



## **TELEFONICA IN CHILE:** an integrated telecom company



### **JP Morgan EM Conference**

**Miami, February 26<sup>th</sup> -27<sup>th</sup>, 2013**

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# Company Representatives

**Isabel M. Bravo:**

Financial Officer



**Renán Rivas:**

Financial Manager



# The largest integrated telecom operator in Chile



- Under the **"MOVISTAR"** brand, Telefónica in Chile provides the following services:
  - Mobile telephony
  - Fixed and mobile broadband (FBB and MBB)
  - Pay TV
  - Corporate communications
  - Local and public telephony
  - Domestic and International Long Distance (DLD and ILD)
  - Interconnection
- Serves a broad range of clients including residential, SME and corporate clients nationwide
- Wholly-owned subsidiary of Telefónica S.A. (Spain), one of the largest telecom companies in the world



(1) Revenue and EBITDA 12m as of Sep'12. Converted to U.S. Dollars at a rate of Ch\$479.96

(2) As of Sep 12

# Telefónica Group: one of the most important global telecom operators

*Telefónica*

A global leader with the right vision

314 million accesses<sup>1</sup>

25 countries<sup>1</sup>  
(14 in Latam)  
Widely recognized brand



US\$65 billion Market Cap<sup>3</sup>  
6th World Telecom Ranking

US\$83bn<sup>2</sup> Revenues  
US\$29bn EBITDA<sup>2</sup>



Industrial or Strategic Alliances

- (1) As of September 2012
- (2) 12m as of Sep'12. Source Telefónica S.A company reports. Converted to U.S. Dollars at a rate of EUR 1.319
- (3) Market Cap as of February 1st 2013

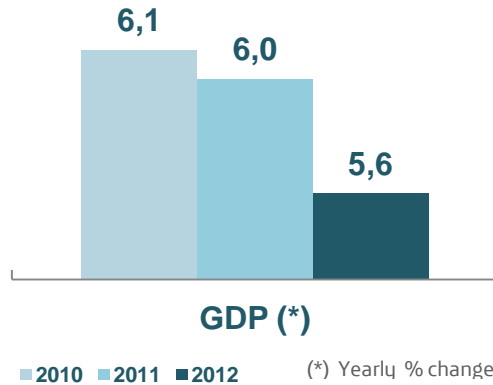
## Advantages of being a part of TELEFONICA Group



As of September 2012, Telefónica in Chile represented 4% of the revenues and 4.8% of EBITDA of Telefónica Group

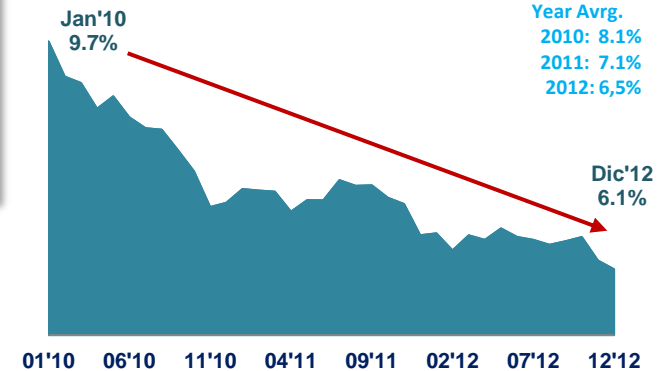
# Chilean healthy macroeconomic environment

## High growth continues despite global risks

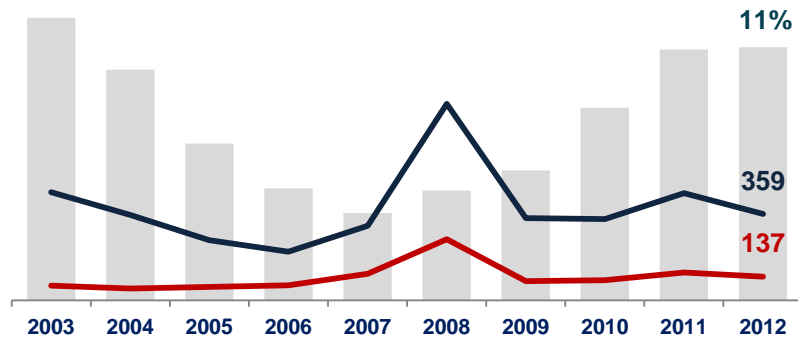


- GDP growth and increased household spending, despite the international crisis
- Strong labor market
- Controlled inflation

