

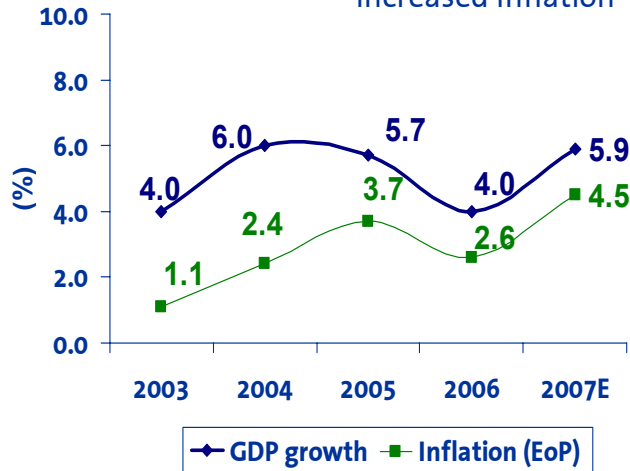
# UBS Southern Cone Roundtable

**Telefónica Chile**  
August 2007



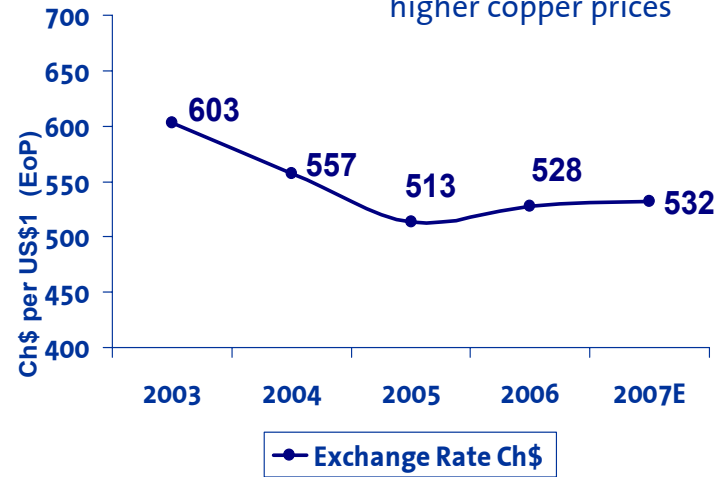
# Chilean Macroeconomic Estimates

**GDP\* & Inflation** → Dynamic growth & increased inflation

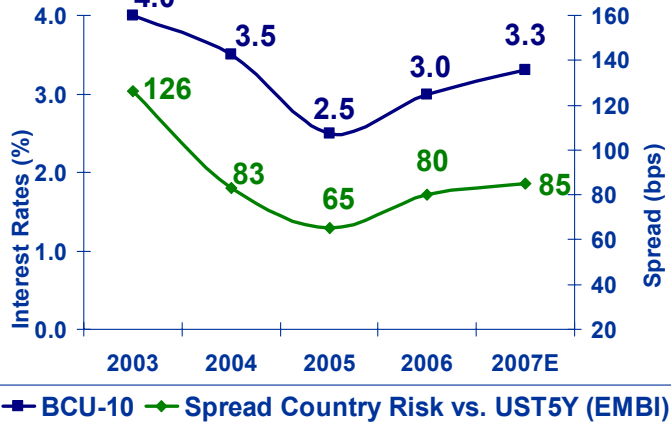


\*Base Year 2003

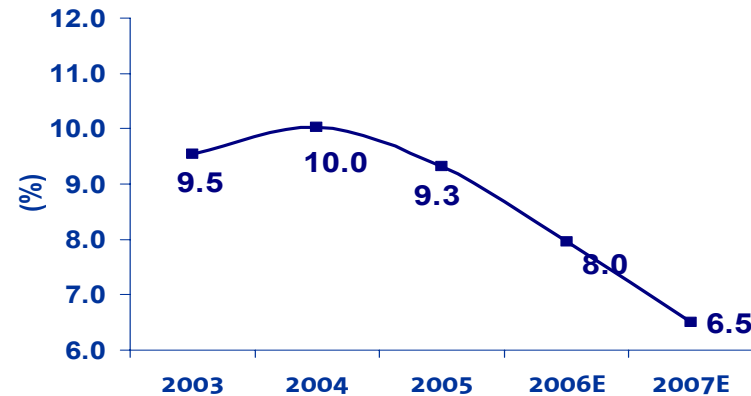
**Exchange Rate** → Peso depreciation mitigated by higher copper prices



**Interest Rates & Country Risk** → Solid investor confidence and recognized stability



**Unemployment** → Gradual reduction of unemployment



Source: T. Chile internal estimates (June 2007)

## > Current Regulatory Issues

### Proposed Modifications to Chilean Telco Law

- Creation of panel of experts to resolve conflicts in the Chilean telecommunications industry
- Creation of a separate telecommunications oversight commission
- Modification of public telco service concession regime, allowing companies to register as telco operators and provide telco services without requesting concessions for individual services (except when spectrum is required).

### Regulatory Framework

- In December 2006, Subtel made a public inquiry regarding Voice Over Broadband

### Tariff Deregulation

- T. Chile is currently analyzing whether to request the deregulation of public telephony tariffs.
- If requested, the Antitrust Commission would review competition in the Chilean telco industry to determine whether T. Chile is dominant in local telephony.
- Interconnection rates would not be affected by tariff deregulation, as these rates are regulated for all Chilean telco operators.

