

TELEFONICA IN CHILE

Financial Results
accumulated as of September 2014

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



Telefónica

Santiago, November 25, 2014

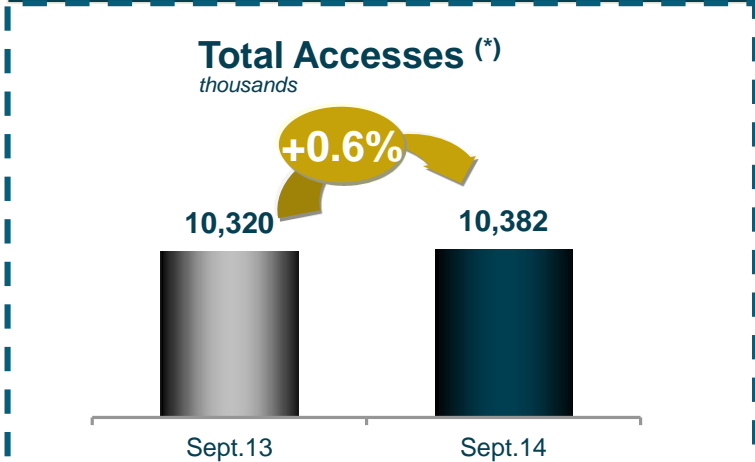
Telefónica

BUSINESS OVERVIEW

Total Accesses (F+M) grow 1%, mainly driven by Mobile Internet accesses, Fixed Broadband and pay TV



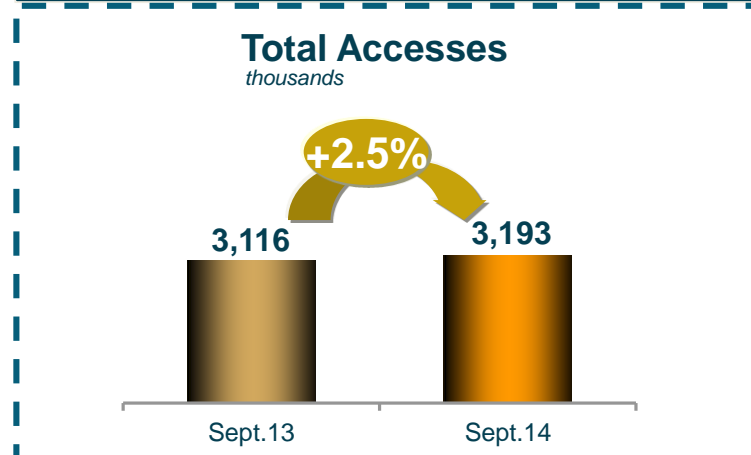
MOBILE business Voice + Mobile Internet



(*) Including Voice, MBB¹ and M2M²

- Growth in Voice and Internet accesses:
 - ✓Voice (pre+postpaid): **+1.2%**
 - ✓Mobile Internet (MBB¹+NEM³+M2M²): **+20.1%**

FIXED business Voice+FBB⁴+pay TV



- Growth in FBB⁴ and pay TV accesses:
 - ✓FBB⁴: **+6.1%**
 - ✓Pay TV: **+20.8%**
 - ✓Voice (lines): **-4.8%**

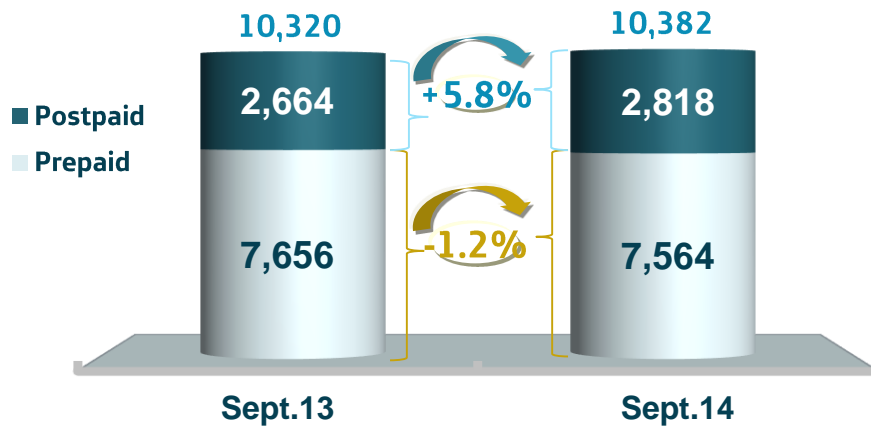
¹MBB: mobile Broadband; ²M2M: machine to machine; ³NEM: Navigation in Mobile; ⁴FBB: Fixed Broadband



