

Telefónica Chile & Telefónica Móviles Chile



Investors Presentation
5th Annual BBVA Latin America Conference
New York, May, 2015



An integrated DIGITAL telecom operator (F+M)

TELEFONICA in Chile:



Mobile

- Voice
- MBB
- Internet service



Fixed

- Voice
- LD (international)
- FBB
- Pay TV



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



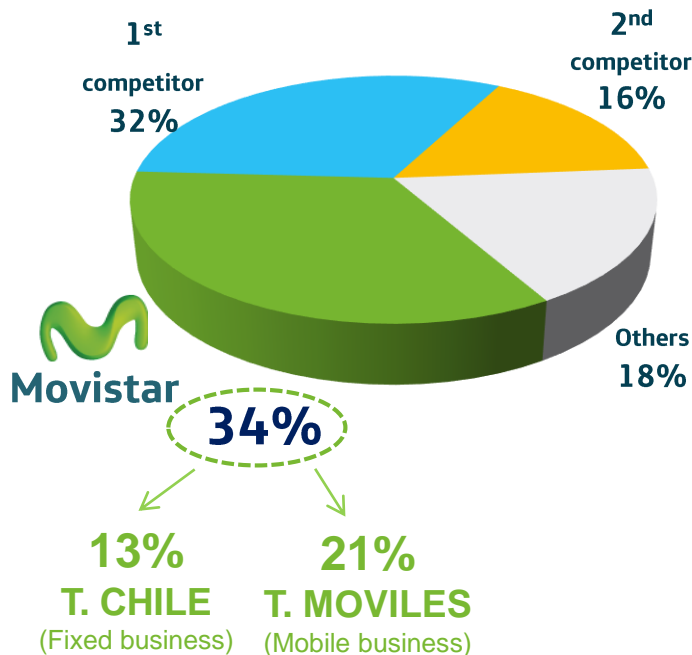
(1) Annual figures as of Dec. '14. Converted into U.S. Dollars at exchange rate: Ch\$570.01 (2014 avg. exch. rate)

(2) As of Dec. '14

MOVISTAR is the **LARGEST REVENUE CONTRIBUTOR** to an industry that keeps growing

MOVISTAR is mainly focused on **Mobile data, pay TV and Fixed UBB***

MARKET SHARE by revenues:



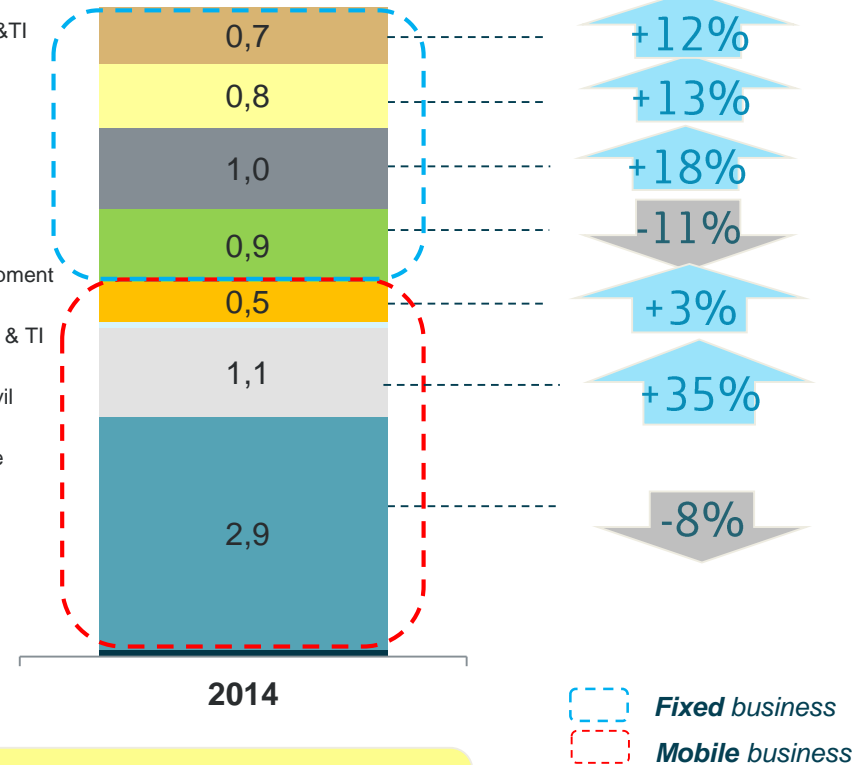
* CAGR. +5% (excl. Mobile access charges)
 1 US\$ = Ch\$570.01 (avg. year 2014)
 Source: Telefónica in Chile

INDUSTRY REVENUE breakdown by business line:

US\$ 8.1 bn

CAGR. '14-'12

- Fixed Data & TI
- FBB
- Pay TV
- Fixed voice
- Mobile equipment
- Mobile Data & TI
- Internet móvil
- Mobile voice
- Others