## > Upcoming Tariff-Setting Process (2009-2013)

Telefónica Chile services subject to tariff regulation: **Local service, public telephone service, line connections and network unbundling services**

### Antitrust Commission Ruling

- Antitrust Commission reviews competition in the telco industry and defines the scope of services to be regulated.

April 11, 2008

- Technical and Economic Bases Proposal (T. Chile)

July 20, 2008

- Presentation of definitive technical and economic bases (Subtel)

Nov. 6, 2008

- Presentation of tariff study (T. Chile)

Mar 6, 2009












- Objections and counterproposals report (Subtel)

May 5, 2009

- New Tariff Decree for the period 2009-2013

# > Competition in the Chilean Telco Industry

Telefónica Chile's market share vs. competitors as of 6/ 30/ 2007

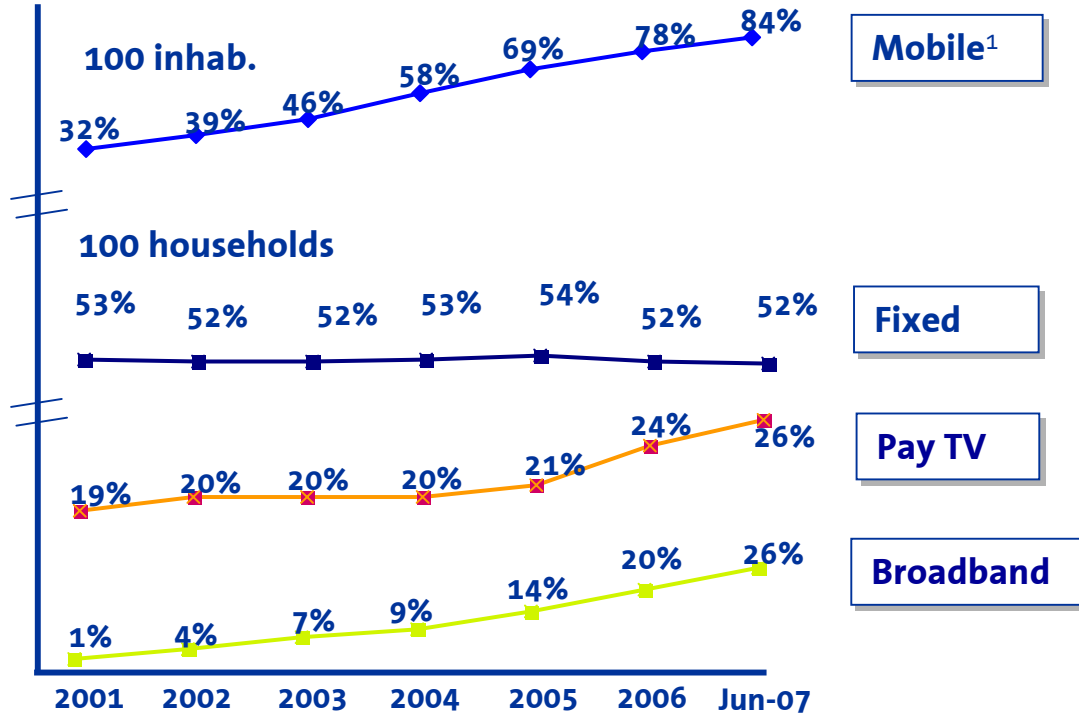
	 Telefónica Chile  Main Competitor  Second Competitor  Others		Market Penetration	Telefónica Chile Market Position
Fixed Telephony (7 participants)		Lines /100 inhab.	19.9	1
DLD (18 participants)		Minutes/ Inhab./year	85	1
ILD (18 participants)		Minutes/ Inhab./year	11	1
Data (8 participants)		Annual Revenues	US\$ 373 mill.	1
Broadband <sup>(1)</sup> (7 participants)		Connections	1,152,464	1
Pay TV (4 participants)		Clients	1,171,311	2
Mobile (3 participants)		Clients /100 inhab.	84	-

<sup>(1)</sup> Includes connections with download speeds over 128 Kbs.

Source: Telefónica Chile estimates

# ➤ Evolution of Service Penetration in the Chilean Telco Market

## Service Penetration







- In fixed telephony, penetration has remained constant over the past 4 years
- Growth in pay TV accelerated in 2006
- Solid broadband growth with high migration rates from dial-up connections.

(1) Mobile penetration for Chilean population

# > Telco Services per Home: Growth Potential in C3 and D Segments

% households, Dec. 2006E

 Large gap with respect to other countries

Household income US\$/ month <sup>1</sup>	Households thous.	Socio-Econ. Segm.	 Mobile	 Fixed	 Broadband	 Pay TV	Development Level
5,506	314	ABC1	98%	89%	70%	72%	High
2,035	574	C2	96%	84%	49%	56%	
1,159	1,145	C3	94%	71%	25%	40%	Medium
439	2,373	D & E	72%	30%	4%	2%	Low
	4,406	TOTAL	83%	52%	20% <sup>2</sup>	24%	

54% of households

(1) Exchange rate Ch\$532.4/US\$1

(2) Household penetration increases 1 p.p when dial-up internet connections are included.

