

TELEFONICA IN CHILE

Financial Results
Accumulated as of December 2014

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



Telefónica

Santiago, March 5, 2015

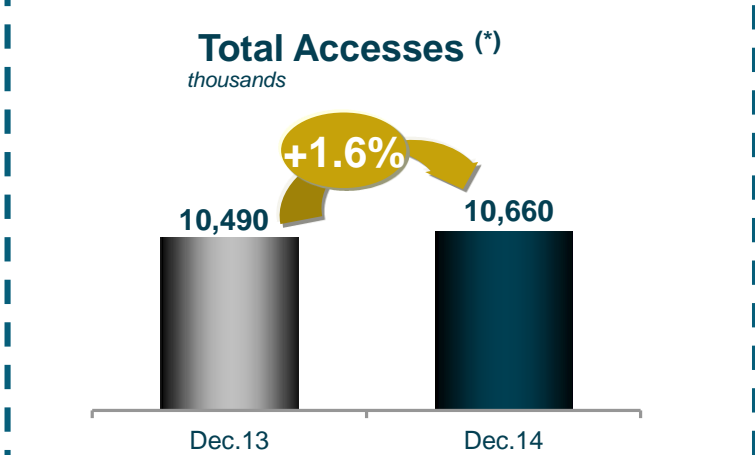
Telefónica

BUSINESS OVERVIEW

Total ACCESSES (F+M) increase 2%, driven by Mobile Internet, FBB and pay TV



MOBILE VOICE +Mobile Internet

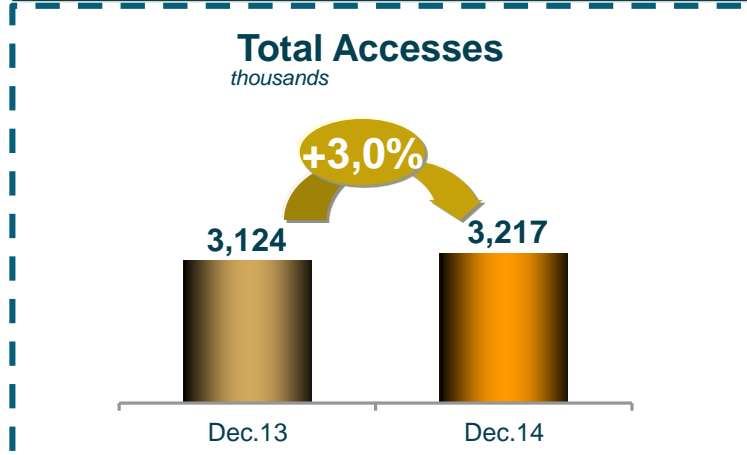


(*) Include Voice, Mobile Broadband (MBB) and M2M

- Growth in Voice and mobile Internet accesses:
 - ✓ Voice (prepaid+postpaid): **+2.4%**
 - ✓ Mobile Internet (MBB¹+NEM²+M2M): **+16.3%**

¹Fixed BroadBand (FBB) or Mobile BroadBand (MBB)
²navigation in mobile

FIXED VOICE+FBB¹+pay TV



- Growth in FBB¹ and pay TV accesses:
 - ✓ FBB¹: **+7.3%**
 - ✓ Pay TV: **+19.5%**
 - ✓ Voice (lines): **-4.6%**

Main GROWTH DRIVERS in 2014

FIXED business:

- Strong growth in “High Speed” plans (30% of adds)
- Proactive commercial policy → promotions, migrations from ADSL to VDSL
- Pay TV: all bundled offers include HD channels (even local channels with HD)
- Launching of satellite BB

MOBILE business:

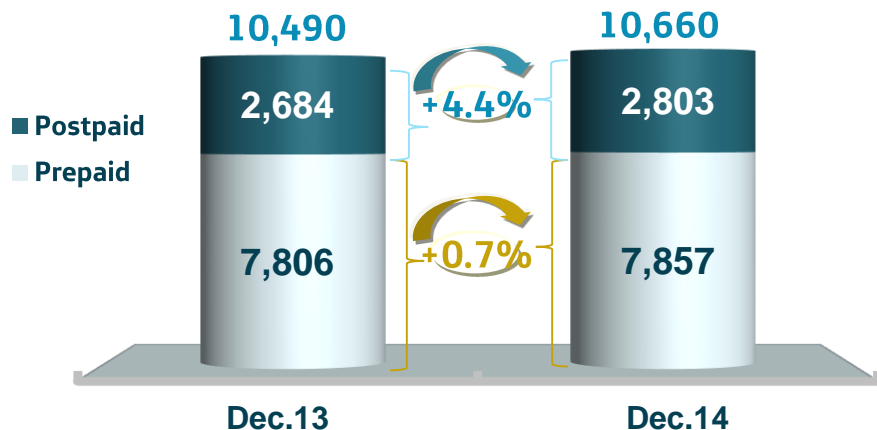
- 4G offer: consolidated data offer → all postpaid adds with 4G feasibility
- Launching of “*Napster*” (on-line music store)



