

TELEFONICA IN CHILE

Telefónica Chile &
Telefónica Móviles Chile

JP Morgan 5th annual
Global Emerging Markets Corporate Conference

Miami, February 24-26, 2014

Telefonica

 movistar

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An integrated DIGITAL telecom operator in Chile: F + M

...with a big opportunity ahead of us

TELEFONICA in Chile:

Telefónica Chile
Telefónica Móviles Chile



Mobile

- Voice
- MBB
- Internet service

Fixed

- Basic telephony
- DLD and ILD
- FBB
- Pay TV

Residential
SME
Corporates

US\$3.4bn

Annual
REVENUES¹

US\$1.0bn

Annual
EBITDA¹

#1 Telco in Chile

In terms of Accesses
and Revenues

13.4 MM

Accesses
F+M

37%

Market share
Industry total Revenues

Telefónica in Chile is part of the Telefónica Group (Spain), one of the most important global telcos in the world

Vision

Global
strategy

Economies
of scale

New
Technologies

Synergies

Experience

(1) Annual figures estimated as of Dec. '13. Converted into U.S. Dollars at an exch. rate of Ch\$504.2 (as of Sep '13)

...supported by a strong **NETWORK**: improving coverage and quality

MOBILE

The most advanced 3G network:
3,092 sites

which include:

+1,200 new sites in 2013



First to launch 4GLTE services
(2013) with nationwide coverage



534 4GLTE sites*

12,540 4GLTE clients*

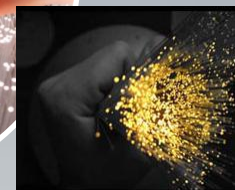
Approx. 20% of sell out ask for
4GLTE devices

FIXED

106,809

High speed
customers

F.O.*



FTHX: up to
150Mbps



7,226 IPTV
clients*

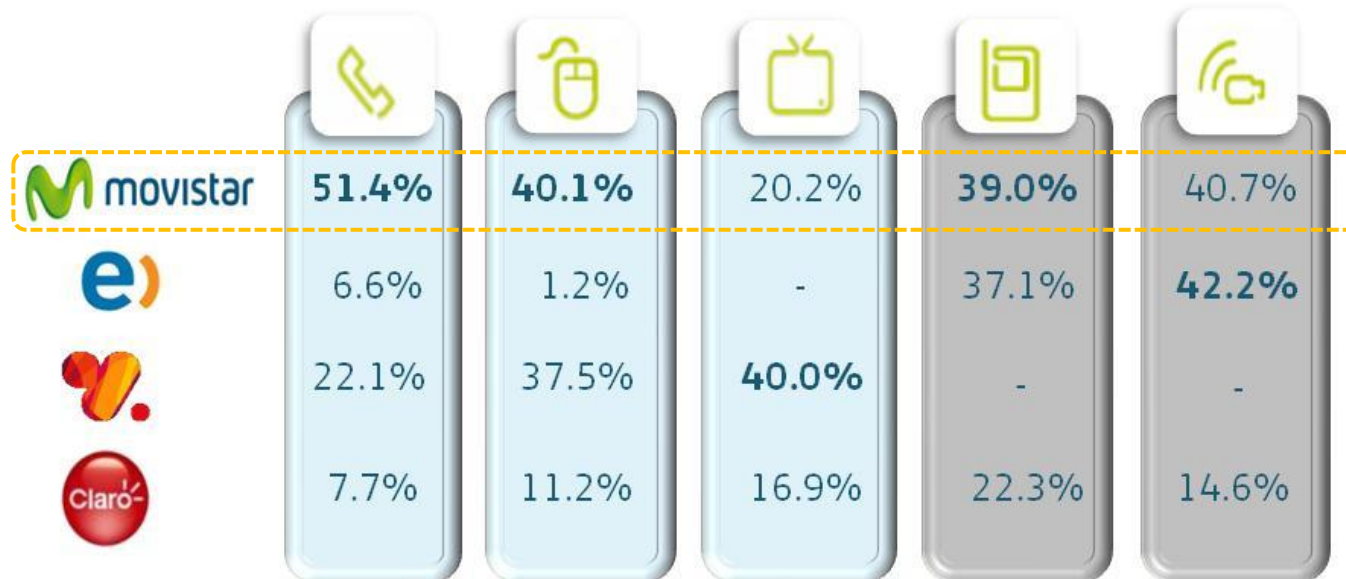
33 HD channels*

* as of Dec. '13

Taking advantage of our **COMPETITIVE POSITION**



MOVISTAR, THE BEST POSITIONED to capture market opportunities



Source: Telefónica in Chile as of Jan '14, except for Internet accesses which source is Subtel as of Jun '13

... and promoting INNOVATION to build a new Digital world

KNOWING that **CUSTOMERS' NEEDS** have changed, **INNOVATION** allows us to **address new revenue sources**

DIGITAL SERVICES → strengthening growth profile

T-Digital:



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, launched in 4Q13



Financial Services

- Mobile pay
- Insurances

Digital services revs. →
+27% Dec.'13 / '12



Turning an idea into a business



A business accelerator for digital startups

Telefónica global project: 140 businesses in 11 countries supporting entrepreneurs to develop innovative business proposals