# Company Strategy



*Telefonica*  
CHILE



## > Drivers of the Company's Strategic Transformation:

### Integration

- Focus on segmentation of clients, bundling of services and flexible commercial offer

### Innovation

- New technology and commercial creativity

### Efficiency

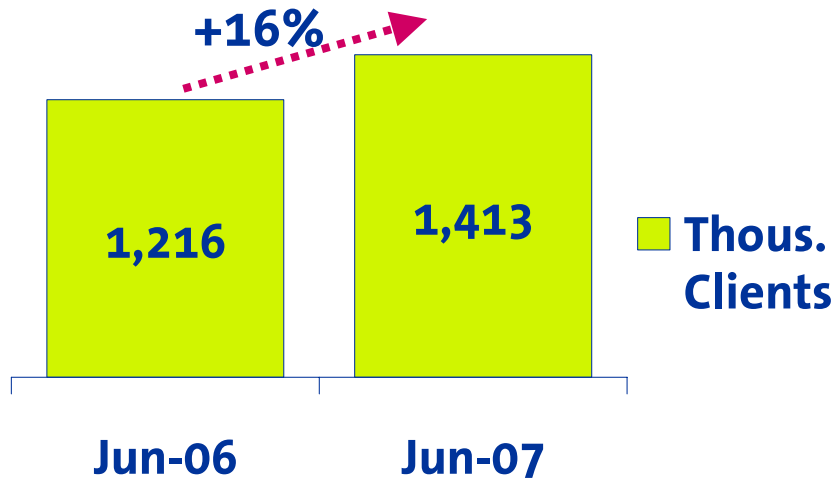
- Cost efficiency and solid financial structure facilitate business development
- Investments targeting growth

### Quality

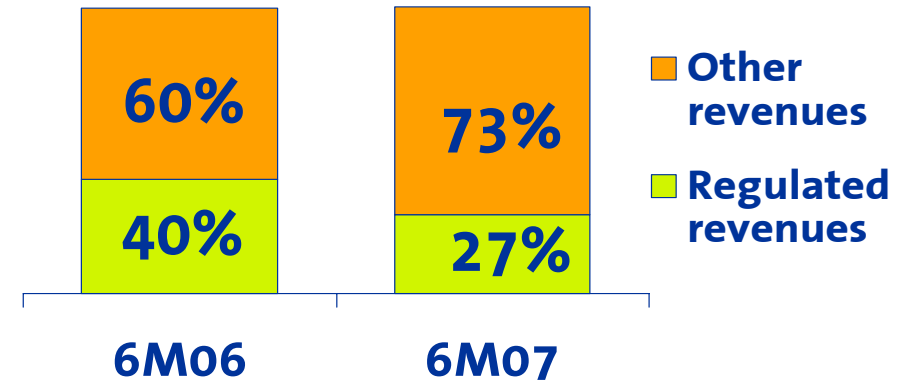
- Ongoing challenge to provide high-quality service