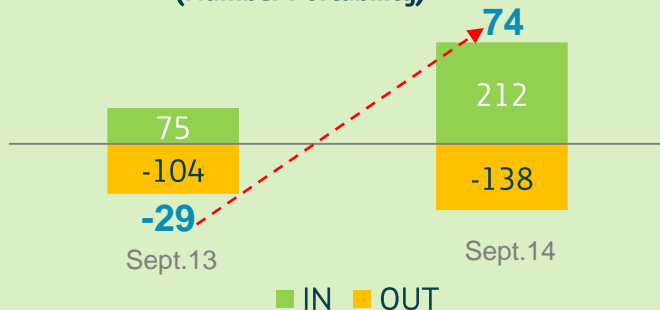
Growth in Total Accesses driven by Postpaid accesses increase

Postpaid and Prepaid accesses

Thousands



Postpaid Mobile Net Adds (Number Portability)



- **Postpaid Accesses: +5.8%**, growth due to:
 - ✓ **4G technological renovation** improves customer experience → **822 sites and 150,637 customers** with 4G plans as of Sept. '14 → **market leadership** → **higher ARPU and lower Churn rate**
 - ✓ Net gain in number portability
- **Prepaid Accesses: -1.2%**, impacted by selective migration to Postpaid. Internet use is encouraged through “time blocks” (by day, week,...) to motivate growth
- **Mix post/prepaid: 27/73**
- **Total Revenues reduce -4.6%**, mainly due to lower ITX¹ revenues coming from tariff mobile access charges (-75%) applying since Feb. 14. **Excluding ITX¹ revenues, total revenues grow +5.8%**
 - ✓ Total Prepaid revenues (Voice+NEM²): **+9.4%** ('14/'13)
 - ✓ Total Postpaid revenues (Voice+NEM²): **+9.3%** ('14/'13)
- **Market leadership (by accesses): 39%**

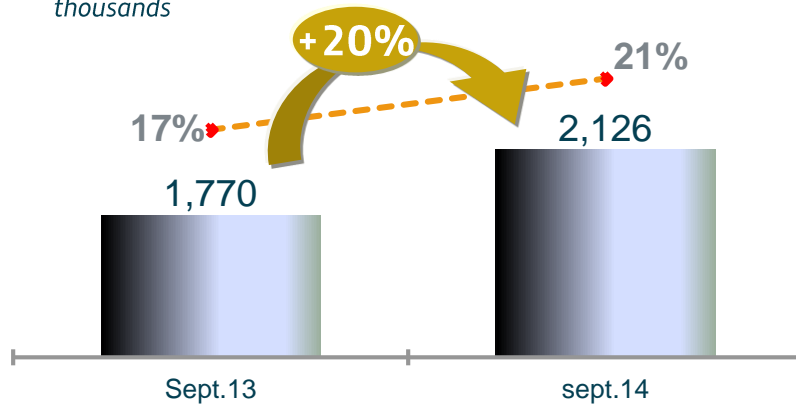
¹ ITX: Interconnection

² NEM: Navigation in Mobile

Mobile Internet maintains strong growth driven by 4G plans

Mobile Internet ACCESSES ⁽¹⁾ and % of total mobile accesses

thousands



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

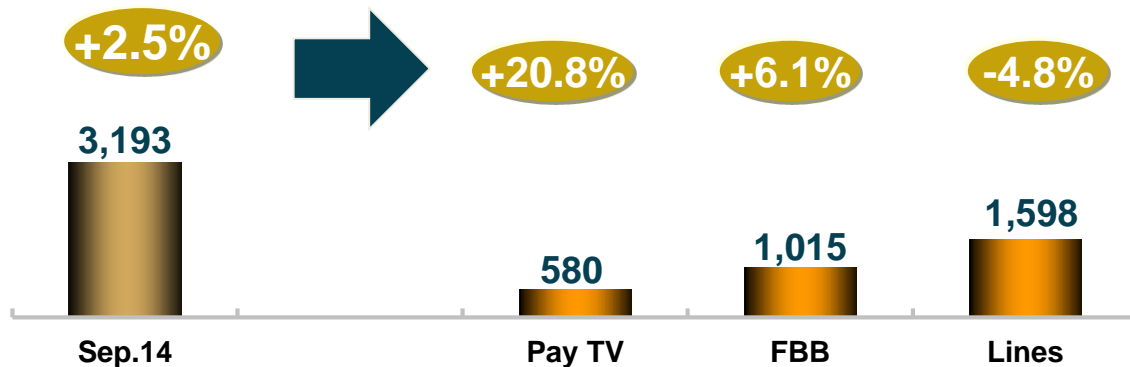
* "NEM: "Navigation in Mobile". Not included "NEM PPU" (NEM customers under the structure of "Pay Per Use")