aceleramos tus ideas

To maintain a **LEADERSHIP POSITION** in an industry that keeps growing

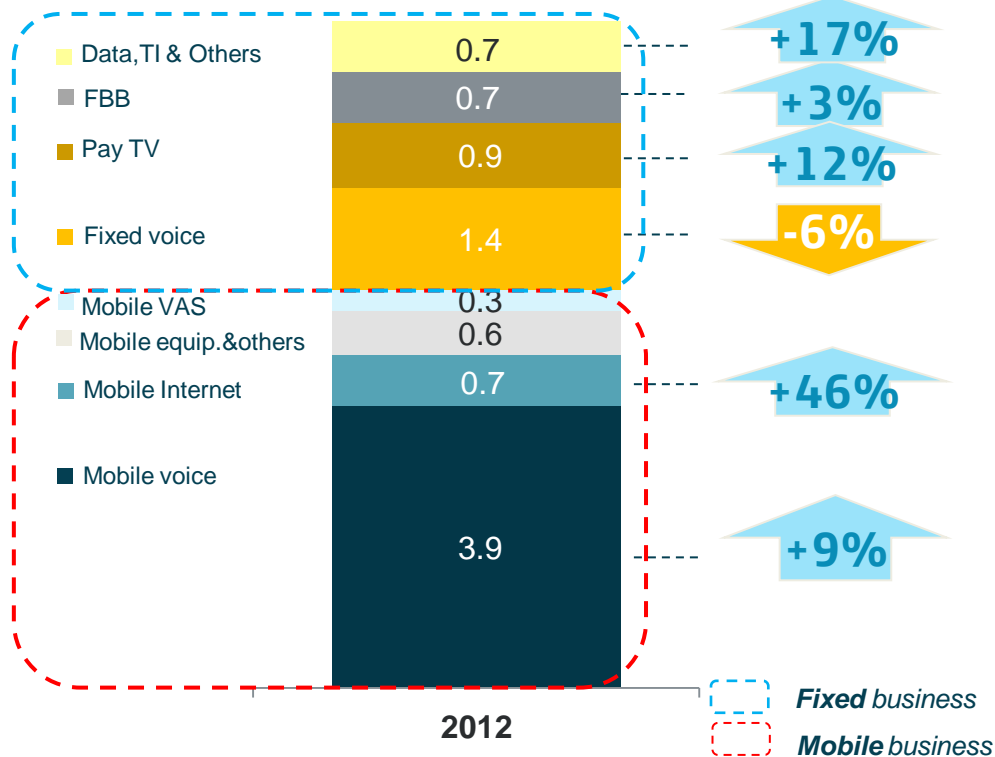
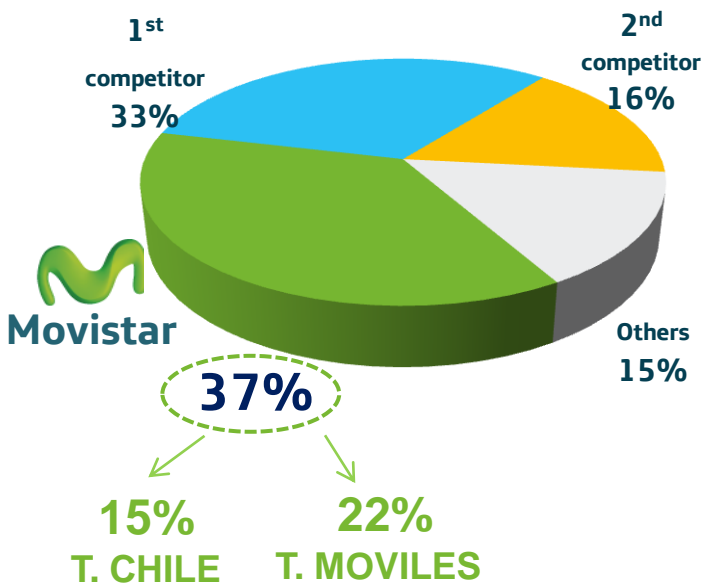
Our Company, **the largest revenue contributor** in the Chilean Telecom industry

INDUSTRY REVENUE breakdown by Business line:

US\$ 9.2 bn*

CAGR. '10-'12

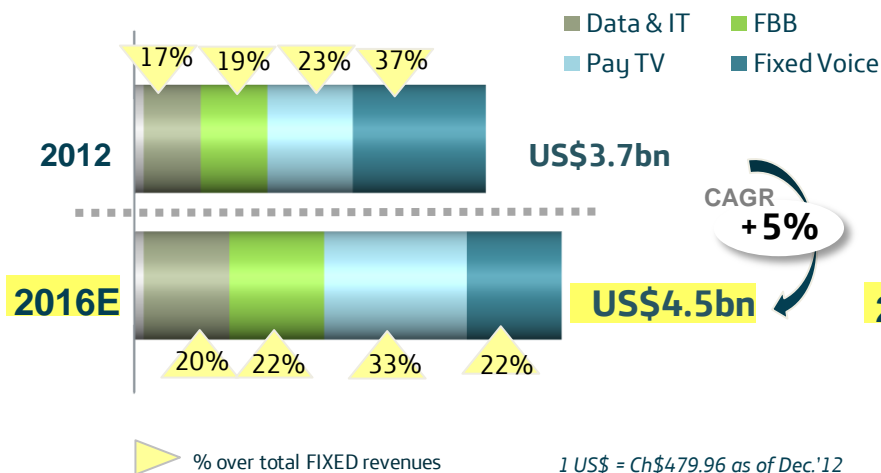
+9%



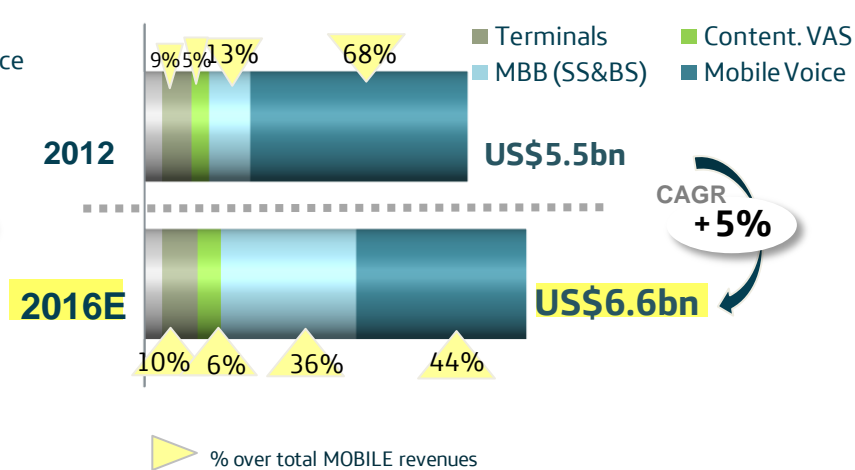
1 US\$ = Ch\$479,96 as of Dec. '12
Source: Telefónica in Chile

With a sustained **GROWTH POTENTIAL** driven by high speed BB services in both FIXED and MOBILE businesses

FIXED industry revenues



MOBILE industry revenues



Penetration:

	2012	2016E
Fixed voice (% hh.)*	40%	33%
FBB (% hh.)*	39%	49%
Pay TV (% hh.)*	41%	62%
Mobile Voice (% inhab.)	139%	149%
MBB BS** (% inhab.)	8%	3%
MBB SS** (% inhab.)	22%	85%