Total MOBILE accesses grow boosted by Postpaid customers with 4G plans

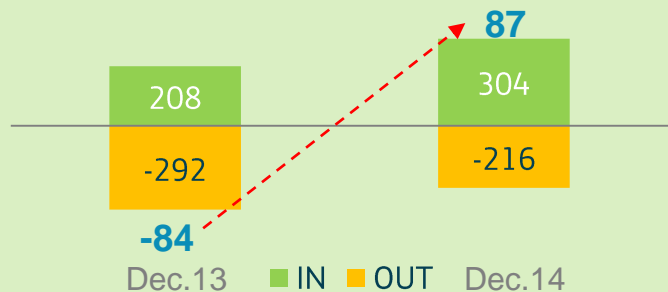
Postpaid and Prepaid Accesses

Thousands



Postpaid Mobile Net Adds

(number portability)



- Postpaid Accesses: +4.4%**, pushed by:
 - ✓ **4G technological renovation** improves customer experience
 - 909 sites and 240,480 customers
 - market leadership
 - higher ARPU and lower Churn
 - ✓ Positive net adds in number portability
- Prepaid Accesses: +0.7%**, due to growth in Internet use through Internet packs of time (by day, week,..)
- Mix postpaid/prepaid: 26/74**
- Total revenues: -4.8%**, mainly due to lower ITX¹ revenues, given the new CAM² (-75%), applied since Feb.14. **Excluding ITX², revenues grow +7%**

 - ✓ Total Postpaid revs. (Voice+NEM³): **+7.3%**
 - ✓ Total Prepaid revs. (Voice+NEM³): **+3.5%****
- Market leadership** by accesses: **39%** (Voice) and **42%** (Mobile Internet)*

* Mobile 3G and 4G Internet connections (including MBB+NEM+M2M).
Source: Subtel, other telco operators and internal data

