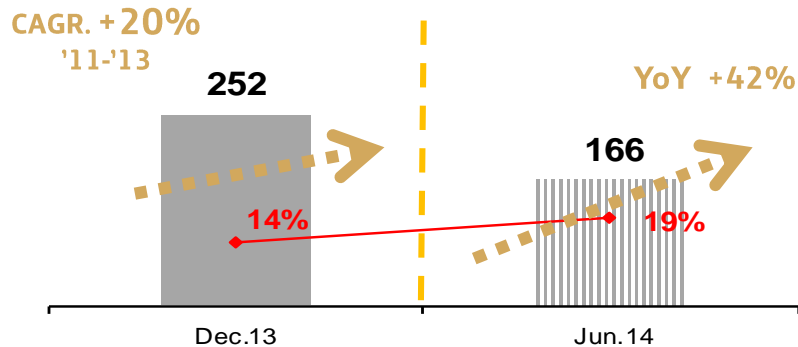
MOBILE BUSINESS REVIEW: **MOBILE Internet as the fastest growing business**

Mobile Internet accesses ('000)



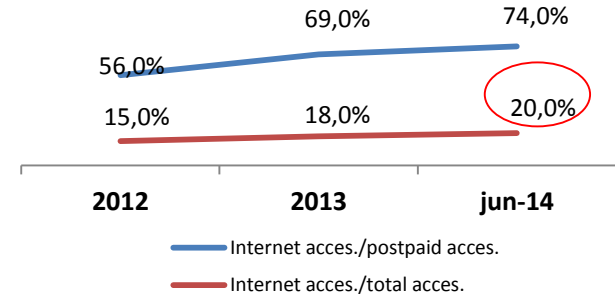
Mobile Internet revenues

US\$ millions and % over Total Revenues



Exchange rate as of Jun '14: Ch\$552.72 /1US\$

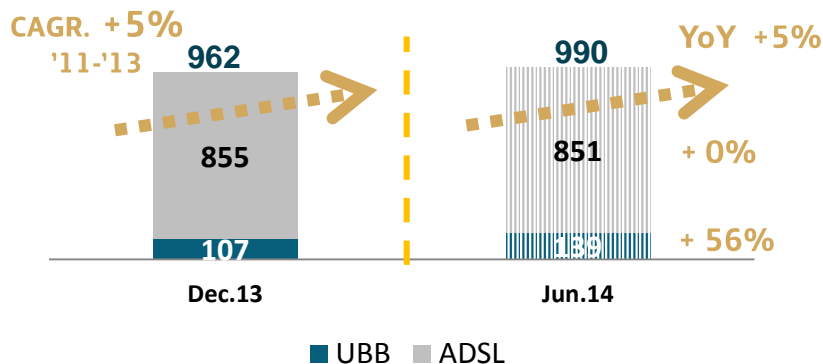
- **4G will continue accelerating Mobile Internet (MBB SS):**
 - 1st to launch 4G services nationwide
 - >130,000 customers (50% market share)
 - 4GLTE network development and deployment in 700 Mhz spectrum
- **MBB SS grows +29% in accesses and +59% in revenues**
- **High growth potencial:**



- Overlapped 4G/3G in main cities (75% pop.)
- New apps. also promote Internet use: sports contents (ex. "Modo Mundial"), OTT video ("Movistar play") or online music, among others

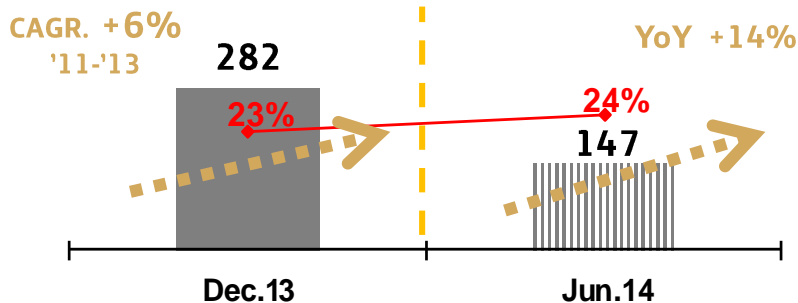
FIXED BUSINESS REVIEW: **FIXED Broadband (FBB) growth leveraged by UltraBB**

FBB accesses ('000) and % over total lines



FBB revenues and % over total revenues

US\$ million



Exchange rate as of Jun '14: Ch\$552.72 /1US\$

Growth based on:

Increasing penetration of UBB services [VDSL (up to 40 Mb) and F.O. (up to 80 Mb)] **in high value segments (+56%):**

- ✓ VDSL : 91,490 (+35%)
- ✓ F.O. : 47,266 (+125%)