- **Growth in mobile Internet Accesses (NEM+MBB): +20.1%**, motivated by:
 - ✓ **NEM growth: +36.8%**, which offset MBB decrease: -29.7%
 - ✓ New 4G plans strengthen mobile Internet offer
 - ✓ New applications promote mobile Internet use: sports contents, *on line* concerts,...
- **Higher Mobile Internet revenues (NEM*+MBB): +46.1%**, due to:
 - ✓ **NEM revenues growth: +61.9%** (strong growth in prepaid and postpaid),
Partially offset by:
 - ✓ **MBB revenues decrease: -17.9%**, aligned with Company commercial strategy
- **Higher ARPU**
- **Positive evolution of penetration of customers using NEM***
 - ✓ 21% over Total Accesses, with ample room to grow

FBB and pay TV accesses and revenues keep growing

Total Accesses (Ths) / ● % YoY variation



FBB focus on High Speeds

- High Speed Accesses grow 60.9%, boosting FBB growth
 - ✓ VDSL : 99,476 (+39.3%)
 - ✓ F.O. : 55,944 (+122.3%)
 - ✓ ADSL : 859,392 (-0.1%)
- } High Speeds accesses
- FBB revenues (24.6% o/total) grow +6.3%, due to accesses increase, mainly in High Speed plans
 - High Speed / Total Accesses = 15.3%
 - "Tríos", "Dúos" (FBB+pay TV) and "single FBB" have increased
 - Launching of **Satellite Broadband** allows Internet access to people in areas without a traditional technical feasibility (up to 6 Mbps)

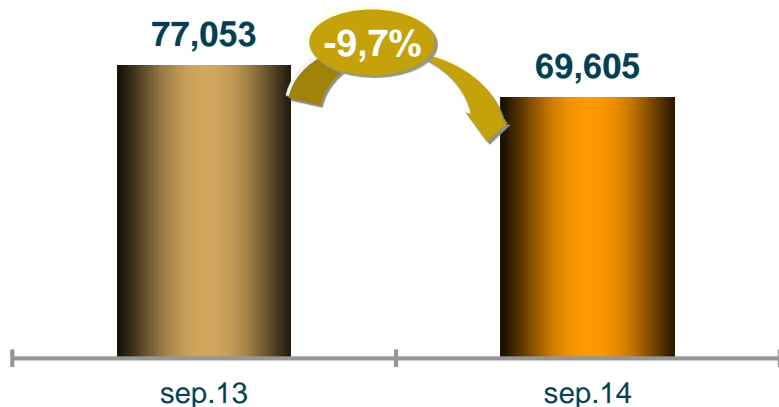
Pay TV growth in Accesses and ARPU

- Pay TV accesses: +20.8%, driven by:
 - ✓ DTH customer base growth: +19.2%
 - ✓ IPTV customer base growth: 25,703 (vs. 7,226 as of Sep.13)
 - ✓ Growth in High Speed FBB propels IPTV growth
- Pay TV revenues (19.7% o/ total) increase +25.3%, due to higher ARPU in consequence of IPTV growth and successful "HD" offer

Corporate Communications business keeps growing

Corporate Communications revenues

Ch\$ Million



Main projects in 3Q14



Defense Ministry
Undersecretary of Telecommunications



Corporate Communications

- **Corporate communications revenues means 13.9% of total consolidated revenues**
 - ✓ The 9.7% fall in these revenues is mainly explained by the ending of the “Minsal” project (network for the “Health Ministry”), as well as higher revenues in 2013 from Constitutional and Presidential elections. Excluding these effects, revenues grow: +5%
 - ✓ Digital Services growth: +11%, mainly driven by 24% and 175% growth in Security and Financial Services, respectively