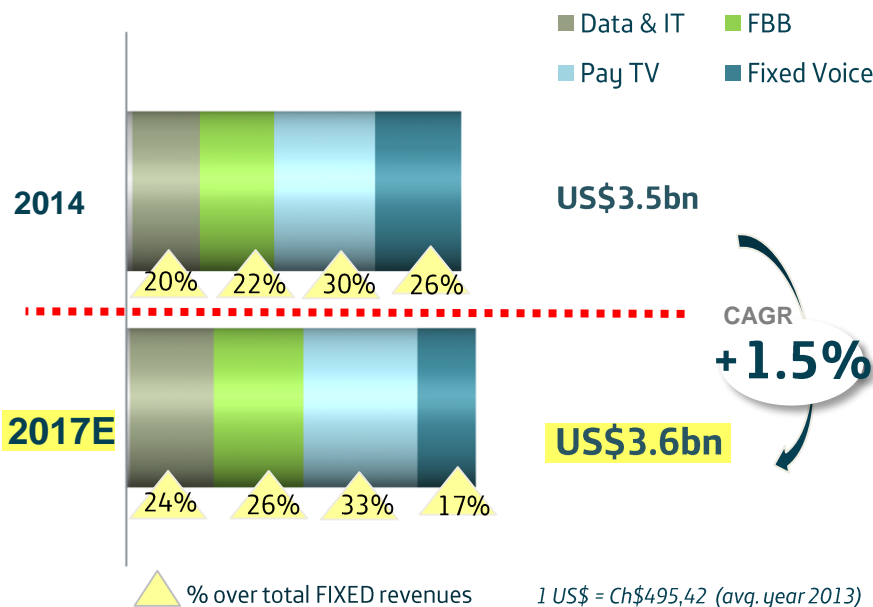


As result of Chile economic slowdown and 2014 access charges reduction, **industry revenues are expected to grow around CAGR. 4.3% ('14-'17)**

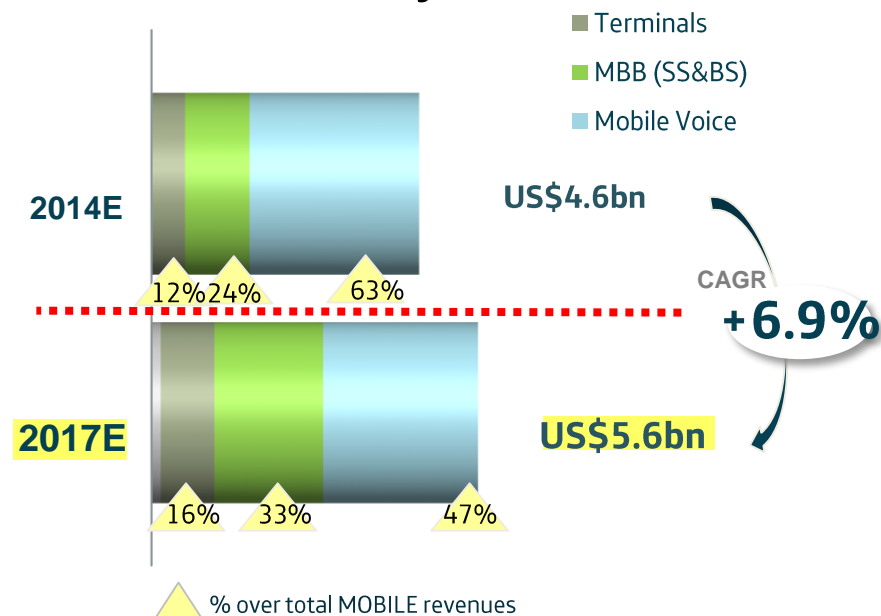
With a **sustained GROWTH POTENTIAL**, driven by Fixed and Mobile High Speed BB services

Total industry revs CAGR. ('14-'17): **4.3%**

FIXED industry revenues



MOBILE industry revenues



Penetration:

	2013	2014	2017E
Fixed voice (% hh.)*	38%	41%	36%
FBB (% hh.)*	47%	49%	55%
Pay TV (% hh.)*	50%	55%	57%
Mobile voice (% inhab.)	145%	145%	144%
MBB SS** (% inhab.)	27%	38%	48%
MBB BS** (% inhab.)	7%	5%	3%

* residential services over total households (hh)

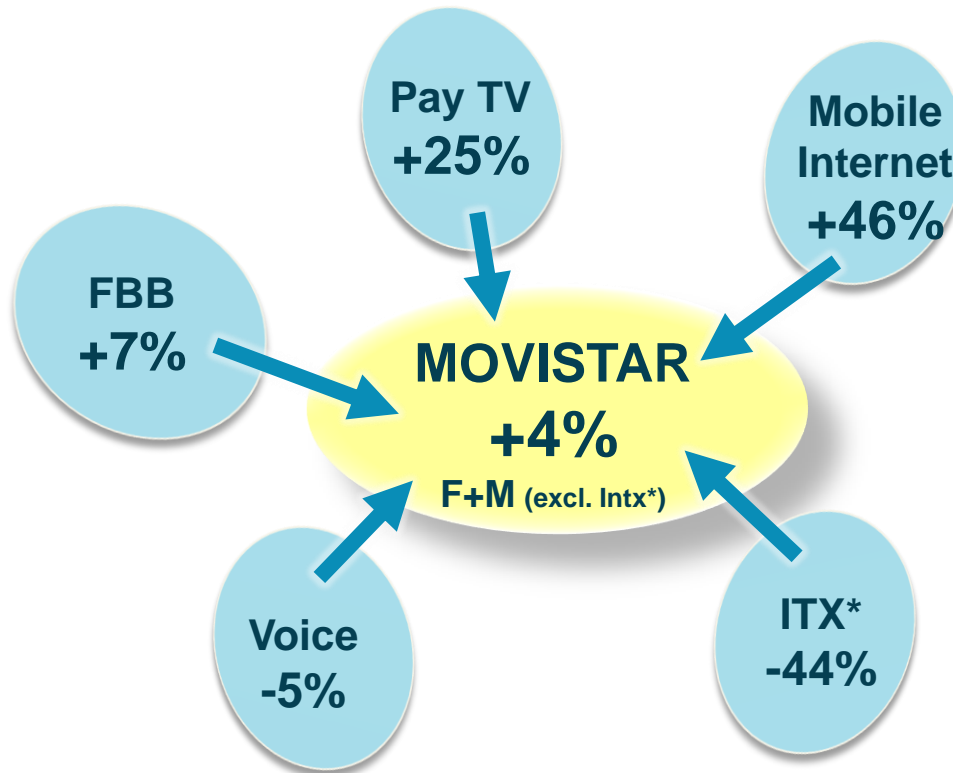
** MBB SS: mobile broadband small screen; BS: big screen;