UBB improves customer experience, reduces churn and increase ARPU

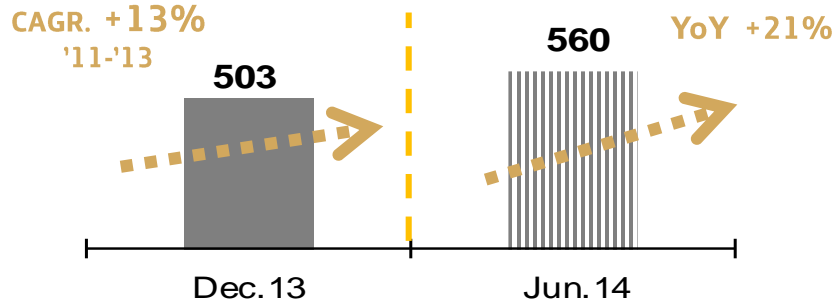
Bundling strategy to promote growth

- ✓ “Trío”: Voice+ BB+pay TV, leveraged by Voice+F.O. + IPTV for high value segments
- ✓ “Dúo”: BB+TV
- ✓ “Single”: BB

FBB revenues increase (+14%) due to higher penetration of UBB customers and higher ARPU

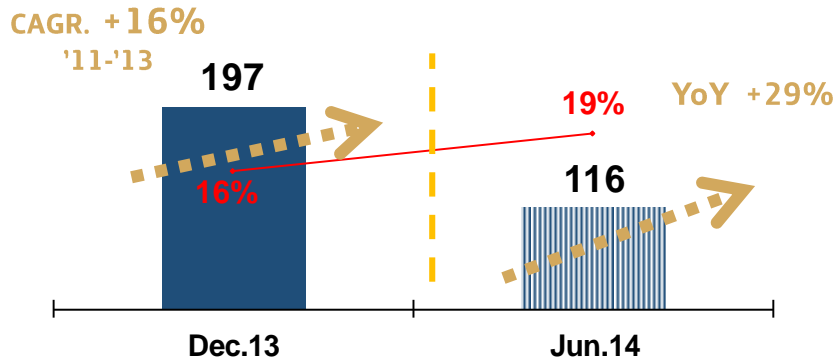
FIXED BUSINESS REVIEW: **PAY TV will continue capturing growth through all technologies DTH/IPTV /OTT**

TV accesses ('000)



TV revenues and % over total revenues

US\$ million



Exchange rate as of Jun '14: Ch\$552.72 /1US\$

Customers growth (+21% Jun 14/13):

- ✓ **DTH: 540,610 (+18.3% YoY)**, given the best HD offer in the market
- ✓ **IPTV: 17,114** (vs. 5,262 as of Jun.13) . Increase in UBB enhance IPTV growth

TV revenues increased (+29% Jun 14/13) due to the **higher customer base and higher ARPU** given the increased demand for HD signals and Premium channels and better IPTV/DTH customer mix

Growth based on:

- **Launching of new services:**

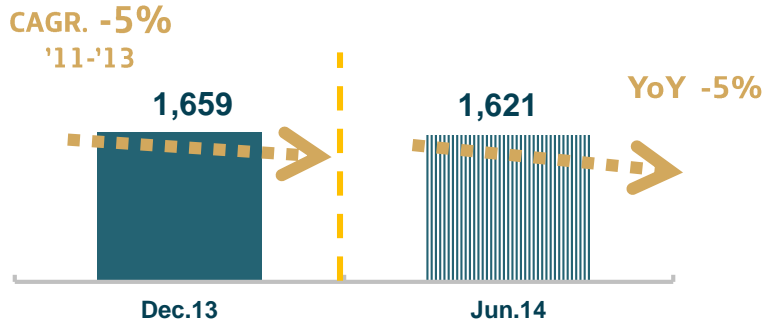
- ✓ **OTT service, "Movistar Play"** (a virtual video club for Broadband clients)
- ✓ **"TV everywhere"** → IPTV and OTT in mobile and fixed devices (multi-device)

- **Bundling strategy:**

- ✓ New "Trios" premium with F.O & IPTV
- ✓ Increase in "Duos": BB + pay TV

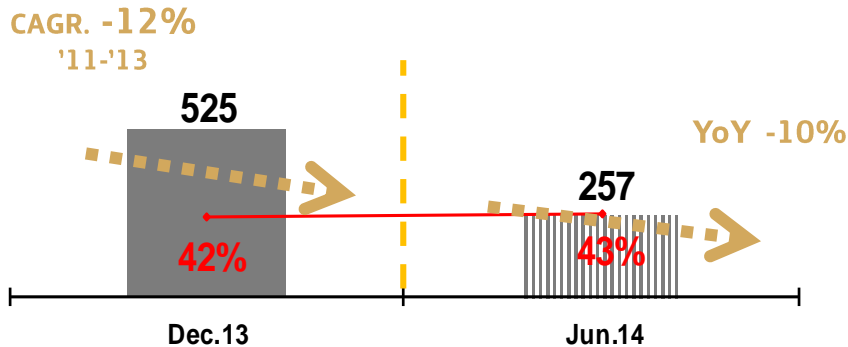
FIXED BUSINESS REVIEW: Defense of FIXED Voice through bundling of services