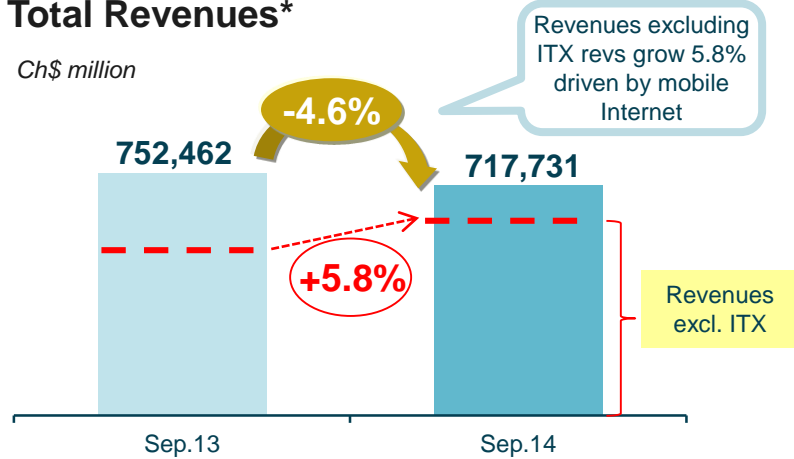
FINANCIAL OVERVIEW

Revenues and EBITDA evolution

MOBILE

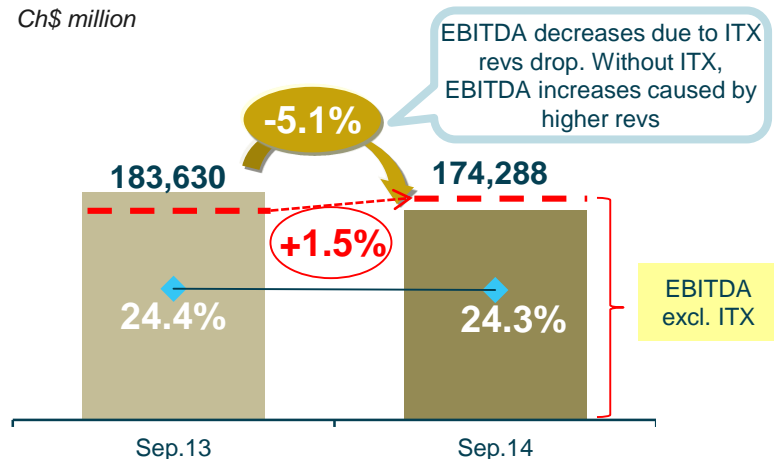
Total Revenues*

Ch\$ million



EBITDA* and EBITDA margin (%)

Ch\$ million

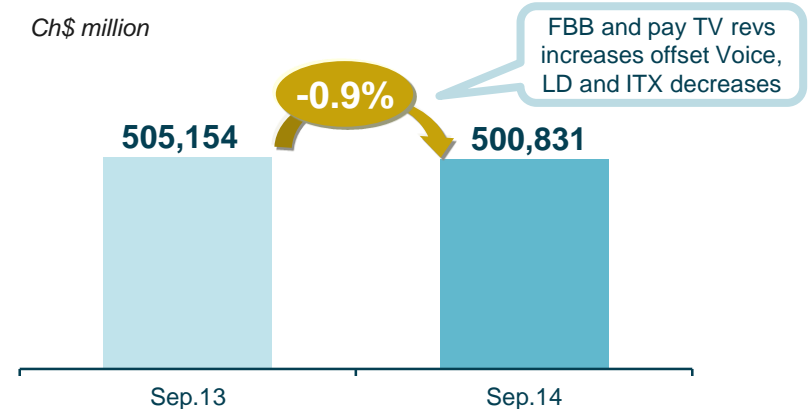


(* Mobile revenues and EBITDA impacted by mobile interconnection (ITX) tariff decrease (-75%), since Feb. 14

FIXED

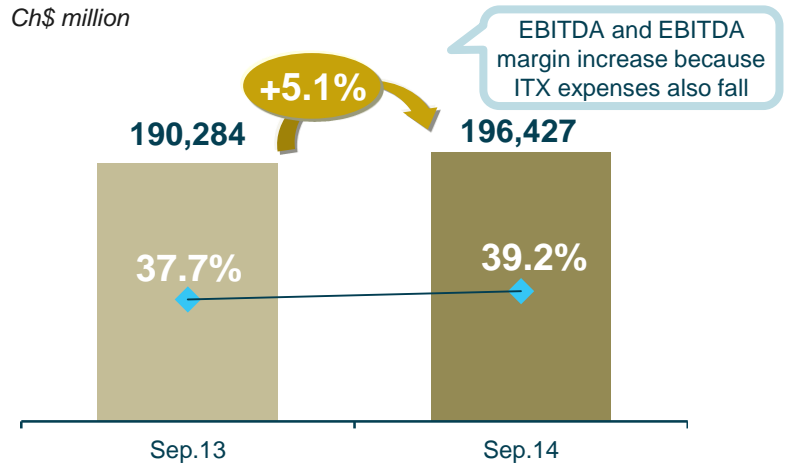
Total Revenues

Ch\$ million



EBITDA* and EBITDA margin (%)