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

- Decrease in Mobile access charges (Feb.'14)
- Decrease in Fixed access charges (May '14)
- Elimination of DLD (2014)
- "on-off net" tariffs convergence

Successful commercial strategy in 2014 turned into significant **GROWTH** despite economic slowdown

2014 REVENUES GROWTH



Note: % Var. (Dec.'14/Dec.'13)

* ITX: interconnections

- Network deployment → coverage and quality → improvement in customer experience
 - ✓ UBB: VDSL, F.O., 4GLTE
- 4G/UBB technological renovation
- Renovated offer for mobile Internet, pay TV and FBB
 - ✓ Pay TV: strong growth (HD)
- Bundling of services

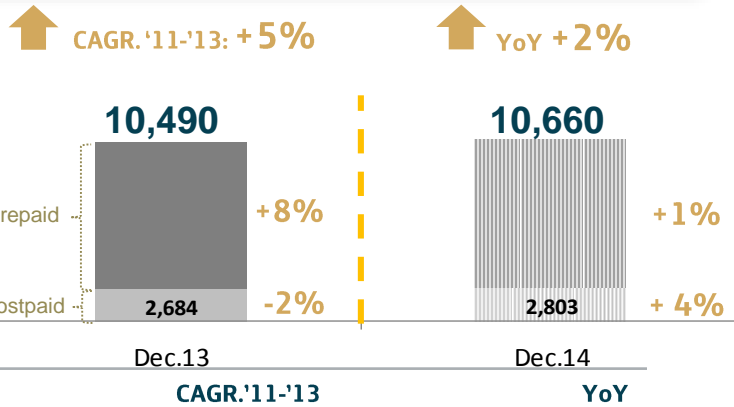


MOBILE BUSINESS: 4G TECHNOLOGICAL RENOVATION enhances growth allowing ARPU increases

Customer MIX
post/prepaid:



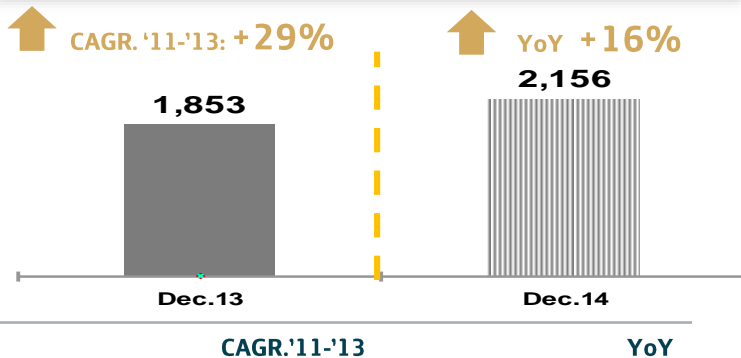
TOTAL Mobile Accesses¹ ('000)



Revs	+2%	-5%	+7%
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¹ Voice, Broadband and M2M ("machine-to-machine")

Mobile INTERNET* Accesses ('000)



Revs	+20%	+46%
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■ Growth in Postpaid

- ✓ 4G technological renovation → improved customer experience → higher demand for upgraded plans → lower Churn and ARPU increases → 240,480 4G customers as of Dec.14
- ✓ Extra consumption handled through "packs of minutes"
- ✓ Customized smartphones subsidies and promotion of customer adds "SIM only"

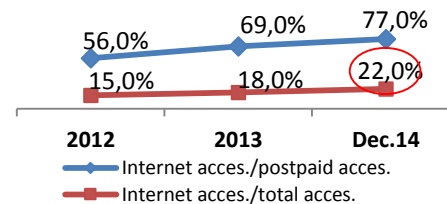
■ Growth in Prepaid

- ✓ 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 ITX charges, since Feb '14, impacts revenues. If making equivalent tariffs, mobile total revs.: +7%

■ MBB SS**:+ 16% growth in accesses and +60% in revs.

■ High growth potential:

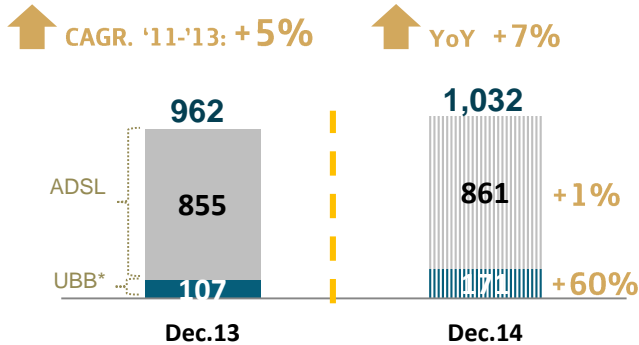


*MBB SS + MBB BS

**MBB SS: mobile broadband small screen (Internet browsing); MBB BS: mobile broadband big screen (USB device)

FIXED BUSINESS: growth leveraged by UBB* and pay TV

FBB accesses ('000)