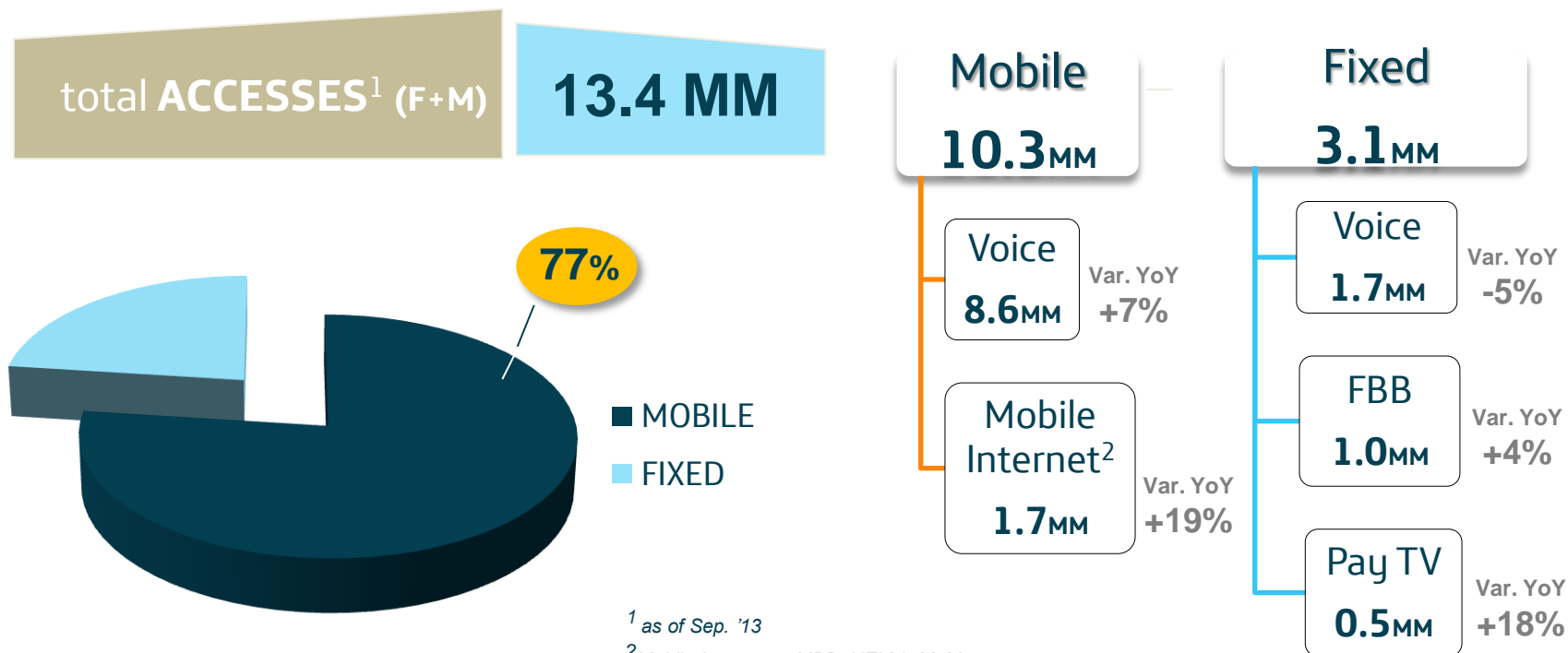
* residential services over total households (hh)

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

In a **STABLE MACROECONOMIC scenario:**

- Chile is growing at a sustainable long run pace
- Strong labor market
- Controlled inflation

BUSINESS REVIEW: MOVISTAR has the largest NUMBER OF ACCESSES in the Chilean industry



¹ as of Sep. '13

² Mobile Internet = MBB+NEM *+M2M

* "NEM: "Navigation in mobile". Not included "NEM PPU" (NEM pay per use)

MARKET SHARE BY ACCESSES¹:

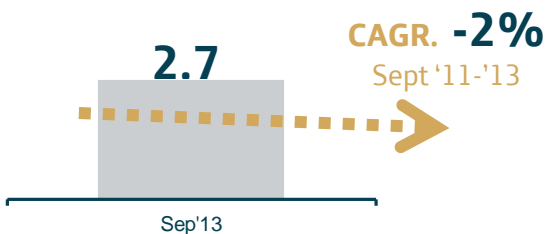


BUSINESS REVIEW: MOBILE INTERNET driving the growth for POSTPAID and PREPAID

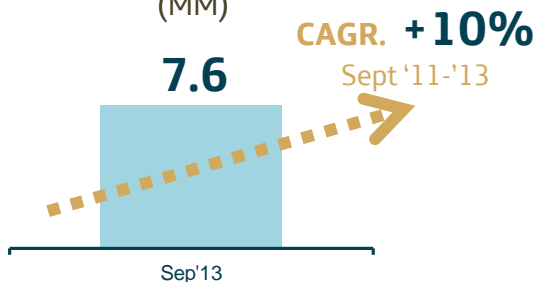
MIX post/prepaid:



POSTPAID customers
(MM)

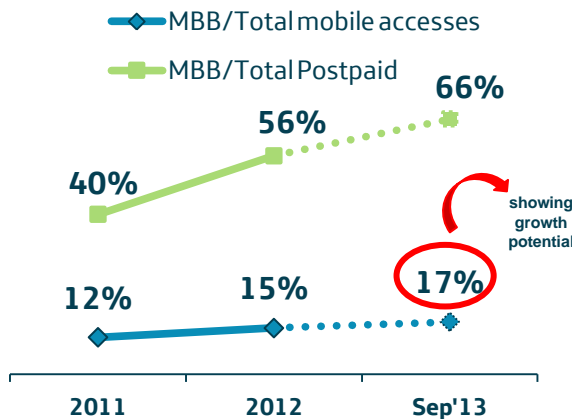
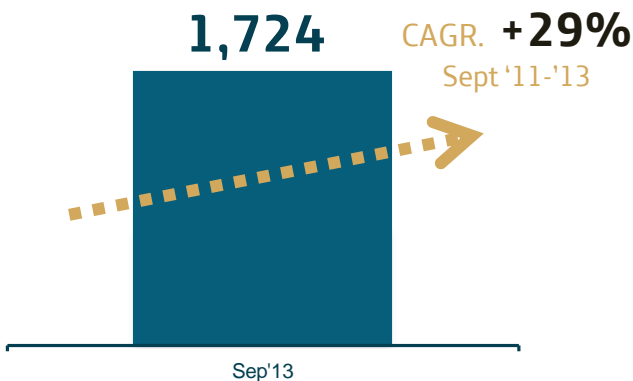