Lines in service ('000)



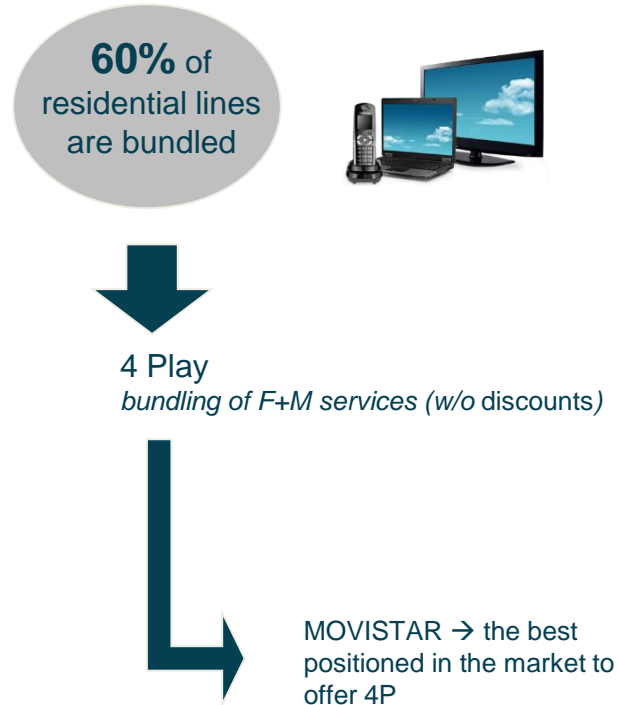
Voice revenues* and % over total revenues

US\$ million



Exchange rate as of Jun '14: Ch\$552.72 /1US\$

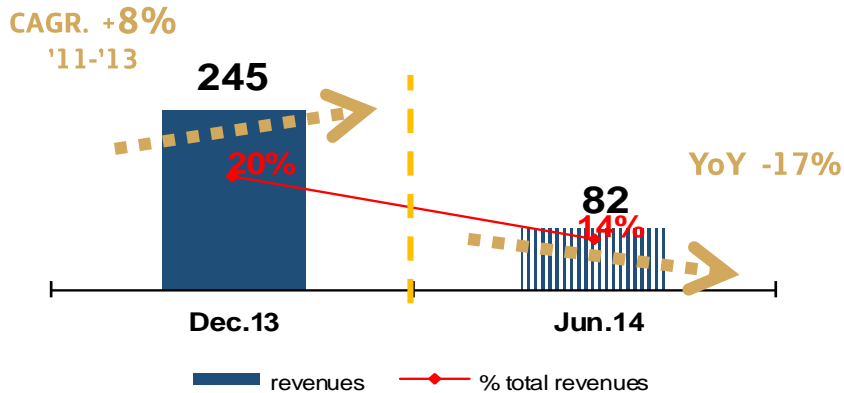
Bundling strategy slows down LIS decreases



FIXED BUSINESS REVIEW: Digital services strengthening growth profile in FIXED Corporate Customers Data Communications

Revenues from Data and TI services for Corporate clients

(US\$ million)



DIGITAL SERVICES:



M2M

- Metering
- Fleet management



Cloud

- Hosting 2.0 platform
- Storage/ Backup OD



Security

- cloud computing and smartphones expand security perimeter required by corporates



eHealth

- Health IT
- Remote health care management services ("GDA")