	CAGR.'11-'13	YoY
Revs	+6%	+7%

- UBB* accesses oriented to high value segments → UBB*/Total FBB = 17%

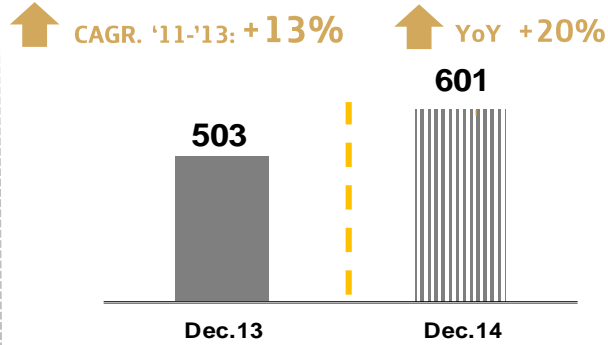
- ✓ VDSL: 107,099 (+41% YoY)
- ✓ F.O.: 63,652 (+108% YoY)

UBB* improves customer experience, reduces Churn and increases ARPU

- Bundling strategy to promote growth

- ✓ "Trío": Voice+FBB+pay TV, leveraged by Voice+F.O+IPTV for high value customer segments
- ✓ "Dúo": FBB+TV
- ✓ "Single": FBB

Pay TV accesses ('000)



	CAGR.'11-'13	YoY
Revs	+16%	+25%

- Pay TV revenues increased due to accesses increase and higher ARPU given the largest demand for HD signals and Premium channels as well as a better customer mix IPTV/DTH

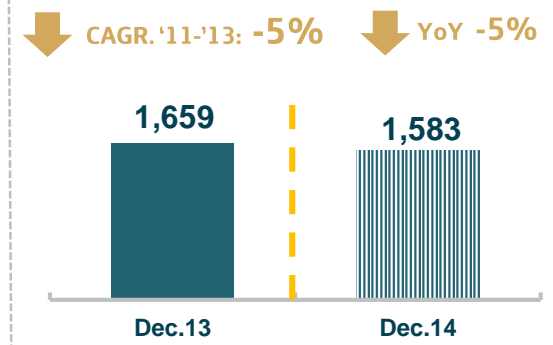
- Accesses growth:

- ✓ DTH: 571,990 (+16% YoY). Increase driven by our HD offer
- ✓ IPTV: 29,267 (x3 o/Dec.14). Increase due to IPTV growth enhanced by UBB

- Bundling strategy:

- ✓ Launching of new services: "Movistar Play" (OTT service) or "TV everywhere" → IPTV and OTT in mobile and fixed devices

Lines in service ('000)



	CAGR.'11-'13	YoY
Revs	-12%	-11%

- Bundling strategy slowdowns LIS decreases

76% of residential lines are bundled



*UBB: Ultra BroadBand: VDSL (up to 40 Mb) and F.O. (up to 80 Mb)

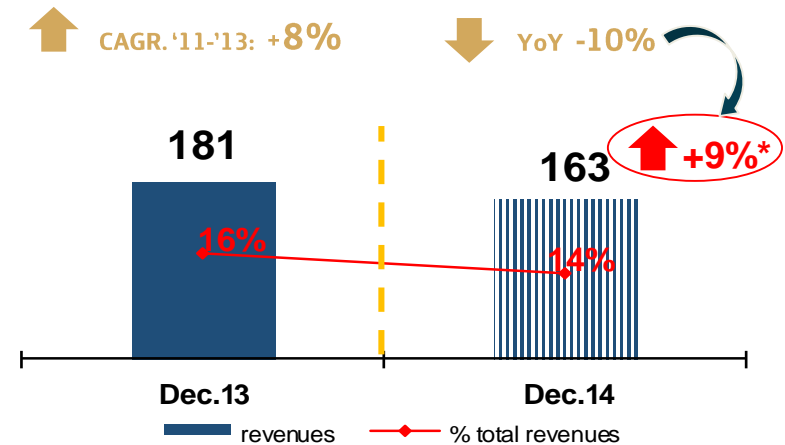
FIXED BUSINESS: Digital services strengthening growth in FIXED Corporate Customers Data Communications

- 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** (+26%), driven by “Cloud”, “Security” and “Financial Services”

DIGITAL SERVICES:

	M2M	<ul style="list-style-type: none"> ▪ Metering ▪ Fleet management 	
	Cloud	<ul style="list-style-type: none"> ▪ Hosting 2.0 platform ▪ Storage/ Backup OD 	
	Security	<ul style="list-style-type: none"> ▪ cloud computing and smartphones expand security perimeter required by corporates 	
	eHealth	<ul style="list-style-type: none"> ▪ Health IT ▪ Remote health care management services (“GDA”) 	
	Video	<ul style="list-style-type: none"> ▪ DTH ▪ “MOVISTAR PLAY”: OTT videoclub 	
	Financial Services	<ul style="list-style-type: none"> ▪ Mobile pay ▪ Insurances 	

Revenues from Data and TI services for Corporate clients (US\$ million)



- **Revenues from Business Communications** (14% of total Fixed consolidated revenues). Revenues variation as of Dec '14 mainly explained by the end of a Health Ministry project which was outstanding in 2013, as well as Chilean presidential elections one-time revenues in 2013

* Excl. Health Ministry project and election revenues, total corporate commun. revenues increased +9%

Exchange rate as of Dec '14: Ch\$606.75 /1US\$

LEADERSHIP POSITION in the Telecom industry

Market Share
by accesses
As of Dec. '14



FIXED (7-8 players)