## Strong labor market, unemployment approaches NAIUR



## Financial stability

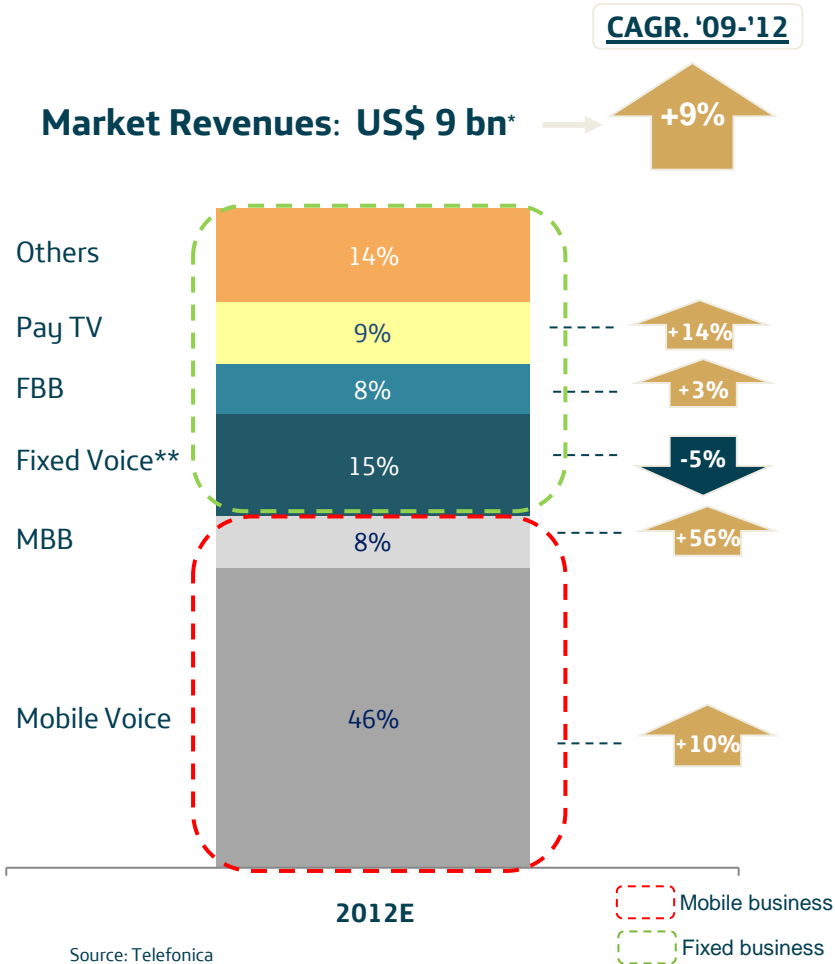


- Lowest country risk spreads of Latam
- Low public debt relative to GDP
- Constant fiscal surpluses
- Well regulated private financial system

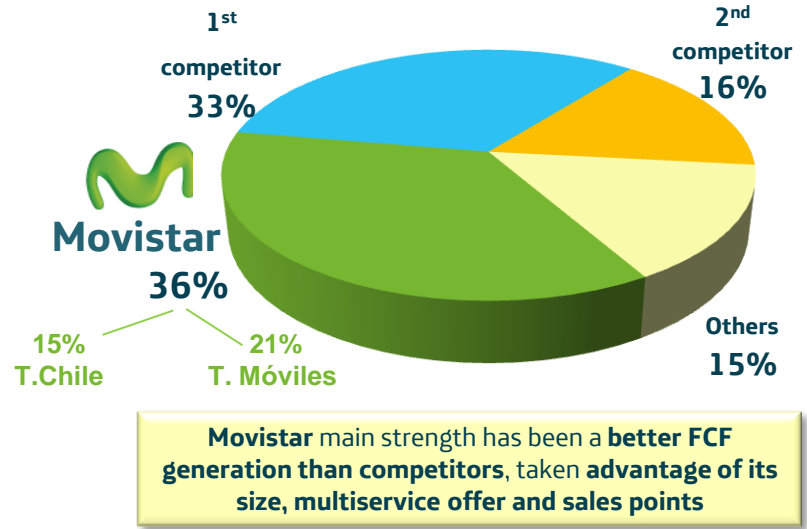
Govt. Debt / GDP — Latam EMBI Spread (bps) — Chile EMBI Spread (Bps)  
Sources: BCCH, INE,

# The telecom industry in Chile: an industry that keeps growing

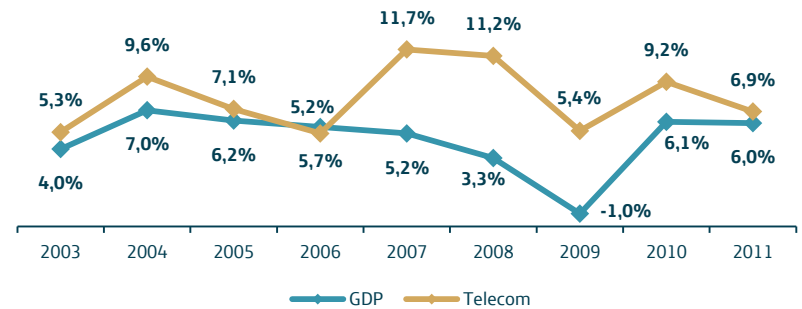
## INDUSTRY REVENUE breakdown by Business Line



## Largest revenue contributor in the telecom industry

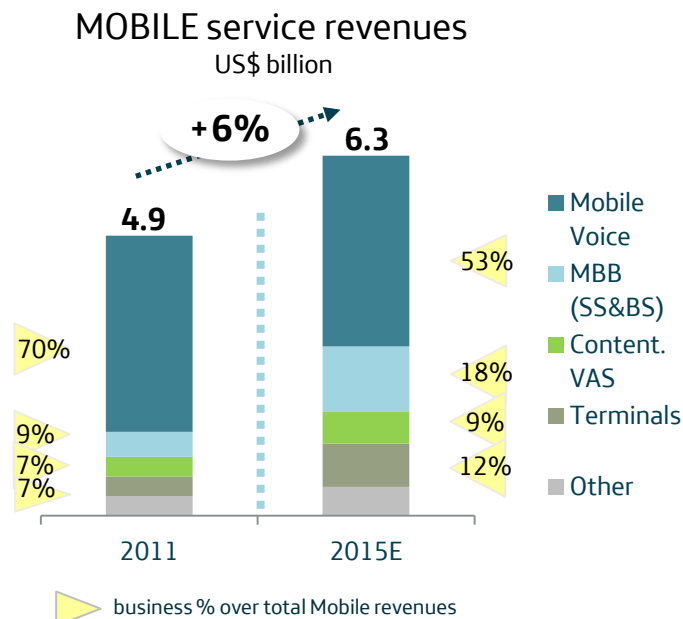
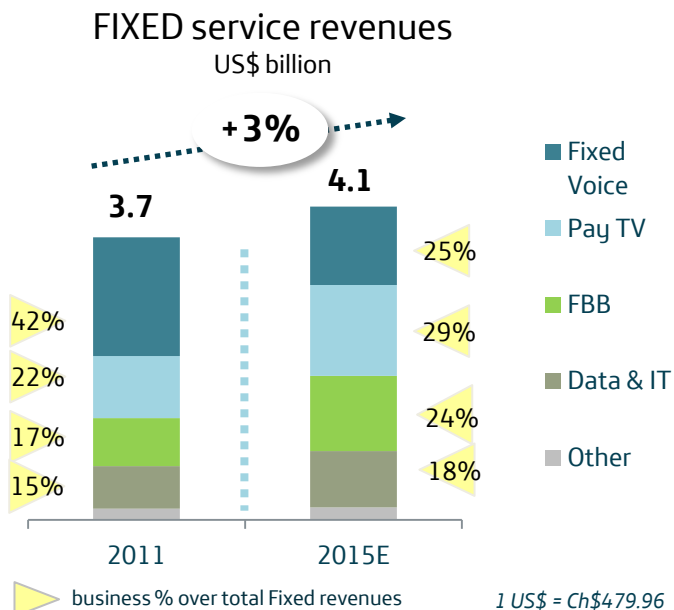


