

TELECOMMUNICATIONS CO OF CHILE  
Form 6-K  
May 17, 2007

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 6-K**

**REPORT OF FOREIGN ISSUER**  
**PURSUANT TO RULE 13a-16 OR 15d-16 OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

**THROUGH MAY 17, 2007**

**(Commission File Number: 001-10579)**

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**COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A.**  
*(Exact name of Registrant as specified in its Charter)*

**TELECOMMUNICATIONS COMPANY OF CHILE**  
*(Translation of Registrant's name into English)*

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**Avenida Providencia No. 111, Piso 22**  
**Providencia, Santiago, Chile**  
*(Address of principal executive offices)*

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Indicate by check mark whether the registrant files or will file  
annual reports under cover Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K  
in paper as permitted by Regulation S-T Rule 101(b)(1): Yes ☐ No ☒

Indicate by check mark if the registrant is submitting the Form 6-K  
in paper as permitted by Regulation S-T Rule 101(b)(7): Yes ☐ No ☒

Indicate by check mark whether by furnishing the information contained in this Form,  
the registrant is also thereby furnishing the information to the Commission pursuant to  
Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If "Yes" is marked, indicated below the file number assigned to the  
registrant in connection with Rule 12g3-2(b): ☐ N/A ☐

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***COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES***

***REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS***

for the three-month periods ended

March 31, 2007 and 2006

*(CONSOLIDATED)*

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**COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES**

(Translation of financial statements originally issued in Spanish See Note 2)

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ThCh\$: Thousands of Chilean pesos.

UF : The Unidad de Fomento, or UF, is an inflation-indexed peso-denominated monetary unit in Chile. The daily UF rate is fixed in advance based on the change in the Chilean Consumer Price Index of the previous month.

ThUS\$: Thousands of US dollars.

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**Report of Independent Auditors**

(Translation of a report originally issued in Spanish--See Note 2 (b))

To the Shareholders and Directors of  
Compañía de Telecomunicaciones de Chile S.A.:

We have reviewed the consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income and cash flow for the three-month periods then ended. These interim financial statements and the accompanying notes are the responsibility of the management of Compañía de Telecomunicaciones de Chile S.A. The accompanying Management's Discussion and Analysis of the Consolidated Financial Statements is not an integral part of these financial statements, and therefore this report does not cover this item.

We conducted our reviews in accordance with generally accepted auditing standards in Chile for a review of interim financial information. A review of interim financial information consists principally of applying analytical procedures to the financial statements and making inquiries of persons responsible for financial and accounting matters. The scope of this review is substantially less than an audit conducted in accordance with generally accepted auditing standards in Chile, the objective of which is to express an opinion regarding the consolidated financial statement taken as a whole. Accordingly, we do not have the ability to express, and we do not express such an opinion.

Based on our review of the interim consolidated financial statements as of March 31, 2007 and 2006, we are not aware of any material modifications that are required for them to be in conformity with accounting principles generally accepted in Chile.

Andrés Marchant V.

ERNST & YOUNG LTDA.

Santiago, Chile, April 23, 2007

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## COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

MARCH 31, 2007 AND 2006

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31, 2007)

| ASSETS                                     | Notes | 2007               | 2006               | LIABILITIES                                                  | Notes  | 2007               | 2006               |
|--------------------------------------------|-------|--------------------|--------------------|--------------------------------------------------------------|--------|--------------------|--------------------|
|                                            |       | ThCh\$             | ThCh\$             |                                                              |        | ThCh\$             | ThCh\$             |
| <b>CURRENT ASSETS</b>                      |       |                    |                    | <b>CURRENT LIABILITIES</b>                                   |        |                    |                    |
|                                            |       |                    |                    | Short-term obligations with banks and financial institutions |        |                    |                    |
| Cash                                       |       | 9,059,296          | 7,504,915          |                                                              |        |                    |                    |
| Time deposits                              | (34)  | 65,949,738         | 28,479,757         | Commercial paper                                             | (15)   | 2,448,765          | 2,059,848          |
| Marketable securities, net                 | (4)   | 14,327,069         | 16,291,470         | Current maturities of bonds payable                          | (17 a) | -                  | 47,617,695         |
| Accounts receivable, net                   | (5)   | 169,180,973        | 152,813,907        | Current maturities of other long-term obligations            | (17 b) | 2,539,688          | 28,909,456         |
| Notes receivable, net                      | (5)   | 4,513,053          | 3,663,602          |                                                              |        | 12,550             | 12,628             |
| Other receivables                          | (5)   | 8,664,521          | 12,281,108         | Dividends payable                                            |        | 1,600,878          | 1,780,761          |
| Accounts receivable from related companies | (6 a) | 17,544,288         | 13,537,991         | Trade accounts payable                                       | (35)   | 118,659,110        | 78,683,124         |
| Inventories, net                           |       | 5,835,441          | 3,539,068          | Notes payable                                                |        | -                  | 271,595            |
| Prepaid taxes                              |       | 3,261,042          | 3,832,973          | Other payables                                               | (36)   | 10,901,451         | 18,769,315         |
|                                            |       |                    |                    | Accounts payable to related companies                        | (6 b)  | 32,653,674         | 27,670,459         |
| Prepaid expenses                           |       | 1,885,313          | 3,066,892          |                                                              |        |                    |                    |
| Deferred taxes                             | (7 b) | 14,414,073         | 12,657,000         | Accruals                                                     | (18)   | 3,346,144          | 4,487,289          |
| Other current assets                       | (8)   | 9,156,709          | 59,728,209         | Withholdings                                                 |        | 11,508,857         | 14,420,585         |
|                                            |       |                    |                    | Deferred Revenue                                             |        | 8,213,041          | 9,071,139          |
|                                            |       |                    |                    | Other current liabilities                                    |        | -                  | 1,933,254          |
| <b>TOTAL CURRENT</b>                       |       | <b>323,791,516</b> | <b>317,396,892</b> | <b>TOTAL CURRENT LIABILITIES</b>                             |        | <b>191,884,158</b> | <b>235,687,148</b> |

## ASSETS

| PROPERTY,<br>PLANT AND<br>EQUIPMENT                  | (10) |                 |                 | LONG-TERM<br>LIABILITIES                                      |        |             |             |
|------------------------------------------------------|------|-----------------|-----------------|---------------------------------------------------------------|--------|-------------|-------------|
| Land                                                 |      | 27,914,978      | 27,861,363      | Long-term debt<br>with banks and<br>financial<br>institutions | (16)   | 334,920,908 | 335,315,787 |
| Buildings and<br>improvements                        |      | 795,460,232     | 794,453,740     |                                                               |        |             |             |
| Machinery<br>and equipment                           |      | 2,777,677,156   | 2,747,994,738   | Bonds payable                                                 | (17 b) | 66,273,928  | 67,625,481  |
| Other<br>property, plant<br>and equipment            |      | 334,534,589     | 276,355,168     | Other accounts<br>payable                                     |        | 29,719,217  | 23,135,344  |
| Technical<br>revaluation                             |      | 9,394,568       | 9,968,712       | Accruals                                                      | (18)   | 35,707,788  | 35,554,964  |
| Accumulated<br>depreciation                          |      | (2,729,991,442) | (2,549,198,611) | Deferred taxes,<br>net                                        | (7 b)  | 52,055,262  | 58,551,654  |
|                                                      |      |                 |                 | Other liabilities                                             |        | 3,733,733   | 4,406,999   |
|                                                      |      |                 |                 |                                                               |        |             |             |
| TOTAL<br>PROPERTY,<br>PLANT AND<br>EQUIPMENT,<br>NET |      | 1,214,990,081   | 1,307,435,110   | TOTAL<br>LONG-TERM<br>LIABILITIES                             |        | 522,410,836 | 524,590,229 |
|                                                      |      |                 |                 |                                                               |        |             |             |
|                                                      |      |                 |                 | MINORITY<br>INTEREST                                          | (20)   | 350,742     | 1,598,500   |
|                                                      |      |                 |                 |                                                               |        |             |             |
| OTHER<br>LONG-TERM<br>ASSETS                         |      |                 |                 | SHAREHOLDERS'<br>EQUITY                                       | (21)   |             |             |
| Investments<br>in related<br>companies               | (11) | 8,429,645       | 8,164,611       | Paid-in capital                                               |        | 890,894,953 | 936,532,592 |
| Investments<br>in other<br>companies                 |      | 4,187           | 4,187           | Price-level<br>restatement of<br>paid-in capital              |        | 1,781,790   | (2,809,598) |
| Goodwill, net                                        | (12) | 15,633,503      | 17,736,547      | Other reserves                                                |        | (2,273,759) | (1,627,995) |
| Other<br>receivables                                 | (5)  | 14,033,878      | 13,787,748      | Retained earnings                                             |        | 13,945,297  | 15,724,005  |
| Intangibles                                          | (13) | 39,228,736      | 35,829,361      | Retained<br>earnings                                          |        | 23,399,752  | 25,763,594  |

|                                                                          |             |                      |                      |                                                               |                      |                      |
|--------------------------------------------------------------------------|-------------|----------------------|----------------------|---------------------------------------------------------------|----------------------|----------------------|
| <b>Accumulated<br/>amortization<br/>Others<br/>non-current<br/>asset</b> | <b>(13)</b> | (14,359,821)         | (8,782,548)          | <b>Net income</b>                                             | 1,053,131            | 753,284              |
|                                                                          | <b>(14)</b> | 17,242,292           | 18,122,973           | <b>Less: Interim<br/>dividend</b>                             | (10,507,586)         | (10,792,873)         |
| <b>TOTAL<br/>LONG-TERM<br/>ASSETS</b>                                    |             | <b>80,212,420</b>    | <b>84,862,879</b>    | <b>TOTAL<br/>SHAREHOLDERS'<br/>EQUITY</b>                     | <b>904,348,281</b>   | <b>947,819,004</b>   |
| <b>TOTAL<br/>ASSETS</b>                                                  |             | <b>1,618,994,017</b> | <b>1,709,694,881</b> | <b>TOTAL<br/>LIABILITIES AND<br/>SHAREHOLDERS'<br/>EQUITY</b> | <b>1,618,994,017</b> | <b>1,709,694,881</b> |

The accompanying note 1 to 36 are an integral part of these consolidated financial statements

## COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE PERIOD ENDED MARCH 31, 2007 AND 2006**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31, 2007)

|                                                      |        | <b>2007</b>            | <b>2006</b>             |
|------------------------------------------------------|--------|------------------------|-------------------------|
|                                                      |        | <b>ThCh\$</b>          | <b>ThCh\$</b>           |
| <b>OPERATING INCOME:</b>                             |        |                        |                         |
| Operating revenues                                   |        | 143,033,987            | 144,481,842             |
| Operating costs                                      |        | (95,805,222)           | (92,059,300)            |
| <br>Gross profit                                     |        | <br><b>47,228,765</b>  | <br><b>52,422,542</b>   |
| Administrative and selling expenses                  |        | (34,267,444)           | (32,464,605)            |
| <br>OPERATING INCOME                                 |        | <br><b>12,961,321</b>  | <br><b>19,957,937</b>   |
| <br><b>NON-OPERATING RESULTS:</b>                    |        |                        |                         |
| Interest income                                      |        | 1,634,376              | 690,753                 |
| Equity in earnings of equity-method investees        | (11)   | 288,013                | 471,400                 |
| Other non-operating income                           | (22 a) | 1,967,844              | 511,916                 |
| Equity in losses of equity-method investees          | (11)   | (24,380)               | (37,970)                |
| Amortization of goodwill                             | (12)   | (361,054)              | (1,142,281)             |
| Interest expense and other                           |        | (4,038,853)            | (5,071,691)             |
| Other non-operating expenses                         | (22 b) | (1,569,288)            | (10,389,750)            |
| Price-level restatement, net                         | (23)   | (4,596,719)            | (669,082)               |
| Foreign currency translation, net                    | (24)   | 163,580                | 232,710                 |
| <br>NON-OPERATING (LOSS) NET                         |        | <br><b>(6,536,481)</b> | <br><b>(15,403,995)</b> |
| <br>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST |        | <br><b>6,424,840</b>   | <br><b>4,553,942</b>    |
| Income taxes                                         | (7 c)  | (5,458,468)            | (3,866,954)             |
| <br>INCOME BEFORE MINORITY INTEREST                  |        | <br><b>966,372</b>     | <br><b>686,988</b>      |
| Minority interest                                    | (20)   | 86,759                 | 66,296                  |
| <br>NET INCOME                                       |        | <br><b>1,053,131</b>   | <br><b>753,284</b>      |

The accompanying note 1 to 36 are an integral part of these consolidated financial statements

**COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE PERIOD ENDED MARCH 31, 2007 AND 2006**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31, 2007)

|                                                                            | <b>2007<br/>ThCh\$</b> | <b>2006<br/>ThCh\$</b> |
|----------------------------------------------------------------------------|------------------------|------------------------|
| <b>NET CASH<br/>FROM OPERATING ACTIVITIES</b>                              | <b>60,566,416</b>      | <b>49,466,121</b>      |
| <b>Net income</b>                                                          | <b>1,053,131</b>       | <b>753,284</b>         |
| <b>Sales of assets:</b>                                                    | <b>-</b>               | <b>39,801</b>          |
| Net (income) loss on sale of investments                                   | -                      | 39,801                 |
| <b>Charges ( credits ) to income that do not represent<br/>cash flows:</b> | <b>62,076,155</b>      | <b>62,334,655</b>      |
| Depreciation                                                               | 50,279,779             | 51,234,206             |
| Amortization of intangibles                                                | 1,350,350              | 1,050,570              |
| Provisions and write offs                                                  | 5,503,608              | 8,335,921              |
| Equity participation in income of equity method investees                  | (288,013)              | (471,400)              |
| Equity participation in losses of equity method investees                  | 24,380                 | 37,970                 |
| Amortization of goodwill                                                   | 361,054                | 1,142,281              |
| Price-level restatement, net                                               | 4,596,719              | 669,082                |
| Foreign currency translation, net                                          | (163,580)              | (232,710)              |
| Other credits to income that do not represent<br>cash flows                | (199,537)              | (57,115)               |
| Other charges to income that do not represent<br>cash flows                | 611,395                | 625,850                |
| <b>Changes in operating assets<br/>(increase) decrease:</b>                | <b>2,697,167</b>       | <b>(9,323,263)</b>     |
| Trade accounts receivable                                                  | 4,901,702              | (11,551,185)           |
| Inventories                                                                | (85,665)               | (1,227,290)            |
| Other assets                                                               | (2,118,870)            | 3,455,212              |
| <b>Changes in operating liabilities<br/>increase (decrease):</b>           | <b>(5,173,278)</b>     | <b>(4,272,060)</b>     |
| Accounts payable related to<br>operating activities                        | 6,787,464              | (3,007,453)            |
| Interest payable                                                           | 1,146,476              | 228,730                |
| Income taxes payable, net                                                  | -                      | 85,835                 |
| Other accounts payable related to non-operating                            |                        |                        |

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|                                                 |                 |                 |
|-------------------------------------------------|-----------------|-----------------|
| activities                                      | (9,919,495)     | (1,151,219)     |
| V.A.T. and other similar taxes payable          | (3,187,723)     | (427,953)       |
| <b>Net (loss) income from minority interest</b> | <b>(86,759)</b> | <b>(66,296)</b> |

The accompanying note 1 to 36 are an integral part of these consolidated financial statements

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**COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE PERIOD ENDED MARCH 31, 2007 AND 2006**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31, 2007)

|                                                                 | <b>2007<br/>ThCh\$</b> | <b>2006<br/>ThCh\$</b> |
|-----------------------------------------------------------------|------------------------|------------------------|
| <b>NET CASH USED IN<br/>FINANCING ACTIVITIES</b>                | <b>-</b>               | <b>(39,467,285)</b>    |
| Obligations with the public                                     | -                      | 66,505,517             |
| Repayment of obligations with the public                        | -                      | (105,972,802)          |
| <b>NET CASH USED IN<br/>INVESTING ACTIVITIES</b>                | <b>(23,609,158)</b>    | <b>(19,422,136)</b>    |
| Sales of property, plant and equipment                          | -                      | 61,934                 |
| Sale of other investments                                       | 1,969,493              | -                      |
| Acquisition of property, plant and equipment                    | (25,578,651)           | (19,484,070)           |
| <b>NET CASH FLOWS FOR THE PERIOD</b>                            | <b>36,957,258</b>      | <b>(9,423,300)</b>     |
| <b>EFFECT OF INFLATION ON CASH<br/>AND CASH EQUIVALENTS</b>     | <b>(73,758)</b>        | <b>288,418</b>         |
| <b>NET INCREASE (DECREASE) OF CASH<br/>AND CASH EQUIVALENTS</b> | <b>36,883,500</b>      | <b>(9,134,882)</b>     |
| <b>CASH AND CASH EQUIVALENTS AT<br/>BEGINNING OF PERIOD</b>     | <b>41,429,751</b>      | <b>97,456,576</b>      |
| <b>CASH AND CASH EQUIVALENTS AT<br/>END OF PERIOD</b>           | <b>78,313,251</b>      | <b>88,321,694</b>      |

The accompanying note 1 to 36 are an integral part of these consolidated financial statements



## COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)  
Notes to the Consolidated Financial Statements

**1. Composition of Consolidated Group and Registration with the Securities Registry:**

a) Compañía de Telecomunicaciones de Chile ( Telefónica Chile , the Parent Company when referred to on an individual basis or the Company when referred in conjunction with its subsidiaries) is a publicly-held corporation that is registered in the Securities Registry under No. 009 and is therefore subject to supervision by the Chilean Security and Exchange Commission ( SVS ).

b) Subsidiary companies registered with the Securities Registry:

| SUBSIDIARIES                           | TAXPAYER<br>No. | Registration<br>Number | Participation<br>(direct & indirect) |           |
|----------------------------------------|-----------------|------------------------|--------------------------------------|-----------|
|                                        |                 |                        | 2007<br>%                            | 2006<br>% |
| Telefónica Larga Distancia S.A.        | 96,551,670-0    | 456                    | 99.83                                | 99.16     |
| Telefónica Asistencia y Seguridad S.A. | 96,971,150-8    | 863                    | 99.99                                | 99.99     |

**2. Summary of Significant Accounting Policies:****(a) Accounting period:**

The consolidated financial statements correspond to the three-month periods ended March 31, 2007 and 2006.

**(b) Basis of preparation:**

These consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in Chile ( Chilean GAAP ) and standards set forth by the Chilean Security and Exchange Commission ( SVS ). In the event of any discrepancies in these regulations, SVS regulations supersede Chilean GAAP. Certain accounting practices applied by the Company that conform to Chilean GAAP may not conform to generally accepted accounting principles in the United States ( US GAAP ) or International Financial Reporting Standards ( IFRS ). For the convenience of the reader, these financial statements have been translated from Spanish to English.

The Company's consolidated financial statements as of June 30 and December 31 of each year are prepared in order to be reviewed and audited, respectively, in accordance with current legal regulations. The Company voluntarily submits the quarterly financial statements as of March 31 and September 30 to an interim financial information review performed in accordance with regulations established for this type of review, described in Generally Accepted Auditing Standard No. 45 Section No. 722, issued by the Chilean Association of Accountants.

**(c) Basis of presentation:**

The consolidated financial statements for 2006 and their notes have been adjusted for comparison purposes by 2.6% in order to allow comparison with the 2007 consolidated financial statements. For comparison purposes, certain reclassifications have been made to the 2006 consolidated financial statements.

**(d) Basis of consolidation:**

These consolidated financial statements include the assets, liabilities, income and cash flows of the Parent Company and subsidiaries. Significant intercompany transactions have been eliminated, and the participation of minority investors has been recognized under Minority Interest (Note 20).