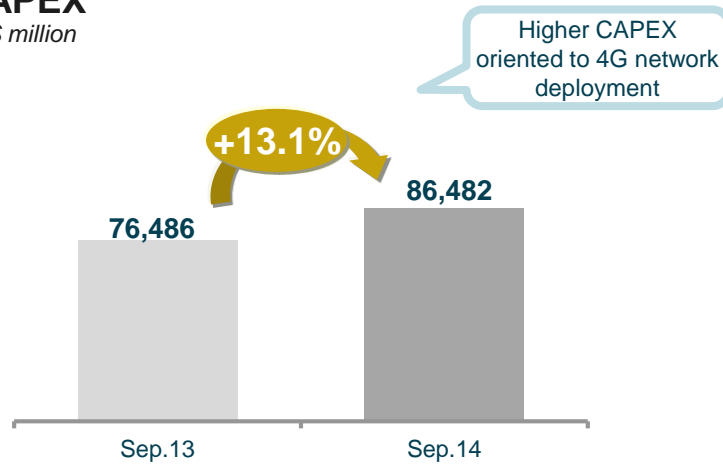
Ch\$ million



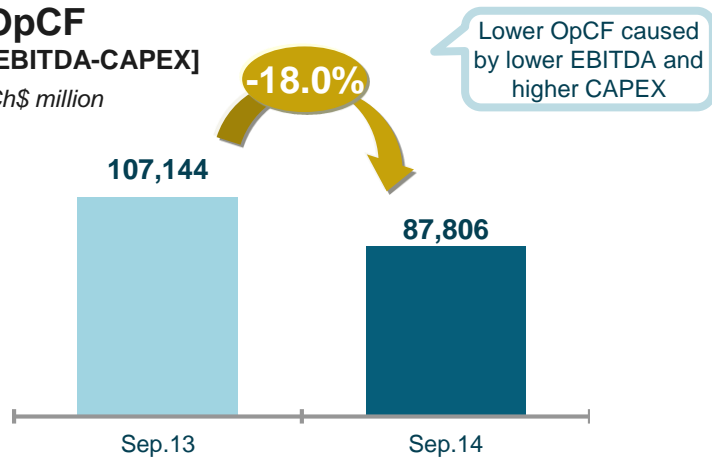
CAPEX and OpCF

MOBILE

CAPEX Ch\$ million

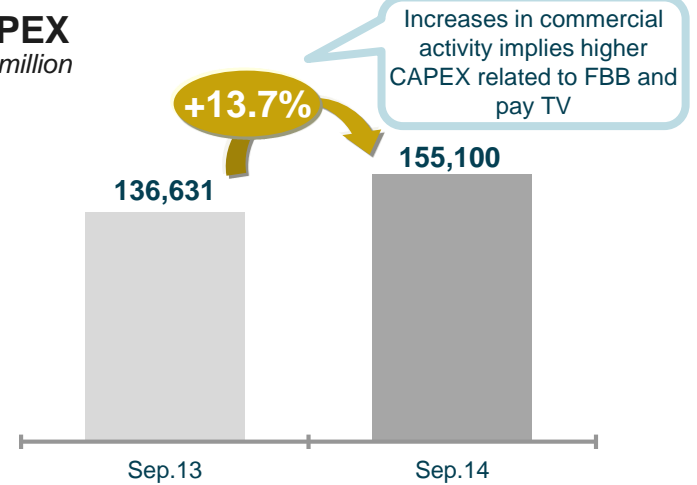


OpCF [EBITDA-CAPEX] Ch\$ million

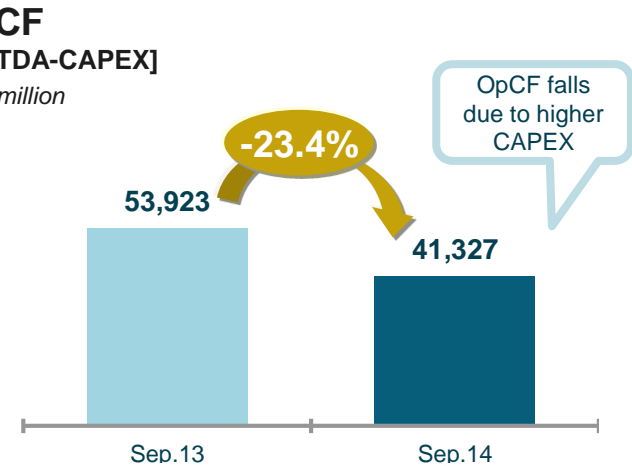


FIXED

CAPEX Ch\$ million



OpCF [EBITDA-CAPEX] Ch\$ million



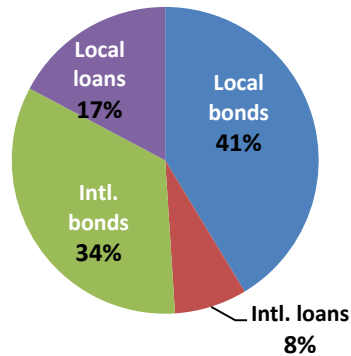
Debt maturities and Cash Flow generation cause lower Net Debt