** Revenues with equivalent tariffs. It considers real traffics in '13 and '14 at 2013 ITX tariffs

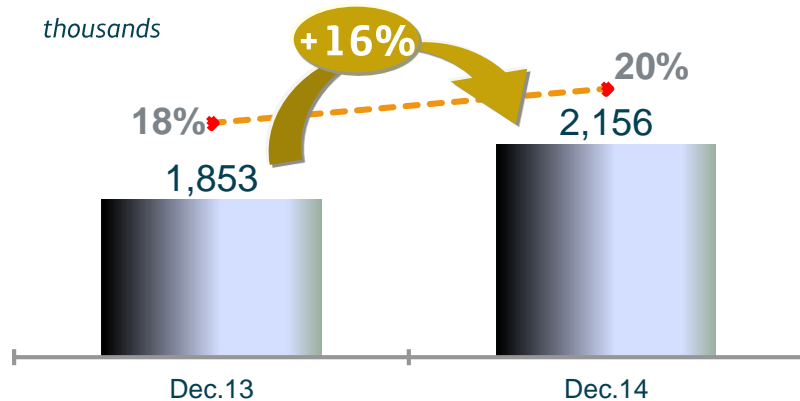
¹ ITX: Interconnection charges

² CAM: Mobile access charges

³ NEM: Navigation in Mobile

MOBILE Internet as a growth lever, supported by 4G plans

Mobile Internet ACCESSES ⁽¹⁾ and % o/total mobile accesses



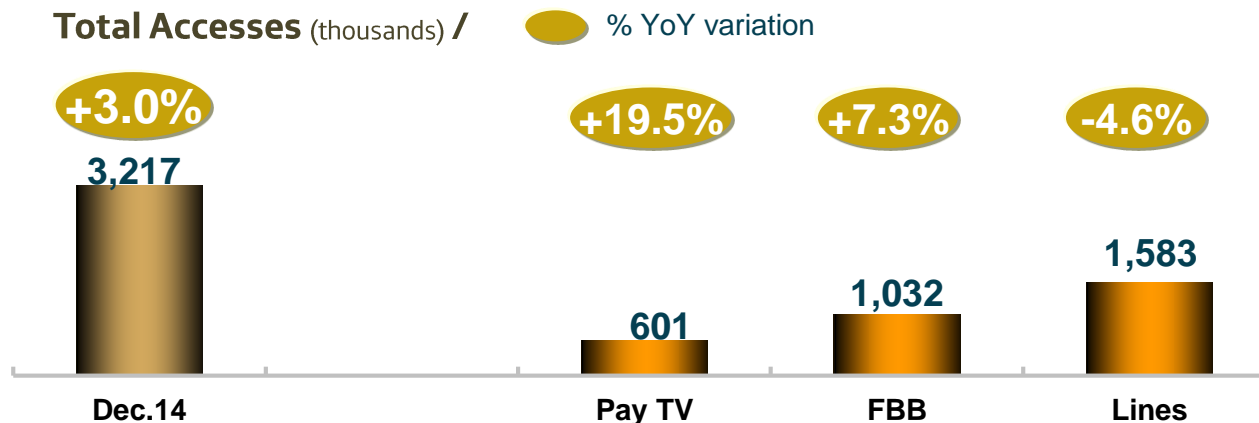
(1) Mobile Internet = MBB+NEM*+M2M

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



- **Mobile Internet Accesses (NEM+MBB): +16.3%**, driven by:
 - ✓ **NEM growth: +30.1%**, offset by decline in MBB: -26.0%
 - ✓ All Postpaid plans with 4G, since 2Q14
 - ✓ Different apps promote mobile Internet use: sports contents, concerts, on-line music,...
- **Mobile Internet revenues (NEM+MBB): +45.5%**, due to:
 - ✓ **NEM revenues: +59.6%** (significant growth in Prepaid and Postpaid segments)
 - Partially offset by **MBB revenues decrease: -17.4%**, in line with Company commercial strategy
- **Higher ARPU**
- **Positive evolution of customers with NEM penetration: 20% o/ Total accesses** → ample room for growth

FIXED business leveraged by growth in pay TV and FBB



FBB growth focused on High Speed (HS) accesses

- **HS accesses grow 59.9%, pushing FBB growth**
 - ✓ **VDSL**: 107,099 (+40.6%)
 - ✓ **F.O.** : 63,652 (+107.7%)
 - ✓ **ADSL**: 861,278 (+0.7%)

} High Speed accesses
- **FBB revenues** (24.6% o/total) **grow +7.2%**, mainly due to high speed accesses
 - **HS accesses / Total FBB accesses** = 16.6%
 - “Tríos”, “Dúos BB-payTV” and single BB increase
- **Satellite BB: 4,913 connections** allow Internet connections in areas without regular technical feasibility (up to 6 Mbps)

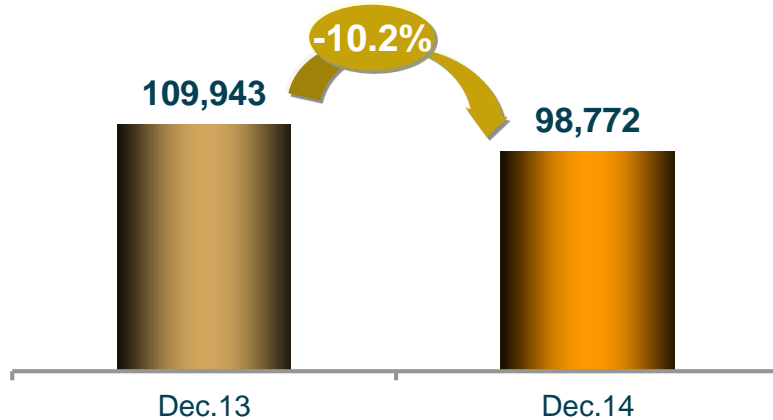
Pay TV growth in Accesses and ARPU

- **Pay TV accesses: +19.5%**, driven by:
 - ✓ DTH customer base: +15.9%
 - ✓ IPTV customer base: **29,267** (x3 vs. Dec.13)
 - ✓ Rise in high speed FBB accesses pushes IPTV growth
- **Pay TV revenues: +24.9%**, (19.8% o/ total), as consequence of higher ARPU due to IPTV growth and successful launching of new “HD” plans

Corporate Communications impacted by economic cycle, although showing growth in Digital services

Corporate Communication revenues

Ch\$ Million



Main 4Q14 projects



Corporate Communications

- **Corporate Communications revenues represent 14.4%** of total consolidated revenues
- **Revenues drop -10.2%**, mainly explained by higher revenues from Constitutional and Presidential elections, as well as a Health Ministry project existing in 2013. **Excluding these projects, Corporate Commun. revenues increase by +8,8%**
- **Significant growth in Digital services** (excl. “Presidential elections” project): **+26%**, pushed by “Cloud”, “Security” and “Financial” services, which showed accumulated growths of 16%, 17% and 125%, respectively