Video

- DTH
- "MOVISTAR PLAY": OTT videoclub



Financial Services

- Mobile pay
- Insurances

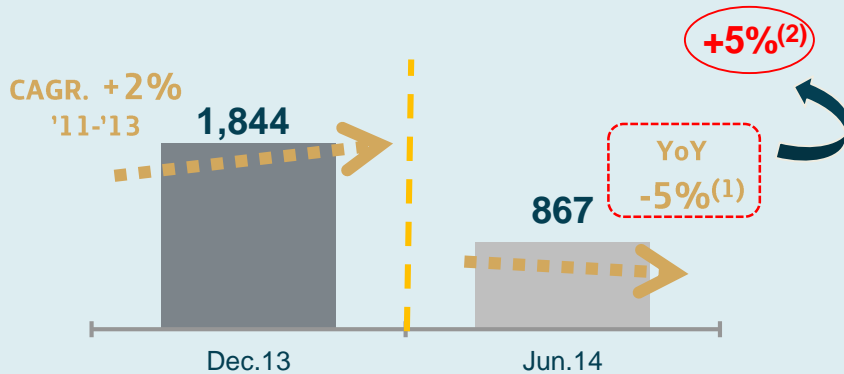
- T. Chile is the **main communication service supplier** for mining, retail and financial sectors, as well as an strategic partner for the Government
- **Largest data service provider** through high speed IP connections and F.O. network
- **Significant growth in Digital services** (+23%), driven by "Cloud Computing" and "Financial Services"
- **Revenues from Business Communications** (15% of total Fixed consolidated revenues) **increased 7.7% (CAGR '11-'13)**. Revenues as of 1H14 mainly explained by the end of a Health Ministry project (MINSAL) in 2013, as well as Chilean presidential election one-time revenues in 4Q13

Exchange rate as of Jun '14: Ch\$552.72 /1US\$

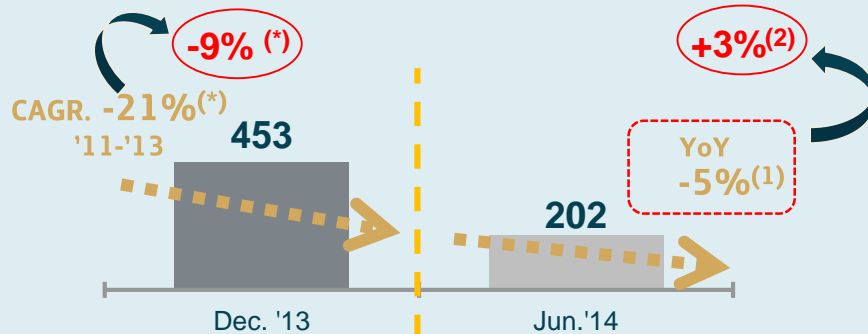
Significant EBITDA margins in Fixed and Mobile businesses

MOBILE

Total REVENUES (US\$ million)



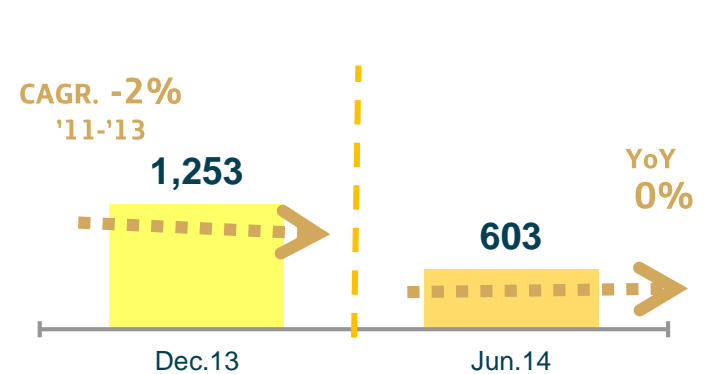
EBITDA (US\$ million)



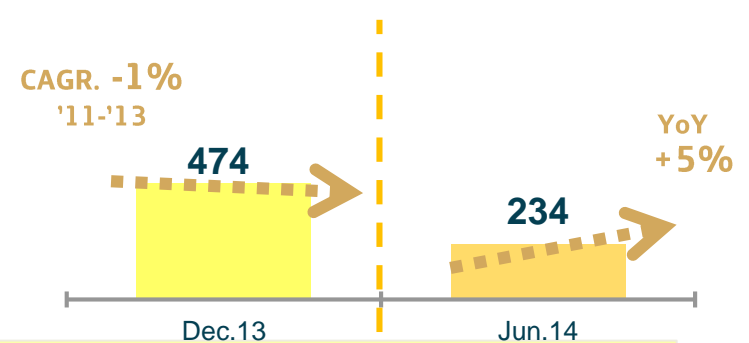
EBITDA margin: 24.6% (Dec. '13) vs 23.3% (Jun. '14)

FIXED

Total REVENUES (US\$ million)



EBITDA (US\$ million)



EBITDA margin: 37.9% (Dec.13) vs 38.8% (Jun.14)

(*) Since 4Q12, CAPEX for postpaid equipment is registered as OPEX. Without this effect, EBITDA had decreased -9%

(1) A tariff reduction of 75% in Mobile ITX charges, since Feb.14, has an annual impact of -10% in 2013' revenues and of -5% in EBITDA