	Voice	Pay TV	FBB
Movistar	48.3%	21.2%	39.8%
Entel	9.4%	3.0%	1.2%
Vtr	21.8%	35.7%	36.2%
Claro	8.1%	16.7%	11.1%
Directv	-	16.0%	-
Telefónica del Sur	4.6%	3.2%	6.0%
Gtd	5.8%	0.9%	2.8%
Others	1.9%	3.2%	2.9%
TOTAL	3,280	2,832	2,593

MOBILE (5 players)

	Voice	MBB ⁽¹⁾
Movistar	39.1%	42.0%
Entel	35.8%	30.0%
Vtr	-	-
Claro	21.9%	24.0%
Directv	-	-
Telefónica del Sur	-	-
Gtd	-	-
Others	3.3%	4.0%
TOTAL	25,840	9,412

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

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

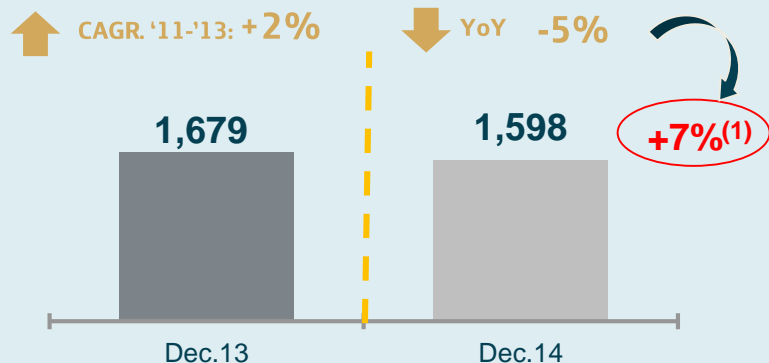
Source: Subtel, other telecom
operators and Company internal
data

MOVISTAR is the best positioned to capture market opportunities
The **Chilean Antitrust Commission (TDLC)** has authorized bundling of F+M services,
for residential customers, without discounts (Supreme Court ruling)

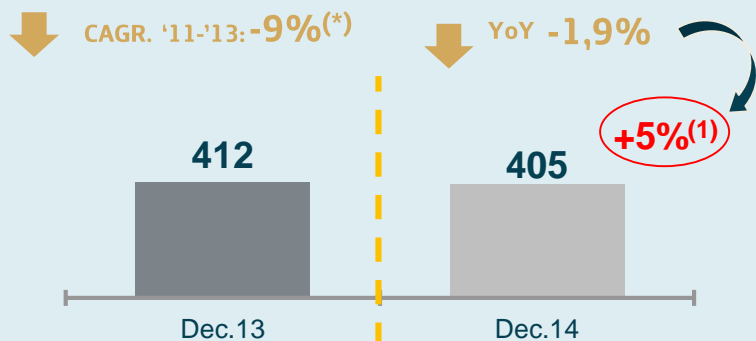
Significant EBITDA margins in Fixed and Mobile businesses

MOBILE

Total REVENUES (US\$ million)



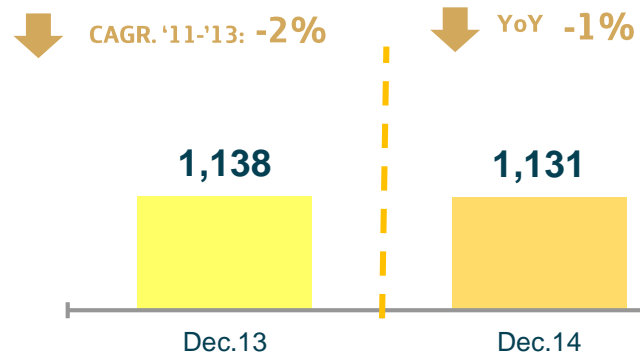
EBITDA (US\$ million)



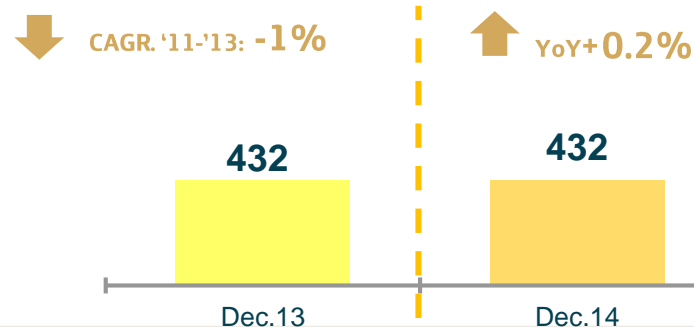
EBITDA margin: 24.6% (Dec.13) | 25.3% (Dec.14)

FIXED

Total REVENUES (US\$ million)



EBITDA (US\$ million)



EBITDA margin: 37.9% (Dec.13) | 38.2% (Dec.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, impacted revenues. Revenues and EBITDA, considering equivalent tariffs in 2014 than in 2013 for real traffics, increase 7% and 5%, respectively

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

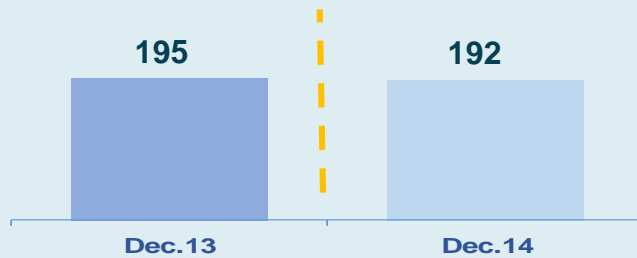
Exchange rate as of Dec '14: Ch\$606.75 /1US\$

CAPEX oriented to **EXPANSION AND UPGRADE OF Fixed and Mobile NETWORKS** to capture growth potential