MOBILE

Gross Debt as of Sep. 2014 → Ch\$429 bn
Net Debt as of Sep. 2014 → Ch\$131 bn

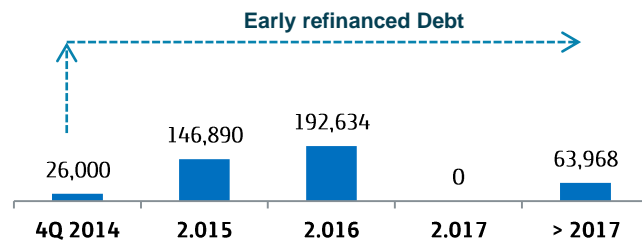
Structure:

Avg. Debt rate:
5.6%



- ✓ **Gross Debt:** increases Ch\$27 bn (Sep14 vs. Sep13) mainly due to the Local Bond issue Serie F (Ch\$69 bn) in Oct.13 and partially offset by amortization of Bond issue Serie A (Ch\$32 bn) in Jul.14
- ✓ **Net Debt:** decreases Ch\$43 bn (Sep14 vs. Sep13) due to higher Cash balance and financial assets

Debt maturities profile

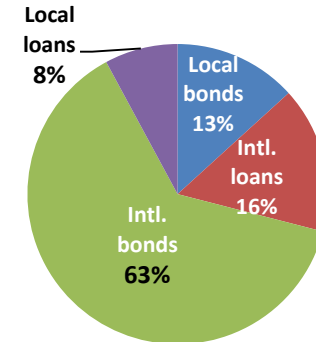


FIXED

Gross Debt as of Sep. 2014 → Ch\$371 bn
Net Debt as of Sep. 2014 → Ch\$284 bn

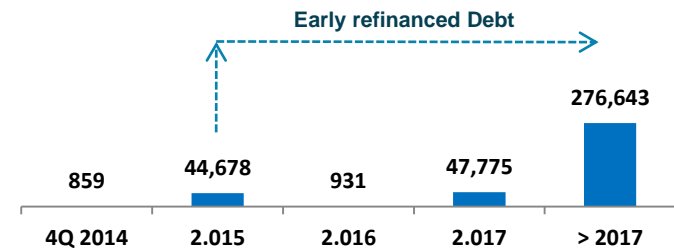
Structure:

Avg. Debt rate:
6.0%



- ✓ **Gross Debt:** decreases Ch\$96 bn (Sep14 vs. Sep13) mainly due to amortization of Local Bonds Series M and N (Ch\$125 bn) and partially offset by the Local Bond issue Serie Q (Ch\$47 bn). Both, amortization and issuance, in Mar14
- ✓ **Net Debt:** decreases Ch\$25 bn for the same reasons pointed out above

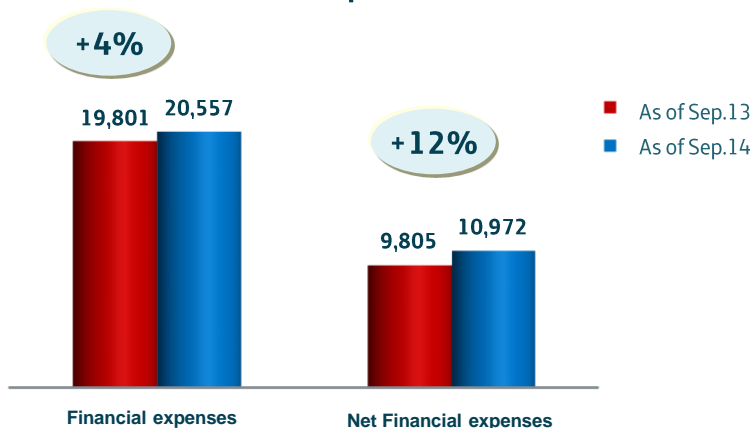
Debt maturities profile



Exposure at variable rates allows us to take advantage of market interest rate decrease

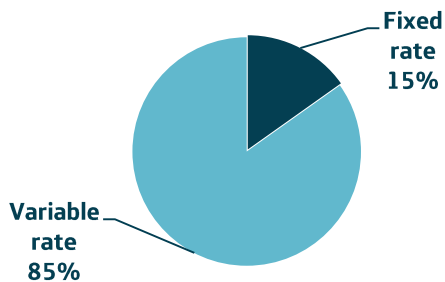
MOBILE

Financial Expenses Ch\$ million



✓ Gross and Net financial expenses increase mainly due to higher Debt level compared to the same period in 2013. This is partially offset by lower market interest rates