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(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)  
Notes to the Consolidated Financial Statements

**2. Summary of Significant Accounting Policies**, continued:

**(d) Basis of consolidation**, continued:

**Companies included in consolidation:**

As of March 31, 2007, the consolidated group (The Company) is composed of Compañía de Telecomunicaciones de Chile S.A. and the following subsidiaries:

| TAXPAYER<br>No. | Company Name                                                       | Ownership Percentage |                  |       |               |
|-----------------|--------------------------------------------------------------------|----------------------|------------------|-------|---------------|
|                 |                                                                    | Direct               | 2007<br>Indirect | Total | 2006<br>Total |
| 96,551,670-0    | Telefónica Larga Distancia S.A.<br>Telefonica Gestión de Servicios | 99.83                | -                | 99.83 | 99.16         |
| 96,961,230-5    | Compartidos Chile S.A.                                             | 99.99                | -                | 99.99 | 99.99         |
| 74,944,200-K    | Fundación Telefónica Chile                                         | 50.00                | -                | 50.00 | 50.00         |
| 96,971,150-8    | Telefónica Asistencia y Seguridad S.A.                             | 99.99                | -                | 99.99 | 99.99         |
| 90,430,000-4    | Telefónica Empresas Chile S.A.                                     | 99.99                | -                | 99.99 | 99.99         |
| 78,703,410-1    | Telefónica Multimedia Chile S.A. (1)                               | 99.99                | -                | 99.99 | 99.99         |
| 96,834,320-3    | Telefónica Internet Empresas S.A. (2)                              | 99.99                | -                | 99.99 | 99.99         |
| 96,811,570-7    | Instituto Telefónica Chile S.A. (4)<br>CTC Equipos y Servicios de  | -                    | 99.99            | 99.99 | 79.99         |
| 96,545,500-0    | Telecomunicaciones S.A. (3)                                        | -                    | -                | -     | 99.99         |
| 96,887,420-9    | Globus 120 S.A. (4)                                                | -                    | -                | -     | 99.99         |

1) On January 26, 2006, Telefónica Internet Empresas S.A. sold its entire ownership interest of 449,081 shares to Telefónica Chile for ThCh\$1,624,273 (historical). On that same date, CTC Equipos y Servicios de Telecomunicaciones S.A. sold its entire ownership interest of 1 share to Telefónica Chile S.A. for ThCh\$4.

On April 19, 2006, Tecnonáutica S.A. changed its name to Telefónica Multimedia Chile S.A.

2) On January 26, 2006 CTC Equipos y Servicios de Telecomunicaciones S.A. sold its entire ownership interest of 16 shares to Telefónica Chile for ThCh\$132.

On January 27, 2006, Telefónica Empresas Chile sold its entire ownership interest of 215,099 shares to Telefónica Chile for ThCh\$1,468,683 (historical).

3) On May 1, 2006 Telefónica Mundo S.A. absorbed the subsidiary Globus 120 S.A. and subsequently changed its name to Telefónica Larga Distancia S.A.

4) On October 20, 2006, Telefónica Internet Empresas S.A. sold 1,703,999 shares to Telefónica Gestión de Servicios Compartidos Chile S.A. for ThCh\$12,800.

On that same date, Telepeajes de Chile S.A. changed its name to Instituto Telefónica Chile S.A.



(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)  
Notes to the Consolidated Financial Statements

## **2. Summary of Significant Accounting Policies, continued:**

### **(e) Price-level restatement:**

The consolidated financial statements have been adjusted by applying price-level restatement standards, in accordance with Chilean GAAP, in order to reflect the changes in the purchasing power of the currency during both exercises. The accumulated variation in the Chilean Customer Price Index (CPI) as of March 31, 2007 and 2006, for initial balances, is 0.2% and -0.3%, respectively.

### **(f) Basis of conversion:**

Assets and liabilities in US\$ (United States dollars), Euros, Brazilian Reales, UF (Unidad de Fomento) have been converted to pesos at the exchange rates as of each period end:

| YEAR | US\$   | EURO   | BRAZILIAN<br>REAL | UF        |
|------|--------|--------|-------------------|-----------|
| 2007 | 539.21 | 720.00 | 262.02            | 18,372.97 |
| 2006 | 526.18 | 637.56 | 243.26            | 17,915.66 |

Foreign currency translation differences resulting from the application of this Standard are credited or debited to income for the period.

### **(g) Time deposits:**

Time deposits are carried at cost plus UF indexation adjustments, where applicable, and accrued interest as of period end.

### **(h) Marketable securities:**

Fixed income securities and shares are recorded at their price-level restated cost plus interest accrued as of each period end using the actual interest yield determined at the purchase date, or their market value, whichever is less.

### **(i) Inventories:**

Depending on the nature of respective items, equipment held for sale is carried at the lower of either its price-level restated acquisition or development cost or at its market value.

Inventories are expected to be used during a period of twelve months after their acquisition and classified as current assets. Their cost is price-level restated. The obsolescence provision has been determined on the basis of an analysis of materials with slow turnover.

### **(j) Allowance for doubtful accounts:**

The Allowance for doubtful accounts is estimated on the basis of the aging of such accounts, up to 100% of accounts outstanding for more than 120 days and 180 days in the case of large customers (corporations).



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Notes to the Consolidated Financial Statements

## **2. Summary of Significant Accounting Policies, continued:**

### **(k) Property, plant and equipment:**

Property, plant and equipment are carried at their price-level restated acquisition or construction cost.

Property, plant and equipment acquired up to December 31, 1979 are carried at their appraisal value, as stipulated in Article 140 of D.F.L. No. 4. Some assets subsequently acquired were subject to a technical revaluation to their appraisal value recorded as of September 30, 1986, as authorized in SVS Circular No. 550. All these values have been price-level restated.

### **(l) Depreciation of property, plant and equipment:**

Depreciation has been calculated and recorded on a straight-line basis over the estimated useful lives of the assets. The average annual financial depreciation rate of the Company is approximately 8.27% .

The estimated useful lives are summarized as follows:

| Assets                         | Range of years |
|--------------------------------|----------------|
| Buildings                      | 40             |
| Central telephone equipment    | 7 to 12        |
| Subscriber equipment           | 4              |
| External plant                 | 20 to 40       |
| Office furniture and equipment | 4 to 10        |
| Software                       | 3              |
| Others                         | 4 to 10        |

### **(m) Leased assets:**

Leased assets with a purchase option, whose contracts satisfy the characteristics of a financial lease, are recorded similarly to the acquisition of property, plant and equipment, recognizing the full obligation and interest on an accrual basis. These assets are not legally owned by the Company; therefore, until it exercises the purchase option, they cannot be freely disposed of.

### **(n) Intangibles:**

#### **i) Rights to underwater cable:**

Rights to underwater cable correspond to the rights acquired by the Company for the use of an underwater cable to transmit voice and data. These rights are amortized over the term of the respective contracts, with a maximum of 25 years.

#### **ii) Software licenses:**

Software licenses are valued at their price-level restated acquisition cost. Amortization is calculated using the straight-line method over their estimated useful life, which does not exceed 3 years.

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)  
Notes to the Consolidated Financial Statements

**2. Summary of Significant Accounting Policies, continued:**

**(ñ) Investments in related companies:**

These investments are accounted for under the equity method, which recognizes the investor's share of income on an accrual basis. For investments abroad, the valuation methodology as defined in Technical Bulletin No. 64 is applied. Investments in countries deemed to be unstable and whose activities are not an extension of the operations of the Parent Company are controlled in US dollars.

**(o) Goodwill:**

This account corresponds to the differences originated when adopting the equity method and adjusting the cost of investments, or with the realization of new acquisitions. Goodwill and negative goodwill amortization periods have been determined considering aspects such as the nature and characteristics of the business and the estimated period of return of the investment (Note 12).

**(p) Transactions with repurchase agreements:**

Purchases of financial instruments including repurchase agreements are recorded as fixed rate instruments and are classified as Other Current Assets (Note 8).

**(q) Obligations with the public:**

Bonds payable are presented under liabilities at the par value of the issued bonds (note 17b). The difference between par and placement value, determined on the basis of the actual interest rate for the transaction, is deferred and amortized over the term of the respective bond (Notes 8 and 14).

Commercial papers are presented under liabilities at placement value plus accrued interest (Note 17a).

Costs directly related to the placement of these obligations are deferred and amortized over the term of the respective liability (notes 8 y 14).

**(r) Current and deferred income taxes:**

Income tax is recorded on the basis of taxable net income. Deferred taxes on all temporary differences, tax loss carry forwards that can be realized as future tax benefits, and other events that create differences between the tax and accounting values are recognized in accordance with Technical Bulletins No. 60 and complementary technical bulletins thereto issued by the Chilean Association of Accountants, and with SVS Circular No.1,466 dated January 27, 2000.

**(s) Staff severance indemnities:**

For employees who qualify for this benefit, the Company's staff severance indemnities obligation is provided for by applying the present value method to the projected benefit obligation using an annual discount rate of 6%, considering assumptions about the future service period of the employees, mortality rate of employees and salary increases used as the basis of actuarial calculations.

Costs for past services of employees resulting from changes in assumptions used as the actuarial bases, are deferred and amortized over average of the employees' future service periods (Note 8 and 14).

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**2. Summary of Significant Accounting Policies, continued:**

**(t) Revenue recognition:**

The Company's revenues are recognized on an accrual basis in accordance with Chilean GAAP. Since billing dates are different from the accounting close date, as of the date of preparation of these consolidated financial statements provisions have been established for services provided and not billed, which are determined on the basis of contracts, traffic, prices and current conditions for the period. These amounts are recorded under Trade Accounts Receivable.

**(u) Foreign currency forwards:**

The Company has entered into short-term forward contracts to purchase foreign currency. These contracts are hedging liabilities in foreign currency against changes in exchange rates.

These instruments are valued in accordance with Technical Bulletin No. 57 of the Chilean Association of Accountants.

The rights and obligations acquired are detailed in Note 27, reflecting in the balance sheet only the net right or obligation at period end, classified according to the maturity of each contract under Other Current Assets or Other Payables, as applicable.

**(v) Interest rate coverage:**

Interest on loans for which associated interest rate swaps have been entered into is recorded recognizing the effect of those contracts on the interest rate established in such loans. The rights and obligations acquired therein are shown under Other Payables or under Other Current Assets, as applicable (Note 27).

**(w) Computer software:**

The cost of software purchased is deferred and amortized using the straight-line method over a maximum period of three years and classified as other property, plant and equipment.

**(x) Cumulative translation adjustment:**

The Company recognizes in this equity account the effect of exchange rate fluctuations and the Consumer Price Index (C.P.I.) resulting from measuring those investments abroad that are controlled in United States dollars. The balance of this account is recognized in income in the same period in which the net income or loss is recognized on the total or partial disposal of these investments.

**(y) Statement of cash flows:**

For the purposes of preparing the Statement of Cash Flows according to Technical Bulletin No. 50 of the Chilean Association of Accountants and SVS Circular No.1,312, the Company defines securities under agreements to resell and time deposits with a remaining maturity of less than 90 days as cash equivalents.

Cash flows related to the Company's operations and all those not defined as from investing or financing activities are included under Cash Flows from Operating Activities.



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**2. Summary of Significant Accounting Policies, continued:**

**(z) Correspondents:**

The Company has agreements with foreign counterparties to set the conditions that regulate international traffic., determining the payments for each counterparty based on fixed rates for the net exchange of traffic.

The receivables/payables related to these agreements are recorded on an accrual basis, recognizing the costs and income for the period in which these are incurred, recording the the net receivable and payable for each counterparty where the legal right to offset exists under Accounts Receivable or Accounts Payable , as applicable.

**3. Accounting Changes:**

**a) Accounting changes**

During the periods covered in these interim consolidated financial statements, the accounting principles have been consistently applied.

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**4. Marketable Securities:**

The balance of marketable securities is as follows:

| <b>Description</b>                | <b>2007<br/>ThCh\$</b> | <b>2006<br/>ThCh\$</b> |
|-----------------------------------|------------------------|------------------------|
| Publicly offered promissory notes | 14,327,069             | 16,291,470             |
| <b>Total</b>                      | <b>14,327,069</b>      | <b>16,291,470</b>      |

**Publicly offered promissory notes (Fixed Income)**

| <b>Instrument</b> | <b>Date</b>     |                 | <b>Par</b>              | <b>Book Value</b>        |                   | <b>Market</b>           | <b>Provision</b> |
|-------------------|-----------------|-----------------|-------------------------|--------------------------|-------------------|-------------------------|------------------|
|                   | <b>Purchase</b> | <b>Maturity</b> | <b>Value<br/>ThCh\$</b> | <b>Amount<br/>ThCh\$</b> | <b>Rate<br/>%</b> | <b>Value<br/>ThCh\$</b> | <b>ThCh\$</b>    |
| BCD0500907        | 06-Dec-04       | 01-Sep-07       | 2,696,050               | 2,703,220                | 5%                | 2,703,220               | (15,691)         |
| BCD0500907        | 09-Aug-05       | 01-Sep-07       | 1,887,235               | 1,892,254                | 5%                | 1,892,254               | (6,102)          |
| BCD0500907        | 01-Sep-05       | 01-Sep-07       | 2,156,840               | 2,162,577                | 5%                | 2,162,577               | (10,531)         |
| BCD0500907        | 06-Sep-05       | 01-Sep-07       | 2,696,050               | 2,703,221                | 5%                | 2,703,221               | (13,058)         |
| BCD0500907        | 07-Sep-05       | 01-Sep-07       | 2,696,050               | 2,703,221                | 5%                | 2,703,221               | (12,554)         |
| BCD0500907        | 08-Sep-05       | 01-Sep-07       | 539,210                 | 540,644                  | 5%                | 540,644                 | (2,513)          |
| BCD0500907        | 08-Sep-05       | 01-Sep-07       | 539,210                 | 540,644                  | 5%                | 540,644                 | (2,421)          |
| BCD0500907        | 14-Sep-05       | 01-Sep-07       | 1,078,420               | 1,081,288                | 5%                | 1,081,288               | (4,801)          |
|                   |                 | <b>Total</b>    | <b>14,289,065</b>       | <b>14,327,069</b>        |                   | <b>14,327,069</b>       | <b>(67,671)</b>  |

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**5. Current and long-term receivables:**

The detail of current and long-term receivables is as follows:

| Description                       | Current        |                |                      |                |                |                |                     |                |
|-----------------------------------|----------------|----------------|----------------------|----------------|----------------|----------------|---------------------|----------------|
|                                   | Up to 90 days  |                | Over 90 up to 1 year |                | Subtotal       |                | Total Current (net) |                |
|                                   | 2007<br>ThCh\$ | 2006<br>ThCh\$ | 2007<br>ThCh\$       | 2006<br>ThCh\$ | 2007<br>ThCh\$ | 2007<br>ThCh\$ | %                   | 2006<br>ThCh\$ |
| Trade accounts receivable         | 233,041,199    | 201,247,102    | 3,202,491            | 15,343,617     | 236,243,690    | 169,180,973    | 100.00              | 152,813,907    |
| Fixed telephony service           | 186,389,751    | 172,797,938    | 283,755              | 1,144,791      | 186,673,506    | 130,227,819    | 76.98               | 119,232,398    |
| Long distance                     | 22,437,661     | 10,334,764     | -                    | 12,108,098     | 22,437,661     | 15,795,278     | 9.34                | 16,289,491     |
| Communications corporate          | 18,110,327     | 16,685,868     | 2,423,613            | 1,732,365      | 20,533,940     | 18,651,168     | 11.02               | 16,910,976     |
| Other                             | 6,103,460      | 1,428,532      | 495,123              | 358,363        | 6,598,583      | 4,506,708      | 2.66                | 381,042        |
| Allowance for doubtful accounts   | (67,062,717)   | (57,570,206)   | -                    | (6,206,606)    | (67,062,717)   | -              |                     | -              |
| Notes receivable                  | 8,605,592      | 8,286,879      | 442,240              | 167,094        | 9,047,832      | 4,513,053      |                     | 3,663,602      |
| Allowance for doubtful notes      | (4,534,779)    | (4,790,371)    | -                    | -              | (4,534,779)    | -              |                     | -              |
| Miscellaneous accounts receivable | 6,516,392      | 9,620,157      | 2,148,129            | 2,660,951      | 8,664,521      | 8,664,521      |                     | 12,281,108     |
| Allowance for doubtful accounts   | -              | -              | -                    | -              | -              | -              |                     | -              |
| Long-term receivables             |                |                |                      |                |                |                |                     |                |

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**6. Balances and transactions with related entities:**

**a) Receivables from related parties are as follows:**

| Taxpayer<br>No. | Company                                                | Short term        |                   | Long term      |                |
|-----------------|--------------------------------------------------------|-------------------|-------------------|----------------|----------------|
|                 |                                                        | 2007<br>ThCh\$    | 2006<br>ThCh\$    | 2007<br>ThCh\$ | 2006<br>ThCh\$ |
| 87,845,500-2    | Telefónica Móviles Chile S.A.                          | 673,736           | -                 | -              | -              |
| 96,672,150-2    | Telefónica Móviles Chile Inversiones S.A.              | 76,571            | -                 | -              | -              |
| 96,672,160-k    | Telefónica Móviles Chile Larga Distancia S.A.          | 325,686           | 897,834           | -              | -              |
| 96,834,230-4    | Terra Networks Chile S.A.                              | 2,608,326         | 1,319,041         | -              | -              |
| 96,895,220-k    | Atento Chile S.A.                                      | 581,459           | 543,529           | -              | -              |
| 96,910,730-9    | Telefónica International Wholesale Services Chile S.A. | 642,599           | 180,761           | -              | -              |
| 96,786,140-5    | Telefónica Móvil de Chile S.A.                         | 7,375,754         | 6,468,673         | -              | -              |
| 59,083,900-0    | Telefónica Ingeniería de Seguridad S.A.                | 13,326            | 4,268             | -              | -              |
| 96,990,810-7    | Telefónica Móviles Soluciones y Aplicaciones S.A.      | 133,421           | 51,043            | -              | -              |
| 96,942,730-3    | Telefónica Móviles Soluciones Chile S.A.               | -                 | 128,065           | -              | -              |
| 96,527,390-5    | Telefónica Internacional Chile S.A.                    | 351               | -                 | -              | -              |
| Foreign         | Telefónica España                                      | 1,085,212         | 224,319           | -              | -              |
| Foreign         | Telefónica LD Puerto Rico                              | 218,019           | -                 | -              | -              |
| Foreign         | Telefónica Data Usa Inc.                               | 26,609            | 40,565            | -              | -              |
| Foreign         | Telefónica Data España                                 | -                 | 420,455           | -              | -              |
| Foreign         | Telefónica Argentina                                   | 1,403,455         | 1,347,391         | -              | -              |
| Foreign         | Telefónica Soluciones de Informática España            | 1,522,632         | -                 | -              | -              |
| Foreign         | Telefónica International WholeSale Services            | 391,526           | 525,436           | -              | -              |
| Foreign         | Telefónica Gestión de Servicios Compartidos España     | -                 | 11,495            | -              | -              |
| Foreign         | Telefónica Perú                                        | 429,726           | 1,985             | -              | -              |
| Foreign         | Telefónica Procesos Tec. de Información                | -                 | 1,373,131         | -              | -              |
| Foreign         | Telefónica Móvil El Salvador S.A. de C.V.              | 5,502             | -                 | -              | -              |
| Foreign         | Telecomunicaciones de Sao Paulo                        | 30,378            | -                 | -              | -              |
| <b>Total</b>    |                                                        | <b>17,544,288</b> | <b>13,537,991</b> | -              | -              |

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There have been charges and credits recorded to current accounts with these companies for invoicing of sale of materials, equipment and services.