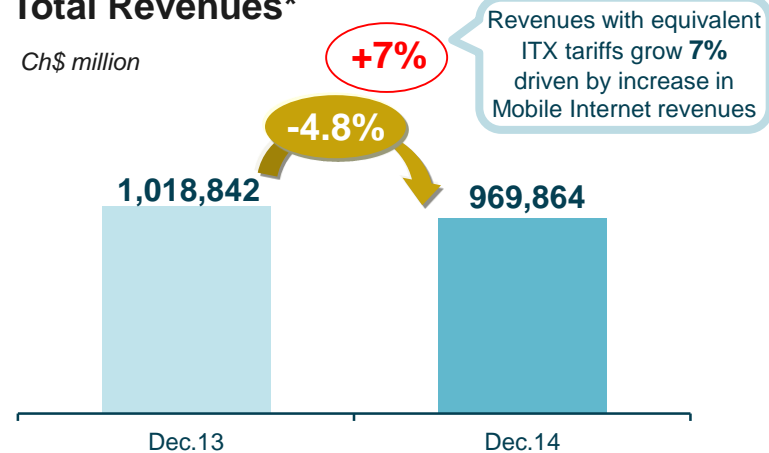
FINANCIAL OVERVIEW

Revenues and EBITDA evolution

MOBILE

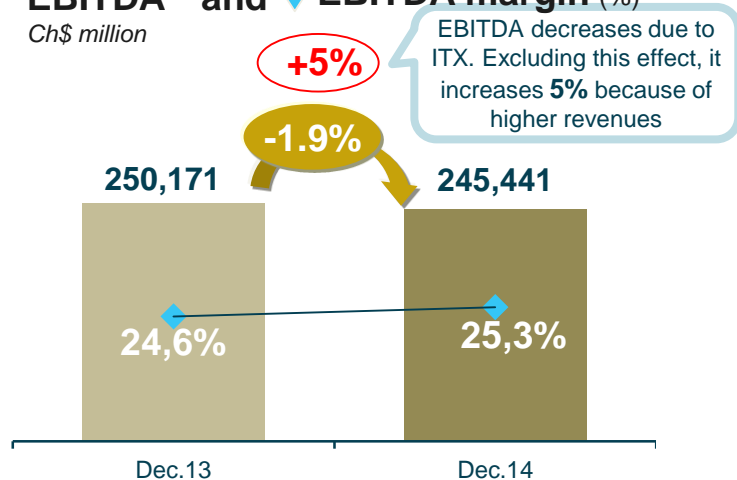
Total Revenues*

Ch\$ million



EBITDA* and EBITDA margin (%)