# Integration: Bundling of voice with broadband and TV facilitates revenue diversification and greater client loyalty

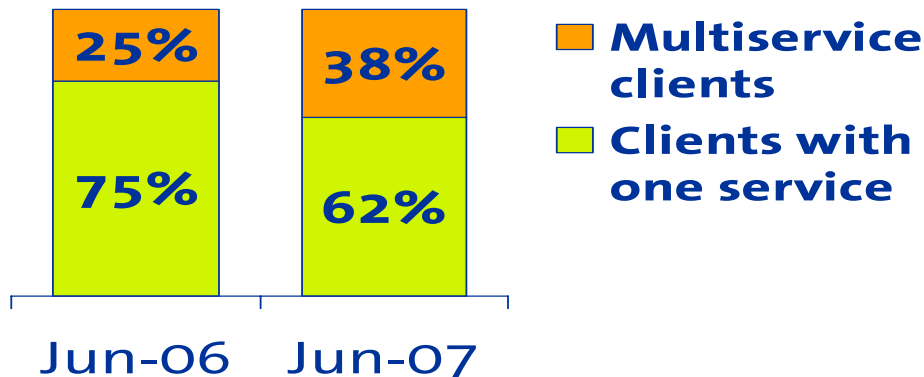
## Clients with Flexible Plans



## Consolidated Revenues



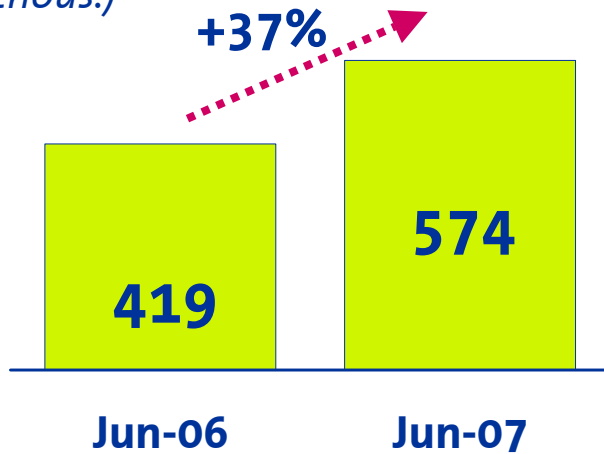
## Client Mix



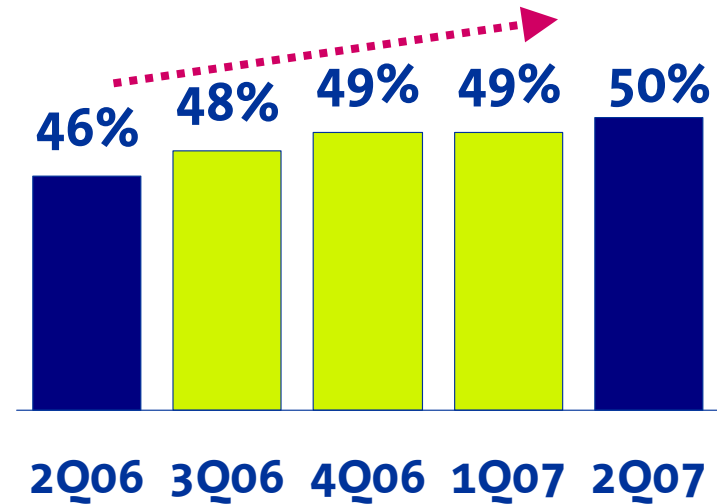
The market prefers flexibility: 65% of clients choose a flexible plan

Integration: **Consolidating our Broadband leadership position through bundling** → **number one in the market**

**ADSL Accesses\***  
(thous.)



**ADSL Market Share\***



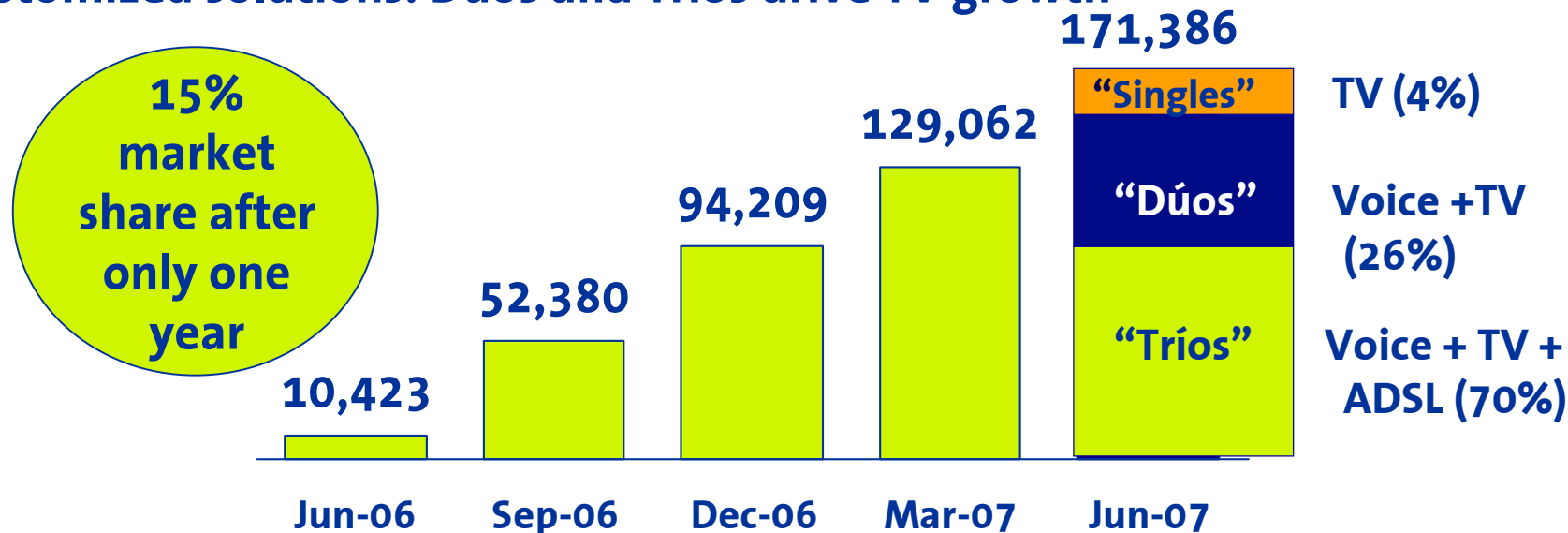
**T. Chile has been the engine of broadband growth in Chile: More than one million connections in Chile today.**



\* Includes connection speeds over 128 Kbps

# ➤ Innovation in Service: **Launch of Digital TV in June 2006 and IPTV in June 2007**

**Customized solutions: Dúos and Tríos drive TV growth**

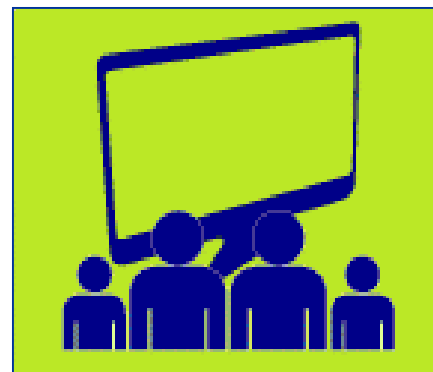


## **Competitive advantages of Satellite TV:**

- Digital quality for all customers
- National coverage
- Flexibility to choose plans of channels