**b) Payables to related parties are as follows:**

| Taxpayer<br>No. | Company                                   | Short term        |                   | Long term   |             |
|-----------------|-------------------------------------------|-------------------|-------------------|-------------|-------------|
|                 |                                           | 2007<br>ThCh\$    | 2006<br>ThCh\$    | 2007<br>M\$ | 2006<br>M\$ |
| 96,527,390-5    | Telefónica Internacional Chile S.A.       | 429,927           | 430,177           | -           | -           |
| 96,834,230-4    | Terra Networks Chile S.A.                 | 5,559,797         | 4,918,755         | -           | -           |
| 96,895,220-k    | Atento Chile S.A.                         | 3,089,360         | 1,306,328         | -           | -           |
|                 | Telefónica International Wholesale        |                   |                   |             |             |
| 96,910,730-9    | Services Chile S.A.                       | 4,289,095         | 1,179,509         | -           | -           |
| 96,786,140-5    | Telefónica Móvil de Chile S.A.            | 14,349,390        | 14,459,054        | -           | -           |
| 87,845,500-2    | Telefónica Móviles Chile S.A.             | 1,726,555         | -                 | -           | -           |
|                 | Telefónica Móviles Chile Larga Distancia  |                   |                   |             |             |
| 96,672,160-k    | S.A.                                      | 17,788            | 3,916,052         | -           | -           |
| 59,083,900-0    | Telefónica Ingeniería de Seguridad S.A.   | 160,973           | 2,238             | -           | -           |
|                 | Telefónica Gestión de Servicios           |                   |                   |             |             |
| Foreign         | Compartidos España                        | 161,699           | -                 | -           | -           |
| Foreign         | Telefónica Argentina                      | 57,494            | -                 | -           | -           |
| Foreign         | Telefónica Perú                           | 842,380           | -                 | -           | -           |
| Foreign         | Telefónica Guatemala                      | 54,725            | 69,530            | -           | -           |
| Foreign         | Telefónica Móvil El Salvador S.A. de C.V. | 44,326            | 17,880            | -           | -           |
|                 | Telefónica International WholeSale        |                   |                   |             |             |
| Foreign         | Services                                  | 180,185           | 740,593           | -           | -           |
| Foreign         | Telefónica Puerto Rico                    | 14,446            | 14,181            | -           | -           |
| Foreign         | Telefónica Investigación y Desarrollo     | 586,877           | 524,929           | -           | -           |
| Foreign         | Telecomunicaciones de Sao Paulo           | 64,858            | 30,305            | -           | -           |
|                 | Telefónica International WholeSale        |                   |                   |             |             |
| Foreign         | Services USA                              | 8,287             | -                 | -           | -           |
|                 | Telefónica International WholeSale        |                   |                   |             |             |
| Foreign         | Services Uruguay                          | 1,015,512         | -                 | -           | -           |
| Foreign         | Atento Servicios Técnicos y Consultorías  | -                 | 60,928            | -           | -           |
|                 | <b>Total</b>                              | <b>32,653,674</b> | <b>27,670,459</b> | <b>-</b>    | <b>-</b>    |

As per Article No. 89 of the Corporations Law, all these transactions are carried out under normal market conditions.

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Notes to the Consolidated Financial Statements

**6. Balances and transactions with related companies,** continued:

**c) Transactions:**

| Company                             | Tax No.      | Nature of Relationship    | Description of transaction   | 2007<br>ThCh\$         |                        | 2006<br>ThCh\$         |                        |
|-------------------------------------|--------------|---------------------------|------------------------------|------------------------|------------------------|------------------------|------------------------|
| Telefónica España                   | Foreign      | Related to parent company | Sales<br>Purchases           | 457,426<br>(91,945)    | 457,426<br>(91,945)    | 116,769<br>(78,969)    | 116,769<br>(78,969)    |
| Telefonica Data Usa Inc.            | Foreign      | Related to parent company | Sales                        | 8,048                  | 8,048                  | 11,085                 | 11,085                 |
| Telefónica Internacional Chile S.A. | 96,527,390-5 | Parent company            | Other non-operating expenses | (143,685)              | (143,685)              | (143,438)              | (143,438)              |
| Terra Networks Chile S.A.           | 96,834,230-4 | Related company           | Sales<br>Purchases           | 668,263<br>(2,665,167) | 668,263<br>(2,665,167) | 1,433,736<br>(173,095) | 1,433,736<br>(173,095) |
| Atento Chile S.A.                   | 96,895,220-k | Related company           | Sales<br>Purchases           | 302,671<br>(4,805,187) | 302,671<br>(4,805,187) | 212,636<br>(4,006,735) | 212,636<br>(4,006,735) |
| Telefónica Argentina                | Foreign      | Related to parent company | Sales<br>Purchases           | 590,766<br>(545,473)   | 590,766<br>(545,473)   | 515,912<br>(269,686)   | 515,912<br>(269,686)   |
| Telecomunicaciones de Sao Paulo     | Foreign      | Related to parent company | Sales<br>Purchases           | 42,956<br>(49,469)     | 42,956<br>(49,469)     | 52,819<br>(55,649)     | 52,819<br>(55,649)     |
| Telefónica Guatemala                | Foreign      | Related to parent company | Sales<br>Purchases           | 3,507<br>(32,960)      | 3,507<br>(32,960)      | 1,962<br>(18,397)      | 1,962<br>(18,397)      |
|                                     | Foreign      |                           |                              |                        |                        |                        |                        |

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|                                                     |              |                           |           |             |             |              |              |
|-----------------------------------------------------|--------------|---------------------------|-----------|-------------|-------------|--------------|--------------|
| Telefónica del Perú                                 |              | Related to parent company | Sales     | 329,631     | 329,631     | 165,932      | 165,932      |
|                                                     |              |                           | Purchases | (1,004,835) | (1,004,835) | (230,080)    | (230,080)    |
| Telefónica LD Puerto Rico                           | Foreign      | Related to parent company | Sales     | 110         | 110         | 1,610        | 1,610        |
|                                                     |              |                           | Purchases | (219)       | (219)       | (4,676)      | (4,676)      |
| Telefónica El Salvador                              | Foreign      | Related to parent company | Sales     | 5,634       | 5,634       | 1,312        | 1,312        |
|                                                     |              |                           | Purchases | (40,871)    | (40,871)    | (10,540)     | (10,540)     |
| Telefónica Móvil de Chile S.A.                      | 96,786,140-5 | Related to parent company | Sales     | 3,720,948   | 3,720,948   | 3,125,870    | 3,125,870    |
|                                                     |              |                           | Purchases | (9,125,297) | (9,125,297) | (11,116,196) | (11,116,196) |
| Telefónica Moviles Chile Larga Distancia S.A.       | 96,672,160-k | Related to parent company | Sales     | 101,263     | 101,263     | -            | -            |
|                                                     |              |                           | Purchases | (584)       | (584)       | -            | -            |
| Telefónica WholeSale International Services España  | Foreign      | Related to parent company | Sales     | (1,013,654) | (1,013,654) | -            | -            |
|                                                     |              |                           | Purchases | -           | -           | -            | -            |
| Telefónica Móviles Chile Inversiones S.A.           | 96,672,150-2 | Related to parent company | Sales     | 12,096      | 12,096      | 255,716      | 255,716      |
|                                                     |              |                           | Purchases | -           | -           | (2,472,718)  | (2,472,718)  |
| Telefónica Wholesale Internacional Services Uruguay | Foreign      | Related to parent company | Purchases | -           | -           | (281,298)    | (281,298)    |
| Telefónica Gestión de Serv.Compartidos España S.A.  | Foreign      | Related to parent company | Sales     | (68,959)    | (68,959)    | -            | -            |
| Telefónica Ingeniería de Seguridad S.A.             | 59,083,900-0 | Related to parent company | Sales     | 3,388       | 3,388       | -            | -            |
|                                                     |              |                           | Purchases | (72,120)    | (72,120)    | -            | -            |
| Telefónica Moviles Soluciones y Aplicaciones        | 96,990,810-7 | Related to parent         |           |             |             |              |              |

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|                                                        |              |                           |           |             |             |             |             |
|--------------------------------------------------------|--------------|---------------------------|-----------|-------------|-------------|-------------|-------------|
| S.A.                                                   |              | company                   | Sales     | 29,465      | 29,465      | -           | -           |
| Telefónica International Wholesale Services USA        | Foreign      | Related to parent company | Purchases | (8,290)     | (8,290)     | -           | -           |
| Telefónica Internacional Wholesale Services Chile S.A. | 96,910,730-9 | Related to parent company | Sales     | 347,839     | 347,839     | 255,640     | 255,640     |
|                                                        |              |                           | Purchases | (1,556,372) | (1,556,372) | (1,153,468) | (1,153,468) |
| Telefónica Móviles Chile S.A.                          | 86,845,500-2 | Related to parent company | Sales     | 40,896      | 40,896      | -           | -           |
|                                                        |              |                           | Purchases | (1,651,719) | (1,651,719) | -           | -           |
| Telefónica Investigación y Desarrollo                  | Foreign      | Related to parent company | Purchases | (392,023)   | (392,023)   | -           | -           |
| Telefónica Data Corp España                            | Foreign      | Related to parent company | Sales     | 149,036     | 149,036     | -           | -           |

The intercompany account with Telefónica Internacional Chile S.A. includes short-term and long-term positions denominated in US dollars, accruing interest at a variable rate adjusted to market rates (US\$ + Market Spread)

In the case of Sales and Services Rendered, these have a short-term character (maturity of less than a year); individual terms for each transaction vary based on the related transaction.

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Notes to the Consolidated Financial Statements

**7. Current and deferred income taxes:**

**a) General information:**

As of March 31, 2007 and 2006, the Parent Company recorded a first category income tax provision based on taxable income of ThCh\$30,621,765 and ThCh\$27,920,258, respectively.

In addition, as of March 31, 2007 and 2006, a provision for first category income tax in subsidiaries was recorded based on the subsidiaries' respective taxable income of ThCh\$13,100,976 and ThCh\$8,616,176, respectively.

As of March 31, 2007 and 2006, accumulated tax losses of subsidiaries amount to ThCh\$7,457,482 and ThCh\$6,911,871 respectively.

According to current legislation the tax years subject to an eventual review by the fiscal authority consider transactions generated from 2004 to date for most of the taxes to which the Company's operations are subject.

In the normal course of its operation, the Company is subject to the regulation and oversight of the Chilean Internal Revenue Service. Based on the information available to date, management believes that there are no additional significant liabilities other than those recorded in the financial statements. However, actual taxable results may differ from these estimations.

The companies in the group with positive Retained Taxable Earnings and their associated credits are as follows:

| Subsidiaries                               | Retained<br>Taxable<br>Earnings<br>w/15% credit<br>ThCh\$ | Retained<br>Taxable<br>Earnings<br>w/16% credit<br>ThCh\$ | Retained<br>Taxable<br>Earnings<br>w/16.5% credit<br>ThCh\$ | Retained<br>Taxable<br>Earnings<br>w/17% credit<br>ThCh\$ | Retained<br>Taxable<br>Earnings<br>w/o credit<br>ThCh\$ | Amount<br>of<br>credit<br>ThCh\$ |
|--------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------|----------------------------------|
| Telefónica<br>Larga<br>Distancia S.A.      | 2,187,933                                                 | 828,941                                                   | 4,961,210                                                   | 66,373,696                                                | 6,480,593                                               | 15,118,947                       |
| Telefónica<br>Empresas<br>Chile S.A.       | 103                                                       | -                                                         | 1,724,646                                                   | 45,613,623                                                | 4,394,152                                               | 9,683,352                        |
| Telefónica<br>Chile S.A.                   | -                                                         | -                                                         | -                                                           | 132,018,719                                               | 29,288,521                                              | 27,039,942                       |
| Telefónica<br>Internet<br>Empresas<br>S.A. | -                                                         | -                                                         | -                                                           | 3,698,831                                                 | 598,020                                                 | 757,591                          |
| <b>Total</b>                               | <b>2,188,036</b>                                          | <b>828,941</b>                                            | <b>6,685,856</b>                                            | <b>247,704,869</b>                                        | <b>40,761,286</b>                                       | <b>52,599,832</b>                |



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Notes to the Consolidated Financial Statements

**7. Current and deferred income taxes, continued:**

**b) Deferred taxes:**

As of March 31, 2007 and 2006, the net deferred tax liabilities amounted to ThCh\$37,641,189 and ThCh\$45,894,654, respectively and the detail is as follows:

| Description                                         | 2007                 |                     |                          |                     | 2006                 |                     |                          |                     |
|-----------------------------------------------------|----------------------|---------------------|--------------------------|---------------------|----------------------|---------------------|--------------------------|---------------------|
|                                                     | Deferred tax assets  |                     | Deferred tax liabilities |                     | Deferred tax assets  |                     | Deferred tax liabilities |                     |
|                                                     | Short-term<br>ThCh\$ | Long-term<br>ThCh\$ | Short-term<br>ThCh\$     | Long-term<br>ThCh\$ | Short-term<br>ThCh\$ | Long-term<br>ThCh\$ | Short-term<br>ThCh\$     | Long-term<br>ThCh\$ |
| Allowance for doubtful accounts                     | 10,882,968           | -                   | -                        | -                   | 10,774,483           | -                   | -                        | -                   |
| Vacation provision                                  | 247,147              | -                   | -                        | -                   | 409,956              | -                   | -                        | -                   |
| Tax benefits for tax losses                         | -                    | 1,267,772           | -                        | -                   | 106,261              | 1,068,757           | -                        | -                   |
| Staff severance indemnities                         | -                    | 520                 | -                        | 3,837,681           | -                    | 17,461              | -                        | 5,321,500           |
| Leased assets and liabilities                       | -                    | 48,191              | -                        | 75,574              | -                    | 59,452              | -                        | 79,690              |
| Property, plant and equipment                       | -                    | 610,270             | -                        | 140,171,181         | -                    | 4,275,216           | -                        | 165,247,840         |
| Employee benefits                                   | -                    | -                   | -                        | -                   | 125,159              | -                   | -                        | -                   |
| Difference in amount of capitalized staff severance | -                    | 330,591             | -                        | 229,196             | -                    | 498,229             | -                        | -                   |
| Deferred charge on sale of assets                   | -                    | 4,466               | -                        | 254,381             | -                    | -                   | -                        | 861,530             |
| Development software                                | -                    | -                   | -                        | 3,689,393           | -                    | -                   | -                        | 1,750,550           |
| Collective negotiation bonus                        | -                    | -                   | -                        | 139,372             | -                    | -                   | -                        | 146,800             |
| Other                                               | 3,348,741            | 852,845             | 64,783                   | 5,925,486           | 1,301,253            | 278,507             | 60,112                   | 4,172,880           |
| <b>Sub-Total</b>                                    | <b>14,478,856</b>    | <b>3,114,655</b>    | <b>64,783</b>            | <b>154,322,264</b>  | <b>12,717,112</b>    | <b>6,197,622</b>    | <b>60,112</b>            | <b>177,580,810</b>  |

|                                                                 |                   |                  |               |                   |                   |                  |               |                   |
|-----------------------------------------------------------------|-------------------|------------------|---------------|-------------------|-------------------|------------------|---------------|-------------------|
| Complementary<br>accounts net of<br>accumulated<br>amortization | -                 | (843,532)        | -             | (99,995,879)      | -                 | (3,633,226)      | -             | (116,464,760)     |
| <b>Sub-Total</b>                                                | <b>14,478,856</b> | <b>2,271,123</b> | <b>64,783</b> | <b>54,326,385</b> | <b>12,717,112</b> | <b>2,564,396</b> | <b>60,112</b> | <b>61,116,050</b> |
| Tax<br>reclassification                                         | (64,783)          | (2,271,123)      | (64,783)      | (2,271,123)       | (60,112)          | (2,564,396)      | (60,112)      | (2,564,396)       |
| <b>Total</b>                                                    | <b>14,414,073</b> | <b>-</b>         | <b>-</b>      | <b>52,055,262</b> | <b>12,657,000</b> | <b>-</b>         | <b>-</b>      | <b>58,551,654</b> |

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Notes to the Consolidated Financial Statements

**7. Current and deferred income taxes**, continued:

**c) Income tax detail:**

The current tax expense recorded by the Company in the periods 2007 and 2006 result from the following items:

| Description                                                                            | 2007<br>ThCh\$     | 2006<br>ThCh\$     |
|----------------------------------------------------------------------------------------|--------------------|--------------------|
| Common tax expense before tax credit (income tax 17%)                                  | 7,432,866          | 6,211,124          |
| Current tax expense (article 21 single tax at 35%)                                     | 1,503              | 7,818              |
| <b>Income tax subtotal</b>                                                             | <b>7,434,369</b>   | <b>6,218,942</b>   |
| - Current period deferred taxes                                                        | (5,272,701)        | (5,812,785)        |
| - Effect of amortization of complementary accounts for deferred assets and liabilities | 3,296,800          | 3,460,797          |
| <b>Deferred tax subtotal</b>                                                           | <b>(1,975,901)</b> | <b>(2,351,988)</b> |
| <b>Total expense tax</b>                                                               | <b>5,458,468</b>   | <b>3,866,954</b>   |

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**8. Other Current Assets:**

The detail of other current assets is as follows:

| Description                                                      | 2007<br>ThCh\$   | 2006<br>ThCh\$    |
|------------------------------------------------------------------|------------------|-------------------|
| Fixed income securities purchased with resale agreement (note 9) | 3,304,217        | 52,337,018        |
| Deferred union contract bonus (1)                                | 1,470,146        | 810,990           |
| Deferred exchange insurance premiums                             | -                | 39,627            |
| Telephone directories for connection program                     | 1,536,083        | 1,773,203         |
| Deferred higher bond discount rate (note 25)                     | 229,872          | 240,586           |
| Deferred disbursements for placement of bonds (note 25)          | 127,853          | 290,220           |
| Deferred disbursements for foreign financing proceeds (2)        | 366,151          | 875,246           |
| Exchange insurance receivable                                    | 774,462          | 1,131,774         |
| Deferred staff severance indemnities charges (3)                 | 1,210,332        | 1,248,054         |
| Dispensable property                                             | 121,188          | 120,824           |
| Others                                                           | 16,405           | 860,667           |
| <b>Total</b>                                                     | <b>9,156,709</b> | <b>59,728,209</b> |

(1) Between May and September 2006, the Company negotiated a 38-month and 48-months union contract with a number of its employees, granting them, among other benefits, a signing bonus. That bonus was paid between July and December 2006. The total benefit of ThCh\$4,918,946 (historical), is amortized using the straight-line method over the term of the union agreement. The long-term portion is presented under Others (in Other non-current Assets) (Note 14).

(2) This amount corresponds to the cost (net of amortization) of the mandatory reserve paid to the Central Bank of Chile and disbursements incurred for foreign loans obtained by the Company to finance its investment plan. The long-term portion is presented under Others (in Other Assets) (Note 14).

(3) Corresponds to the short-term portion to be amortized due to changes in the actuarial hypothesis and to the concept of loans to employees. The long-term portion is presented under Others (in Other Assets) (Note 14).