PREPAID customers
(MM)



- Focus on **profitable growth**
- Promote the **use of mobile Internet** for post and prepaid customers.
 - All new plans for postpaid include Internet
 - pay per use Internet for prepaid
 - In 1Q13 data capacity was doubled for the entire customer base
- **4GLTE services** launched in Nov.13 (approx. 20,000 customers)
- New services: **new app development**

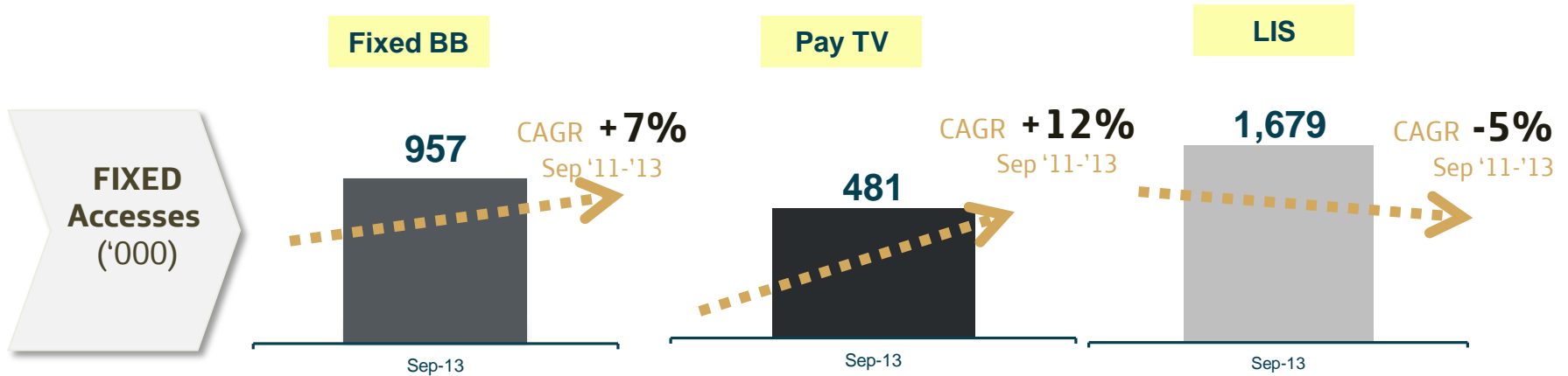
Mobile Internet accesses ('000)



- **Capture market growth** through:
 - New service offering
 - Increasing smartphones penetration: 17% of total customers base (44% with a data plan)
 - Higher speeds and capacity
 - App developments

BUSINESS REVIEW: FIXED business stable growth based on **bundling**

Voice + FBB + pay TV



- Growth driven by UBB¹: VDSL (up to 40 Mhz) and Fiber Optic (up to 80 Mhz) for high and medium income segments

- **FBB accesses**, as of Sep. '13:

- **VDSL**: 71,416 (+29%)
 - **F.O.:** 25,165 (+174%)
 - **ADSL**: 860,098 (+1%)
- High speed from 4 to 150Mbs

- **Pay TV accesses**, as of Sep. '13:

- DTH: 471,042 (+16.1% YoY)
- IPTV: 7,226 (vs. 373 in Sep.12)

- **New IPTV services and OTT video**, to lever up the ARPU

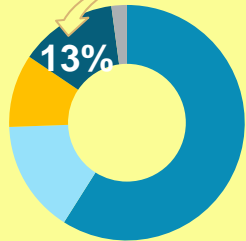
- **Increasing bundling of voice services**

- 70% of residential lines have more than one product
 - ARPU increases
 - Up & cross selling

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

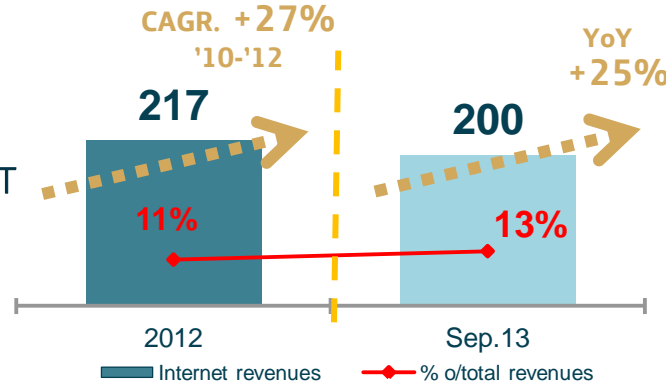
BUSINESS REVIEW: REVENUE growth driven by the fastest growing businesses

MOBILE total revenues

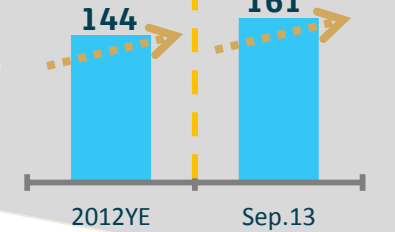


- Voice and VAS
- Equipments
- Intx
- Mobile Internet
- Others

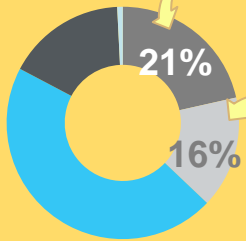
MOBILE INTERNET revs. (US\$ million)