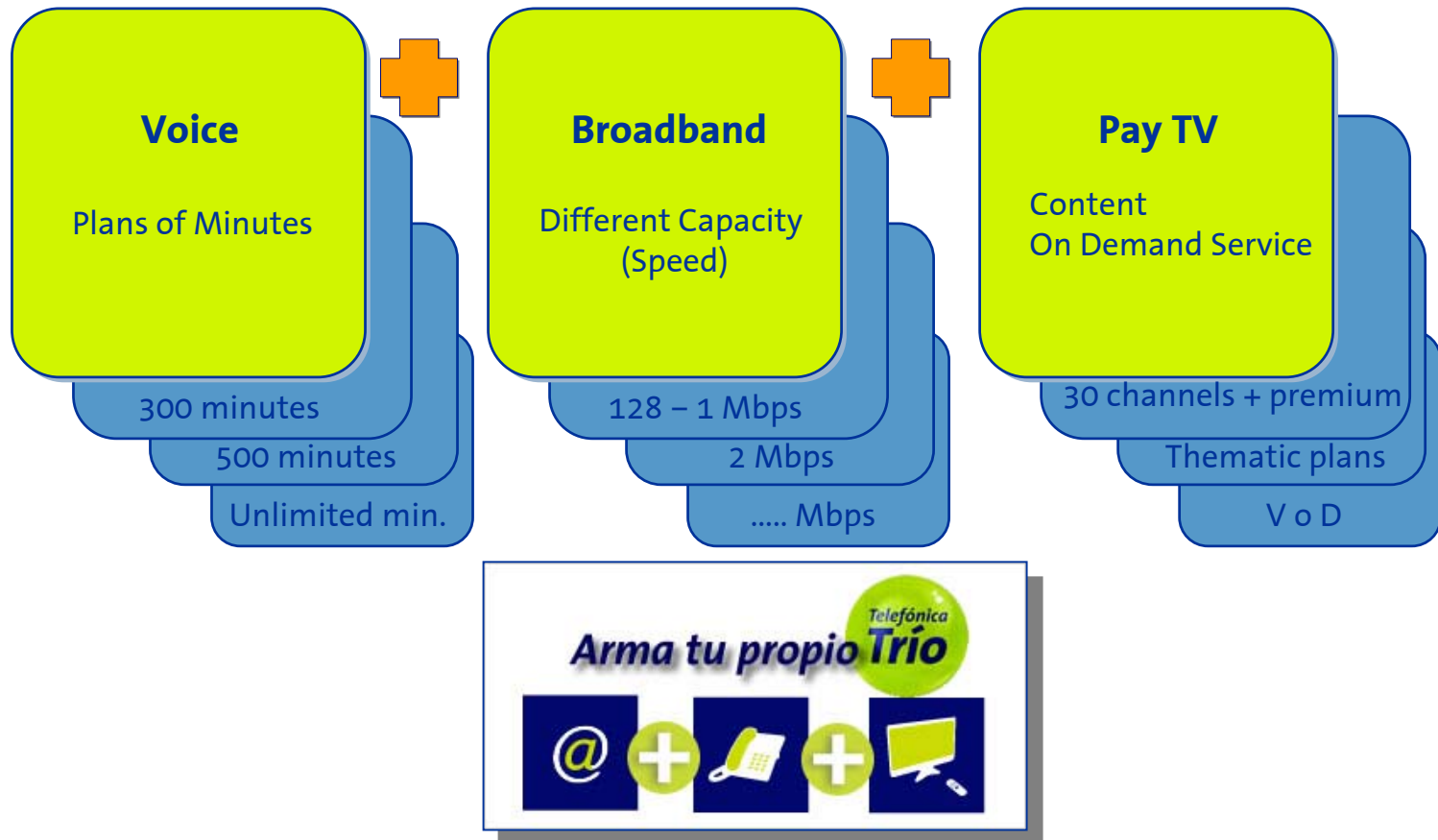
## **New IPTV Product (launched June '07):**

- Gives clients even greater flexibility to choose content and adjust programming to their own schedules



## ➤ Innovation in Offer: **Commercial Flexibility**

Segmentation of clients and bundling of service differentiate T. Chile from other operators.