(2) Excl. ITX revenues

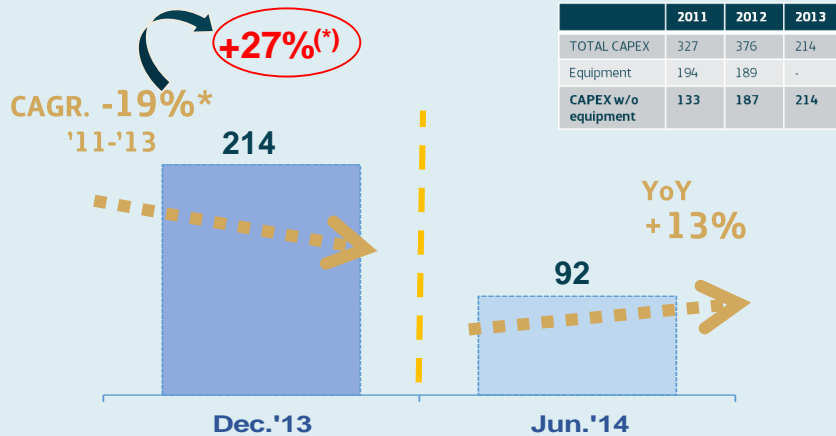
Note: tariff reduction of 43.5% in Fixed ITX charges, as applying since May.14, has not a meaningful impact in revenues and EBITDA

Exchange rate as of Jun '14: Ch\$552.72 /1US\$

CAPEX oriented to growth business and network development

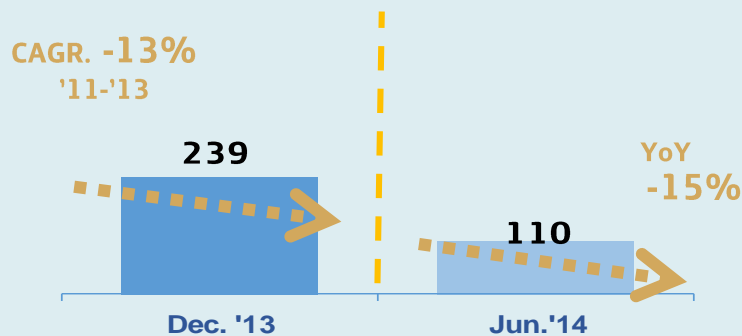
MOBILE

CAPEX* (US\$ million)



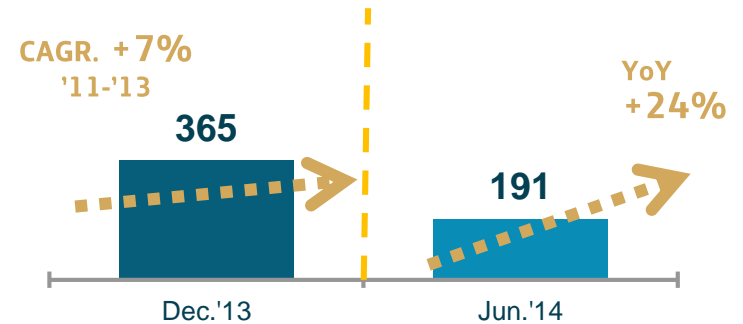
* Since 4Q12, postpaid equipment are registered as OPEX instead of as CAPEX.
Excl. equipments in 2011 and 2012 to use equivalent numbers, CAGR.'11-'13: +27%
due to higher investments in 3G and 4G networks

Operating Cash Flow (OpCF) (US\$ million)

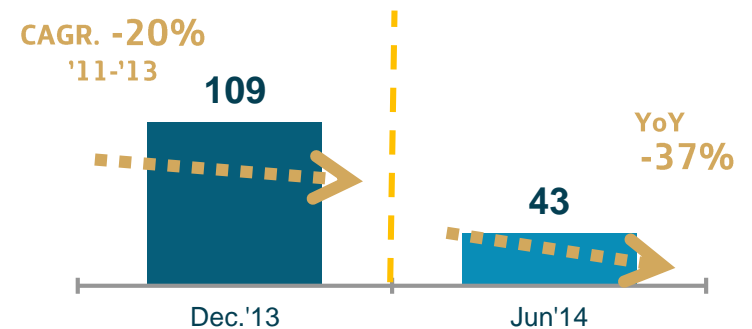


FIXED

CAPEX (US\$ million)



Operating Cash Flow (OpCF) (US\$ million)



Conservative Financial Policies

Liquidity and Financing

- FCF next 12 months + cash and equiv. **HIGHER THAN** debt maturities next 12 months
- Cover financial needs in anticipation of maturities
- Avg. maturity of financial debt **HIGHER THAN** avg. time of repayment (Net debt/FCF)