**9. Information regarding sales commitment transactions (agreements):**

| Code | Dates       |             | Counterparty    | Original<br>currency | Subscription<br>value<br>ThCh\$ | Rate  | Final<br>Value<br>ThCh\$ | Instrument<br>Identification | Book<br>Value<br>ThCh\$ |
|------|-------------|-------------|-----------------|----------------------|---------------------------------|-------|--------------------------|------------------------------|-------------------------|
|      | Inception   | End         |                 |                      |                                 |       |                          |                              |                         |
| CRV  | 20-March-07 | 02-April-07 | BANCO<br>ESTADO | CLP                  | 2,200,000                       | 4.92% | 2,203,909                | BCP0800708                   | 2,203,307               |
| CRV  | 21-March-07 | 02-April-07 | BANCO<br>ESTADO | CLP                  | 600,000                         | 5.04% | 601,008                  | BCP0800811                   | 600,840                 |
| CRV  | 30-March-07 | 05-April-07 |                 | CLP                  | 500,000                         | 5.04% | 500,420                  | BCP0800615                   | 500,070                 |

BANCO  
ESTADO

**Total**

3,300,000

3,305,337

3,304,217

21

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Notes to the Consolidated Financial Statements

**10. Property, plant and equipment:**

The detail of property, plant and equipment is as follows:

| Description                                  | 2007                                  |                                                     | 2006                                  |                                                     |
|----------------------------------------------|---------------------------------------|-----------------------------------------------------|---------------------------------------|-----------------------------------------------------|
|                                              | Accumulated<br>depreciation<br>ThCh\$ | Gross prop.,<br>plant<br>and<br>equipment<br>ThCh\$ | Accumulated<br>depreciation<br>ThCh\$ | Gross prop.,<br>plant<br>and<br>equipment<br>ThCh\$ |
| <b>Land</b>                                  | -                                     | <b>27,914,978</b>                                   | -                                     | <b>27,861,363</b>                                   |
| <b>Building and improvements</b>             | <b>365,676,153</b>                    | <b>795,460,232</b>                                  | <b>343,892,866</b>                    | <b>794,453,740</b>                                  |
| <b>Machinery and equipment</b>               | <b>2,162,714,361</b>                  | <b>2,777,677,156</b>                                | <b>2,034,282,373</b>                  | <b>2,747,994,738</b>                                |
| Central office telephone equipment           | 1,331,873,684                         | 1,552,142,322                                       | 1,254,195,129                         | 1,559,326,673                                       |
| External plant                               | 612,261,791                           | 939,019,758                                         | 592,983,882                           | 948,094,104                                         |
| Subscribers equipment                        | 181,898,146                           | 249,114,593                                         | 149,876,432                           | 202,476,777                                         |
| General equipment                            | 36,680,740                            | 37,400,483                                          | 37,226,930                            | 38,097,185                                          |
| <b>Other Property, Plant and Equipment</b>   | <b>190,858,578</b>                    | <b>334,534,589</b>                                  | <b>159,841,030</b>                    | <b>276,355,168</b>                                  |
| Office furniture and equipment               | 100,204,403                           | 112,933,930                                         | 84,763,917                            | 108,662,556                                         |
| Projects, work in progress and materials (2) | -                                     | 108,573,108                                         | -                                     | 73,807,316                                          |
| Leased assets (1)                            | 66,978                                | 504,032                                             | 58,570                                | 504,032                                             |
| Assets temporarily out of service            | 7,011,514                             | 7,011,514                                           | 5,862,023                             | 6,691,649                                           |
| Software                                     | 82,561,246                            | 104,331,335                                         | 68,192,955                            | 85,513,624                                          |
| Other                                        | 1,014,437                             | 1,180,670                                           | 963,565                               | 1,175,991                                           |
| <b>Technical revaluation Circular 550</b>    | <b>10,742,350</b>                     | <b>9,394,568</b>                                    | <b>11,182,342</b>                     | <b>9,968,712</b>                                    |
| <b>Total</b>                                 | <b>2,729,991,442</b>                  | <b>3,944,981,523</b>                                | <b>2,549,198,611</b>                  | <b>3,856,633,721</b>                                |

(1) Leased assets with a gross value of ThCh\$504,032 and ThCh\$504,032 relate to the category of buildings for 2007 and 2006, respectively, with accumulated depreciation of ThCh\$666,978 and ThCh\$58,570 for 2007 and 2006, respectively.

(2) Up to December 31, 2002, work in progress included capitalization of finance costs of related loans according to Technical Bulletin No. 31 of the Chilean Association of Accountants Therefore, the gross property, plant and equipment balance includes interest of ThCh\$197,871,417. Accumulated depreciation for this interest amounts to ThCh\$140,320,692 and ThCh\$130,268,495 for 2007 and 2006, respectively.

Operating costs include a depreciation charge for the periods ended March 31, 2007 and 2006 amounting to ThCh\$49,277,805 and ThCh\$48,884,865, and administrative and selling expenses a depreciation charge of ThCh\$2,050,220 and ThCh\$2,001,128 for 2007 and 2006, respectively. Assets temporarily out of service are made up mainly of telephone equipment under repair, and incurred depreciation amounting to ThCh\$348,213 in 2006, which is classified as Other non-operating expenses (note 22b).

During the normal course of its operations the Company monitors both new and existing assets, and their depreciation rates, adjusting them to the technological evolution and development of the market in which it competes.

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Notes to the Consolidated Financial Statements

**10. Property, plant and equipment**, continued:

The detail by item of the technical revaluation is as follows:

| Description               | Net<br>Balance     | Accumulated<br>Depreciation | Gross property,<br>plant and<br>equipment<br>2007 | Gross property,<br>plant and<br>equipment<br>2006 |
|---------------------------|--------------------|-----------------------------|---------------------------------------------------|---------------------------------------------------|
|                           | ThCh\$             | ThCh\$                      | ThCh\$                                            | ThCh\$                                            |
| Land                      | (518,226)          | -                           | (518,226)                                         | (518,226)                                         |
| Building and improvements | (787,527)          | (4,185,551)                 | (4,973,078)                                       | (4,972,535)                                       |
| Machinery and equipment   | (42,029)           | 14,927,901                  | 14,885,872                                        | 15,459,473                                        |
| <b>Total</b>              | <b>(1,347,782)</b> | <b>10,742,350</b>           | <b>9,394,568</b>                                  | <b>9,968,712</b>                                  |

Depreciation of the technical reappraisal surplus amounted to ThCh\$(16,370) and ThCh\$(14,811) for 2007 and 2006, respectively.

Gross property, plant and equipment includes assets that have been fully depreciated in the amount of ThCh\$1,387,626,472 in 2007 and ThCh\$1,153,418,419 in 2006, which include ThCh\$12,811,897 and ThCh\$13,268,427, respectively, from the reappraisals mentioned in Circular No. 550.

**11. Investments in related companies:**

The detail of investments in related companies is as follows:

| Exp. No. | Company                                      | Country of<br>origin | Currency controlling<br>the<br>investment | Number<br>of<br>shares | Percentage<br>participation |       | Equity of the company |             |
|----------|----------------------------------------------|----------------------|-------------------------------------------|------------------------|-----------------------------|-------|-----------------------|-------------|
|          |                                              |                      |                                           |                        | 2007                        | 2006  | 2007                  | 2006        |
|          |                                              |                      |                                           |                        | %                           | %     | ThCh\$                | ThCh\$      |
| Foreign  | TBS Celular<br>Participación<br>S.A. (1) (2) | Brazil               | Dollar                                    | 48,950,000             | 2.61                        | 2.61  | 152,217,275           | 153,206,473 |
| 95,220-K | Atento Chile<br>S.A. (2)                     | Chile                | Pesos                                     | 3,209,204              | 28.84                       | 28.84 | 15,453,449            | 14,444,444  |

| Exp. No.     | Company                                | Net income (loss)<br>of the companies |                | Equity in income<br>(loss) of the<br>investment |                | Investment value |                  | Investment<br>book value |                  |
|--------------|----------------------------------------|---------------------------------------|----------------|-------------------------------------------------|----------------|------------------|------------------|--------------------------|------------------|
|              |                                        | 2007<br>ThCh\$                        | 2006<br>ThCh\$ | 2007<br>ThCh\$                                  | 2006<br>ThCh\$ | 2007<br>ThCh\$   | 2006<br>ThCh\$   | 2007<br>ThCh\$           | 2006<br>ThCh\$   |
| 95,220-K     | TBS Celular Participación S.A. (1) (2) | (934,100)                             | (1,454,754)    | (24,380)                                        | (37,970)       | 3,972,871        | 3,998,678        | 3,972,871                | 3,998,678        |
|              | Atento Chile S.A. (2)                  | 998,656                               | 1,634,533      | 288,013                                         | 471,400        | 4,456,774        | 4,165,933        | 4,456,774                | 4,165,933        |
| <b>Total</b> |                                        |                                       |                |                                                 |                | <b>8,429,645</b> | <b>8,164,611</b> | <b>8,429,645</b>         | <b>8,164,611</b> |

(1) The company records its investment in TBS Celular Participación S.A. using the equity method since it exercises significant influence through the Telefónica group to which it belongs, as established in paragraph N° 4 of Circular N° 1,179 issued by the Superintendency of Securities and Insurance and ratified in Title II of Circular N° 1,697. Although Telefónica Chile only has a 2.61% direct participation in TBS Celular Participación S.A., its Parent Company, Telefónica S.A., Spain, direct and indirectly has a percentage exceeding 20% ownership of the capital stock of that Company.

(2) As of March 31, 2007, the value of the investment was recognized on the basis of unaudited financial statements.

As of the date of these financial statements, there are no liabilities for hedge instruments assigned to foreign investments.

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**12. Goodwill:**

The detail of goodwill is as follows:

| Taxpayer<br>No. | Company                          | Year | 2007                                            |                                  | 2006                                            |                                  |
|-----------------|----------------------------------|------|-------------------------------------------------|----------------------------------|-------------------------------------------------|----------------------------------|
|                 |                                  |      | Amount<br>amortized<br>in the<br>year<br>ThCh\$ | Balance of<br>Goodwill<br>ThCh\$ | Amount<br>amortized<br>in the<br>year<br>ThCh\$ | Balance of<br>Goodwill<br>ThCh\$ |
| Foreign         | TBS Celular Participación S.A.   | 2001 | 47,050                                          | 1,666,680                        | 47,050                                          | 2,496,265                        |
| 96,551,670-0    | Telefónica Larga Distancia S.A.  | 1998 | 290,280                                         | 13,605,694                       | 290,280                                         | 14,782,939                       |
|                 | Telefónica Multimedia Chile S.A. |      |                                                 |                                  |                                                 |                                  |
| 78,703,410-1    | (1)                              | 1998 | -                                               | -                                | 781,227                                         | -                                |
|                 | Telefónica Internet Empresas     |      |                                                 |                                  |                                                 |                                  |
| 96,834,320-3    | S.A.(2)                          | 1999 | 23,724                                          | 361,129                          | 23,724                                          | 457,343                          |
|                 | <b>Total</b>                     |      | <b>361,054</b>                                  | <b>15,633,503</b>                | <b>1,142,281</b>                                | <b>17,736,547</b>                |

(1) As indicated in Note 2(d) No. 1, on January 26, 2006 the Board of Directors of Telefónica Internet Empresas S.A. agreed to sell the shares of Telefónica Multimedia Chile S.A. (formerly Tecnonáutica S.A.) to Telefónica Chile S.A. This sale was performed at book value, not taking into consideration the amount corresponding to goodwill in the price, which meant recognizing in results (in an extraordinary manner) the amortization of the balance of goodwill as of that date.

(2) On January 27, 2006 Telefónica Empresas CTC Chile sold to Telefónica Chile S.A. 215,099 shares at ThCh\$1,468,683, which corresponded to its participation in this company.

On January 26 CTC Equipos y Servicios de Telecomunicaciones sold to Telefónica Chile S.A. 16 shares at ThCh\$132, which corresponded to its participation in this company.

Goodwill amortization periods have been determined taking into account aspects such as the nature and characteristics of the business and estimated period of return of investment.

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**13. Intangibles:**

The detail of intangibles is as follows:

| Description                                  | 2007<br>ThCh\$    | 2006<br>ThCh\$    |
|----------------------------------------------|-------------------|-------------------|
| Underwater cable rights (gross)              | 23,718,135        | 23,730,180        |
| Accumulated amortization, previous exercises | (4,331,627)       | (3,159,555)       |
| Amortization for the exercises               | (302,104)         | (301,637)         |
| Licenses (Software) (gross)                  | 15,510,601        | 12,099,181        |
| Accumulated amortization, previous exercises | (8,677,844)       | (4,572,422)       |
| Amortization for the period                  | (1,048,246)       | (748,934)         |
| <b>Total Net Intangibles</b>                 | <b>24,868,915</b> | <b>27,046,813</b> |

**14. Other non-current assets:**

The detail of other non-current assets is as follows:

| Description                                                             | 2007<br>ThCh\$    | 2006<br>ThCh\$    |
|-------------------------------------------------------------------------|-------------------|-------------------|
| Deferred issuance cost for obtaining external financing (note 8(2)) (1) | 717,374           | 1,159,031         |
| Deferred union contract bonus (note 8(1))                               | 2,746,040         | 52,548            |
| Bond issue expenses (note 25)                                           | 651,140           | 779,443           |
| Bond discount (note 25)                                                 | 1,065,322         | 1,295,945         |
| Securities deposits                                                     | 138,366           | 140,778           |
| Deferred charge due to change in actuarial estimations (note 8(3)) (2)  | 7,812,195         | 9,940,974         |
| Deferred staff severance indemnities (3)                                | 4,111,855         | 4,674,865         |
| Other                                                                   | -                 | 79,389            |
| <b>Total</b>                                                            | <b>17,242,292</b> | <b>18,122,973</b> |

(1) This amount corresponds to the cost (net of amortizations) of the mandatory reserve paid to the Chilean Central Bank and disbursements incurred for foreign loans obtained by the Company to finance its investment plan. The short-term portion is presented under Other Current Assets (Note 8).

(2) With the implementation of new contractual conditions derived from the organizational changes in the Company, there have been a series of studies that allowed, with primary effect in 2004, the modification in the calculation basis for staff severance indemnities of the variable for future service life of employees. After concluding these studies, in 2005, other changes in estimates were incorporated, such as personnel fluctuation rate, mortality of employees and

future salary increases and includes the rate change mentioned in Note 3 b (i) for 2006, all determined on the basis of actuarial calculations, as established in Technical Bulletin No. 8 of the Chilean Association of Accountants. The short-term portion is presented under Other Current Assets (Note 8).

The difference at the beginning of the year as a result of changes in the actuarial estimates constitutes actuarial gains or losses, which are deferred and amortized over the estimated average remaining future service life of the employees that will receive the benefit (see Note 2 (s)).

(3) In conformity with the union agreements between the Company and its employees, loans were granted to employees, the amounts and conditions of which were based, among other aspects, on the accrued balances of staff severance indemnities at the date of the grant. The short-term portion is presented under Other Current Assets (Note 8).

The staff severance indemnities provision has been recorded in part at its current value, deferring and amortizing this effect over the years of average remaining future service life of employees that subscribe to the benefit. The loan is presented under Other Long-term Receivables.

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**15. Short-term obligations with banks and financial institutions:**

The detail of short-term obligations with banks and financial institutions is as follows:

| Taxp.No.     | Bank or financial institution               | US\$             |                  | U.F.           |                | TOTAL            |                  |
|--------------|---------------------------------------------|------------------|------------------|----------------|----------------|------------------|------------------|
|              |                                             | 2007             | 2006             | 2007           | 2006           | 2007             | 2006             |
|              |                                             | ThCh\$           | ThCh\$           | ThCh\$         | ThCh\$         | ThCh\$           | ThCh\$           |
|              | <b>Current maturities of long-term debt</b> |                  |                  |                |                |                  |                  |
| 97,015,000-5 | BANCO SANTANDER SANTIAGO                    | -                | -                | 950,265        | 707,563        | 950,265          | 707,563          |
| Foreign      | CALYON NEW YORK BRANCH AND OTHERS           | 170,750          | 143,890          | -              | -              | 170,750          | 143,890          |
| 97,008,000-7 | CITIBANK (2)                                | 636,942          | 570,295          | -              | -              | 636,942          | 570,295          |
| Foreign      | BBVA BANCOMER AND OTHERS                    | 690,808          | 638,100          | -              | -              | 690,808          | 638,100          |
|              | Total                                       | <b>1,498,500</b> | <b>1,352,285</b> | <b>950,265</b> | <b>707,563</b> | <b>2,448,765</b> | <b>2,059,848</b> |
|              | Outstanding principal                       | -                | -                | -              | -              | -                | -                |
|              | Average annual interest rate                | 5.69%            | 5.17%            | 3.04%          | 2.32%          | 5.17%            | 4.69%            |

Percentage of obligations in foreign currency : 61.19% for 2007 and 65.65% for 2006

Percentage of obligations in local currency : 38.81% for 2007 and 34.35% for 2006

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)  
Notes to the Consolidated Financial Statements

**16. Long-term obligations with banks and financial institutions:**

Long-term obligations with banks and financial institutions:

| Taxp.No.     | Bank or financial institution       | Currency or Indexation Index | Years to maturity for long-term portion |                    |                    | Long-term portion as of March 31, 2007 | Average annual interest rate % | Long-term portion as of March 31, 2007 |
|--------------|-------------------------------------|------------------------------|-----------------------------------------|--------------------|--------------------|----------------------------------------|--------------------------------|----------------------------------------|
|              |                                     |                              | 1 to 2                                  | 2 to 3             | 3 to 5             |                                        |                                |                                        |
|              |                                     |                              | ThCh\$                                  | ThCh\$             | ThCh\$             | ThCh\$                                 | ThCh\$                         |                                        |
|              | <b>LOANS IN DOLLARS</b>             |                              |                                         |                    |                    |                                        |                                |                                        |
|              | CALYON NEW YORK BRANCH AND OTHERS   |                              |                                         |                    |                    |                                        |                                |                                        |
| Foreign      | (1)                                 | US\$                         | -                                       | 107,842,000        | -                  | 107,842,000                            | Libor + 0.35%                  | 107,842,000                            |
|              | BBVA BANCOMER AND OTHERS            |                              |                                         |                    |                    |                                        |                                |                                        |
| Foreign      | (3)                                 | US\$                         | -                                       | -                  | 80,881,500         | 80,881,500                             | Libor + 0.334%                 | 80,881,500                             |
| 97,008,000-7 | BANCO CITIBANK (2)                  | US\$                         | 80,881,500                              | -                  | -                  | 80,881,500                             | Libor + 0.31%                  | 80,881,500                             |
|              | <b>SUBTOTAL</b>                     |                              | <b>80,881,500</b>                       | <b>107,842,000</b> | <b>80,881,500</b>  | <b>269,605,000</b>                     | <b>5.69%</b>                   | <b>269,605,000</b>                     |
|              | <b>LOANS IN UNIDADES DE FOMENTO</b> |                              |                                         |                    |                    |                                        |                                |                                        |
|              | BANCO SANTANDER SANTIAGO            |                              |                                         |                    |                    |                                        |                                |                                        |
| 97,015,000-5 | (4)                                 | UF                           | -                                       | -                  | 65,315,908         | 65,315,908                             | Tab 360+0.325%                 | 65,315,908                             |
|              | <b>SUBTOTAL</b>                     |                              | <b>-</b>                                | <b>-</b>           | <b>65,315,908</b>  | <b>65,315,908</b>                      | <b>3.04%</b>                   | <b>65,315,908</b>                      |
|              | <b>TOTAL</b>                        |                              | <b>80,881,500</b>                       | <b>107,842,000</b> | <b>146,197,408</b> | <b>334,920,908</b>                     | <b>5.17%</b>                   | <b>335,137,316</b>                     |

Percentage of obligations in foreign currency : 80.50% for 2007 and 80.51% for 2006

Percentage of obligations in local currency : 19.50% for 2007 and 19.49% for 2006

(1) In December 2004, the Company renegotiated this loan, extending its due date from February and August 2005 to December 2009, in addition to changing the agent bank, that until then was the Bilbao Viscaya Argentaria Bank.

(2) In May 2005, the Company renegotiated this loan, extending its due date from April 2006 and April 2007 to December 2008, in addition to changing the agent bank, that until then was the ABN Amro Bank.

(3) In November 2005, the Company renegotiated this loan, extending its due date from April 2006, April 2007 and April 2008 to June 2011, in addition to changing the agent bank, that until then was the ABN Amro Bank.

(4) In April 2005, the Company renegotiated this loan, which allowed it to extend the due date from April 2008 to April 2010. In February 2007 the spread was changed from 0.45% to 0.325% .