## GDP vs. Telecom sector revenues (annual var. %)



**TELECOM sector REVENUES have OUTPERFORMED the COUNTRY's GDP for the last 9 years**

# Growth potential: service penetration is expected to increase in the following years



## Penetration:

	2011	2015E
Fixed voice (% hh.)*	42%	30%
FBB (% hh.)*	36%	50%
Pay TV (% hh.)*	40%	50%
Mobile Voice (% inhab.)	130%	145%
MBB BS** (% inhab.)	9%	17%
MBB SS** (% inhab.)	37%	88%

\* residential services over total households (hh)

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

<sup>1</sup>UBB: ultra broadband

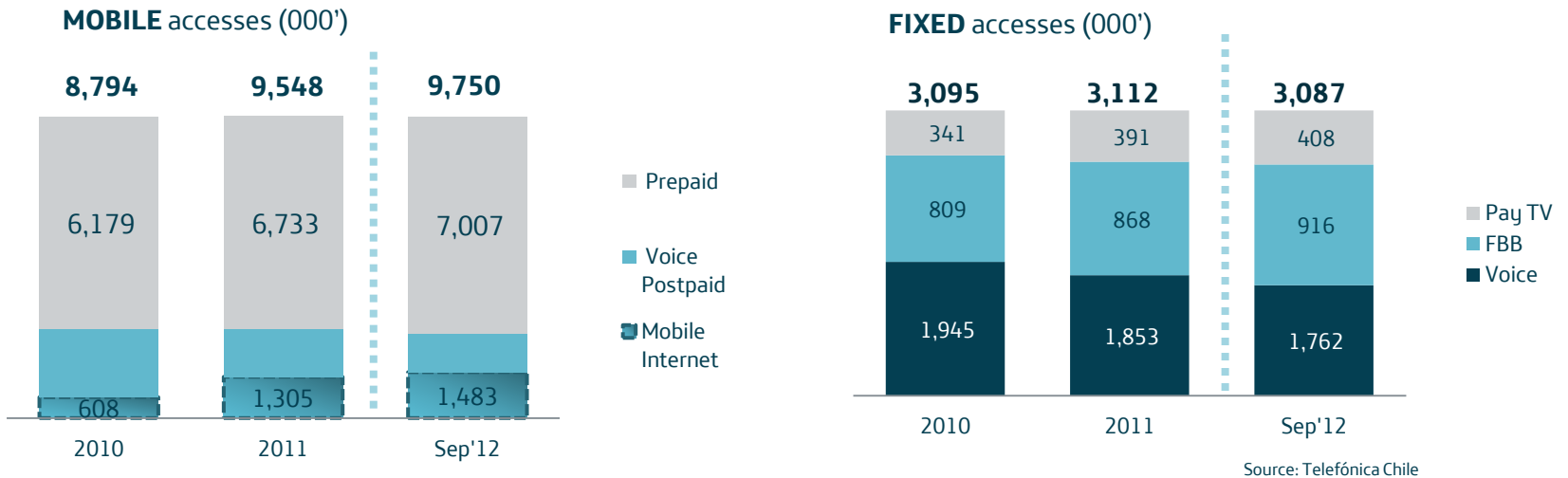
- Sustained growth of MBB SS\*\*
- Higher FBB penetration driven by UBB<sup>1</sup> growth
- TV continues growing



# Sound business led by Mobile Internet, FBB and pay TV services

Diversified fixed and mobile services.....

 **12.8MM total accesses (F+M)**



.....have allowed Telefónica in Chile to maintain its leadership position

CAGR.Sep'10-Sep'12 accesses		Market Share (as of Sep'12)
<b>Mobile voice:</b>	+8%	39%
<b>MBB:</b>	<b>+56%</b>	27%
<b>FBB:</b>	+7%	41%
<b>Pay TV:</b>	<b>+12%</b>	19%
<b>Fixed voice:</b>	-5%	54%

Source: Subtel

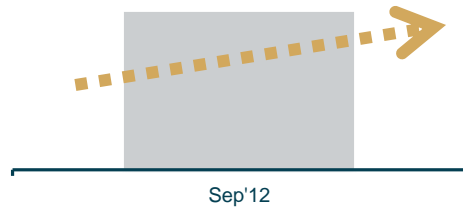
# MOBILE business continues growing

## Postpaid customers

('000)

2,743

CAGR. +5%  
'10-'12

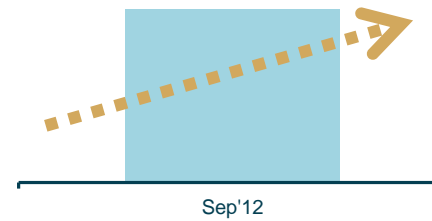


## Prepaid customers

('000)