CAGR. +49% '10-'12

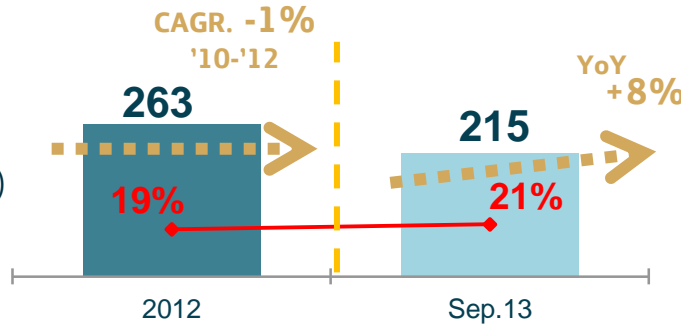


FIXED total revenues



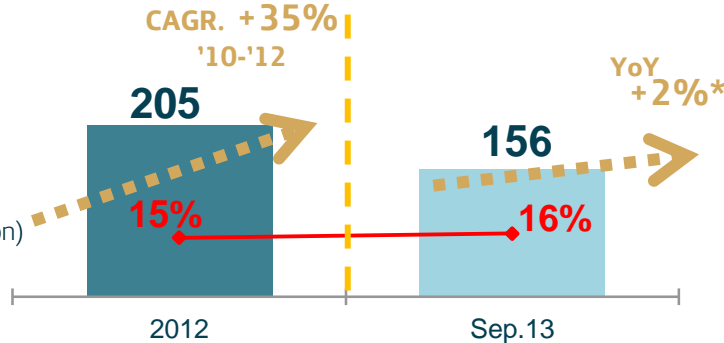
- BB
- Voice +LD
- TV
- Corporate comm.
- others

FBB revs. (US\$ million)



- FBB revenues
- % of total revenues

PAY TV revs. (US\$ million)



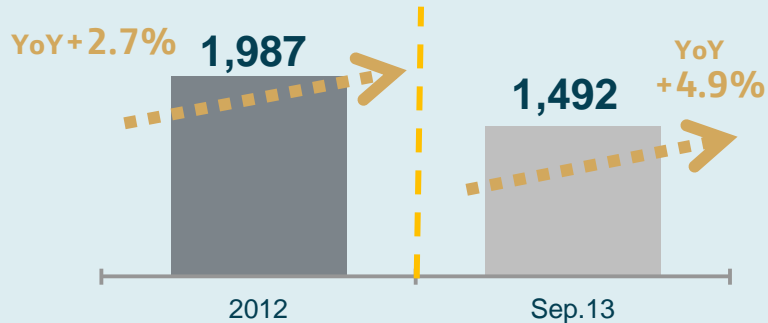
- pay TV revenues
- % of total revenues

* affected by a change in the accounting registration of decoders sales, which are registered in 36 fees since Jan. 13 vs. 100% at sale, before this date. In comparable bases, pay TV revenues would have increase by +19.7% YoY

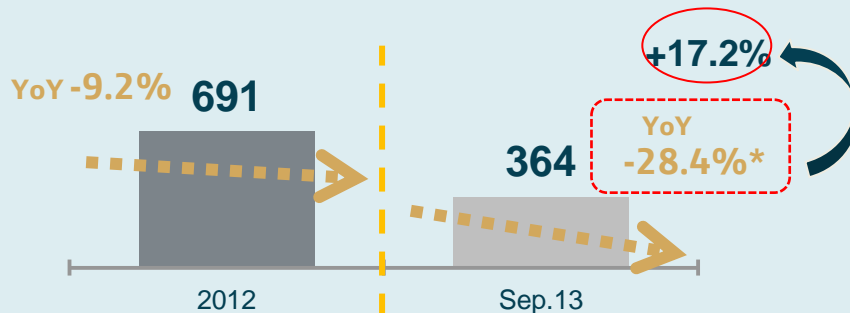
Growth in Mobile REVENUES and strong EBITDA generation in a highly competitive market

MOBILE

Total REVENUES (US\$ million)



EBITDA* (US\$ million)

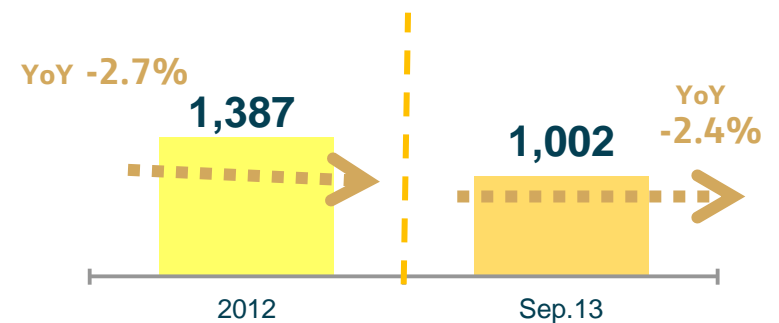


EBITDA margin: **34.8%** (2012) vs **24.4%*** (Sep.13)

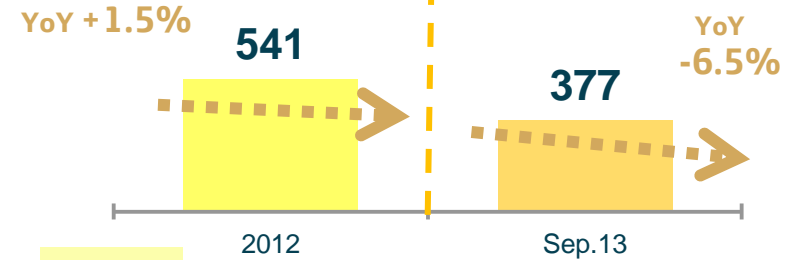
* Since 4Q12, postpaid equipment CAPEX was registered under OPEX

FIXED

Total REVENUES (US\$ million)



EBITDA (US\$ million)



EBITDA margin: **39.0%** (2012) vs **37.7%** (Sep.13)

Increase in CAPEX due to business growth and network (3G, 4GLTE and UBB) development

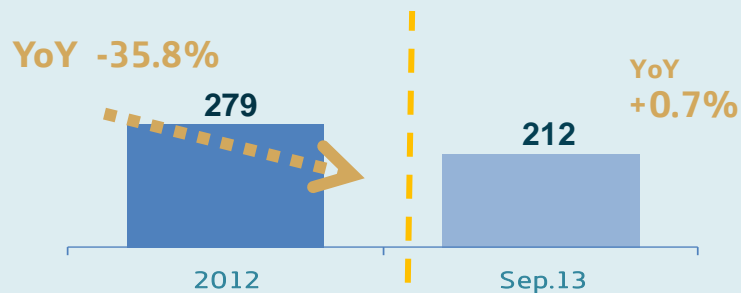
MOBILE

CAPEX* (US\$ million)