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## 17. Obligations with the Public:

### a) Commercial paper:

On January 27, 2003 and May 12, 2004, Telefónica Chile registered a series of commercial paper in the securities registry, the inspection numbers of which are 005 and 015, respectively. The maximum amount of each line is ThCh\$35,000,000, and placements charged to this line may not exceed that amount. The term of each line will be 10 years from the date of registration with the Superintendency of Securities and Insurance. The interest rate will be defined upon each issuance of these commercial papers.

On October 25, 2005, there was a placement in series G and H for ThCh\$35,000,000 of the same type of instrument. The placement agent was Scotiabank Sudamericano Corredores de Bolsa, the instruments' maturity date was April 20, 2006.

On March 21, 2006, a Series I placement of the same type of instrument was made for ThCh\$12,000,000, maturing on December 6, 2006. The placement agent was Inversiones Boston Corredores de Bolsa.

The details of these transactions are described below:

| Registration<br>or identification<br>number of the<br>instrument | Series | Current<br>nominal<br>amount<br>placed<br>ThCh\$ | Bond<br>readjustment<br>unit<br><br>ThCh\$ | Interest<br><br>rate<br>% | Final<br>Maturity | Accounting value |                | Placement<br><br>in Chile or<br>abroad |
|------------------------------------------------------------------|--------|--------------------------------------------------|--------------------------------------------|---------------------------|-------------------|------------------|----------------|----------------------------------------|
|                                                                  |        |                                                  |                                            |                           |                   | 2007<br>ThCh\$   | 2006<br>ThCh\$ |                                        |

Short-term  
commercial paper

|              |   |            |                        |        |                 |   |                   |       |
|--------------|---|------------|------------------------|--------|-----------------|---|-------------------|-------|
| 015          | G | 17,500,000 | Ch\$<br>non-adjustable | 0.5100 | Apr 20,<br>2006 | - | 17,899,301        | Chile |
| 005          | H | 17,500,000 | Ch\$<br>non-adjustable | 0.5100 | Apr 27,<br>2006 | - | 17,877,816        | Chile |
| 005          | I | 12,000,000 | Ch\$<br>non-adjustable | 0.4800 | Dec 06,<br>2006 | - | 11,840,578        | Chile |
| <b>Total</b> |   |            |                        |        |                 | - | <b>47,617,695</b> |       |

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**17. Obligations with the public, continued:**

**b) Bonds**

The detail of obligations with the public for bond issued, classified as short and long-term, is as follows:

| Registration<br>number<br>or<br>identification<br>of<br>the<br>instrument | Series       | Nominal<br>Amount<br>of issue | Readjustment<br>unit<br>for bond | Nominal<br>annual<br>interest<br>rate | Final<br>maturity | Interest<br>payment | Frequency     | Par value      |                |  |
|---------------------------------------------------------------------------|--------------|-------------------------------|----------------------------------|---------------------------------------|-------------------|---------------------|---------------|----------------|----------------|--|
|                                                                           |              |                               |                                  |                                       |                   |                     | Amortizations | 2007<br>ThCh\$ | 2008<br>ThCh\$ |  |
| Short-term portion of long-term bonds                                     |              |                               |                                  |                                       |                   |                     |               |                |                |  |
| 143,27,06,91                                                              | F            | 71,429                        | U.F.                             | 6.000                                 | Apr, 2016         | Semi-annual         | Semi-annual   | 1,652,270      | 1,652,270      |  |
| 281,20,12,01                                                              | L (1)        | -                             | U.F.                             | 3.750                                 | Oct, 2012         | Semi-annual         | Maturity      | 887,418        | 887,418        |  |
| Issued in New York                                                        | Yankee Bonds | 49,603,000                    | US\$                             | 7.625                                 | Jul, 2006         | Semi-annual         | Maturity      | -              | 27,200,000     |  |
| Total                                                                     |              |                               |                                  |                                       |                   |                     |               | 2,539,688      | 28,900,000     |  |
| Long-term bonds                                                           |              |                               |                                  |                                       |                   |                     |               |                |                |  |
| 143,27,06,91                                                              | F            | 607,143                       | U.F.                             | 6.000                                 | Apr, 2016         | Semi-annual         | Semi-annual   | 11,155,018     | 12,400,000     |  |
| 281,20,12,01                                                              | L (1)        | 3,000,000                     | U.F.                             | 3.750                                 | Oct, 2012         | Semi-annual         | Maturity      | 55,118,910     | 55,118,910     |  |
| Total                                                                     |              |                               |                                  |                                       |                   |                     |               | 66,273,928     | 67,600,000     |  |

(1) On March 29, 2006, the Company placed bonds in the local market for a nominal amount of UF3,000,000 equivalent to US\$102.1 million (historical) of a series denominated L, which is composed of 6,000 bonds with a value of UF 500 each.

These bonds mature in one installment on October 25, 2012. The annual interest rate amounts to UF + 3.75% and interest is paid semi-annually. There is a redemption option as of October 25, 2007.

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**18. Accruals and Write-offs:**

The detail of accruals shown in liabilities is as follows:

|                             | <b>2007<br/>ThCh\$</b> | <b>2006<br/>ThCh\$</b> |
|-----------------------------|------------------------|------------------------|
| <b>Current</b>              |                        |                        |
| Staff severance indemnities | 541,437                | 295,987                |
| Vacation                    | 1,454,199              | 2,411,504              |
| Other employee benefits (1) | 3,749,910              | 3,192,350              |
| Employee benefit advances   | (2,399,402)            | (1,412,552)            |
| <b>Sub-Total</b>            | <b>3,346,144</b>       | <b>4,487,289</b>       |
| <b>Long-term</b>            |                        |                        |
| Staff severance indemnities | 35,707,788             | 35,554,964             |
| <b>Total</b>                | <b>39,053,932</b>      | <b>40,042,253</b>      |

(1) Includes provisions as per current union agreement.

During the period, there were bad debt write-offs of ThCh\$229,504 in 2007 and ThCh\$2,126,703 in 2006, which were charged against the respective allowance for doubtful accounts.

**19. Staff severance indemnities:**

The detail of the charge to income for staff severance indemnities is as follows:

|                                       | <b>2007<br/>ThCh\$</b> | <b>2006<br/>ThCh\$</b> |
|---------------------------------------|------------------------|------------------------|
| Beginning balance (historical values) | 35,988,274             | 36,748,817             |
| Payments for the period               | (525,927)              | (4,461,230)            |
| Transfers                             | (96,934)               | (1,859)                |
| Provision increase                    | 883,812                | 3,565,223              |
| <b>Total</b>                          | <b>36,249,225</b>      | <b>35,850,951</b>      |

**20. Minority interest:**

Minority interest recognizes the portion of equity and net income of subsidiaries owned by third parties. The detail for 2007 and 2006 is as follows:

| Subsidiaries                                           | Percentage<br>Minority<br>Interest |           | Participation<br>in equity |                  | Participation<br>in net income (loss) |                 |
|--------------------------------------------------------|------------------------------------|-----------|----------------------------|------------------|---------------------------------------|-----------------|
|                                                        | 2007<br>%                          | 2006<br>% | 2007<br>ThCh\$             | 2006<br>ThCh\$   | 2007<br>ThCh\$                        | 2006<br>ThCh\$  |
| Instituto Telefónica Chile S.A.                        | -                                  | 20.000    | -                          | 240,356          | -                                     | (11,911)        |
| Telefónica Larga Distancia S.A.                        | 0.171                              | 0.840     | 269,760                    | 1,162,391        | 8,940                                 | 26,018          |
| Fundación Telefónica Chile                             | 50.000                             | 50.000    | 80,967                     | 195,740          | (95,700)                              | (80,403)        |
| Telefónica Gestión Servicios Compartidos de Chile S.A. | 0.001                              | 0.001     | 15                         | 13               | 1                                     | -               |
| <b>Total</b>                                           |                                    |           | <b>350,742</b>             | <b>1,598,500</b> | <b>(86,759)</b>                       | <b>(66,296)</b> |

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**21. Shareholders' equity:**

During 2007 and 2006, changes in shareholders' equity accounts are as follows:

|                                              | <b>Paid-in<br/>capital</b> | <b>Reserve<br/>equity indexation</b> | <b>Other<br/>reserves</b> | <b>Retained<br/>earnings</b> | <b>Net<br/>income</b> | <b>Interim<br/>dividend</b> | <b>Total<br/>shareholders'<br/>equity</b> |
|----------------------------------------------|----------------------------|--------------------------------------|---------------------------|------------------------------|-----------------------|-----------------------------|-------------------------------------------|
|                                              | <b>ThCh\$</b>              | <b>ThCh\$</b>                        | <b>ThCh\$</b>             | <b>ThCh\$</b>                | <b>ThCh\$</b>         | <b>ThCh\$</b>               | <b>ThCh\$</b>                             |
| <b>2007</b>                                  |                            |                                      |                           |                              |                       |                             |                                           |
| Balances as of December 31, 2006             | 890,894,953                | -                                    | (3,000,511)               | -                            | 23,353,046            | (10,486,613)                | 900,760,875                               |
| Transfer of 2006 income to retained earnings | -                          | -                                    | -                         | 23,353,046                   | (23,353,046)          | -                           | -                                         |
| Cumulative translation adjustment            | -                          | -                                    | 49,042                    | -                            | -                     | -                           | 49,042                                    |
| Price-level restatement, net                 | -                          | 1,781,790                            | (4,636)                   | 46,706                       | -                     | (20,973)                    | 1,802,887                                 |
| Other reserves                               | -                          | -                                    | 682,346                   | -                            | -                     | -                           | 682,346                                   |
| Net income                                   | -                          | -                                    | -                         | -                            | 1,053,131             | -                           | 1,053,131                                 |
| Balances as of March 31, 2007                | <b>890,894,953</b>         | <b>1,781,790</b>                     | <b>(2,273,759)</b>        | <b>23,399,752</b>            | <b>1,053,131</b>      | <b>(10,507,586)</b>         | <b>904,348,281</b>                        |

**2006**

|                                              |             |             |             |            |              |              |             |
|----------------------------------------------|-------------|-------------|-------------|------------|--------------|--------------|-------------|
| Balances as of December 31, 2005             | 912,692,729 | -           | (1,751,241) | -          | 25,183,320   | (10,549,786) | 925,575,022 |
| Transfer of 2005 income to retained earnings | -           | -           | -           | 25,183,320 | (25,183,320) | -            | -           |
|                                              | -           | (2,738,078) | 159,433     | -          | -            | -            | 159,433     |

|                                   |   |   |       |          |         |        |             |
|-----------------------------------|---|---|-------|----------|---------|--------|-------------|
| Cumulative translation adjustment |   |   |       |          |         |        |             |
| Price-level restatement, net      | - | - | 5,254 | (75,550) | -       | 31,650 | (2,776,724) |
| Net income                        | - | - | -     | -        | 734,109 | -      | 734,109     |

|                               |                    |                    |                    |                   |                |                     |                    |
|-------------------------------|--------------------|--------------------|--------------------|-------------------|----------------|---------------------|--------------------|
| Balances as of March 31, 2006 | <b>912,692,729</b> | <b>(2,738,078)</b> | <b>(1,586,554)</b> | <b>25,107,770</b> | <b>734,109</b> | <b>(10,518,136)</b> | <b>923,691,840</b> |
|-------------------------------|--------------------|--------------------|--------------------|-------------------|----------------|---------------------|--------------------|

|                                        |                    |                    |                    |                   |                |                     |                    |
|----------------------------------------|--------------------|--------------------|--------------------|-------------------|----------------|---------------------|--------------------|
| Restated balances as of March 31, 2007 | <b>936,532,592</b> | <b>(2,809,598)</b> | <b>(1,627,995)</b> | <b>25,763,594</b> | <b>753,284</b> | <b>(10,792,873)</b> | <b>947,819,004</b> |
|----------------------------------------|--------------------|--------------------|--------------------|-------------------|----------------|---------------------|--------------------|

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**21. Shareholders' Equity**, continued:**(a) Paid-in capital:**

As of March 31, 2007 the Company's paid-in capital is as follows:

**Number of shares:**

| Series | No. of subscribed shares | No. of paid shares | No. of shares with voting rights |
|--------|--------------------------|--------------------|----------------------------------|
| A      | 873,995,447              | 873,995,447        | 873,995,447                      |
| B      | 83,161,638               | 83,161,638         | 83,161,638                       |

**Paid-in capital:**

| Series | Subscribed Capital<br>ThCh\$ | Paid-in Capital<br>ThCh\$ |
|--------|------------------------------|---------------------------|
| A      | 813,490,434                  | 813,490,434               |
| B      | 77,404,519                   | 77,404,519                |

**(b) Shareholder distribution:**

As indicated in SVS Circular No.792, the stratification of shareholders by their percentage of ownership in the Company as of March 31, 2007 is as follows:

| Type of shareholder                     | Percentage of Total holdings<br>% | Number of shareholders |
|-----------------------------------------|-----------------------------------|------------------------|
| 10% holding or more                     | 57.03                             | 2                      |
| Less than 10% holding:                  |                                   |                        |
| Investment equal to or exceeding UF 200 | 42.22                             | 1,546                  |
| Investment under UF 200                 | 0.75                              | 10,914                 |
| <b>Total</b>                            | <b>100.00</b>                     | <b>12,462</b>          |

|                     |       |   |
|---------------------|-------|---|
| Controlling company | 44.90 | 1 |
|---------------------|-------|---|

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## 21. Shareholders Equity, continued:

### (c) Dividends:

#### i) Dividend policy:

In accordance with Law No.18,046, unless otherwise decided at the Shareholders Meeting by unanimous vote of the outstanding shares, when there is net income, at least 30% must be allocated in dividend payments.

Considering the cash situation, the levels of projected investment and the solid financial indicators for 2005 and future years, on April 14, 2005, the Ordinary Shareholders Meeting modified the dividend distribution policy reported at the Ordinary Shareholders Meeting of April 2004, and agreed to distribute 100% of net income generated during the respective year, by means of an interim dividend in November of each year and a final dividend in May of the following year.

#### ii) Dividend distributed:

On October 27, 2005, the Board of Directors approved payment of an interim dividend (No. 170) of Ch\$11 per share, with a on 2005 net income, equivalent to ThCh\$10,528,728 (historical).

On October 26, 2006, the Board of Directors approved payment of interim dividend No. 172, in the amount of ThCh\$10,528,728 (historical), equivalent to Ch\$11 per share.

### (d) Other reserves:

Other reserves include the participation of the reserve established by Telefónica Larga Distancia S.A. for the acquisition of the shares of dissident minority shareholders and the net effect of the adjustment for conversion differences as established in Technical Bulletin No. 64 of the Chilean Association of Accountants, the detail of which is as follows:

|              |                                 | Amount             |                         | Net            |                              |
|--------------|---------------------------------|--------------------|-------------------------|----------------|------------------------------|
| Company      |                                 | December 31, 2006  | Price-level restatement | Movement       | Balance as of March 31, 2007 |
|              |                                 | ThCh\$             | ThCh\$                  | ThCh\$         | ThCh\$                       |
| 96,551,670-0 | Telefónica Larga Distancia S.A. | (682,346)          | -                       | 682,346        | -                            |
| Foreign      | TBS Celular Participación S.A.  | (2,318,165)        | (4,636)                 | 49,042         | (2,273,759)                  |
| <b>Total</b> |                                 | <b>(3,000,511)</b> | <b>(4,636)</b>          | <b>731,388</b> | <b>(2,273,759)</b>           |



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**22. Other Non-Operating Income and Expenses:****(a) Other non-operating income:**

The detail of other non-operating income is as follows:

| <b>Other Income</b>                       | <b>2007<br/>ThCh\$</b> | <b>2006<br/>ThCh\$</b> |
|-------------------------------------------|------------------------|------------------------|
| Administrative services                   | 507,036                | -                      |
| Fines levied on suppliers and indemnities | 38                     | 17,705                 |
| Proceeds from sale of used equipment      | 1,261,233              | 365,272                |
| Real estate rental                        | -                      | 71,823                 |
| Other                                     | 199,537                | 57,116                 |
| <b>Total</b>                              | <b>1,967,844</b>       | <b>511,916</b>         |

**(b) Other non-operating expenses:**

The detail of other non-operating expenses is as follows:

| <b>Other Expenses</b>                                                           | <b>2007<br/>ThCh\$</b> | <b>2006<br/>ThCh\$</b> |
|---------------------------------------------------------------------------------|------------------------|------------------------|
| Lawsuit and other provisions                                                    | 957,892                | 376,535                |
| Depreciation and retirement of out-of-service property, plant and equipment (1) | -                      | 348,213                |
| Removal of property, plant and equipment that is out of service                 | 457,608                | 309,199                |
| Lower market value provision                                                    | -                      | 14,302                 |
| Restructuring costs (2)                                                         | -                      | 9,040,635              |
| Other                                                                           | 153,788                | 300,866                |
| <b>Total</b>                                                                    | <b>1,569,288</b>       | <b>10,389,750</b>      |

(1) As of March 2006, this caption is composed mainly of depreciation of telephone equipment maintained in stock for replacements.

(2) Corresponds mainly to payments made to employees on the basis of the Early Retirement Plan.

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**23. Price-level restatement:**

The detail of price-level restatement is as follows:

| Assets (Charges) Credits           | Indexation | 2007<br>ThCh\$   | 2006<br>ThCh\$     |
|------------------------------------|------------|------------------|--------------------|
| Inventory                          | C.P.I.     | 810              | (783)              |
| Other current assets               | C.P.I.     | 9,296            | (730)              |
| Other current assets               | U.F.       | 4,295            | 17,075             |
| Short and long-term deferred taxes | C.P.I.     | 204,489          | (349,927)          |
| Property, plant and equipment      | C.P.I.     | 2,528,713        | (4,016,764)        |
| Investments in related companies   | C.P.I.     | 16,219           | (16,682)           |
| Goodwill                           | C.P.I.     | 33,200           | (54,456)           |
| Long-term receivables              | U.F.       | (32,171)         | 44,706             |
| Other long-term assets             | C.P.I.     | (30,363)         | (120,334)          |
| Other long-term assets             | U.F.       | 2,541            | (473)              |
| Expense accounts                   | C.P.I.     | (14,390)         | (37,432)           |
| <b>Total Charges (Credits)</b>     |            | <b>2,722,639</b> | <b>(4,535,800)</b> |

| Liabilities                             | Shareholders | Equity (Charges) Credits | Indexation | 2007<br>ThCh\$     | 2006<br>ThCh\$   |
|-----------------------------------------|--------------|--------------------------|------------|--------------------|------------------|
| Short-term obligations                  |              |                          | U.F.       | (516,755)          | (157,986)        |
| Long-term obligations                   |              |                          | C.P.I.     | 5,609              | 1,610            |
| Long-term obligations                   |              |                          | U.F.       | (5,025,697)        | 1,113,392        |
| Shareholders' equity                    |              |                          | C.P.I.     | (1,802,887)        | 2,849,253        |
| Revenue accounts                        |              |                          | C.P.I.     | 20,372             | 60,449           |
| <b>Total Credits</b>                    |              |                          |            | <b>(7,319,358)</b> | <b>3,866,718</b> |
| <b>Net price-level restatement loss</b> |              |                          |            | <b>(4,596,719)</b> | <b>(669,082)</b> |

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)  
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**24. Foreign currency translation:**

The detail of the gain on foreign currency translation is as follows:

| Assets (Charges) Credits | Currency       | 2007<br>ThCh\$   | 2006<br>ThCh\$   |
|--------------------------|----------------|------------------|------------------|
| Current assets           | US\$           | 680,486          | 2,320,314        |
| Current assets           | EURO           | (3,623)          | (1,989)          |
| Current assets           | BRAZILIAN REAL | 81,520           | 122,906          |
| Long-term receivables    | US\$           | 609,701          | 537,379          |
| <b>Total Credits</b>     |                | <b>1,368,084</b> | <b>2,978,610</b> |

| Liabilities (Charges) Credits | Currency       | 2007<br>ThCh\$     | 2006<br>ThCh\$     |
|-------------------------------|----------------|--------------------|--------------------|
| Short-term obligations        | US\$           | (540,564)          | (820,309)          |
| Short-term obligations        | EURO           | 900                | (214)              |
| Short-term obligations        | BRAZILIAN REAL | (33,550)           | 28,869             |
| Long-term obligations         | US\$           | (631,290)          | (1,954,246)        |
| <b>Total (Charges)</b>        |                | <b>(1,204,504)</b> | <b>(2,745,900)</b> |

|                                          |                |                |
|------------------------------------------|----------------|----------------|
| <b>Foreign currency translation, net</b> | <b>163,580</b> | <b>232,710</b> |
|------------------------------------------|----------------|----------------|

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**25. Expenses from issuance and placement of shares and debt:**

The detail of this item is as follows:

|                        | Short-term     |                | Long-term        |                  |
|------------------------|----------------|----------------|------------------|------------------|
|                        | 2007<br>ThCh\$ | 2006<br>ThCh\$ | 2007<br>ThCh\$   | 2006<br>ThCh\$   |
| Bond issuance expenses | 127,853        | 290,220        | 651,140          | 779,443          |
| Discount on debt       | 229,872        | 240,586        | 1,065,322        | 1,295,945        |
| <b>Total</b>           | <b>357,725</b> | <b>530,806</b> | <b>1,716,462</b> | <b>2,075,388</b> |

The corresponding items are classified as Other Current Assets and Other Long-term Assets, as applicable, and are amortized over the term of the respective obligations.