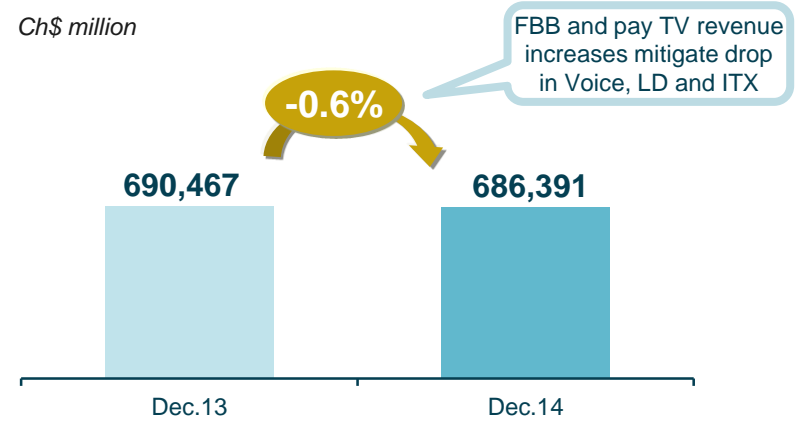
Ch\$ million



FIXED

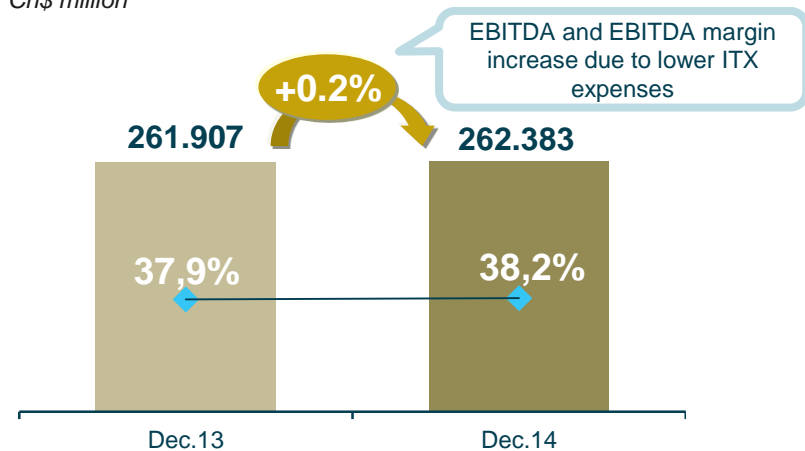
Total Revenues

Ch\$ million



EBITDA* and EBITDA margin (%)

Ch\$ million

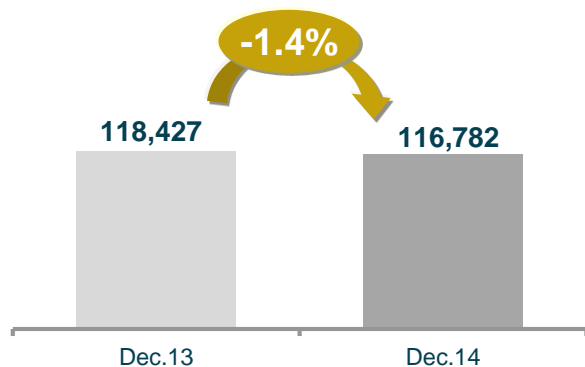


(*) Mobile Revenues and EBITDA impacted by mobile ITX decrease (-75%), since Feb. 14. Equivalent tariffs: considers real traffics priced at 2013 tariffs