7,007

CAGR. +10%  
'10-'12



## Total Revenues

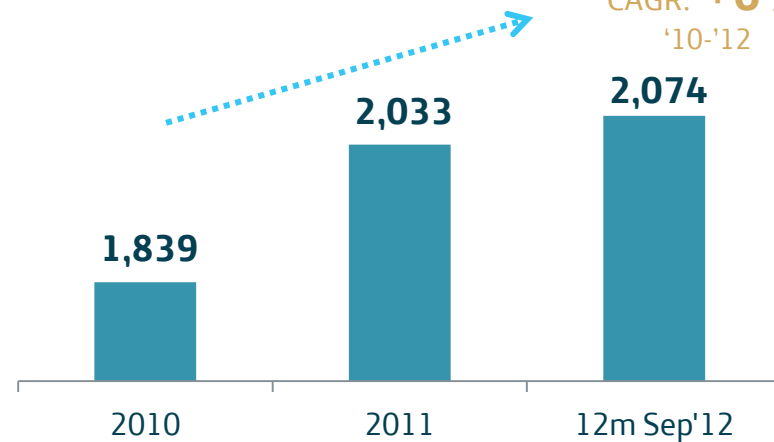
US\$ million

1,839

2,033

2,074

CAGR. +6%  
'10-'12



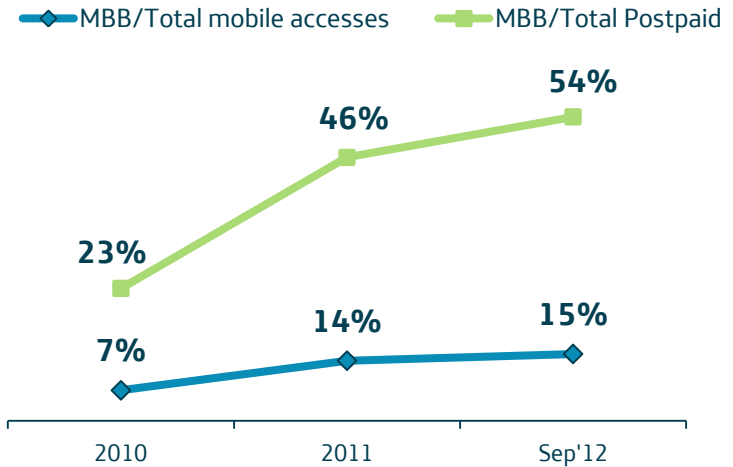
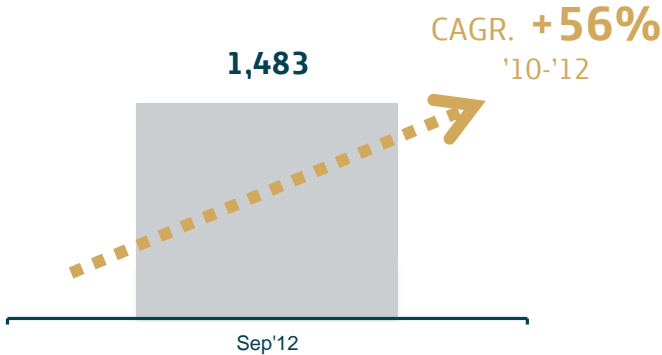
- Focus on **profitable growth**
- Mobile **accesses increase both in postpaid and prepaid** customer basis (mix post/prepaid 28/72)
- Total **revenues increase** at 6% CAGR. ('10-'12) **despite strong competition due to portability and new entrants**



CAGR. for Accesses: from Sep'10 to Sep'12  
CAGR. for Revenues: from Dec'10 to Dec'12E\*  
\*Dec'12E = 12mSep'12

# Mobile Internet: the fastest growing business

## Mobile BB accesses ('000)



- Mobile **Internet revenues represent 11% of total mobile revenues** and have increased 13.6% (Sep'11 vs. Sep'12)
- **Capturing market growth** through:
  - Higher penetration of smartphones and Mobile Internet devices
    - ✓ As of Sep'12, total smartphones: 1.2 million (1.5x growth YoY)
    - ✓ 52% of smartphones devices has a data plan
  - Higher speed and capacity and improvement in nationwide coverage
    - ✓ 700 additional 3G sites (MBB HSPA+) in 2012
    - ✓ 4G network (LTE) from 2013
  - App development as a new revenue source: Sonora, e-health care, Tu Me

*CAGR. for Accesses: from Sep'10 to Sep'12*  
*CAGR. for Revenues: from Dec'10 to Dec'12E\**  
*\*Dec'12E = 12mSep'12*

# FIXED business: Pay TV and FBB services offset decline in basic telephony

## Fixed BB

## Pay TV

## LIS

Accesses  
(‘000)

916

CAGR +7%  
‘10-‘12

Sep-12

408

CAGR +12%  
‘10-‘12

Sep-12

1,762

CAGR -5%  
‘10-‘12

Sep-12

Revenues  
US\$ million

280

CAGR -1%  
‘10-‘12

12m Sep'12

210

CAGR +33%  
‘10-‘12

12m Sep'12

729

CAGR -5%  
‘10-‘12

12m Sep'12

- **Access growth** will be driven by VDSL (up to 40 Mhz) and Optic Fiber (up to 80 Mhz) for high and medium income segments
- **Increased penetration** in middle and low income segments through bundling and new services

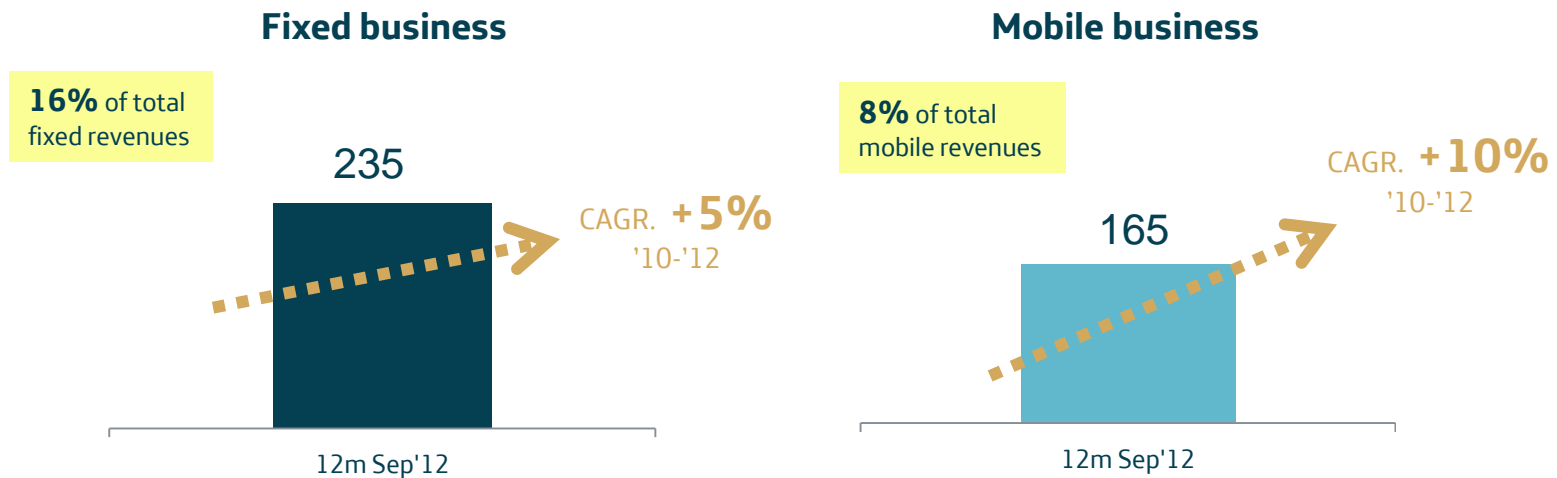
- **Increase in revenues** due to higher ARPU as consequence of more SD and HD signals
- New pay TV services, such as IPTV (launched in Oct-12) and OTT video