**26. Cash flows:**

Financing and investing activities that do not generate cash flows during the period, but which generate future cash flows are as follows:

**a) Financing activities:** Financing activities that generate future cash flows are as follows:

|                                                   |                   |
|---------------------------------------------------|-------------------|
| Obligations with banks and financial institutions | - Notes 15 and 16 |
| Obligations with the public                       | - Note 17         |

**b) Investing activities:** Investing activities that generate future cash flows are as follows:

|     | Maturity | ThCh\$     |
|-----|----------|------------|
| BCD | 2007     | 14,327,069 |

**c) Cash and cash equivalents:**

|                      | 2007<br>ThCh\$    | 2006<br>ThCh\$    |
|----------------------|-------------------|-------------------|
| Cash                 | 9,059,296         | 7,504,915         |
| Time deposits        | 65,949,738        | 28,479,757        |
| Other current assets | 3,304,217         | 52,337,022        |
| <b>Total</b>         | <b>78,313,251</b> | <b>88,321,694</b> |



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**27. Derivative Contracts:**

The detail of derivative contracts is as follows:

|                    |                  | Description of Contract |                        |               |                        |                            |             |             | Value of Hedged Item<br>ThCh\$ | Asset/Liabilities |
|--------------------|------------------|-------------------------|------------------------|---------------|------------------------|----------------------------|-------------|-------------|--------------------------------|-------------------|
| Type of Derivative | Type of Contract | Contract Value          | Maturity or Expiration | Specific Item | Purchase Sale Position | Hedged Item or Transaction |             |             |                                |                   |
|                    |                  |                         |                        |               |                        | Name                       | Amount      |             |                                |                   |
| S                  | CCPE             | 150,000,000             | III Quarter 2008       | Exchange rate | C                      | Oblig.in<br>US\$           | 150,000,000 | 80,881,500  | asset liabilities              |                   |
| S                  | CCPE             | 200,000,000             | III Quarter 2009       | Exchange rate | C                      | Oblig.in<br>US\$           | 200,000,000 | 107,842,000 | asset liabilities              |                   |
| S                  | CCPE             | 150,000,000             | II Quarter 2011        | Exchange rate | C                      | Oblig.in<br>US\$           | 150,000,000 | 80,881,500  | asset liabilities              |                   |
| FR                 | CI               | 10,400,000              | II Quarter 2007        | Exchange rate | V                      | -                          | -           | -           | asset liabilities              |                   |
| FR                 | CI               | 16,000,000              | III Quarter 2007       | Exchange rate | V                      | -                          | -           | -           | asset liabilities              |                   |
| FR                 | CI               | 3,000,000               | II Quarter 2007        | Exchange rate | C                      | -                          | -           | -           | asset liabilities              |                   |
| FR                 | CI               | 2,794,463               | III Quarter 2007       | Exchange rate | C                      | -                          | -           | -           | asset liabilities              |                   |
| FR                 | CI               | 13,010,194              | II Quarter 2007        | Exchange rate | C                      | -                          | -           | -           | asset liabilities              |                   |
| FR                 | CI               | 9,550,707               | III Quarter 2007       | Exchange rate | C                      | -                          | -           | -           | asset liabilities              |                   |
| FR                 | CI               | 3,314,341               | II Quarter 2007        | Exchange rate | C                      | -                          | -           | -           | asset liabilities              |                   |
| FR                 | CI               | 3,314,341               | III Quarter 2007       | Exchange rate | C                      | -                          | -           | -           | asset liabilities              |                   |
| FR                 | CI               | 3,449,508               | IV Quarter 2007        | Exchange rate | C                      | -                          | -           | -           | asset                          |                   |

|    |    |         |           |          |   |   |   |   |                      |
|----|----|---------|-----------|----------|---|---|---|---|----------------------|
|    |    |         | I Quarter | Exchange |   |   |   |   | liabilities          |
| FR | CI | 641,546 | 2007      | rate     | C | - | - | - | asset<br>liabilities |

Exchange forward contracts expensed during the period ( net )

**TOTAL**

## Type of derivatives

|   |             |                          |                                                |
|---|-------------|--------------------------|------------------------------------------------|
| : | FR: Forward | <b>Type of Contract:</b> | CCPE: Hedge contract for existing transactions |
|   | S:Swap      |                          | CI: Investment hedge contract                  |

**28. Contingencies and commitments:**

**a) Lawsuits against the Government:**

i) On October 31, 2001, Telefónica Chile filed an administrative motion before the Ministry of Transport and Telecommunications and the Ministry of Economy, requesting correction of the errors and illegalities in Rate Decree No. 187 of 1999. On January 29, 2002, the Ministries issued a joint response rejecting the administrative recourse, after having carefully evaluated, only the viability and timeliness of the petition made, considering the set of circumstances that concur in the problem stated and the prudence that must orient public actions, adding that such rejection has had no other motivation than to protect the general interest and progress of the telecommunications services.

Upon extinguishing the administrative instances to correct the errors and illegalities involved in the tariff setting process of 1999, in March 2002, Telefónica Chile filed a lawsuit for damages against the State of Chile for the sum of Ch\$181,038,411,056, plus readjustments and interest, which covers past and future damages until May 2004. The process is currently in the judgment stage.

ii) Telefónica Chile and Telefónica Larga Distancia filed a plenary damage indemnity lawsuit against the Government of Chile, claiming damages due to modification of telecommunications networks related to work performed by highway concessionaries from 1996 to 2000.

The Government forced both companies to pay for the transfer of their communications networks due to the construction of public works on concession under the Concessions Law, and the related damages amount to:

a.- Compañía de Telecomunicaciones de Chile S.A.: Ch\$1,929,207,445

b.- Telefónica Larga Distancia S.A.: Ch\$2,865,208,840

The process is currently in the final judgement stage.

**b) Lawsuits:**

**(i) Voissnet Accusation:**

On January 20, 2006, Telefónica Chile responded to the claim made by Voissnet filed before the National Economic Attorney General's Office for alleged events which in its opinion threatened free competition, development and growth of Internet technology, fundamentally of broadband telephony, and access to broadband, since they establish the prohibition of carrying voice using the Internet broadband access provided by Telefónica Chile. Voissnet has requested the Antitrust Commission to force Telefónica Chile to allow third parties to provide IP Telephony through the ADSL Internet owned by Telefónica Chile.

On October 26, 2006, the Company was notified of the sentence dictated by the Antitrust Commission, which partially accepted the complaint filed by Voissnet S.A. and the requirement of the National Economic Attorney General's Office, and fined Telefónica Chile 1,500 Annual Tax Units.

On November 8, 2006, Telefónica Chile S.A. filed an appeal before the Supreme Court requesting the sentence to be revoked exonerating the Company from any sanction. The appeal was accepted for processing and the Supreme Court has not set a date to hear the allegations of the parties.



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**(ii) Complaint filed by VTR Telefónica S.A.:**

On June 30, 2000, VTR Telefónica S.A. filed a plenary suit charged in Chilean pesos, requesting payment of Ch\$2,204 million plus sums accrued during the suit, to cover access charges for the use of its networks. VTR bases its complaint on the differences that occurred as a result of the reduction of access charge tariffs after Tariff Decree No. 187 came into effect. Telefónica Chile responded to the complaint by arguing that the tariffs for access charges that both parties must pay for the reciprocal use of their networks, are regulated under a contract signed with VTR. VTR, however, does not recognize this contract. VTR's complaint has been accepted and the requested compensation has been ordered.. The Company filed an appeal for annulment before the Court of Appeals of Santiago which is currently pending.

In connection to the above proceeding, two additional judicial proceedings are underway. The first was filed by VTR before Subtel in 2002 for alleged non-payment of invoices for access charges set by D.S. 26. VTR has requested that Telefónica Chile be forced to pay such invoices and pay the fines imposed by the General Telecommunications Laws. That case has been suspended by order of the Minister until a judgment is provided in the judicial proceeding filed by VTR in 2000. The second proceeding underway was filed by Telefónica Chile on June 6, 2003, for VTR's non-payment of access charges in accordance with the contract signed between the parties. That case has been suspended until a judgment is provided in the first of the mentioned lawsuits.

In turn, on December 21, 2005 Telefónica Chile sued VTR for non-payment of automatic reversal of charges service (800 service), in the amount of Ch\$1,500 million, plus sums accrued during the course of the trial. Based on the same argument, VTR filed a countersuit in the amount of Ch\$1,200 million. That judicial process is currently in first instance.

**(iii) Manquehue Net**

On June 24, 2003, Telefónica Chile filed a forced contract compliance with damage indemnity complaint against Manquehue Net in the amount of ThCh\$3,647,689 in addition to the sums accrued during substantiation of the proceeding, before the mixed arbitration court of Mr. Víctor Vial del Río. Likewise, and on the same date, Manquehue Net filed a complaint regarding compliance with discounts (in the amount of UF 107,000), in addition to an obligation to perform complaint (signing of 700 service contract). On June 5, 2004, following the evidence presentation stage, the arbitrator summoned the parties to hear sentencing.

On April 11, 2005, the Court notified the first instance sentence that accepted the complaint filed by Telefónica Chile, condemning Manquehue Net to pay approximately Ch\$452 million and at the same time accepted the complaint filed by Manquehue Net condemning Telefónica Chile to pay UF 47,600.

Telefónica Chile filed an appeal for annulment, which is currently pending before the Court of Appeals of Santiago.

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**28. Contingencies and restrictions, continued:**

**(iv) Chilectra and CGE:**

In June 2006, Telefónica Chile filed complaints against Chilectra S.A. and Río Maipo (currently CGE Distribución), in which it requests a readjusted refund of the Reimbursable Financial Contributions (AFR) ( Aportes Financieros Reembolsables ) made by the Company between 1992 and 1998, in relation to the Electrical Law. The restitution amounts claimed are ThCh\$899,658 and ThCh\$117,350, respectively. The lawsuits have recently been notified and are currently in the discussion stage.

**(v) Protection Motion:**

On June 28, 2006 television channels UCTV and TVN filed a petition for protection against Telefónica Chile requesting suspension of the inclusion of such signals in the Digital Television Plan. On June 30th, the Court of Appeals declared the petition inadmissible. The decision was confirmed on July 4, 2006, when the motion to set aside was rejected.

The complaint filed before the Supreme Court by the channels against the officials of the Court was declared inadmissible on July 13, 2006.

**(vi) Labor lawsuits:**

In the course of normal operations, labor lawsuits have been filed against the Company.

To date, among others, there are labor proceedings involving former employees, who claim wrongful dismissal. These employees did not sign termination releases or receive staff severance indemnities. On various occasions, the Supreme Court has reviewed the judgments handed down on the matter, accepting the argument of the Company and ratifying the validity of the terminations.

There are, in addition, other lawsuits involving former employees, whose staff severance indemnities have been paid and their termination releases signed, and who in spite of having chosen voluntary retirement plans or having been terminated due to company needs, intend to have the terminations voided. Of these lawsuits, to date, two have received a judgments favorable to the Company, rejecting the annulments.

Certain unions have filed complaints before the Santiago Labor Courts, requesting damage payments for various concepts.

Management and their internal and external legal counsel periodically monitor the evolution of the lawsuits and contingencies affecting the Company in the normal course of its operations, analyzing in each case the possible effect on the financial statements. Based on this analysis and on the information available to date, Management and their legal counsel believe that it is unlikely that the Company's income and equity will be significantly affected by a loss contingency eventually represented by significant liabilities in excess of those already recorded in the financial statements.

**(c) Financial restrictions:**

In order to develop its investment plans, the Company has obtained financing both in the domestic market and abroad (notes 15, 16 and 17), which establish among other things: clauses on the Company's maximum debt.

The maximum debt ratio for these is 1.60.

Non-compliance with these clauses implies that all the obligations assumed in these financing contracts would be considered due and payable.

As of March 31, 2007 the Company complies with all financial restrictions.

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**29. Third party guarantees:**

The Company has not received any guarantees from third parties.

**30. Local and Foreign Currency:**

A summary of the assets in local and foreign currency is as follows:

| Description                                                | Currency       | 2007<br>ThCh\$       | 2006<br>ThCh\$       |
|------------------------------------------------------------|----------------|----------------------|----------------------|
| <b>Total current assets:</b>                               |                | <b>323,791,516</b>   | <b>317,396,892</b>   |
|                                                            | Non-indexed    |                      |                      |
| Cash                                                       | Ch\$           | 6,822,687            | 7,284,375            |
|                                                            | Dollars        | 2,192,244            | 184,254              |
|                                                            | Euros          | 44,365               | 36,286               |
| Time deposits                                              | Indexed Ch\$   | 308,684              | 25,249,322           |
|                                                            | Non-indexed    |                      |                      |
|                                                            | Ch\$           | 57,769,101           | -                    |
|                                                            | Dollars        | 7,871,953            | 3,230,435            |
| Marketable securities                                      | Indexed Ch\$   | -                    | 1,954,048            |
|                                                            | Dollars        | 14,327,069           | 14,337,422           |
| Notes and accounts receivable (1)                          | Indexed Ch\$   | -                    | -                    |
|                                                            | Non-indexed    |                      |                      |
|                                                            | Ch\$           | 180,065,293          | 164,657,768          |
|                                                            | Dollars        | 1,944,381            | 4,100,849            |
|                                                            | Euros          | 348,873              | -                    |
|                                                            | Non-indexed    |                      |                      |
| Accounts receivable from related companies                 | Ch\$           | 12,891,845           | 11,981,937           |
|                                                            | Dollars        | 4,652,443            | 1,556,054            |
| Other current assets (2)                                   | Indexed Ch\$   | 204,230              | 21,138,927           |
|                                                            | Non-indexed    |                      |                      |
|                                                            | Ch\$           | 33,568,221           | 60,377,053           |
|                                                            | Dollars        | 681,841              | 1,133,057            |
|                                                            | Brazilian Real | 98,286               | 175,105              |
| <b>Total property, plant and equipment :</b>               |                | <b>1,214,990,081</b> | <b>1,307,435,110</b> |
| Property, plant and equipment and accumulated Depreciation | Indexed Ch\$   | 1,214,990,081        | 1,307,435,110        |
| <b>Total other long-term assets</b>                        |                | <b>80,212,420</b>    | <b>84,862,879</b>    |
| Investment in related companies                            | Indexed Ch\$   | 8,429,645            | 8,164,611            |
| Investment in other companies                              | Indexed Ch\$   | 4,187                | 4,187                |
| Goodwill                                                   | Indexed Ch\$   | 15,633,503           | 17,736,547           |
| Other long-term assets (3)                                 | Indexed Ch\$   | 28,189,783           | 44,385,288           |
|                                                            | Non-indexed    |                      |                      |
|                                                            | Ch\$           | 27,809,098           | 14,569,230           |
|                                                            | Dollars        | 146,204              | 3,016                |

|                             |                     |                      |                      |
|-----------------------------|---------------------|----------------------|----------------------|
| <b>Total assets</b>         |                     | <b>1,618,994,017</b> | <b>1,709,694,881</b> |
| <b>Subtotal by currency</b> | <b>Indexed Ch\$</b> | <b>1,267,760,113</b> | <b>1,426,068,040</b> |
|                             | <b>Non-indexed</b>  |                      |                      |
|                             | <b>Ch\$</b>         | <b>318,926,245</b>   | <b>258,870,363</b>   |
|                             | <b>U.S. Dollars</b> | <b>31,816,135</b>    | <b>24,545,087</b>    |
|                             | <b>Euros</b>        | <b>393,238</b>       | <b>36,286</b>        |
|                             | <b>Brazilian</b>    |                      |                      |
|                             | <b>Real</b>         | <b>98,286</b>        | <b>175,105</b>       |

(1) Includes the following balance sheet accounts: Trade Accounts Receivable, Notes Receivable and Miscellaneous Accounts Receivable.

(2) Includes the following balance sheet accounts: Inventories, Recoverable Taxes, Prepaid Expenses, Deferred Taxes and Other Current Assets.

(3) Includes the following balance sheet accounts: Long-term Debtors, Intangibles, Accumulated amortization and Others.