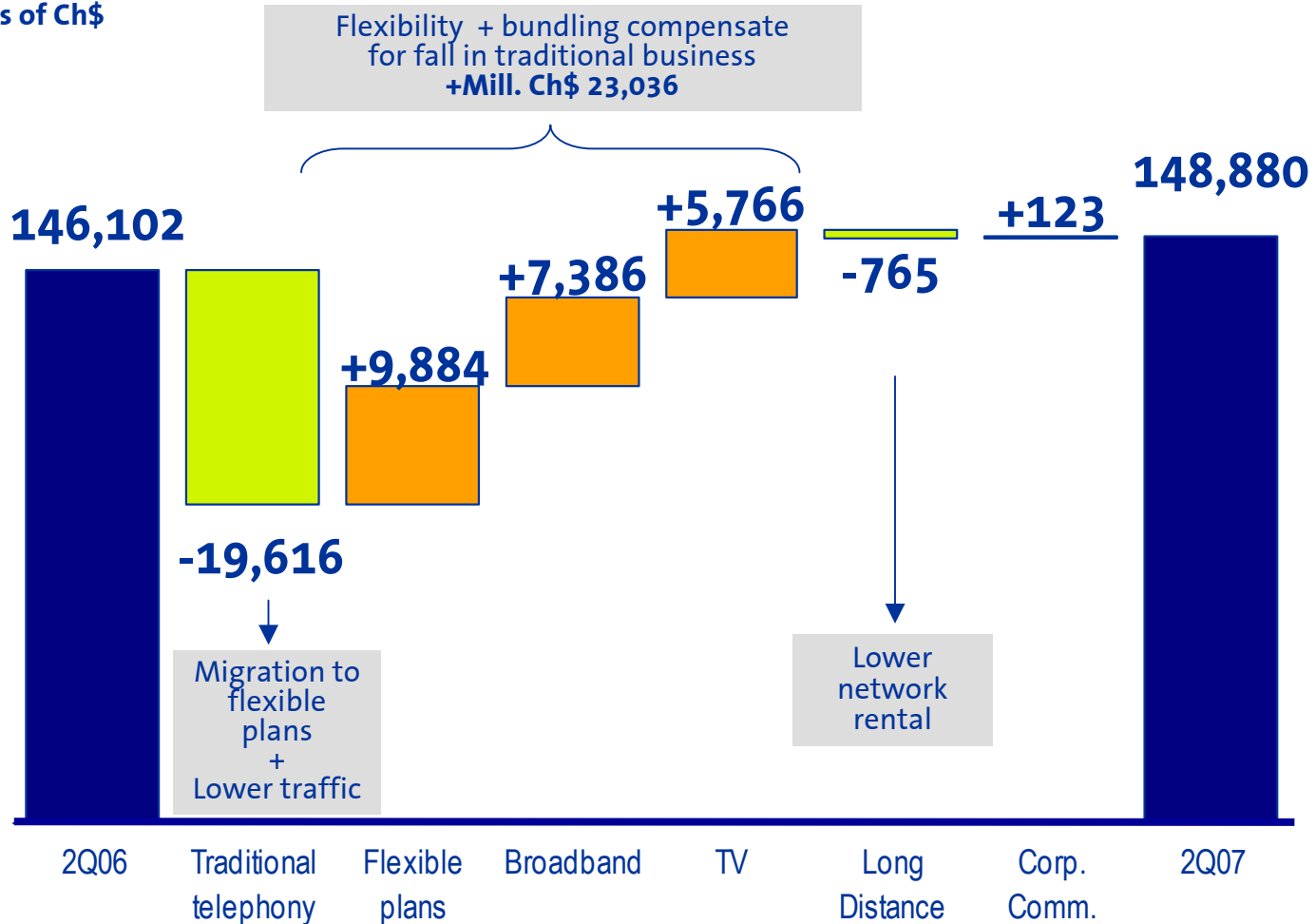


# > Transformation strategy allows the Company to stabilize revenues

## Quarterly Revenues (2Q07/2Q06)

+1.9 %

Millions of Ch\$



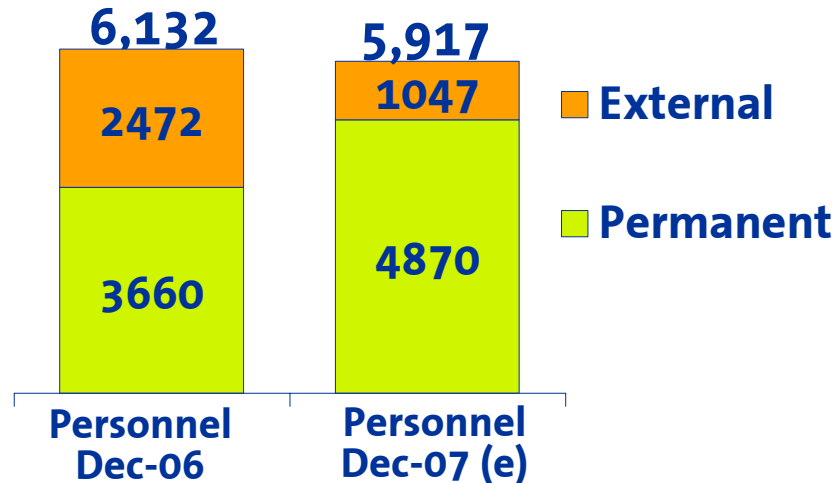
# Efficiency: Labor relations focused on stability and productivity

2006 Collective Bargaining Process

New Outsourcing Legislation

- 100% of unionized employees have contract conditions defined for a period of 3-4 years
- Salary adjustments in line with CPI
- Incentives aligned with business objectives
- The Company plans to hire 80% of independent contractors whose job functions are considered critical for the business as internal employees
- Related costs will remain stable, as there will be efficiency gains from hiring less than 100% of the external workforce

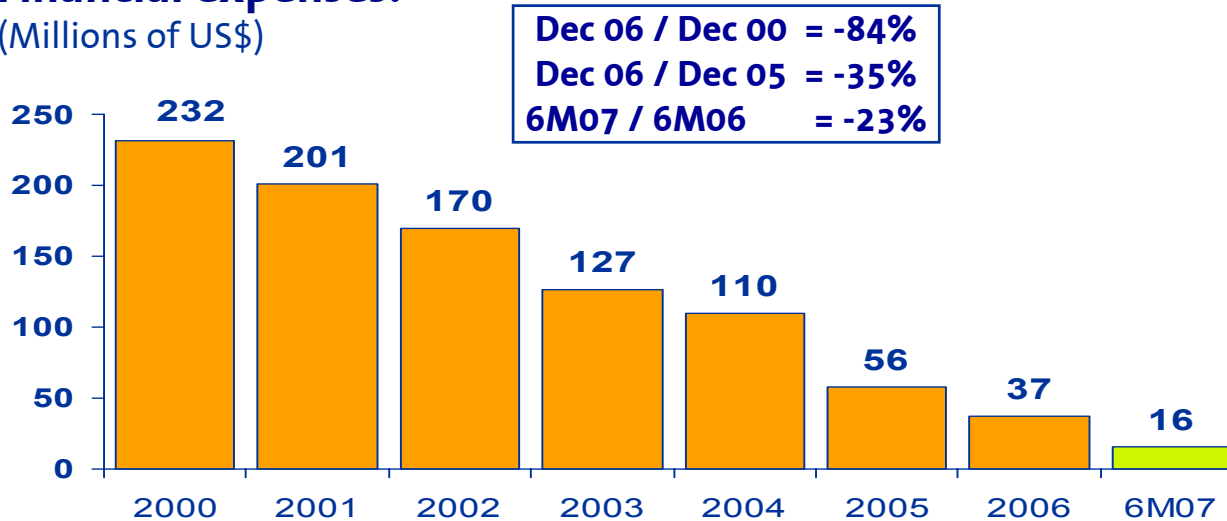
Total Personnel:



# Efficiency: Effective financial management supports business development

## Financial expenses:

(Millions of US\$)



## Local and international credit ratings:

■ Decrease in spreads

✓ International ratings:

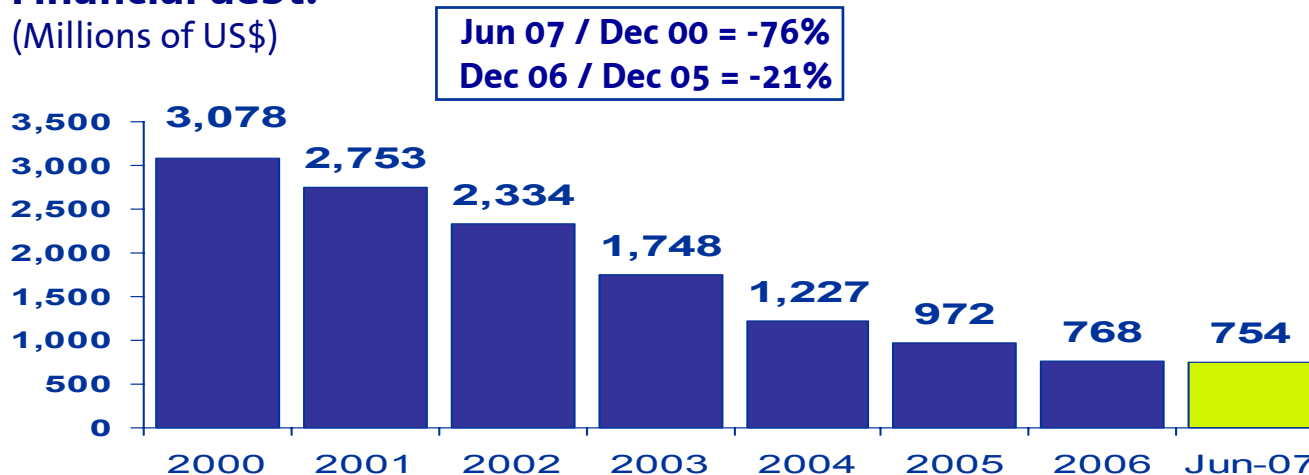
**Baa1**, stable (upgraded in 2006 by Moody's) and **BBB+**, stable (Fitch Ratings)

✓ Local ratings:

**AA-** (long-term debt) and **F1+** (short-term debt) (Fitch Ratings) and **AA-** (long-term debt) and **N1+/AA-** (short-term debt) (International Credit Rating)

## Financial debt:

(Millions of US\$)



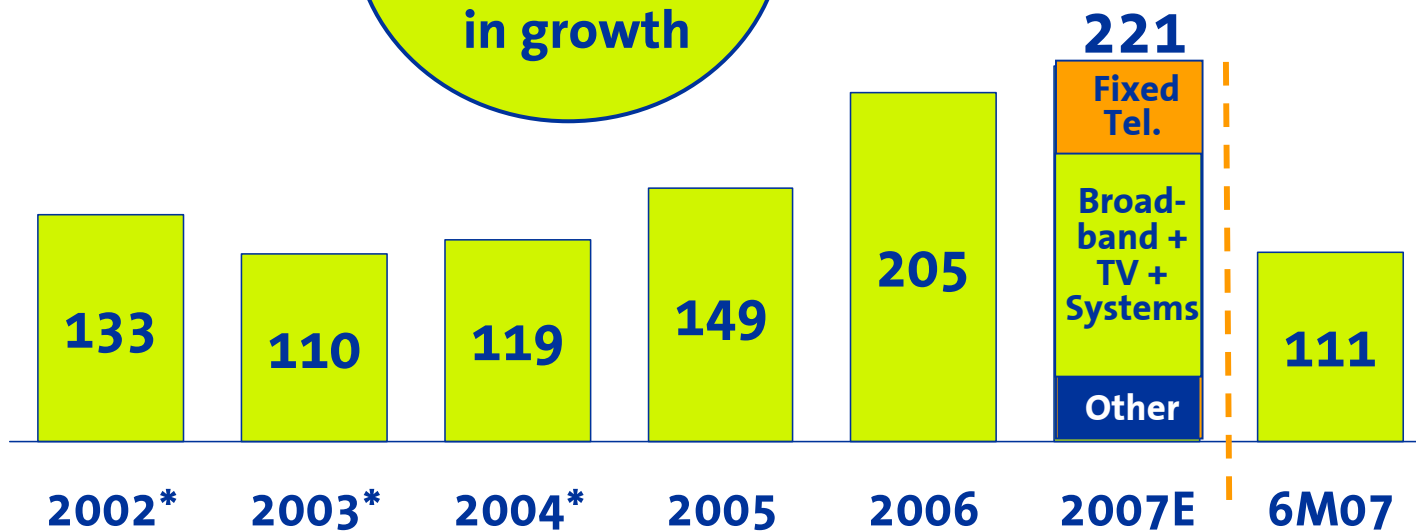


# Efficiency: Investment plan targets growth, in line with the Company's strategy

	6M06	6M07
Fixed telephony	15.3	31.1
Broadband and TV	31.6	59.4
Data	20.0	10.5
Long Distance	0.3	0.4
Other	20.4	9.4
<b>Total</b>	<b>87.6</b>	<b>110.9</b>