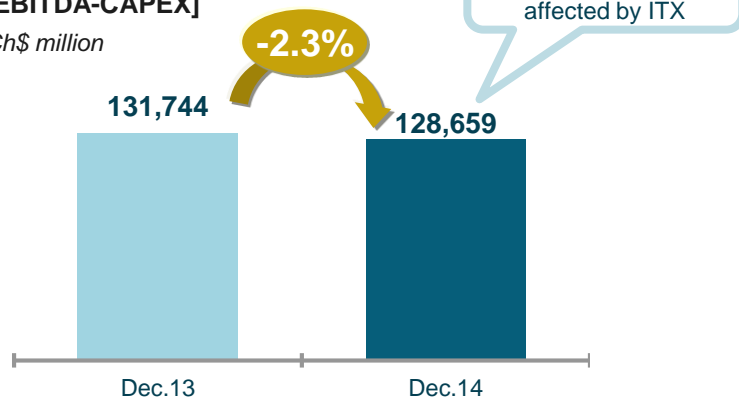
CAPEX and OpCF evolution

MOBILE

CAPEX Ch\$ million

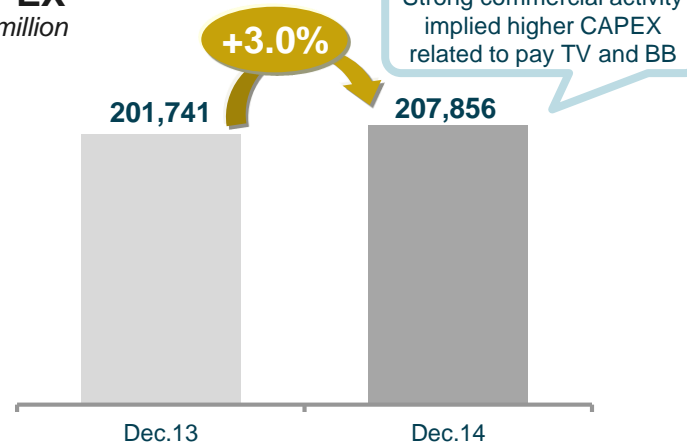


OpCF [EBITDA-CAPEX] Ch\$ million

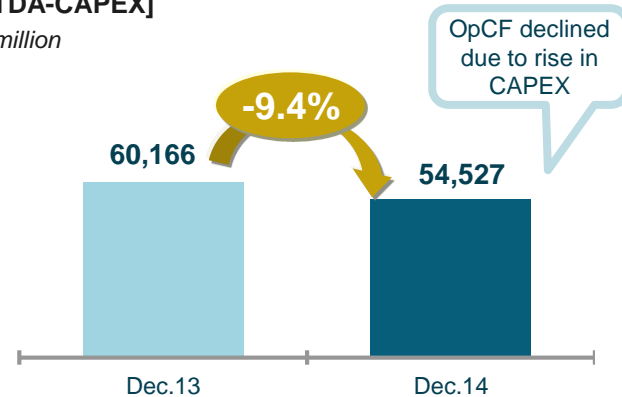


FIXED

CAPEX Ch\$ million



OpCF [EBITDA-CAPEX] Ch\$ million



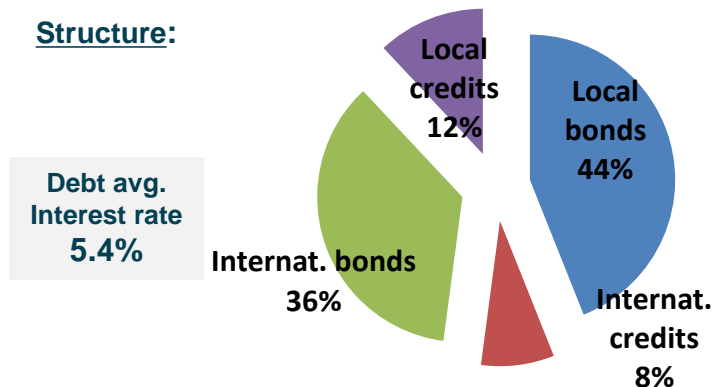
Diversified Debt structure

MOBILE

Gross Debt as of Dec. '14 → Ch\$394 ths. mills.

Net Debt as of Dec. '14 → Ch\$265 ths. mills.

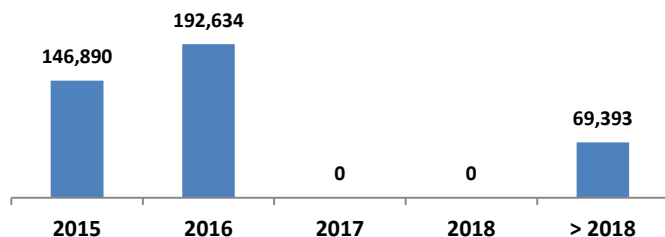
Structure:



✓ **Gross Debt:** decreases Ch\$72 ths. mills. (Dec14 / Dec13) mainly due to a Bond Series A issue (Ch\$32,000 MM), in Jul.14, and a local credit with Banco de Chile (Ch\$26,000 MM), in Dec.14

✓ **Net Debt:** increases Ch\$74 ths. mills. in the same period due to lower Cash balance

Debt Maturities profile

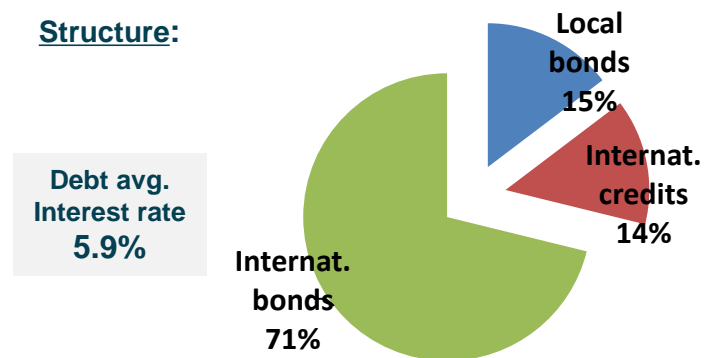


FIXED

Gross Debt as of Dec. '14 → Ch\$321 ths. mills.

Net Debt as of Dec. '14 → Ch\$201 ths. mills.

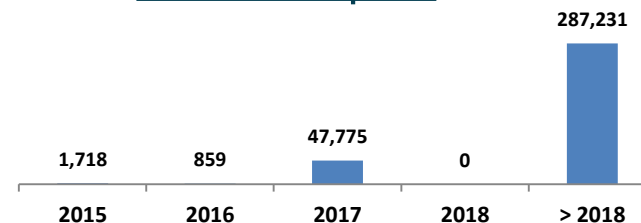
Structure:



✓ **Gross Debt:** decreases Ch\$133 ths. mills. (Dec14/Dec13) mainly due to amortization of local Bonds Series M and N (Ch\$125,000 MM), in Mar.14, and prepayment of credits with Banco Santander (Ch\$30,000 MM) and Scotiabank (Ch\$12,225 MM), in Dec.14. This decrease was partially offset by a local Bond Series Q issue (Ch\$ 47,000 MM), in Mar.14