Hedging

- Currency and interest rate hedging over debt, capex and opex
- Maintain a low exposure to foreign exchange and inflation volatility minimizing impact on financial results and cash flow (100% in local currency)
- Our derivatives are registered under hedge accounting standards (IFRS)

Cash Flow Management

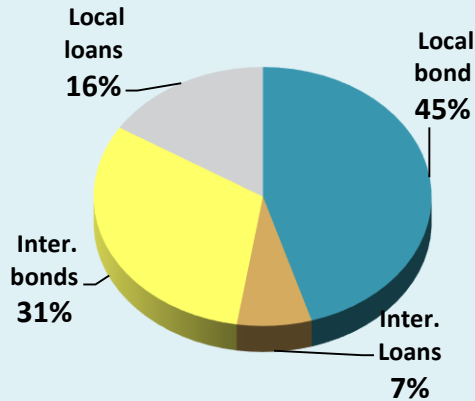
- Control of counterparties credit risk based on credit ratings
- Dividend policy is to pay at least 30% of net profits (legally mandatory)

Diversified debt structure and loose maturity profile

MOBILE

Gross Debt as of Jun. 2014 → Ch\$ 462bn
 Net Debt as of Jun. 2014 → Ch\$ 159 bn

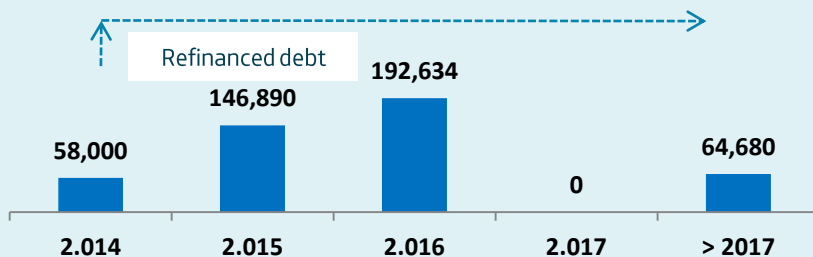
Structure:



Avg. Debt rate 5.7%

- ✓ **Gross Debt:** increase Ch\$ 65 thous. mills., among Jun. '13 and Jun. '14, mainly due to local bond issue Serie F in Oct. '13
- ✓ **Net Debt:** decreases Ch\$ 31 thous. mills. in the same period due to higher cash balance and financial assets

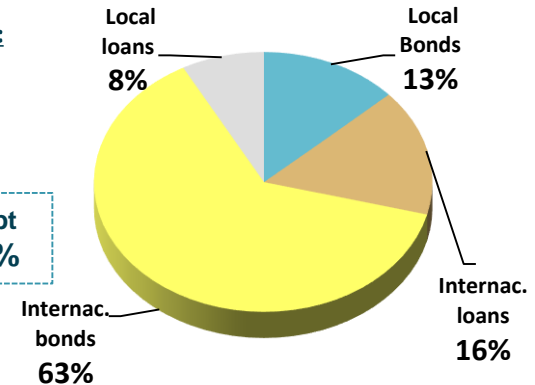
Debt Maturities profile



FIXED

Gross Debt as of Jun. 2014 → Ch\$ 374 bn
 Net Debt as of Jun. 2014 → Ch\$ 308 bn

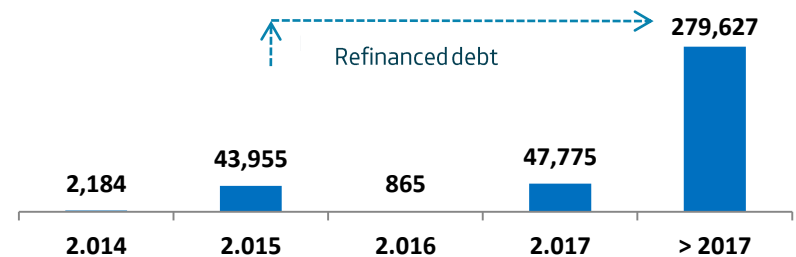
Structure:



Avg. Debt rate 6.2%

- ✓ **Gross Debt:** decrease Ch\$92 thous. mills. between Jun, '13 and Jun. '14, mainly due to redemption of local bonds series M and N, partially offset by local bond issue serie Q (Mar. '14)
- ✓ **Net Debt:** decreases due to the same reasons as the gross debt