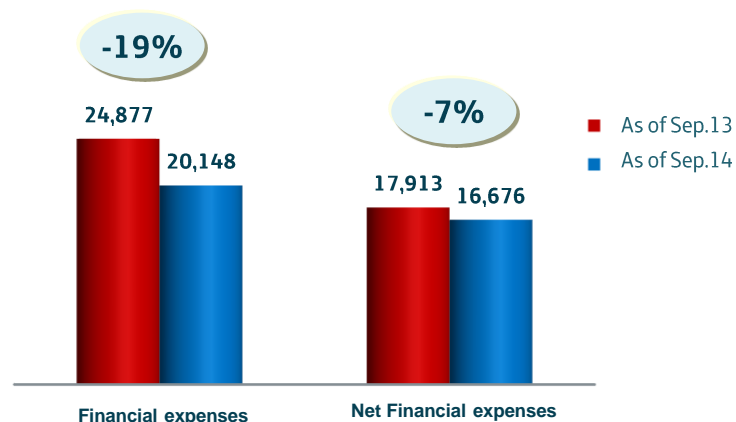
Currency and Interest rate hedging



FX 100% hedged
A CLP depreciation of 15% on average (Jan-Sep14) vs. same period in 2013, has not impacted Debt or Interest payments

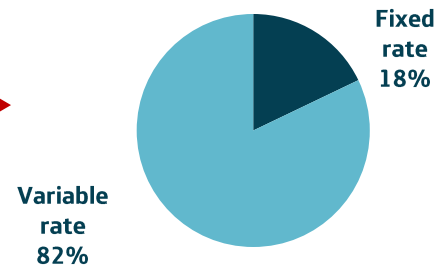
FIXED

Financial Expenses Ch\$ million

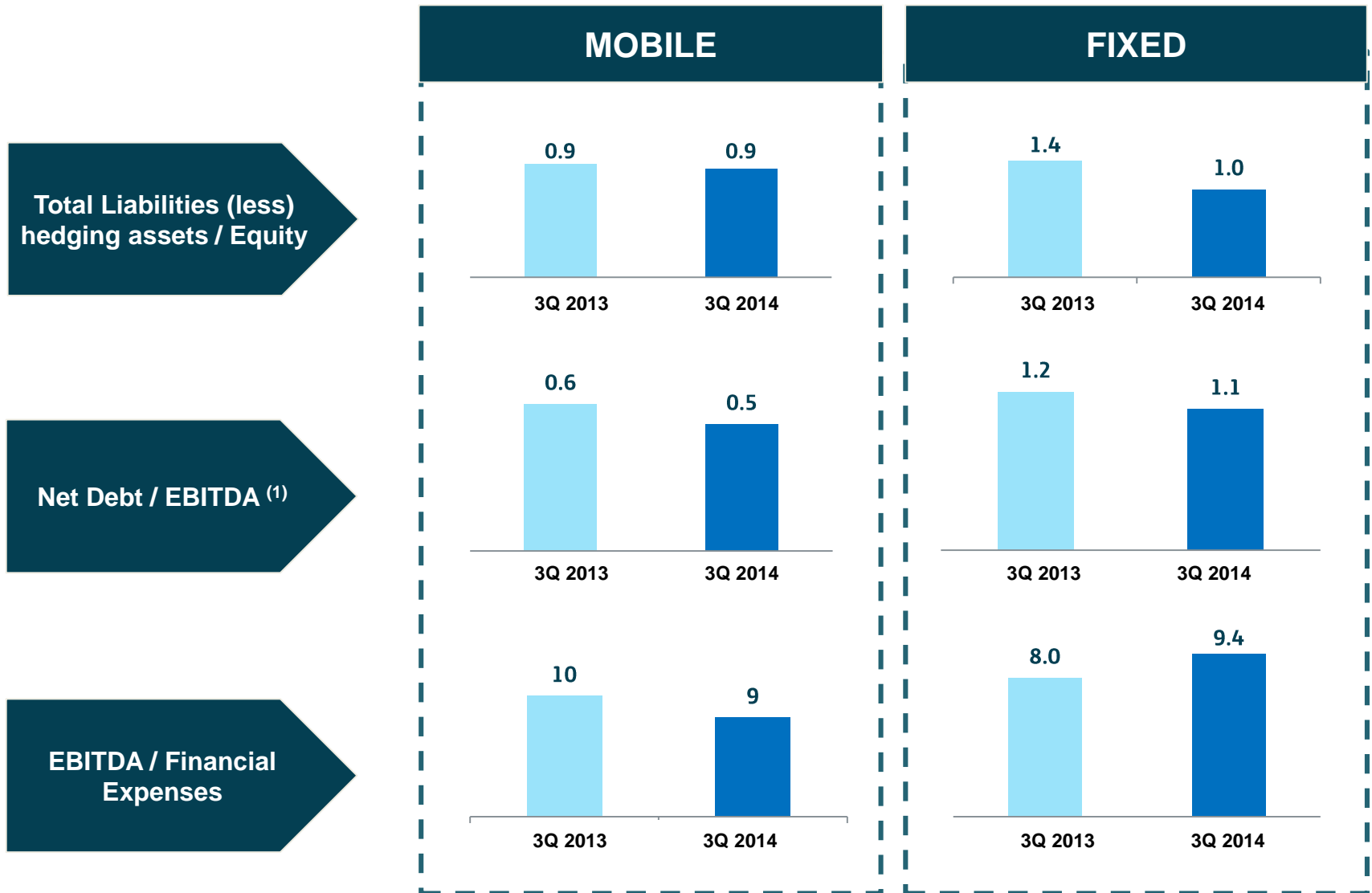


✓ Gross and Net financial expenses decrease due to lower average balance of financial Debt compared to the same period in previous year, as well as the lower market interest rates

Currency and Interest rate hedging



Financial ratios remain solid



⁽¹⁾ Not included operating leases

Summary of Financial Results

Accumulated as of September 2014

<i>Millones de Ch\$ IFRS</i>	T. Móviles Chile			T. Chile	
	Jan-Sep 14	% Var. '14/'13	w/o intx. %Var. '14/'13	Jan-Sep 14	% Var. '14/'13
Total revenues	717,731	-4.6%	+5.8%	500,831	-0.9%
Operating expenses	543,443	-4.5%		-304,404	-3.3%
EBITDA	174,288	-5.1%	+1.5%	196,427	+3.2%
EBITDA margin	24.3%	-0.1 pp		39.2%	+1.6 pp
Depreciation and Amortization	-69,158	-35.1%		-134,631	+9.7%
Operating Income	105,130	+36.4%		61,796	-8.6%
Net interest income and others	-8,403	+20.2%		-16,625	-6.8%
Taxes	-16,644	+17.6%		-8,289	-17.0%
Net income before minority interest	80,083	+43.2%		36,882	-7.3%
Net income	80,083	+43.2%		34,104	-8.1%

Effects of Tax Reform in 2014 Financial Statements

As of Sep. 30, 2014

The Tax Reform, published on September 29, 2014, sets up a gradual increase in the Corporate tax rate, from 20% to 25% (according to "Attributed Income" system) or, up to 27% (according to "Semi-integrated" system), from year 2014 to 2018

Thus, Financial Statements reflect, as of September 30, 2014, the following effects*:

- ❑ **In Income statements:** additional tax payments due to the rate increase from 20% to 21%, which applies to all year 2014