✓ **Net Debt:** diminishes Ch\$25 ths. mills. due to the same effect

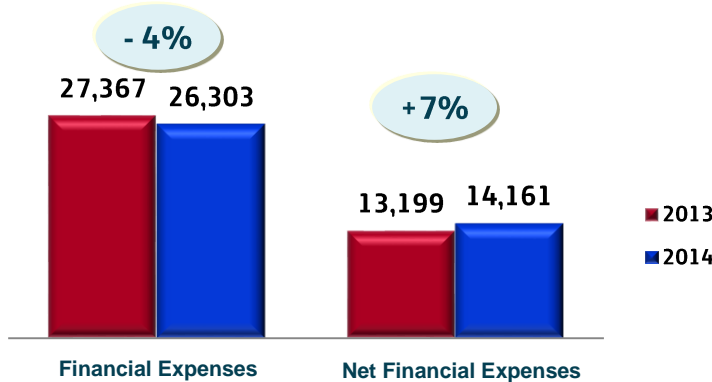
Debt Maturities profile



Variable interest rate exposure allows us for benefitting from market interest rates drop

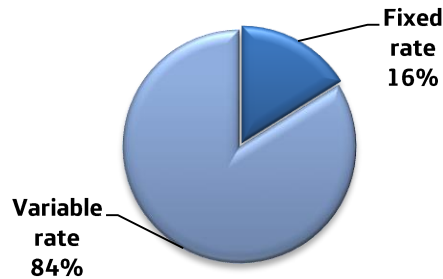
MOBILE

Financial Expenses Mills. Ch\$



- ✓ Gross financial expenses decrease due to lower average interest rate and lower Debt. This effect was partially offset by a lower interest rate from financial investments and lower Cash balance which caused a net financial expenses increase

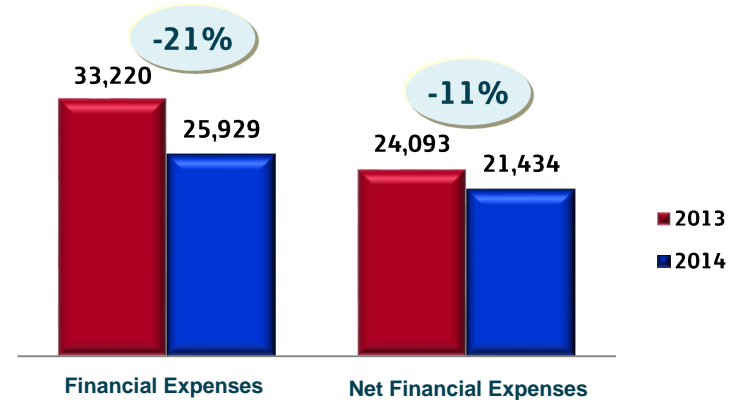
Currency and Interest rate hedging



100% FX hedge
CLP depreciation of 15% (avg. Jan-Dec14 vs. Jan-Dec13) has not impacted Debt payment of principal or interest