- Increasing **bundling of voice services**
  - ✓ 70% of home lines have multiple services
  - ✓ Maintaining revenue growth through client migration to “Tríos” (voice+ FBB+TV) → ARPU increases

CAGR. for Accesses: from Sep'10 to Sep'12  
CAGR. for Revenues: from Dec'10 to Dec'12E\*  
\*Dec'12E = 12mSep'12

# Corporate Customers' Communication: a key contributor to country's GDP

Revenues\* from Corporate Communication services (US\$mm)



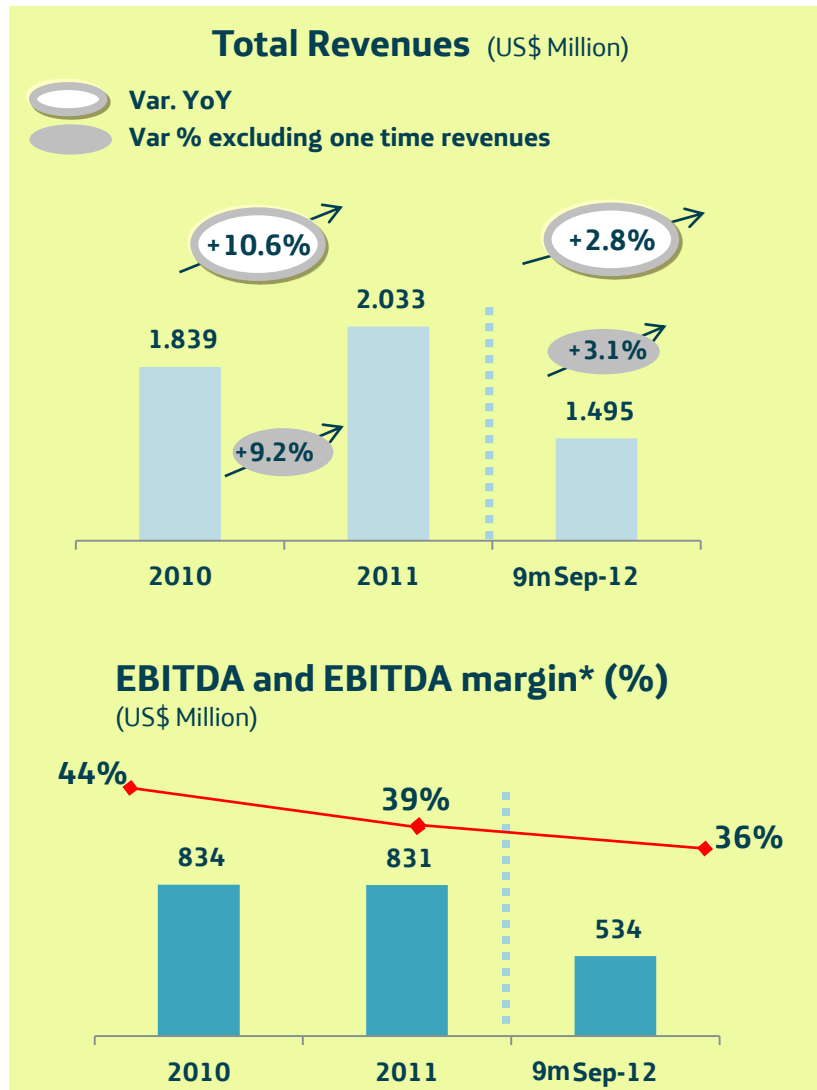
\* Revenues from ordinary activities  
Source: Telefónica Chile

- With more than 1,700 customers, it is the main communication service supplier for mining (46%), retail and financial sectors (55%), as well as a **strategic partner for the Government**
- Largest data service provider with **high speed IP connections and Optic Fiber network** (40% of corporate clients)
- **Integrated data solutions, mobile, traditional and IP telephony, IT services and digital services**, such as Datacenter, "Cloud Computing", e-health and security

CAGR. for Accesses: from Sep'10 to Sep'12  
CAGR. for Revenues: from Dec'10 to Dec'12E\*  
\*Dec'12E = 12mSep'12

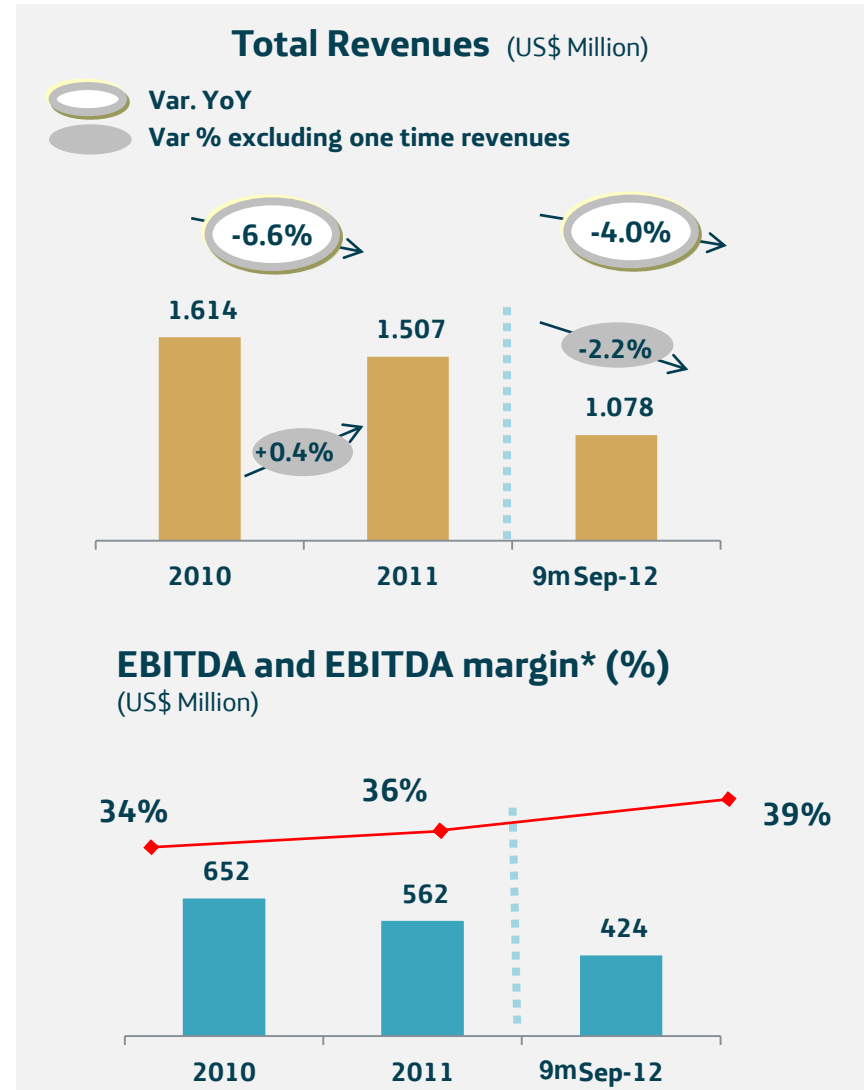
# Fixed and Mobile: high profitable businesses