* Since 4Q12, postpaid equipment CAPEX was registered under OPEX

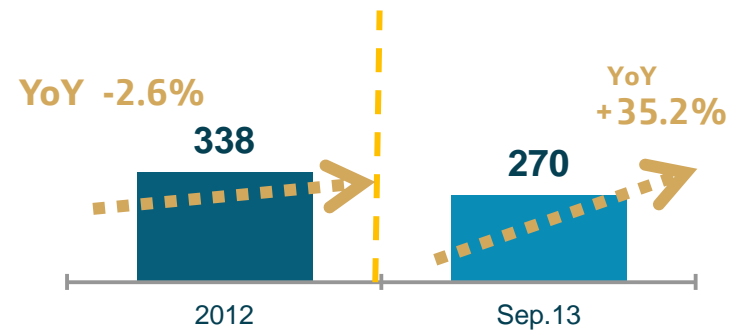
Operating Cash Flow (OCF) (US\$ million)



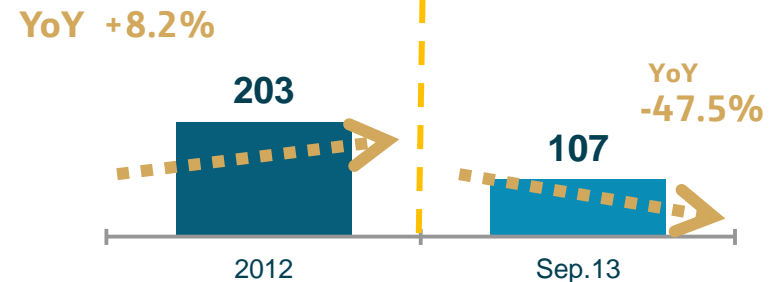
* Due to new accounting criteria for postpaid devices.

FIXED

CAPEX (US\$ million)



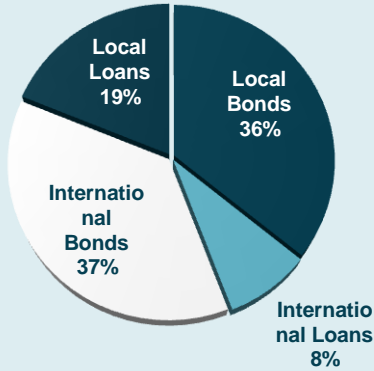
Operating Cash Flow (OCF) (US\$ million)



Diversified DEBT structure and efficient HEDGING

MOBILE

Financial Debt Structure

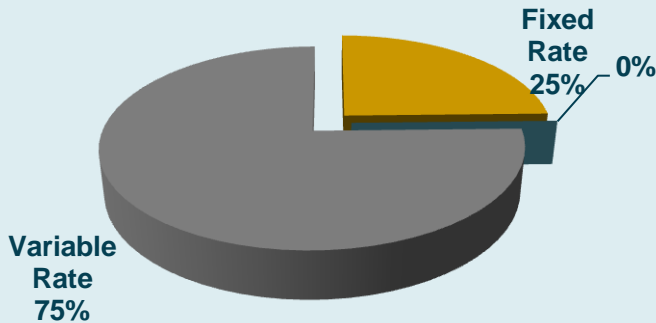


Total debt: USD 799 million
Net debt: USD 344 million

Avg. annual interest rate: 6.3%

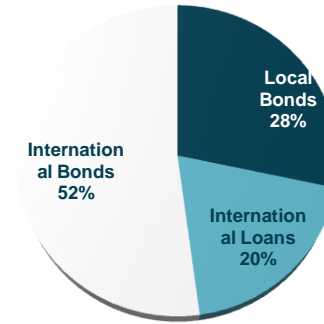
Ratings: BBB+, stable (Fitch) / BBB, negative (S&P)

Interest rate hedge



FIXED

Financial Debt Structure

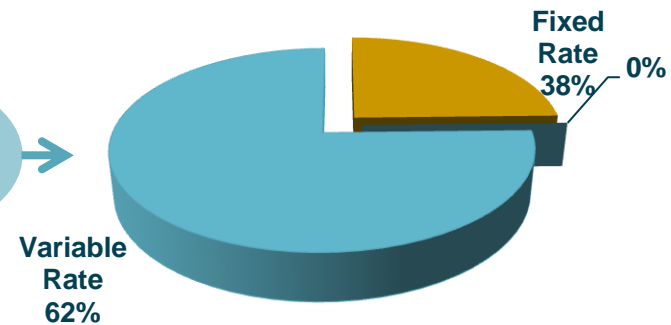


Total debt: USD 927 million
Net debt: USD 613 million

Avg. annual interest rate: 6.2%

Ratings: BBB+, stable (Fitch) / BBB, negative (S&P)

Interest rate hedge



FX hedge 100%
Local Peso

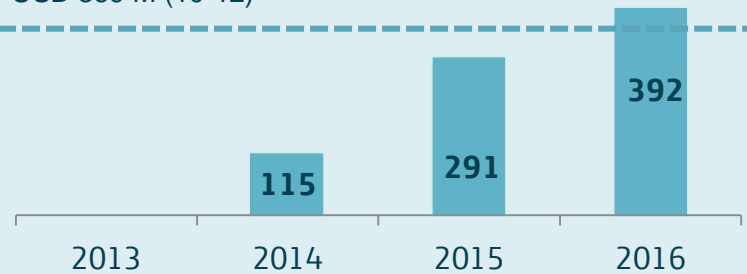
- Diversified financial sources coming from local and international markets
- Cash flow hedging minimizes the impact of market fluctuations on cash flow and results

Strong DEBT REPAYMENT capacity

MOBILE

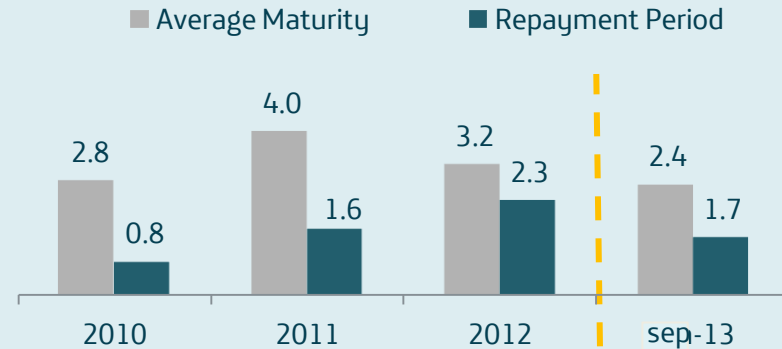
Maturity Profile (millions of US\$)