MOBILE

CAPEX* (US\$ million)

↓ CAGR. '11-'13: +27%* ↑ YoY -1,4%



* Since 4Q12, postpaid equipment are registered as OPEX instead of as CAPEX. In comparable terms, CAGR. '11-'13: +27% due to higher investments in 3G and 4G networks



- +1,550** ▪ New 4G/3G sites
- +40%** ▪ Mobile network growth
- +55%** ▪ Mobile Data traffic growth

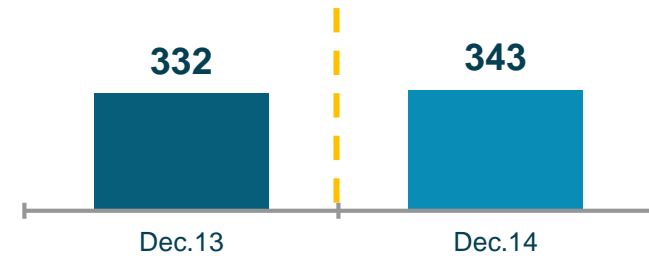
2012 → MOVISTAR was granted 40 MHz, in the 2.6 GHz band → 4G services

Exchange rate as of Dec'14: Ch\$606.75 /1US\$

FIXED

CAPEX (US\$ million)

↑ CAGR. '11-'13: +7% ↑ YoY +3%



+60%
Var. '14/'12

+170,000 High speed customers
As of Dec. 14



x3
Var. '14/'12

+29,000 IPTV customers
As of Dec. 14

+87% Fixed Data traffic growth

Note: in 2015, Fixed equipments will change their accounting treatment of being registered as OPEX instead of as CAPEX

Healthy OpCF despite lower EBITDA, as a result of ITX tariffs reduction, and intensive CAPEX

MOBILE

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

↓ CAGR. '11-'13: -13%

↓ YoY -2.3%

220

Dec.13

212

Dec.14

FIXED

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

↓ CAGR. '11-'13: -20%

↓ YoY -9.4%

99

Dec.13

90

Dec.14

Exchange rate as of Dec '14: Ch\$606.75 /1US\$

Conservative Financing, Hedging and Cash management

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 FX and inflation volatility minimizing impact on financial results and cash flow (Debt is 100% in local currency)
- All our derivatives are registered under hedge accounting standards (IFRS)

Cash Management

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

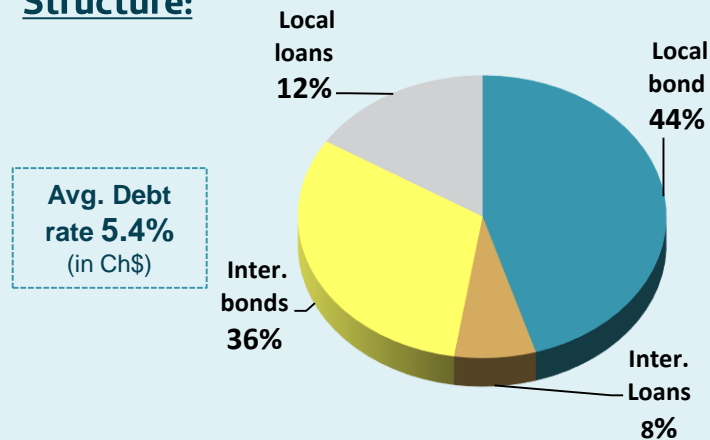
Diversified debt structure and healthy maturity profile

MOBILE

Gross Debt as of Dec. 2014 → Ch\$394 bn (US\$649 MM)

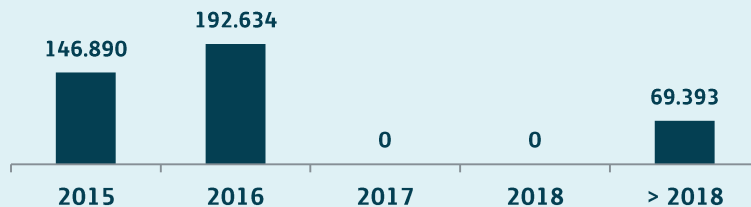
Net Debt as of Dec. 2014 → Ch\$265 bn (US\$437 MM)

Structure:



Debt Maturities profile:

MMCh\$



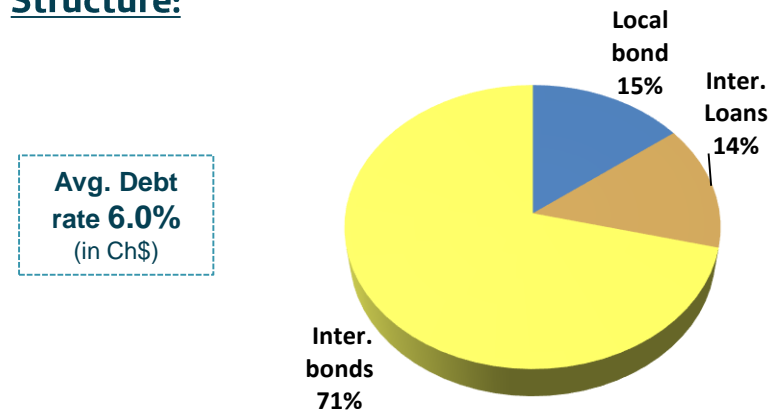
Exchange rate as of Dec '14: Ch\$606.8 /1US\$

FIXED

Gross Debt as of Dec. 2014 → Ch\$321 bn (US\$529 MM)