**In 2007, US\$2 of every US\$3 will be invested in growth**

Millions of nominal US\$



\* Excludes capex in mobile business

Exch. Rate Ch\$532.4/US\$1 (12.31.2006)

## ➤ Giving Back to Our Shareholders: Additional Cash Distributions

- The Company distributes 100% of net income to shareholders, per its dividend policy.
- In addition, the dividend policy allows additional cash distributions to shareholders, as long as business and financial obligations have been fulfilled and there is excess free cash flow.
  - At the Extraordinary Shareholders' Meeting held April 13, 2007, a capital reduction of Ch\$48,815 million (Ch\$51 per share) was approved, and it was paid in June 2007.
  - Another capital reduction may be possible in 2008

### Recent distributions to shareholders:

Gross amount per ADR (Ch\$)

	Interim Dividend	Final Dividend	Additional Dividend <sup>(1)</sup>	Capital Reduction	Total Per ADR	% Yield <sup>(2)</sup>
2005	44.0	235.4	203.96	--	483.36	7.8%
2006	44.0	61.24	--	168.0	273.24	6.1%
2007		53.76		204.0	257.76	6.0%

(1) Charged to retained earnings

(2) % of ADR price at start of year; Exch. Rate (2005) US\$1=Ch\$557.4; (2006) US\$1=Ch\$512.5; (2007) US\$1=Ch\$532.39

## > Quality: A Top Priority Within Our Strategy

### Network

- Enhance external and internal network infrastructure
- Redesign installation and repair contracts to better align incentives

### Commercial Support

- Improve handling of customer requests by implementing accountability and zero tolerance policies
- Implement ATIS system to improve billing and collections processes

### Customer Service

- Implement ongoing improvements in customer service, both by phone and in commercial offices
- Maximize number of customers whose requests are resolved the first time they call

## > Challenges for 2007

### Regulation

- Face changes in the industry by making significant advances in terms of tariff deregulation
- Develop simpler regulation that facilitates development of technological convergence and provides consumers with more alternatives, thereby increasing the scope and penetration of services
- April 2008: First stage of tariff-setting process for 2009-2013

### Consolidate Transformation

- Strengthen market share in broadband and TV
- Growth of multi-product “Dúo” and “Trío” plans
- Development of new products and launch IPTV

### Quality

- A fundamental objective that will define our course of action for 2007
- Improve installation and repair processes and customer service

# Additional Information



*Telefonica*  
CHILE

## > Financial Summary

<i>Millions of Ch\$</i>	6M06	6M07	Variation 6M07/06
<b>Revenues</b>	293,136	294,248	0.4%
<b>Operating Costs</b>	254,229	269,022	5.8%
<b>Operating income</b>	38,907	25,226	-35.2%
<b>EBITDA</b>	145,281	128,872	-11.3%
<b>EBITDA margin</b>	49.6%	43.8%	-5.8 p.p.
<b>Non-operating Income</b>	-18,478	-5,841	-68.4%
<b>Taxes</b>	-13,391	-14,779	10.4%
<b>Net Income</b>	7,246	4,843	-33.2%
<b>Capex (Mill. US\$)</b>	88	111	26.1%

## > Summarized Balance Sheet

<i>Millions of Ch\$</i>	<b>06.30.07</b>	<b>06.30.06</b>
<b>Current Assets</b>	285,798	275,451
<b>Fixed Assets, net</b>	1,215,745	1,302,275
<b>Other Assets</b>	77,861	82,303
<b>TOTAL ASSETS</b>	<b>1,579,404</b>	<b>1,660,029</b>
<b>Short-Term Liabilities</b>	193,411	219,675
<b>Long-Term Liabilities</b>	525,183	526,312
<b>TOTAL LIABILITIES</b>	<b>718,594</b>	<b>745,987</b>
<b>Minority Interest</b>	166	584
<b>SHAREHOLDERS' EQUITY</b>	860,645	913,458
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,579,404</b>	<b>1,660,029</b>

# Telefonica

---

## CHILE

**For information contact:**

**Sofía Chellew - Verónica Gaete**

**María José Rodríguez – Carolyn McKenzie**

**TELEFONICA CHILE**

**Tel.: 562-691-3867**

**Fax: 562-691-2392**

**E-mail:**

**[sofia.chellew@telefonicachile.cl](mailto:sofia.chellew@telefonicachile.cl),**

**[mariajose.rodriquez@telefonicachile.cl](mailto:mariajose.rodriquez@telefonicachile.cl)**

**[veronica.gaete@telefonicachile.cl](mailto:veronica.gaete@telefonicachile.cl)**

**[carolyn.mckenzie@telefonicachile.cl](mailto:carolyn.mckenzie@telefonicachile.cl)**