## MOBILE business



\*EBITDA margin excludes one time revenues related to insurance compensation (in 2010 for '09 earthquake) and sales of non strategic assets

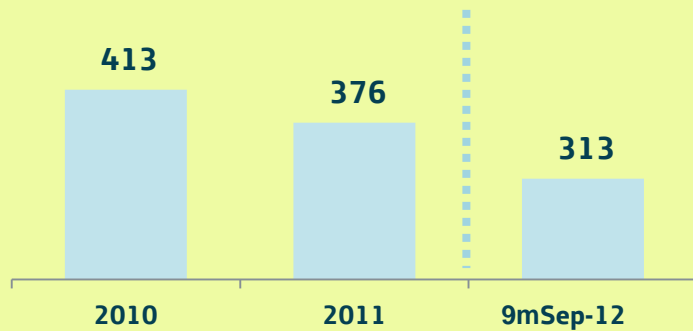
## FIXED business



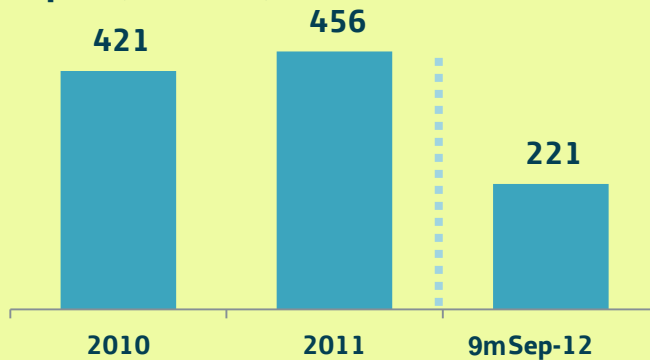
# Strong OCF due to solid EBITDA and efficient use of CAPEX

## MOBILE business

CAPEX (US\$ Million)



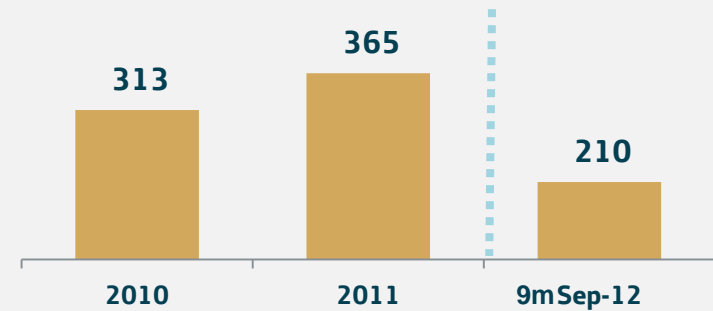
OpCF (US\$ Million)



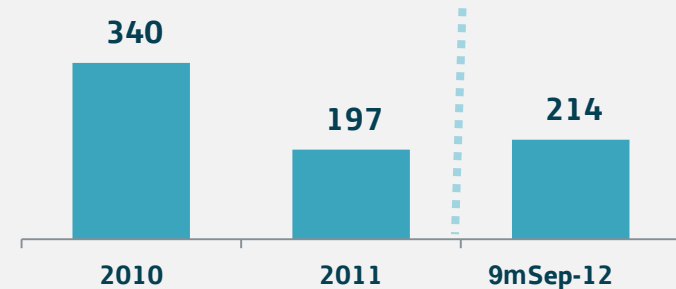
Operating Cash Flow decreases ('12-'11) due to lower EBITDA and higher CAPEX associated with increasing demand of smartphones as well as network deployment and network quality improvements

## FIXED business

CAPEX (US\$ Million)



OpCF (US\$ Million)

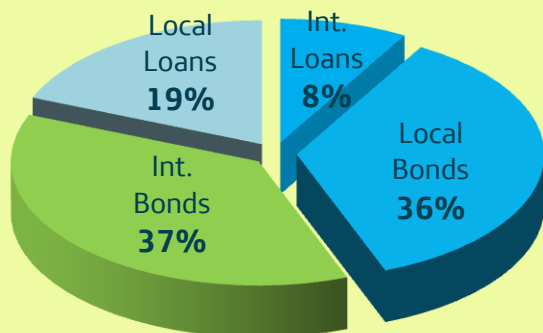


Operating Cash Flow increases ('12-'11) as a result of higher EBITDA and lower Capex

# Diversified debt structure hedged to minimize exchange rate, interest rate and inflation volatility

## MOBILE Business

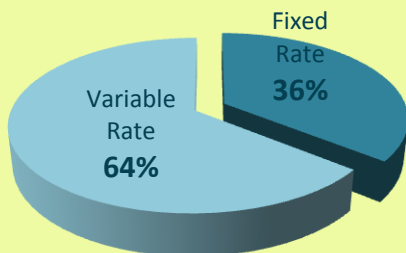
**Total Debt: US\$845 million**  
**Net debt: US\$323 million** (as of Sept. 2012)  
 TMCH ratings: **BBB+, stable (Fitch) / BBB, negative (S&P)**