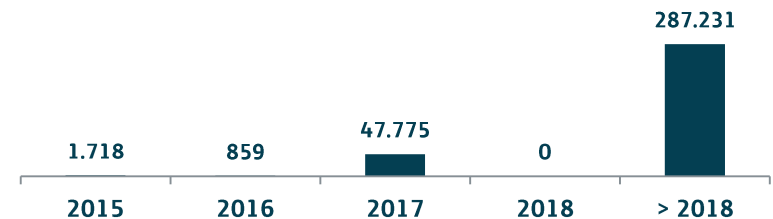
Net Debt as of Dec. 2014 → Ch\$ 201 bn (US\$331 MM)

Structure:



Debt Maturities profile:

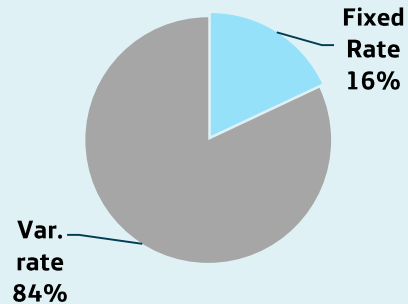
MMCh\$



Hedging and strong repayment capacity

MOBILE

Currency and Interest Rate Coverage



FX debt 100% hedged
 15% of CLP avg. depreciation between Jan-Dec'14 vs. Jan-Dec'13 has not impacted capital nor interests payments

Average Maturity vs. Repayment Period (years)

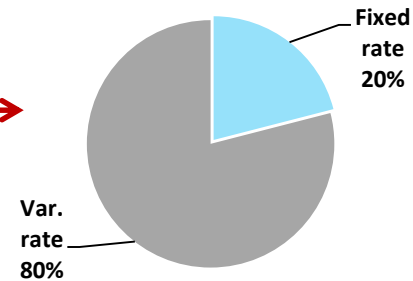
■ Average Maturity ■ Repayment Period*



* Repayment period = Net Debt / FCF

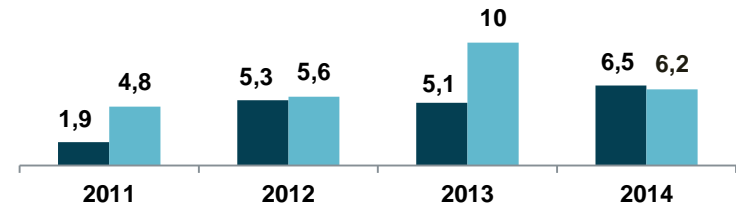
FIXED

Currency and Interest Rate Coverage



Average Debt Term vs. Repayment Period (years)

■ Average Maturity ■ Repayment Period*



- **S&P: TCH and TMCH "BBB" ratings and outlook "Stable"** (as of Dec.14) → Consolidated approach for both companies. The "stand alone" rating is "**BBB+**", one notch higher than their parent company, Telefonica, S.A..
- **Fitch: TCH and TMCH ratings at "BBB+", outlook "Stable"** (as of Dec.14)