Annual Avg. OCF
USD 369 M (10-12)



– Annual average OCF higher than annual maturities

Average Maturity vs. Repayment Period (years)

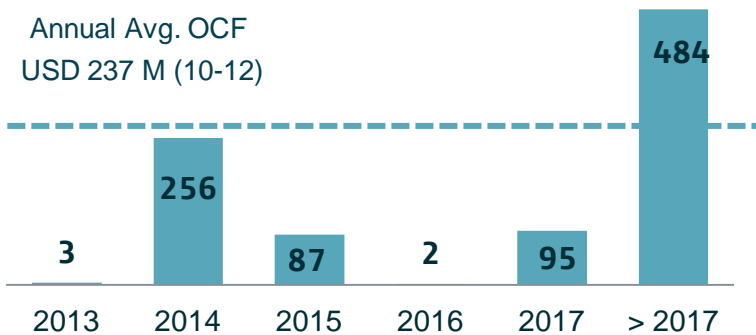


Average maturity (2.4x) higher than repayment period (1.7x)

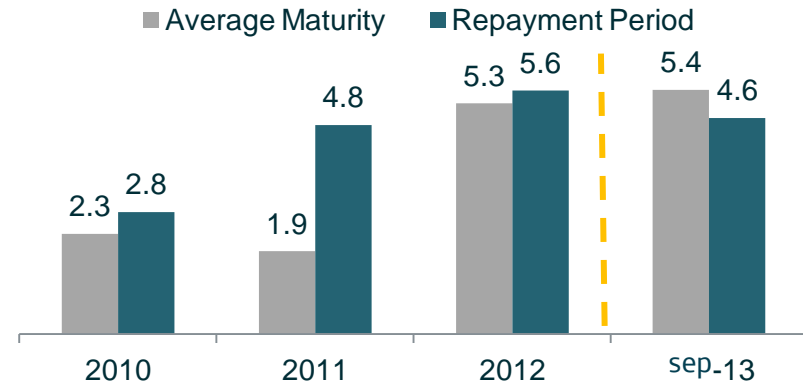
FIXED

Maturity Profile (millions of US\$)

Annual Avg. OCF
USD 237 M (10-12)



Average Maturity vs. Repayment Period (years)



Average maturity (5.4x) higher than repayment period (4.6x)

1US\$ = Ch\$504,20

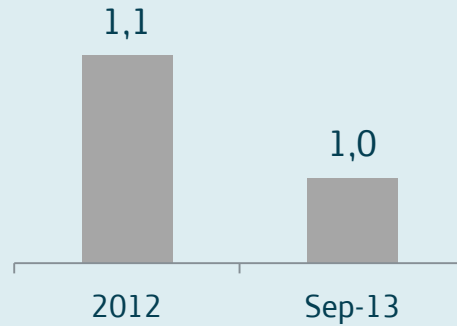
Solid FINANCIAL RATIOS

MOBILE

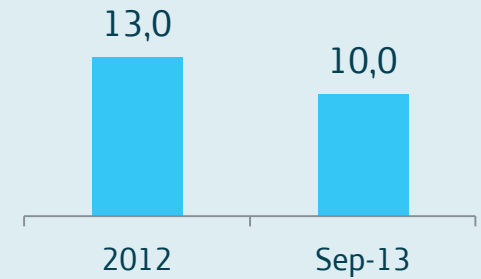
Net Debt / EBITDA



Leverage (Total liabilities / equity)