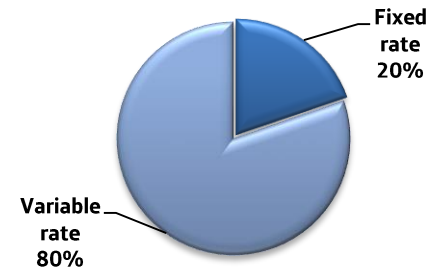
FIXED

Financial Expenses Mills. Ch\$

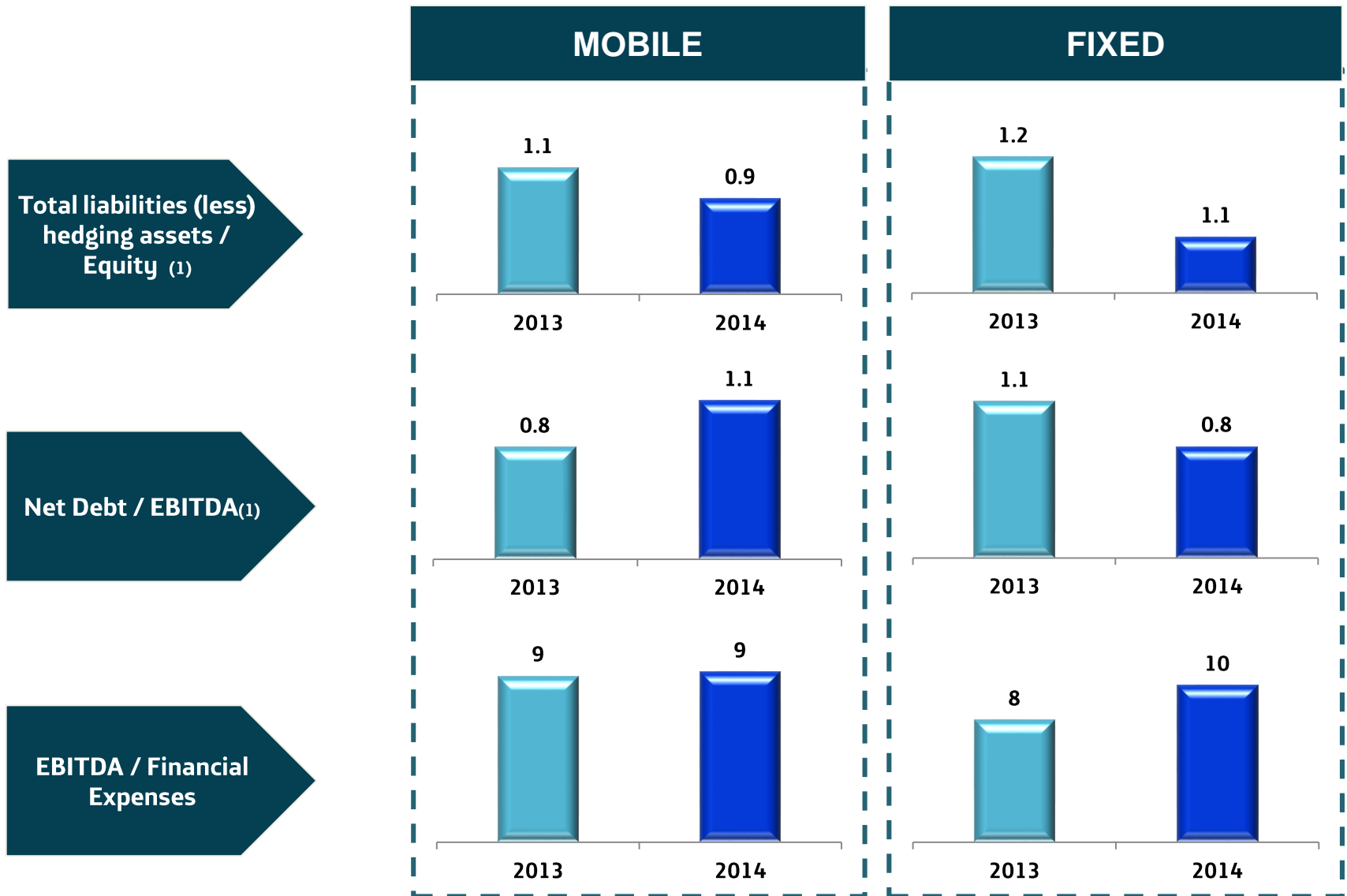


- ✓ Gross and Net financial expenses decrease due to lower financial Debt average balance regarding previous year, as well as lower market interest rates

Currency and Interest rate hedging



Financial ratios remain sound



(1) Not included operating leases

Summary of Financial Results

Accumulated as of Dec. 14

Million Ch\$ IFRS	T. Móviles Chile			T. Chile	
	Jan-Dec 14	% Var. '14/'13	w/o ITX %Var. '14/'13	Jan-Dec 14	% Var. '14/'13
Total revenues	969,864	-4.8%	+7%	686,391	-0.6%
Operating expenses	-724,423	-5.8%		-424,008	-1.1%
EBITDA	245,441	-1.9%	+5%	262,383	+0.2%
EBITDA margin	25.3%	+0.7pp		38.2%	+0.3 pp
Depreciation and amortization	-95,196	-24.0%		-180,662	+7.8%
Operating income	150,245	+20.3%		81,721	-13.3%
Net interest income and others	-11,294	-32.3%		-20,944	-12.5%
Taxes	-31,459	+40.1%		-18,511	-10.8%
Net income (before "Minority interest")	107,491	+15.3%		42,266	-14.7%
Net income	107,491	+15.3%		39,351	-14.0%

Summarizing...

MOBILE business:

- ❑ **4G plans pushes** growth in **Postpaid** accesses: **+4.4%**
- ❑ **240,480 4G clients**, as of Dec.14 → market leadership
- ❑ **Prepaid segment restart growth (+0,7)** supported by more use of Internet pack of minutes (by day, week, ...)
- ❑ **Total revenues**, with equivalent tariffs, **grow 7%**, mainly **due to growth in accesses and mobile Internet revenues**, which **increase 16%** and **46%**, respectively
- ❑ **EBITDA margin** increases slightly, up to **25%**, despite mobile ITX cut-off (-75%), since Feb.14

FIXED business:

- ❑ **High Speed accesses increase 60%**, pushed by FBB growth
- ❑ **FBB revenues** increase **7%** and **pay TV revenues** increase **20%**
- ❑ **EBITDA margin: 38%**



Telefonica