Avg. annual interest rate: **6.9%**

### Hedge over Financial Debt

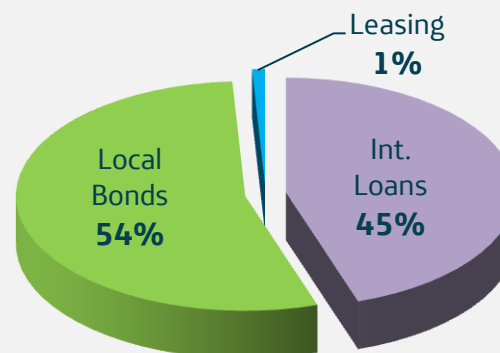
100% CLP



**Hedging over foreign currency, inflation and interest rate** to minimize the impact on results and cash flow

## FIXED Business

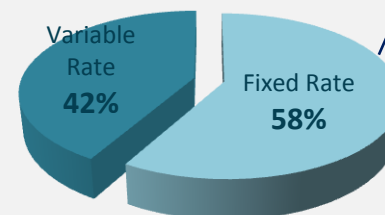
**Total Debt: US\$751 million \***  
**Net debt: US\$495 million** (as of Sept. 2012)  
 TCH ratings: **BBB+, stable (Fitch) / BBB, negative (S&P)**



Avg. annual interest rate: **6.1%**

### Hedge over Financial Debt

100% CLP

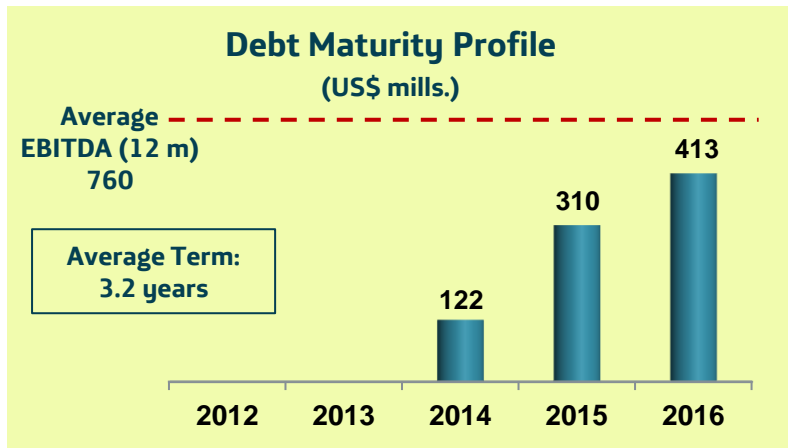


\* In Oct.'12, Telefónica Chile launched US\$500 mill. of Senior Unsecured Notes, 3.875% coupon, due 2022 (UST+225 bps). This transaction reached the lowest coupon for a BBB corporate in that term

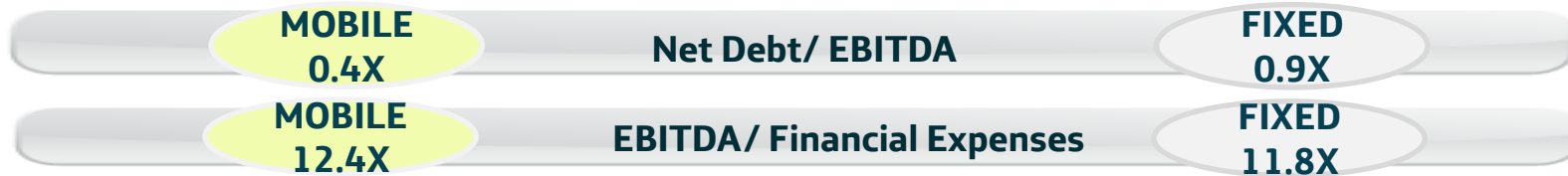
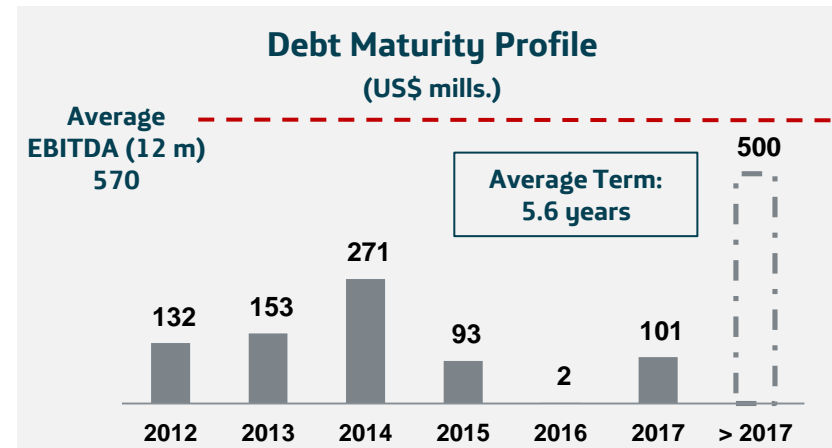