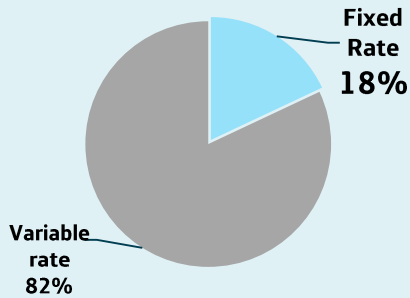
Debt Maturities profile



Hedging and strong repayment capacity

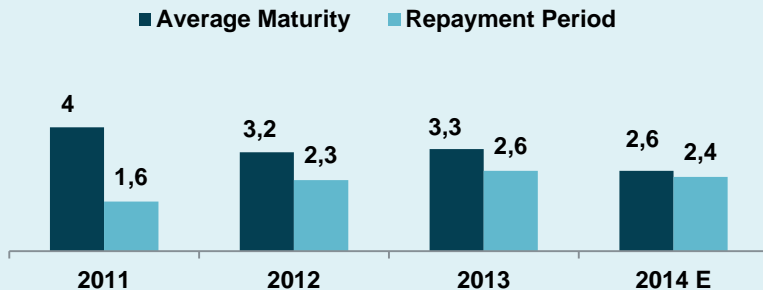
MOBILE

Currency and Interest Rate Coverage



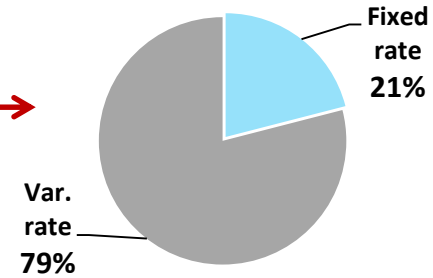
FX debt 100% hedged
 16% of CLP avg. depreciation between Jan-Jun'14 vs. Jan-Jun'13 has not impacted capital nor interests payments

Average Maturity vs. Repayment Period (years)

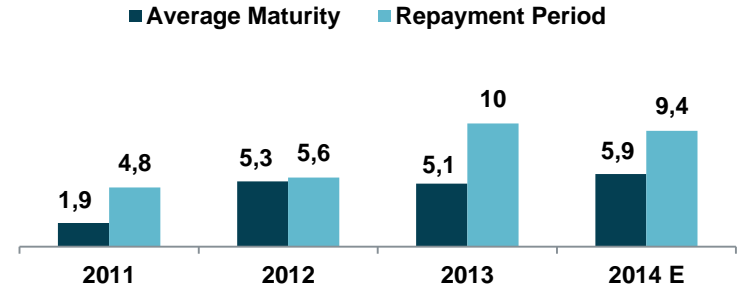


FIXED

Currency and Interest Rate Coverage



Average Debt Term vs. Repayment Period (years)

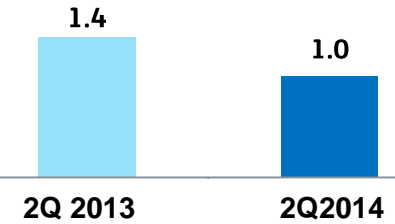
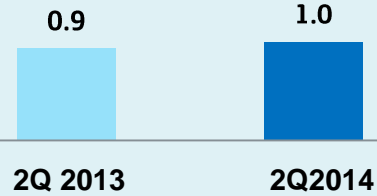


Solid financial ratios

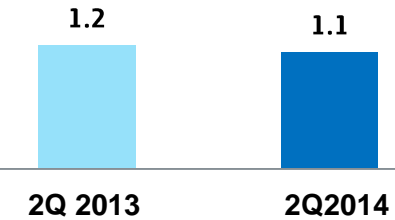
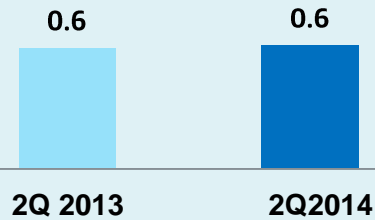
MOBILE

FIXED

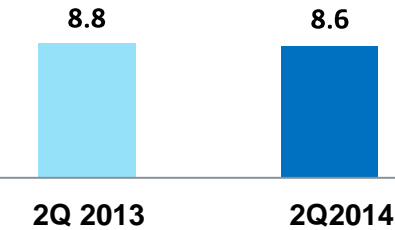
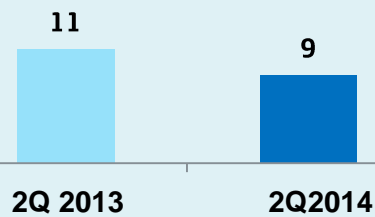
Total Liabilities (less)
hedging assets / Equity