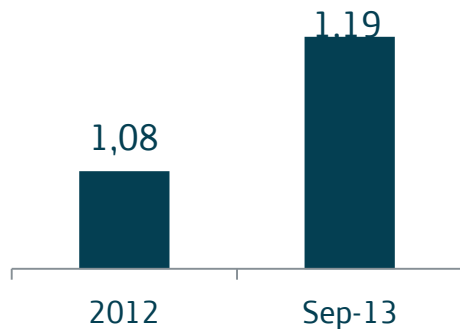


EBITDA / Financial Expenses

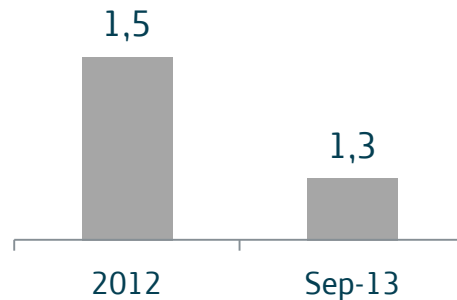


FIXED

Net Debt / EBITDA



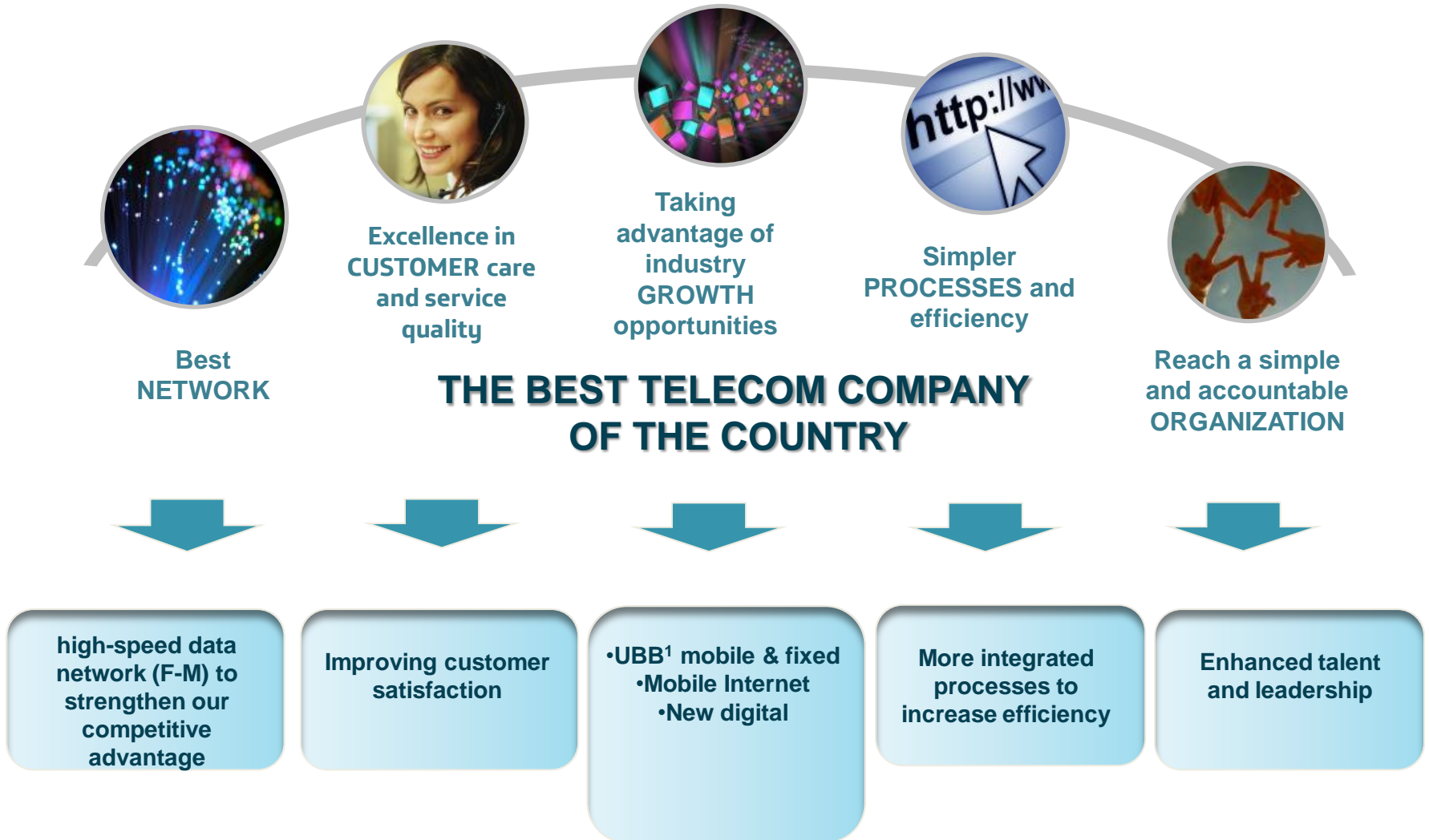
Leverage (Total liabilities / equity)



EBITDA / Financial Expenses

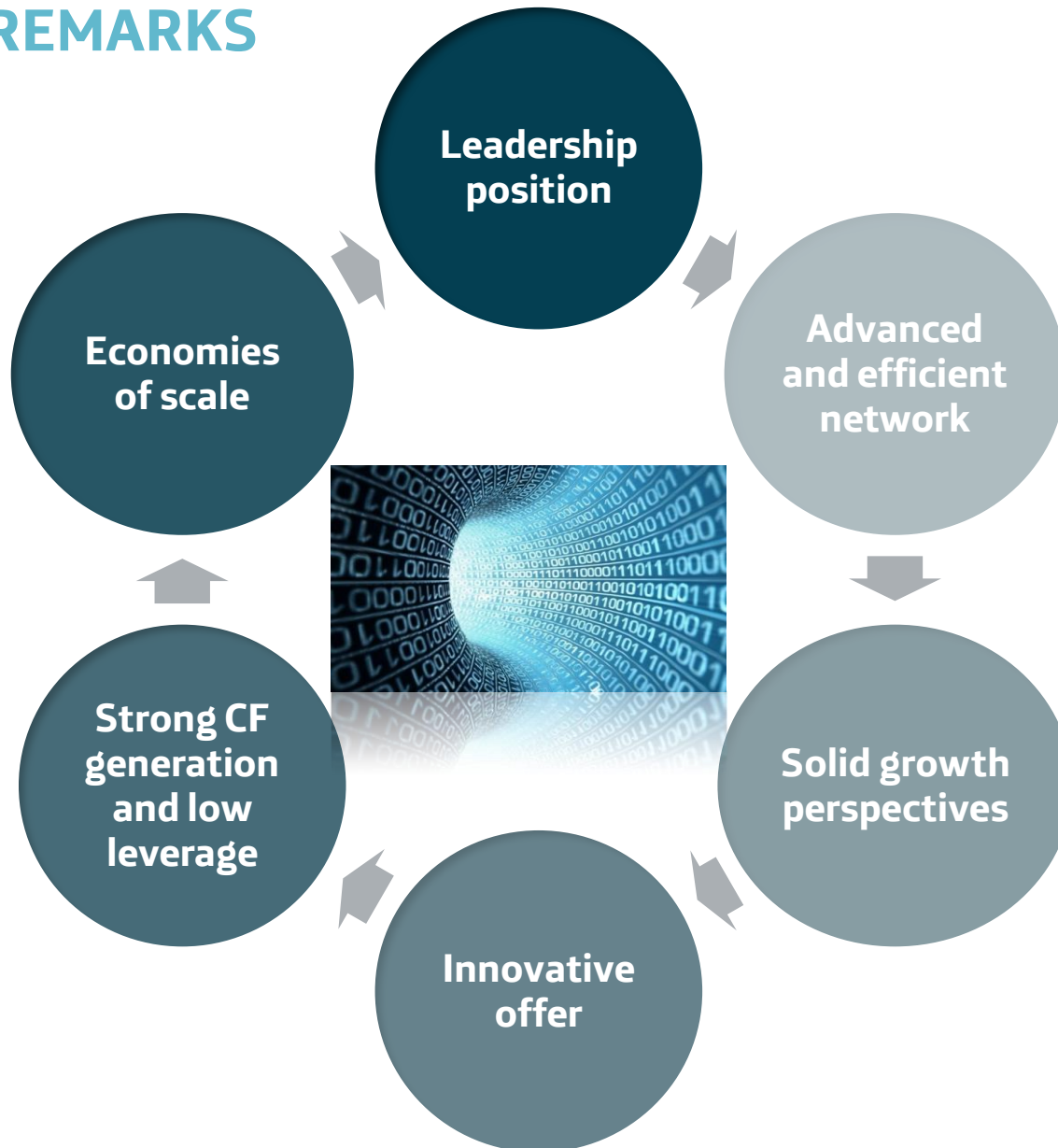


Corporate STRATEGIC FOCUSES



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

Closing REMARKS



Telefonica