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**30. Local and Foreign Currency**, continued:

A summary of the current liabilities in local and foreign currency is as follows:

| Description                                                                            | Currency            | Up to 90 days    |                                    |                  |                                    | 90 days up to 1 year |                                    |                  |                                    |
|----------------------------------------------------------------------------------------|---------------------|------------------|------------------------------------|------------------|------------------------------------|----------------------|------------------------------------|------------------|------------------------------------|
|                                                                                        |                     | 2007             |                                    | 2006             |                                    | 2007                 |                                    | 2006             |                                    |
|                                                                                        |                     | Amount<br>ThCh\$ | Average<br>annual<br>interest<br>% | Amount<br>ThCh\$ | Average<br>annual<br>interest<br>% | Amount<br>ThCh\$     | Average<br>annual<br>interest<br>% | Amount<br>ThCh\$ | Average<br>annual<br>interest<br>% |
| Short-term<br>portion of<br>obligations<br>with banks and<br>financial<br>institutions | Indexed Ch\$        | 950,265          | 3.04                               | 707,563          | 2.32                               | -                    | -                                  | -                | -                                  |
|                                                                                        | Dollars             | 1,498,500        | 5.69                               | 1,352,285        | 5.17                               | -                    | -                                  | -                | -                                  |
| Obligations with<br>the public<br>(Commercial<br>paper)                                | Non-indexed<br>Ch\$ | -                | -                                  | 35,777,117       | 6.12                               | -                    | -                                  | 11,840,578       | 5.7                                |
| Obligations with<br>the public<br>(Bonds payable)                                      | Indexed Ch\$        | 2,539,688        | 4.16                               | -                | -                                  | -                    | -                                  | 1,702,164        | 6.0                                |
|                                                                                        | Dollars             | -                | -                                  | 27,207,292       | 7.63                               | -                    | -                                  | -                | -                                  |
| Long-term<br>obligations<br>maturing within<br>a year                                  | Indexed Ch\$        | 3,137            | 8.10                               | 3,156            | 8.10                               | 9,413                | 8.10                               | 9,472            | 8.1                                |
| Accounts<br>payable to<br>related<br>companies                                         | Indexed Ch\$        | -                | -                                  | -                | -                                  | -                    | -                                  | -                | -                                  |
|                                                                                        | Non-indexed<br>Ch\$ | 31,535,336       | -                                  | 27,108,387       | -                                  | -                    | -                                  | 430,176          | -                                  |
|                                                                                        | Dollars             | 1,118,338        | -                                  | 131,896          | -                                  | -                    | -                                  | -                | -                                  |
| Other current<br>liabilities (4)                                                       | Indexed Ch\$        | 827,074          | -                                  | -                | -                                  | 143,309              | -                                  | 484,385          | -                                  |

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|             |             |   |             |                         |
|-------------|-------------|---|-------------|-------------------------|
| Non-indexed |             |   |             |                         |
| Ch\$        | 138,475,384 | - | 120,467,577 | - 2,275,559 - 5,824,273 |
| Dollars     | 12,246,174  | - | 2,218,341   | - - 367,188             |
| Euros       | 39,609      | - | -           | - - -                   |
| Brazilian   |             |   |             |                         |
| Real        | 222,372     | - | 4,460       | - - 50,838              |

|                                          |                    |                    |                  |                     |
|------------------------------------------|--------------------|--------------------|------------------|---------------------|
| <b>TOTAL<br/>CURRENT<br/>LIABILITIES</b> | <b>189,455,877</b> | <b>214,978,074</b> | <b>2,428,281</b> | <b>- 20,709,074</b> |
|------------------------------------------|--------------------|--------------------|------------------|---------------------|

|                                 |                     |                    |                      |                                 |
|---------------------------------|---------------------|--------------------|----------------------|---------------------------------|
| <b>Subtotal by<br/>currency</b> | <b>Indexed</b>      |                    |                      |                                 |
|                                 | <b>Ch\$</b>         | <b>4,320,164</b>   | <b>- 710,719</b>     | <b>- 152,722 - 2,196,021</b>    |
|                                 | <b>Non-indexed</b>  |                    |                      |                                 |
|                                 | <b>Ch\$</b>         | <b>170,010,720</b> | <b>- 183,353,081</b> | <b>- 2,275,559 - 18,095,027</b> |
|                                 | <b>U.S. Dollars</b> | <b>14,863,012</b>  | <b>- 30,909,814</b>  | <b>- - 367,188</b>              |
|                                 | <b>Euros</b>        | <b>39,609</b>      | <b>- -</b>           | <b>- - -</b>                    |
|                                 | <b>Brazilian</b>    |                    |                      |                                 |
|                                 | <b>Real</b>         | <b>222,372</b>     | <b>- 4,460</b>       | <b>- - 50,838</b>               |

(4) Includes the following balance sheet accounts: Dividends payable, Trade accounts payable, Notes payable, Miscellaneous accounts payable, Accruals, Withholdings, Income taxes, Unearned Income and Other current liabilities.

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**30. Local and Foreign Currency**, continued:

A summary of the long-term liabilities in local and foreign currency is as follows :

| Description                      | Currency          | 1 to 3 years<br>2007 |                                       | 3 to 5 years<br>2007 |                                       | 5 to 10 years<br>2007 |                                       |
|----------------------------------|-------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|-----------------------|---------------------------------------|
|                                  |                   | Amount               | Average<br>annual<br>interest<br>rate | Amount               | Average<br>annual<br>interest<br>rate | Amount                | Average<br>annual<br>interest<br>rate |
|                                  |                   | ThCh\$               | %                                     | ThCh\$               | %                                     | ThCh\$                | %                                     |
| <b>LONG-TERM LIABILITIES</b>     |                   |                      |                                       |                      |                                       |                       |                                       |
| Obligation with banks and        |                   |                      |                                       |                      |                                       |                       |                                       |
| financial institutions           | Indexed Ch\$      | -                    | -                                     | 65,315,908           | 3.04                                  | -                     |                                       |
|                                  | Dollars           | 188,723,500          | 5.69                                  | 80,881,500           | 5.69                                  | -                     |                                       |
| Bonds payable                    | Indexed Ch\$      | -                    | -                                     | 55,118,910           | 3.75                                  | 11,155,018            |                                       |
| Other long- term liabilities (5) | Indexed Ch\$      | 33,272,539           |                                       | 2,074,159            |                                       | 9,561,444             |                                       |
|                                  | Non- indexed Ch\$ | 458,784              | -                                     | 433,435              | -                                     | 848,381               |                                       |
| <b>TOTAL</b>                     |                   |                      |                                       |                      |                                       |                       |                                       |
| <b>LONG- TERM LIABILITIES</b>    |                   | <b>222,454,823</b>   |                                       | <b>203,823,912</b>   |                                       | <b>21,564,843</b>     |                                       |
| <b>Subtotal by currency</b>      |                   |                      |                                       |                      |                                       |                       |                                       |
|                                  | Indexed Ch\$      | 33,272,539           | -                                     | 122,508,977          | -                                     | 20,716,462            |                                       |
|                                  | Non- indexed Ch\$ | 458,784              | -                                     | 433,435              | -                                     | 848,381               |                                       |
|                                  | U.S. Dollars      | 188,723,500          | -                                     | 80,881,500           | -                                     | -                     |                                       |

A summary of the long-term liabilities in local and foreign currency for 2006 is as follows :

| Description | Currency | 1 to 3 years<br>2006 |                                       | 3 to 5 years<br>2006 |                                       | 5 to 10 years<br>2006 |                                       | over 10 years<br>2006 |                                       |
|-------------|----------|----------------------|---------------------------------------|----------------------|---------------------------------------|-----------------------|---------------------------------------|-----------------------|---------------------------------------|
|             |          | Amount               | Average<br>annual<br>interest<br>rate | Amount               | Average<br>annual<br>interest<br>rate | Amount                | Average<br>annual<br>interest<br>rate | Amount                | Average<br>annual<br>interest<br>rate |
|             |          | ThCh\$               | %                                     | ThCh\$               | %                                     | ThCh\$                | %                                     | ThCh\$                | %                                     |

**LONG-TERM  
LIABILITIES**Obligation  
with banks  
and  
financial

institutions

|              |            |      |             |      |            |      |   |   |
|--------------|------------|------|-------------|------|------------|------|---|---|
| Indexed Ch\$ | -          | -    | 65,353,781  | 4.30 | -          | -    | - | - |
| Dollars      | 80,988,602 | 5.07 | 107,984,802 | 5.33 | 80,988,602 | 5.07 | - | - |

Bonds  
payable

|              |   |   |   |   |            |      |            |      |
|--------------|---|---|---|---|------------|------|------------|------|
| Indexed Ch\$ | - | - | - | - | 55,150,870 | 3.75 | 12,474,611 | 6.00 |
| Dollars      | - | - | - | - | -          | -    | -          | -    |

Other  
long-term

liabilities (5)

|                     |            |   |            |   |            |   |            |   |
|---------------------|------------|---|------------|---|------------|---|------------|---|
| Indexed Ch\$        | 32,291,886 | - | 24,161,044 | - | 23,596,354 | - | 34,248,000 | - |
| Non-indexed<br>Ch\$ | 1,025,815  | - | 434,594    | - | 1,088,976  | - | 4,802,292  | - |

**TOTAL  
LONG-TERM  
LIABILITIES**

|                    |                    |                    |                   |
|--------------------|--------------------|--------------------|-------------------|
| <b>114,306,303</b> | <b>197,934,221</b> | <b>160,824,802</b> | <b>51,524,903</b> |
|--------------------|--------------------|--------------------|-------------------|

Subtotal by  
currency

|                     |            |   |             |   |            |   |            |   |
|---------------------|------------|---|-------------|---|------------|---|------------|---|
| Indexed<br>Ch\$     | 32,291,886 | - | 89,514,825  | - | 78,747,224 | - | 46,722,611 | - |
| Non-indexed<br>Ch\$ | 1,025,815  | - | 434,594     | - | 1,088,976  | - | 4,802,292  | - |
| U.S. Dollars        | 80,988,602 | - | 107,984,802 | - | 80,988,602 | - | -          | - |

(5) Includes the following balance sheet accounts: Accounts payable to related companies, Miscellaneous accounts payable, Accruals, Deferred long-term taxes, Other long-term liabilities.

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)  
Notes to the Consolidated Financial Statements

**31. Sanctions:**

Neither the Company, nor its Directors and Managers have been sanctioned by the SVS or any other administrative authority during 2007 and 2006.

**32. Subsequent events:**

The Ordinary Shareholders Meeting held on April 13, 2007 agreed to the following:

**a) Changes in the Board of Directors**

The following composition of the Company's Board of Directors was approved:

**Series A Directors**

**Regular**

Emilio Gilolmo López  
Narcís Serra Serra  
Andrés Concha Rodríguez  
Fernando Bustamante Huerta  
Hernán Cheyre Valenzuela  
Patricio Rojas Ramos

**Substitutes**

José María Alvarez Pallete  
Manuel Alvarez-Tronge  
Luis Cid Alonso  
Mario Vásquez  
Carlos Díaz Vergara  
Benjamín Holmes Bierwirth

**Series B Directors**

**Regular**

Marco Colodro Hadjes

**Substitutes**

Alfonso Ferrari Herrero

**b)** Distribute 55.10% of net income for 2006, through payment of a final dividend of Ch\$13.44234 per share, to be paid on May 16, 2007.

**c)** Decrease stock capital in the amount of Ch\$48,815,011,335, maintaining the same amount of shares issued by the Company, which means paying Ch\$51 per share, authorizing the Board of Directors to set the date of payment to the shareholders.

**d)** Modify the Company bylaws corresponding to the agreements mentioned above.

The Board of Directors Meeting held on April 13, 2007 agreed to appoint Mr. Emilio Gilolmo López and Mr. Narcís Serra Serra as Company President and Vice President, respectively. Likewise, Mr. José Moles Valenzuela was approved in the position of General Manager.

The Ordinary Shareholders Meeting of subsidiary Telefónica Larga Distancia S.A. held on April 12, 2007, approved the following agreements:

**a) Changes in the Board of Directors:**

Appoint the following persons to be Company directors

a. Emilio Gilolmo López

- b. José Moles Valenzuela
- c. Julio Covarrubias Fernández
- d. Diego Martínez-Caro de la Concha-Castañeda
- e. Humberto Soto Velasco
- f. Cristián Aninat Salas
- g. Juan Antonio Etcheverry Duhalde

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)  
Notes to the Consolidated Financial Statements

### 32. Subsequent events, continued:

b) Distribute 30% of net income for 2006, through payment of a dividend of Ch\$77.69941 per share, to be paid on May 10, 2007.

The Board of Directors Meeting held on April 12, 2007 agreed to appoint Mr. Emilio Gilolmo López and Mr. José Moles Valenzuela as President and Vice President, respectively.

Management is unaware of any other significant subsequent events that have occurred between April 1 and 23, 2007, and that may affect the Company's financial position or the interpretation of these consolidated financial statements.

### 33. Environment:

In the opinion of Management and the Company's in-house legal counsel and because the nature of the Company's operations do not directly or indirectly affect the environment, as of the closing date of these consolidated financial statements, no resources have been set aside nor have any payments been made for non-compliance with municipal ordinances or to other supervising organizations.

### 34. Time deposits:

The detail of time deposits is as follows:

| Placement | Institution     | Currency | Principal<br>ThCh\$ | Rate<br>% | Maturity    | Principal<br>ThCh\$ | Accrued<br>interest | 2007<br>ThCh\$ |
|-----------|-----------------|----------|---------------------|-----------|-------------|---------------------|---------------------|----------------|
| 01-Feb-07 | BANCO DE CHILE  | \$       | 2,500,000           | 5.28      | May 02,2007 | 2,500,000           | 21,267              | 2,521,267      |
| 02-Feb-07 | BANCO DE CHILE  | \$       | 1,000,000           | 5.28      | May 03,2007 | 1,000,000           | 8,360               | 1,008,360      |
| 05-Feb-07 | BANCO DE CHILE  | \$       | 1,000,000           | 5.28      | May 14,2007 | 1,000,000           | 7,920               | 1,007,920      |
| 06-Feb-07 | BANCO DE CHILE  | \$       | 1,200,000           | 5.52      | May 14,2007 | 1,200,000           | 9,752               | 1,209,752      |
| 08-Feb-07 | BBVA            | \$       | 1,200,000           | 5.28      | Apr 12,2007 | 1,200,000           | 8,976               | 1,208,976      |
| 12-Feb-07 | BBVA            | \$       | 2,200,000           | 5.28      | Apr 24,2007 | 2,200,000           | 15,165              | 2,215,165      |
| 13-Feb-07 | CORP BANCA      | \$       | 1,800,000           | 5.40      | May 02,2007 | 1,800,000           | 12,420              | 1,812,420      |
| 13-Feb-07 | BCI             | \$       | 1,000,000           | 5.28      | May 02,2007 | 1,000,000           | 6,747               | 1,006,747      |
| 14-Feb-07 | BANCO SANTANDER | \$       | 1,200,000           | 5.34      | Apr 30,2007 | 1,200,000           | 8,010               | 1,208,010      |
| 20-Feb-07 | BCI             | \$       | 4,900,000           | 5.40      | Apr 30,2007 | 4,900,000           | 28,665              | 4,928,665      |
| 20-Feb-07 | CORP BANCA      | \$       | 1,600,000           | 5.34      | Apr 30,2007 | 1,600,000           | 9,256               | 1,609,256      |

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|                  |            |     |           |      |                |                   |                |                   |
|------------------|------------|-----|-----------|------|----------------|-------------------|----------------|-------------------|
| 21-Feb-07        | BBVA       | \$  | 1,600,000 | 5.16 | Apr<br>30,2007 | 1,600,000         | 8,715          | 1,608,715         |
|                  | BANCO      |     |           |      | Apr<br>30,2007 |                   |                |                   |
| 21-Feb-07        | SANTANDER  | USD | 1,500,000 | 5.28 | 30,2007        | 1,500,000         | 8,360          | 1,508,360         |
|                  |            |     |           |      | May<br>14,2007 |                   |                |                   |
| 22-Feb-07        | CORP BANCA | \$  | 1,600,000 | 5.40 | 14,2007        | 1,600,000         | 8,880          | 1,608,880         |
|                  |            |     |           |      | Apr<br>20,2007 |                   |                |                   |
| 23-Feb-07        | CORP BANCA | \$  | 1,500,000 | 5.34 | 20,2007        | 1,500,000         | 8,010          | 1,508,010         |
|                  |            |     |           |      | Apr<br>20,2007 |                   |                |                   |
| 26-Feb-07        | BCI        | \$  | 1,600,000 | 5.28 | 20,2007        | 1,600,000         | 7,744          | 1,607,744         |
|                  |            |     |           |      | Apr<br>20,2007 |                   |                |                   |
| 26-Feb-07        | HSBC       | \$  | 1,500,000 | 5.16 | 20,2007        | 1,500,000         | 7,095          | 1,507,095         |
| <b>Sub-Total</b> |            |     |           |      |                | <b>28,900,000</b> | <b>185,342</b> | <b>29,085,342</b> |

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Notes to the Consolidated Financial Statements

**34. Time deposits,** continued:

| Placement | Institution | Currency | Principal<br>ThCh\$ | Rate<br>% | Maturity    | Principal<br>ThCh\$ | Accrued<br>interest | 2007<br>ThCh\$ |
|-----------|-------------|----------|---------------------|-----------|-------------|---------------------|---------------------|----------------|
| 27-Feb-07 | HSBC        | \$       | 1,300,000           | 5.16      | Apr 20,2007 | 1,300,000           | 5,962               | 1,305,962      |
|           | BANCO DE    |          |                     |           |             |                     |                     |                |
| 28-Feb-07 | CHILE       | \$       | 800,000             | 5.16      | Apr 20,2007 | 800,000             | 3,555               | 803,555        |
|           | BANCO       |          |                     |           |             |                     |                     |                |
| 02-Mar-07 | ESTADO      | \$       | 2,400,000           | 5.16      | May 14,2007 | 2,400,000           | 9,976               | 2,409,976      |
|           | BANCO       |          |                     |           |             |                     |                     |                |
| 05-Mar-07 | FALABELLA   | \$       | 2,100,000           | 5.16      | May 14,2007 | 2,100,000           | 7,826               | 2,107,826      |
|           | BANCO       |          |                     |           |             |                     |                     |                |
| 06-Mar-07 | SECURITY    | \$       | 1,000,000           | 5.04      | Apr 09,2007 | 1,000,000           | 3,500               | 1,003,500      |
| 06-Mar-07 | HSBC        | \$       | 1,600,000           | 5.16      | May 14,2007 | 1,600,000           | 5,733               | 1,605,733      |
| 07-Mar-07 | BBVA        | \$       | 1,000,000           | 5.04      | Apr 11,2007 | 1,000,000           | 3,360               | 1,003,360      |
|           | BANCO       |          |                     |           |             |                     |                     |                |
| 07-Mar-07 | ESTADO      | \$       | 1,700,000           | 5.04      | May 16,2007 | 1,700,000           | 5,712               | 1,705,712      |
|           | DEUTSCHE    |          |                     |           |             |                     |                     |                |
| 09-Mar-07 | BANK        | \$       | 1,100,000           | 5.16      | May 16,2007 | 1,100,000           | 3,469               | 1,103,469      |
|           | BANCO       |          |                     |           |             |                     |                     |                |
| 12-Mar-07 | SANTANDER   | \$       | 4,200,000           | 5.40      | May 16,2007 | 4,200,000           | 11,970              | 4,211,970      |
|           | BANCO DE    |          |                     |           |             |                     |                     |                |
| 13-Mar-07 | CHILE       | \$       | 1,000,000           | 5.04      | May 16,2007 | 1,000,000           | 2,520               | 1,002,520      |
|           | BANCO       |          |                     |           |             |                     |                     |                |
| 14-Mar-07 | SANTANDER   | \$       | 600,000             | 5.40      | May 16,2007 | 600,000             | 1,530               | 601,530        |
| 14-Mar-07 | CITIBANK    | \$       | 900,000             | 5.04      | May 16,2007 | 900,000             | 2,142               | 902,142        |
| 15-Mar-07 | CITIBANK    | \$       | 1,200,000           | 5.04      | May 16,2007 | 1,200,000           | 2,688               | 1,202,688      |
| 15-Mar-07 | HSBC        | \$       | 300,000             | 5.16      | May 16,2007 | 300,000             | 688                 | 300,688        |
| 19-Mar-07 | CITIBANK    | \$       | 2,000,000           | 5.04      | May 16,2007 | 2,000,000           | 3,360               | 2,003,360      |
| 20-Mar-07 | HSBC        | \$       | 1,300,000           | 5.16      | May 16,2007 | 1,300,000           | 2,050               | 1,302,050      |
|           |             |          |                     |           | May         |                     |                     |                |
| 20-Mar-07 | BBVA        | \$       | 1,500,000           | 5.16      | 16,2007     | 1,500,000           | 2,365               | 1,502,365      |
|           | BANCO       |          |                     |           |             |                     |                     |                |
| 21-Mar-07 | ESTADO      | \$       | 600,000             | 5.04      | May 16,2007 | 600,000             | 840                 | 600,840        |
| 21-Mar-07 | CORP BANCA  | \$       | 1,000,000           | 5.28      | May 16,2007 | 1,000,000           | 1,466               | 1,001,466      |
| 23-Mar-07 | CITIBANK    | \$       | 1,000,000           | 5.04      | May 16,2007 | 1,000,000           | 1,120               | 1,001,120      |

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|                  |                          |     |        |      |             |                   |                |                   |
|------------------|--------------------------|-----|--------|------|-------------|-------------------|----------------|-------------------|
| 31-Mar-07        | BANCO SANTANDER ABN AMRO | \$  | 1,928  | -    | Apr 30,2007 | 1,928             | -              | 1,928             |
| 26-Mar-07        | BANK ABN AMRO            | USD | 13,800 | 5.23 | Apr 02,2007 | 7,441,098         | 5,405          | 7,446,503         |
| 30-Mar-07        | BANK                     | USD | 500    | 5.30 | Apr 02,2007 | 269,605           | 40             | 269,645           |
| 09-Mar-07        | BCI                      | USD | 153    | 5.22 | Apr 09,2007 | 82,245            | 262            | 82,507            |
| 09-Mar-07        | BCI                      | USD | 136    | 5.22 | Apr 09,2007 | 73,065            | 232            | 73,297            |
| 06-Mar-07        | BCI                      | UF  | 17     | 3.00 | Apr 06,2007 | 308,041           | 643            | 308,684           |
| <b>Sub-Total</b> |                          |     |        |      |             | <b>36,775,982</b> | <b>88,414</b>  | <b>36,864,396</b> |
| <b>Total</b>     |                          |     |        |      |             | <b>65,675,982</b> | <b>273,756</b> | <b>65,949,738</b> |

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)  
Notes to the Consolidated Financial Statements

**35. Accounts payable:**

The detail of the accounts payable balance is as follows:

| Description                           | 2007 ThCh\$        | 2006 ThCh\$       |
|---------------------------------------|--------------------|-------------------|
| <b>Suppliers</b>                      |                    |                   |
| Chilean                               | 106,679,644        | 65,034,939        |
| Foreign                               | 8,972,027          | 3,356,840         |
| <b>Provision for work in progress</b> | 3,007,439          | 10,291,345        |
| <b>Total</b>                          | <b>118,659,110</b> | <b>78,683,124</b> |

**36. Other accounts payable:**

The detail of other accounts payable is as follows:

| Description                          | 2007<br>ThCh\$    | 2006<br>ThCh\$    |
|--------------------------------------|-------------------|-------------------|
| Exchange insurance contract payables | 153,096           | 1,142,417         |
| Billing on behalf of third parties   | 4,059,299         | 7,270,915         |
| Accrued supports                     | 1,180,261         | 1,371,031         |
| Creditors for materials received     | -                 | 1,066,045         |
| Carrier service                      | 5,456,105         | 7,412,724         |
| Others                               | 52,690            | 506,183           |
| <b>Total</b>                         | <b>10,901,451</b> | <b>18,769,315</b> |

**Antonio José Coronet**  
General Accountant

**José Molés Valenzuela**  
General Manager

Management's Discussion and Analysis of the Consolidated Financial Statements

***MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE  
CONSOLIDATED FINANCIAL STATEMENTS***  
*For the three-month periods ended March 31, 2007 and 2006*

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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## 1. HIGHLIGHTS

### Decrease in Financial Debt

Telefónica Chile improved its level of indebtedness and financial ratios, through a decrease in the debt level, in 2006 and has continued improving during the first three months of 2007. As of March 31, 2007, the financial debt reached Ch\$406,196 million, reflecting a 15.6% decrease with respect to the financial debt of Ch\$481,541 million recorded as of March 31, 2006. The decrease in the indebtedness levels, together with the improved financing conditions, translated into a decrease of 20.4% in financial expenses as of March 31, 2007.