 - **T. Chile** (Jan-Sep'14): **Ch\$569 million** (0.1% o/Total revenues)
 - **T. Móviles** (Jan-Sep'14): **Ch\$930 million** (0.1% o/Total revenues)

- ❑ **In Balance Sheet:** progressive increase in Corporate tax until 2018 has meant to adjust, according to new tax rates, assets and liabilities from deferred taxes coming from temporary differences. This is an accounting effect and it does not involve Cash uses in 2014
 - ✓ As of Sept. 30, 2014, this effect has been recorded as "Retained Earnings", into the Equity
 - **T. Chile: -\$14,915 million** (2.2% o/Equity), higher tax expense for having higher deferred tax liabilities than deferred tax assets
 - **T. Móviles: \$2,709 million** (0.4% o/Equity), higher tax revenue for having higher deferred tax assets than deferred tax liabilities

** Financial Statements, as of Sept. 2014, consider the maximum rate of 27%, corresponding to the "Semi-integrated" system. However, the final Company decision to choose one system or another will be approved by its Board of Directors and Shareholders Meeting in a term up to 4Q16*

Summary...

MOBILE BUSINESS:

- ❑ **4G drives growth in postpaid customers: +5.8%**
- ❑ **150,637 new 4G customers** as of sept.14 → **market leadership**
- ❑ **Revenues (excl. ITX) grew 5.8%** due to mobile Internet growth, both in accesses (+20%) and revenues (+46%).
- ❑ **EBITDA margin remains stable: 24%**, despite mobile interconnection tariff decrease (-75%), from Feb.14

FIXED BUSINESS:

- ❑ **High Speed accesses grow 61%**, boosting FBB growth
- ❑ **FBB revenues increased 6%** and **pay TV revenues increased 25%**
- ❑ **EBITDA margin improved +1.6pp: 39%**

GREAT
PLACE
TO
WORK®

MOVISTAR → **5th** position in GPTW ranking 2014



Telefonica