# Strong debt repayment capacity and healthy indicators

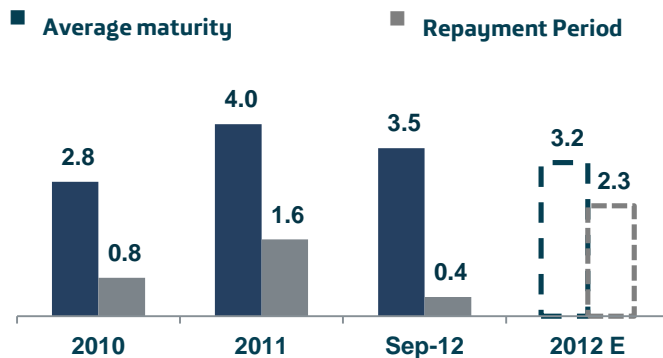
## MOBILE Business



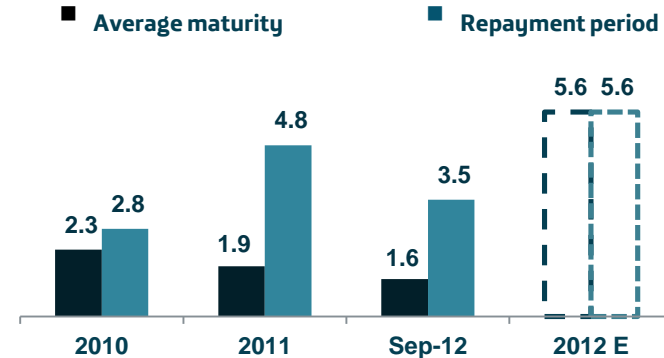
## FIXED Business



### Average Term vs. Repayment Period (years)



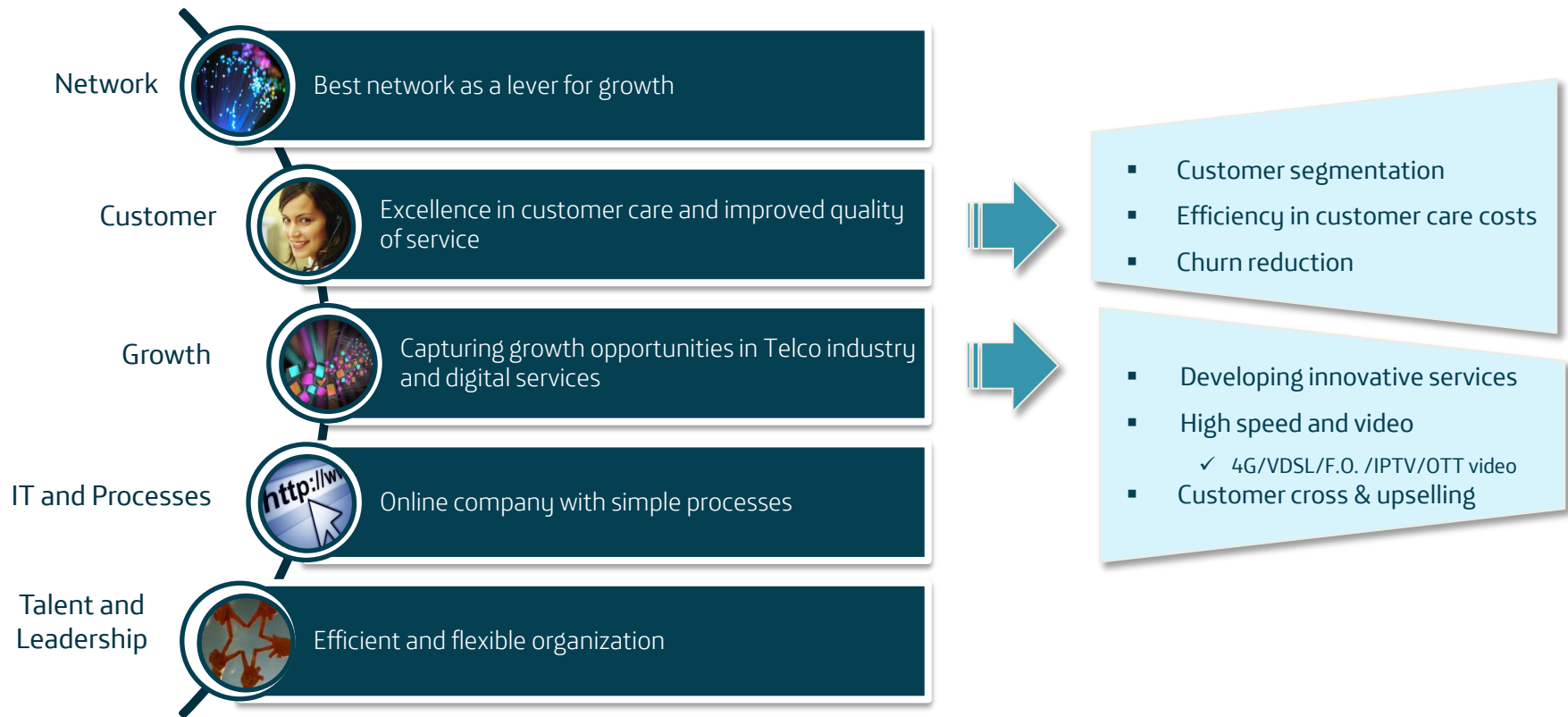
### Average Term vs. Repayment Period (years)



Note: 2012E includes T.Chile intl. bond issue in 4Q12

# Strategic challenges 2013 - 2015

Ambitious goals to transform the Company and capture the industry growth



Aligned with Telefónica's Global Strategy:



**Client +**

The best customer experience



**Digital +**

Innovation to capture future opportunities



**Global +**

Benefits from global scale



**Agile +**

Quick, simple and focused

# Closing remarks

**Leadership position**

**Recognized brand**

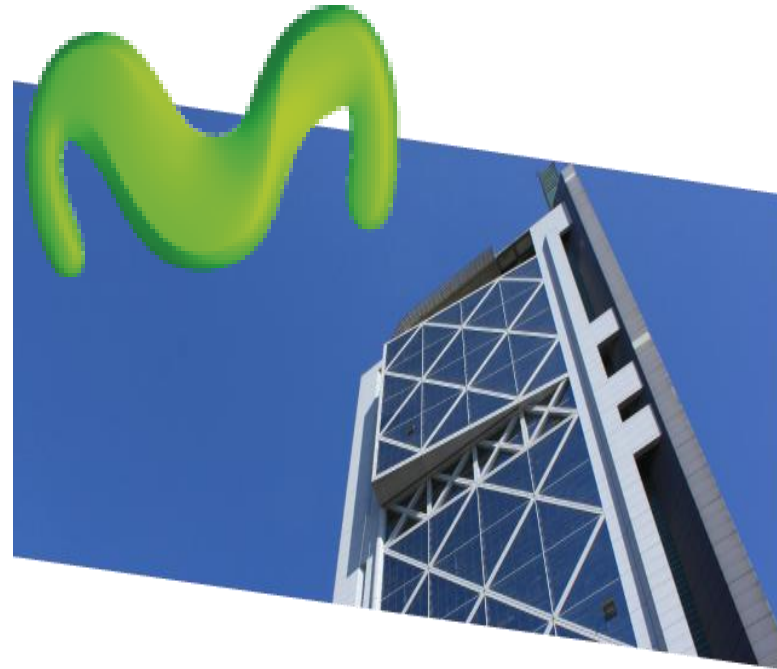
**Economies of scale**

**Advanced and efficient network**

**Stable macroeconomic and  
regulatory environment**

**Solid growth perspectives**

**Strong CF generation and low  
leverage**



*Telefónica*

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