Solid financial ratios

MOBILE

FIXED

Total Liabilities (less)
hedging assets / Equity

1,1

0,9

2013

2014

1,2

1,1

2013

2014

Net Debt / EBITDA

0,8

1,1

2013

2014

1,1

0,8

2013

2014

EBITDA / Financial
Expenses

9

9

2013

2014

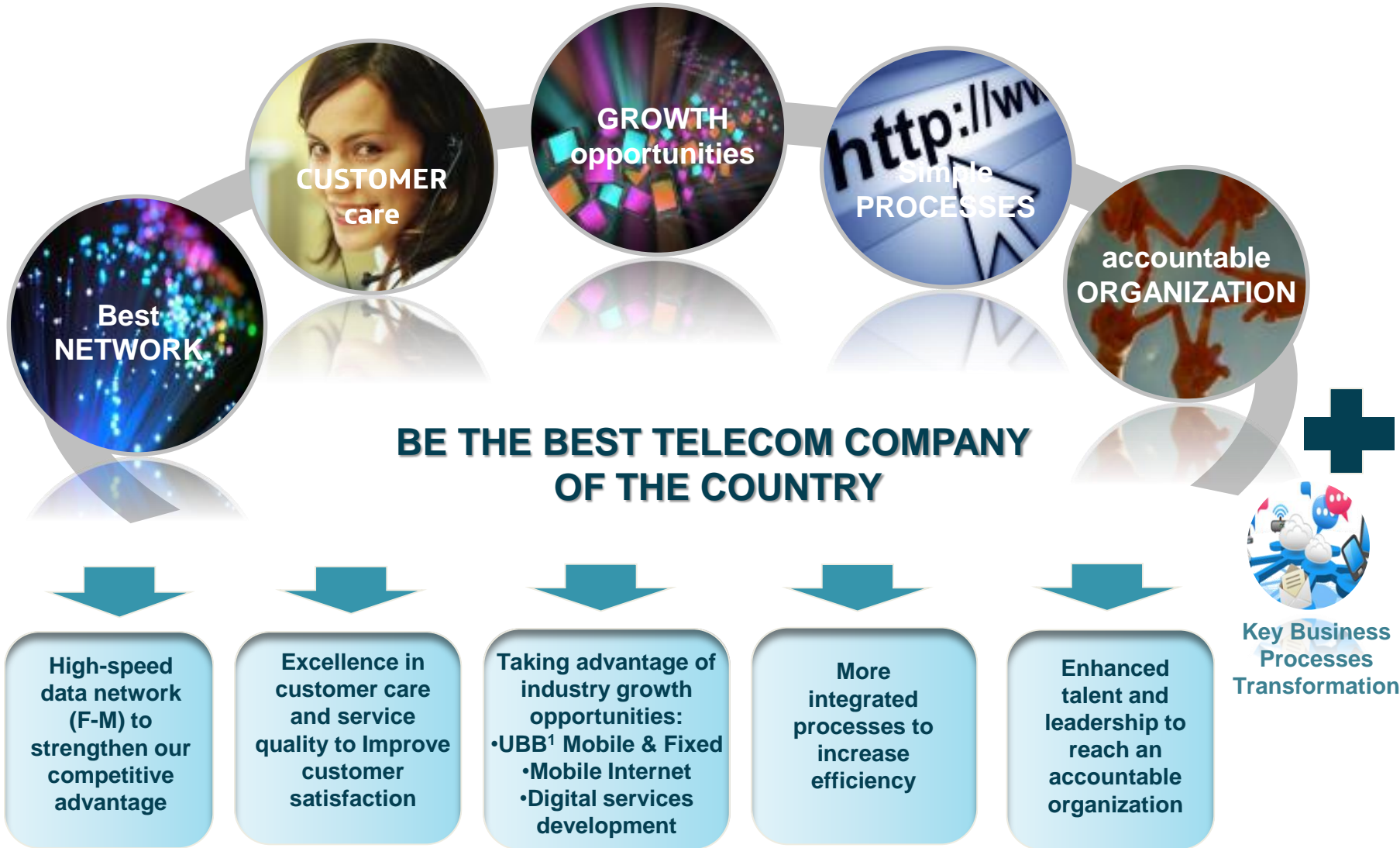
8

10

2013

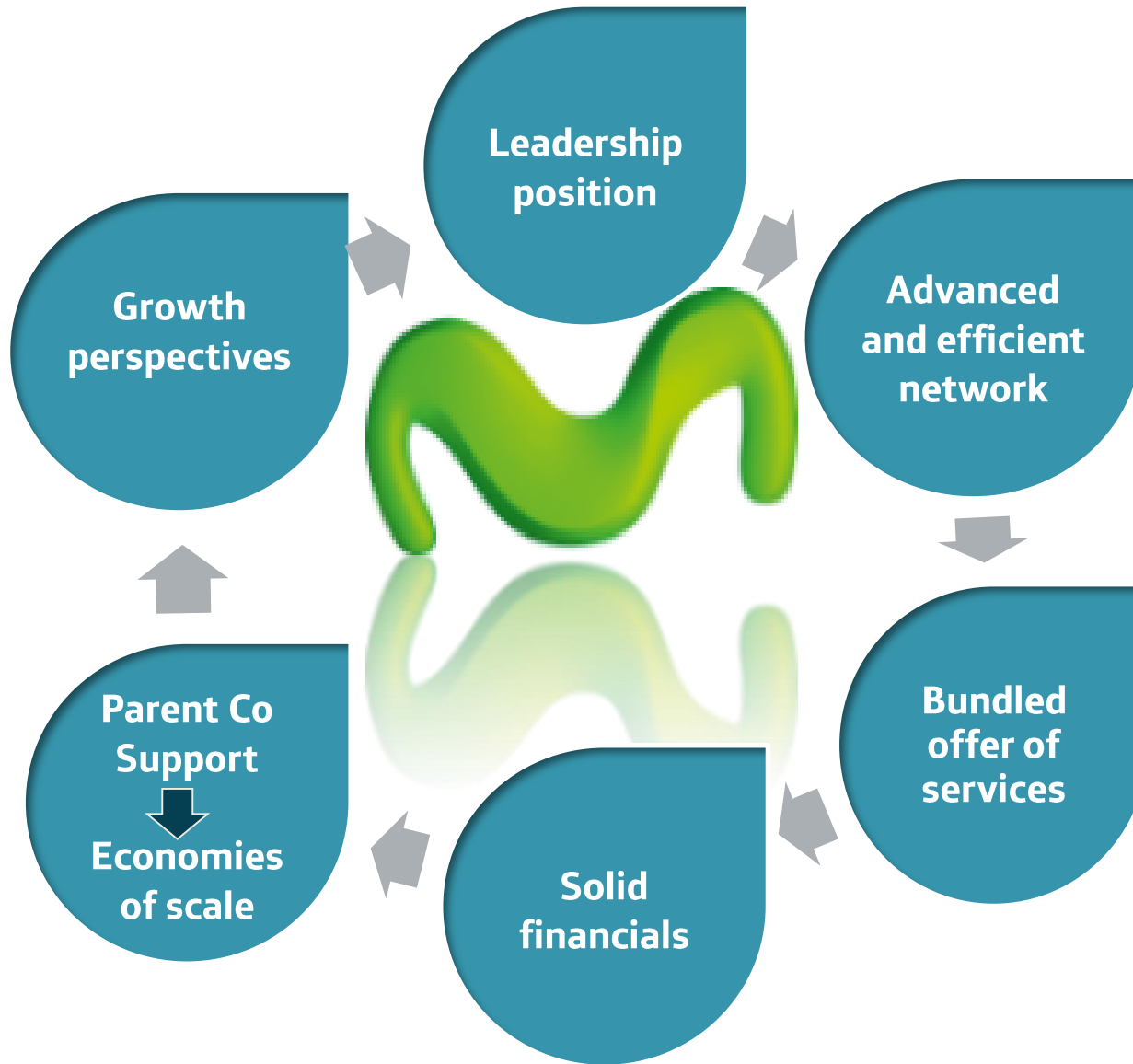
2014

Corporate STRATEGIC FOCUSES



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

Investment considerations



Telefonica

www.telefonicachile.cl/inversionistas/