Net Debt / EBITDA



EBITDA / Financial
Expenses



TCH and TMCH Credit Ratings are affirmed by S&P and Fitch

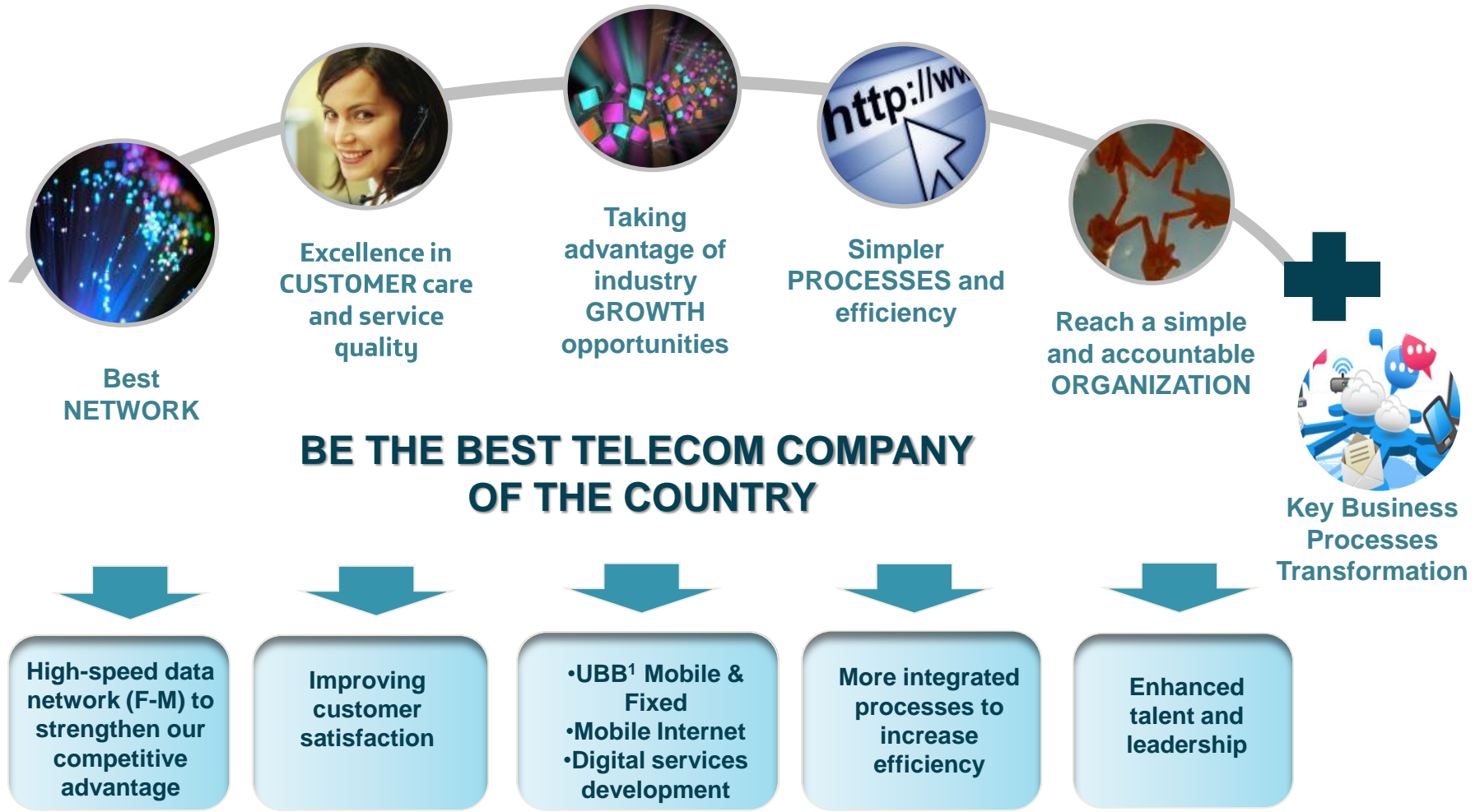
S&P

- In Sept, 2014, **S&P affirmed TCH and TMCH “BBB” international credit ratings, outlook “Stable”**. Consolidated approach for both companies
- Decision to **affirm ratings** is **based on**:
 - ✓ Leadership market position, strong brand recognition and efficient operations
 - ✓ Strong growth in FBB and mobile Internet
 - ✓ Leverage Net Debt/Ebitda lower than 2x and solid consolidated Cash Flows
 - ✓ Good access to capital markets, low maintenance CapEx and flexible Dividend policy
- *“Stand-alone” credit profile of both companies: “BBB+”, one notch higher than their parent company, Telefonica, S.A..*

FITCH

- In Sept. 2014, **Fitch affirmed TCH and TMCH ratings at “BBB+”, outlook “Stable”**
- These **ratings reflect** their entrenched leading position in the Chilean telecommunications market, strong brand recognition and network infrastructure, as well as their sound financial profile backed by a solid cash flow generation

Corporate STRATEGIC FOCUSES



¹UBB: Ultra BroadBand (VDSL and Fiber Optic) with speeds higher than 15 Mhz

Investment considerations



Telefónica