### Capital Reduction

Shareholders at the Extraordinary Shareholders Meeting held on April 13, 2007 approved the following:

- a) Reduce paid-in capital by Ch\$48,815,011,335, maintaining the same amount of shares issued by the Company, for a payout of Ch\$51 per share. The Board of Directors will set the date of payment to the shareholders.
- b) Modify the Company bylaws to reflect the previous agreements.

### Appointment of Directors

#### **Telefónica Chile**

Shareholders at the General Shareholders Meeting held on April 13, 2007 approved the following:

- i) Appoint the following people as Series A Directors of Compañía de Telecomunicaciones de Chile S.A.:

#### **Directors**

Emilio Gilolmo López  
Narcis Serra Serra  
Andrés Concha Rodríguez  
Fernando Bustamante Huerta  
Hernán Cheyre Valenzuela  
Patricio Rojas Ramos

#### **Alternates**

José María Alvarez-Pallete  
Manuel Alvarez-Tronge  
Luis Cid Alonso  
Mario Vásquez  
Carlos Díaz Vergara  
Benjamín Holmes Bierwirth

- ii) Designate the following people as Series B Directors of Compañía de Telecomunicaciones de Chile S.A.:

#### **Director**

Marco Colodro Hadjes

#### **Alternate**

Alfonso Ferrari Herrero

**Telefónica Larga Distancia**

Shareholders at the General Shareholders Meeting held on April 12, 2007 agreed to appoint the following people as directors:

- Emilio Gilolmo López
- José Moles Valenzuela
- Julio Covarrubias Fernández
- Diego Martínez-Caro de la Concha-Castañeda
- Humberto Soto Velasco
- Cristian Aninat salas
- Juan Antonio Etcheverry Duhalde

**Dividend Policy****Telefónica Chile**

Shareholders at the General Shareholders Meeting held on April 13, 2007 agreed to distribute 2006 net income by paying a final dividend of Ch\$13.44234 per share, which will be paid on May 16, 2007. In accordance with the current dividend policy, this dividend added to the interim dividend that was approved in October 2006 add up to 100% of 2006 net income.

**Telefónica Larga Distancia**

On September 23, 2006, the Board of Directors of Telefónica Larga Distancia agreed to modify the dividend policy. The Board established its intention to distribute 30% of net income generated during the respective year through a final dividend in May of each year, to be proposed at the General Shareholders Meeting.

Shareholders at the General Shareholders Meeting held on April 12, 2007 agreed to distribute 30% of net income for the year through payment of a dividend of Ch\$77.69941 per share, which will be paid on May 10, 2007.

**Telefónica Empresas**

Shareholders at the Extraordinary Shareholders Meeting of Telefónica Empresas CTC Chile held on March 23, 2007 agreed to pay a final dividend in the amount of Ch\$10,473,441,211, equivalent to Ch\$26.118085 per share, to be paid in cash before March 30, 2007 with a charge to retained earnings as of December 31, 2006.

**Name Change****Telefónica Empresas**

Shareholders at the Extraordinary Shareholders Meeting held on March 23, 2007 approved the company's name change from Telefónica Empresas CTC Chile S.A. to Telefónica Empresas Chile S.A. and replaced the first article of its bylaws.

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**Permit for Limited Satellite and Cable Television Service**

Through Exempt Resolution No. 1605 of December 23, 2005, the Undersecretary of Telecommunications ( Subtel ) granted Telefónica Multimedia Chile S.A. (formerly Tecnonáutica S.A.) a limited satellite television service permit to operate throughout the national territory for a renewable 10-year term. In addition, Telefónica Multimedia has a limited cable television service permit to provide services through the broadband network of Telefónica Chile, granted through Exempt Resolutions No. 81 of 2006 and No. 260 of 2007.

Telefónica Multimedia began commercializing satellite television services and is authorized to commercialize television services through the broadband network. In turn Telefónica Chile began commercializing bundled services, which include voice, pay television and broadband.

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**2. VOLUME STATISTICS, STATEMENTS OF INCOME AND RESULTS BY BUSINESS AREA****TABLE No. 1****VOLUME STATISTICS**

| <b>DESCRIPTION</b>                                    | <b>MARCH<br/>2006</b> | <b>MARCH<br/>2007</b> | <b>VARIATION<br/>Q</b> | <b>%</b> |
|-------------------------------------------------------|-----------------------|-----------------------|------------------------|----------|
| Lines in Service (end of period)                      | 2,418,073             | 2,185,041             | (233,032)              | -10%     |
| Normal                                                | 1,268,590             | 820,382               | (448,208)              | -35%     |
| Plans                                                 | 629,782               | 1,003,649             | 373,867                | 59%      |
| Prepaid                                               | 519,701               | 361,010               | (158,691)              | -31%     |
| Broadband                                             | 356,986               | 527,047               | 170,061                | 48%      |
| DLD Traffic (thousands) Total minutes<br>(188+120)    | 144,003               | 134,335               | (9,668)                | -7%      |
| ILD Traffic (thousands) Outgoing minutes<br>(188+120) | 17,350                | 18,038                | 688                    | 4%       |
| IP Dedicated                                          | 11,000                | 13,264                | 2,264                  | 21%      |
| Digital Television                                    | -                     | 129,062               | n.a.                   | n.a.     |

**TABLE No. 2**  
**CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE-MONTH PERIODS**  
**ENDED MARCH 31, 2007 AND 2006**

(Figures in millions of pesos as of March 31, 2007)

| DESCRIPTION                                    | JAN MAR        |                | JAN-DEC        |                | JAN-MAR       |      | VARIATION<br>(2007/2006) |   |
|------------------------------------------------|----------------|----------------|----------------|----------------|---------------|------|--------------------------|---|
|                                                | 2006           | 2006           | 2006           | 2006           | 2007          | 2007 | ThCh\$                   | % |
| <b>OPERATING REVENUES</b>                      |                |                |                |                |               |      |                          |   |
| <b>FIXED TELECOMMUNICATIONS</b>                | <b>110,853</b> | <b>440,428</b> | <b>110,810</b> | <b>(43)</b>    | <b>-0.04%</b> |      |                          |   |
| Basic Telephony                                | 69,337         | 264,909        | 59,529         | (9,808)        | -14.1%        |      |                          |   |
| Fixed Charge (1)                               | 24,834         | 80,839         | 13,718         | (11,116)       | -44.8%        |      |                          |   |
| Variable Charge                                | 20,079         | 70,009         | 12,502         | (7,577)        | -37.7%        |      |                          |   |
| Connections and Other Installations            | 445            | 1,485          | 485            | 40             | 9.0%          |      |                          |   |
| Flexible Plans (Minutes) (1)                   | 18,024         | 90,610         | 27,489         | 9,465          | 52.5%         |      |                          |   |
| Value Added Services                           | 4,459          | 16,595         | 3,471          | (988)          | -22.2%        |      |                          |   |
| Other Basic Telephony Services                 | 1,496          | 5,371          | 1,864          | 368            | 24.6%         |      |                          |   |
| <b>Broadband and Broadband Plus Voice</b>      | <b>14,143</b>  | <b>61,420</b>  | <b>21,716</b>  | <b>7,573</b>   | <b>53.5%</b>  |      |                          |   |
| <b>Access Charges and Interconnections (2)</b> | <b>12,501</b>  | <b>51,323</b>  | <b>12,193</b>  | <b>(308)</b>   | <b>-2.5%</b>  |      |                          |   |
| Domestic Long Distance (DLD)                   | 2,280          | 8,511          | 1,916          | (364)          | -16.0%        |      |                          |   |
| International Long Distance (ILD)              | 424            | 1,600          | 444            | 20             | 4.7%          |      |                          |   |
| Other Interconnection Services                 | 9,797          | 41,212         | 9,833          | 36             | 0.4%          |      |                          |   |
| <b>Other Fixed Telephony Services</b>          | <b>14,872</b>  | <b>62,776</b>  | <b>17,372</b>  | <b>2,500</b>   | <b>16.8%</b>  |      |                          |   |
| Advertising in Telephone Directories           | 926            | 4,351          | 620            | (306)          | -33.0%        |      |                          |   |
| ISP (Switchboard and Dedicated)                | 565            | 2,230          | 498            | (67)           | -11.9%        |      |                          |   |
| Teleemergencia (Security Services)             | 2,292          | 8,843          | 2,184          | (108)          | -4.7%         |      |                          |   |
| Public Phones                                  | 2,596          | 9,983          | 2,368          | (228)          | -8.8%         |      |                          |   |
| Interior Installation and Equipment            |                |                |                |                |               |      |                          |   |
| Rental                                         | 7,898          | 30,715         | 7,068          | (830)          | -10.5%        |      |                          |   |
| Equipment Commercialization                    | 595            | 2,854          | 406            | (189)          | -31.8%        |      |                          |   |
| Other                                          | -              | 3,800          | 4,228          | 4,228          | n.a.          |      |                          |   |
| <b>LONG DISTANCE</b>                           | <b>14,392</b>  | <b>59,040</b>  | <b>13,932</b>  | <b>(460)</b>   | <b>-3.2%</b>  |      |                          |   |
| Long Distance                                  | 5,701          | 22,124         | 5,341          | (360)          | -6.3%         |      |                          |   |
| International Service                          | 5,271          | 22,594         | 6,108          | 837            | 15.9%         |      |                          |   |
| Network Capacity and Circuit Rentals           | 3,420          | 14,322         | 2,483          | (937)          | -27.4%        |      |                          |   |
| <b>CORPORATE COMMUNICATIONS</b>                | <b>18,526</b>  | <b>76,266</b>  | <b>17,849</b>  | <b>(677)</b>   | <b>-3.7%</b>  |      |                          |   |
| Terminal Equipment                             | 2,344          | 11,341         | 2,414          | 70             | 3.0%          |      |                          |   |
| Complementary Services                         | 3,467          | 13,759         | 3,180          | (287)          | -8.3%         |      |                          |   |
| Data Services                                  | 6,287          | 26,811         | 6,723          | 436            | 6.9%          |      |                          |   |
| Dedicated Links and Others                     | 6,428          | 24,355         | 5,532          | (896)          | 13.9%         |      |                          |   |
| <b>OTHER BUSINESSES (3)</b>                    | <b>711</b>     | <b>2,626</b>   | <b>443</b>     | <b>(268)</b>   | <b>-37.7%</b> |      |                          |   |
| <b>TOTAL OPERATING REVENUES</b>                | <b>144,482</b> | <b>578,360</b> | <b>143,034</b> | <b>(1,448)</b> | <b>-1.0%</b>  |      |                          |   |
| Salaries                                       | (16,913)       | (68,785)       | (15,800)       | (1,113)        | -6.6%         |      |                          |   |

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|                                                  |                  |                  |                  |                |               |
|--------------------------------------------------|------------------|------------------|------------------|----------------|---------------|
| Depreciation                                     | (51,489)         | (207,697)        | (51,328)         | (161)          | -0.3%         |
| Other Operating Costs                            | (56,122)         | (219,087)        | (62,945)         | 6,823          | 12.2%         |
| <b>TOTAL OPERATING COSTS</b>                     | <b>(124,524)</b> | <b>(495,569)</b> | <b>(130,073)</b> | <b>(5,549)</b> | <b>4.5%</b>   |
| <b>OPERATING INCOME</b>                          | <b>19,958</b>    | <b>82,791</b>    | <b>12,961</b>    | <b>(6,997)</b> | <b>-35.1%</b> |
| Interest Income                                  | 691              | 4,446            | 1,634            | 943            | 136.5%        |
| Other Non-operating Income                       | 512              | 1,620            | 1,968            | 1,456          | 284.4%        |
| Income from Investments in Related Companies (4) | 433              | 1,919            | 264              | (169)          | -39.0%        |
| Interest Expenses                                | (5,072)          | (19,519)         | (4,039)          | 1,033          | -20.4%        |
| Amortization of Goodwill                         | (1,142)          | (2,227)          | (361)            | 781            | -68.4%        |
| Other Non-operating Expenses                     | (10,390)         | (16,678)         | (1,569)          | 8,821          | -84.9%        |
| Price-level restatement                          | (436)            | 667              | (4,434)          | (3,998)        | 917.0%        |
| <b>NON-OPERATING INCOME</b>                      | <b>(15,404)</b>  | <b>(29,772)</b>  | <b>(6,537)</b>   | <b>8,867</b>   | <b>-57.6%</b> |
| <b>INCOME BEFORE INCOME TAX</b>                  | <b>4,554</b>     | <b>53,019</b>    | <b>6,424</b>     | <b>1,870</b>   | <b>41.1%</b>  |
| Income taxes                                     | (3,867)          | (29,659)         | (5,458)          | 1,591          | 41.1%         |
| Minority Interest                                | 66               | 42               | 87               | (21)           | 31.8%         |
| <b>NET INCOME (5)</b>                            | <b>753</b>       | <b>23,402</b>    | <b>1,053</b>     | <b>300</b>     | <b>39.8%</b>  |

(1) The decrease in Fixed Monthly Charge is explained by the migration of customers to Flexible Plans.

(2) Due to accounting consolidation does not include access charges of Telefónica Larga Distancia.

(3) Includes revenues from t-gestiona, Telepeajes and Fundación.

(4) For the purposes of a comparative analysis, equity participation in income from investments in related companies is shown net (net income/losses).

(5) For comparison purposes, certain reclassifications have been made to the 2006 statements of income.

### 3. ANALYSIS OF INCOME FOR THE PERIOD

#### 3.1 OPERATING INCOME

As of March 31, 2007, operating income amounted to Ch\$12,961 million, which represents a 35.1% decrease with respect to the previous year.

##### Operating Revenue

Operating revenue for the period amounted to Ch\$143,034 million, or a decrease of 1.0% in relation to operating revenue for the same period in 2006 of Ch\$144,482 million. This variation was mainly the result of the decrease in revenues from basic and corporate communications services due to lower traffic and revenues recorded in the period

**Fixed Telephony Revenues:** Fixed telephony revenues decreased 0.04% with respect to the previous year, mainly due to a drop of 14.1% in basic telephony revenues, which resulted from a 37.7% decrease in variable charge revenues. This decrease shows the effect of lower revenues derived from the downturn in traffic per line and migration of customers to flexible plans. Similarly, fixed charge revenues from the fixed monthly network connection charge dropped 44.8% . This change is mainly explained by the incorporation of customers to flexible plans, which grew by 52.5% with respect to the previous year. Consequently, the incorporation of customers to flexible plans contributed positively to income, growing Ch\$9,465 million with respect to the previous year. Revenues from connections and other installations are 9.0% below the previous year's level, whereas value-added service revenues decreased by 22.2%, mainly due to the drop in average lines in service. Other basic telephony service revenues dropped by 24.6% .

**Broadband** service revenues increased 53.5% in the period from January to March 2007, to Ch\$21,716 million, as compared to Ch\$14,143 million for the same period the previous year.

**Access charges and interconnections** decreased by 2.5%, mainly due to 16.0% lower revenues from *domestic long distance* access charges, offset by a 4.7% increase in revenues from *international long distance*. On the other hand there was a 0.4% increase in *other interconnection services*, primarily due to increases in media rental services, information services and unbundling services and fixed-fixed access charges.

**Other fixed telephony services** increased by Ch\$2,500 million, or 16.8%, explained fundamentally by an increase in revenues from satellite television in the amount of Ch\$4,228 million. This increase was offset by revenue decreases of Ch\$189 million in commercialization of equipment, Ch\$830 million in internal rent and equipment rental, Ch\$306 million in advertising in telephone books, Ch\$108 million in Teleemergencia, Ch\$228 million in public telephones and Ch\$67 million in switchboard and dedicated ISP.

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**Long Distance:** Revenues from long distance services decreased by 3.2% in comparison to 2006, due to a decrease of 6.3% in DLD and a decrease of 27.4% in circuit rentals. However, the decline was offset by a 15.9% increase in ILD revenues.

**Corporate Communications:** Revenue from corporate communications decreased 3.7% with respect to the previous year, due to decreases of 8.3% in complementary services and 13.9% in circuits and others. This was partly offset by a 6.9% increase in data services and a 3.0% increase in terminal equipment revenues.

**Other Businesses:** Revenue from other businesses decreased 37.7%, mainly because of lower revenues from the subsidiaries Instituto Telefónica and t-gestiona.

### **Operating Costs**

Operating costs for the period reached Ch\$130,073 million, increasing by 4.5% in relation to the same period in 2006, in which they reached Ch\$124,524 million. This is mainly explained by costs generated by the change in the way the Speedy broadband service is commercialized and by the purchase of content for the television business, which was offset by the 6.6% drop in the salary expenses line and the 0.3% drop in depreciation.

## **3.2 NON-OPERATING INCOME**

***Non-operating results*** for the three months ended March 31, 2007 amounted to a loss of Ch\$6,537 million, compared to a loss of Ch\$15,404 million; that is, there was a 57.6% reduction in non-operating loss, where:

***Financial income*** increased 136.5%, mainly because in 2007 a greater volume of funds was temporarily used for financial investments.

***Other non-operating income*** amounted to Ch\$1,968 million, which is higher than the Ch\$512 million recorded in 2006. This is mainly due to higher income obtained on the sale of recovered material.

***Financial expenses*** decreased by 20.4% in 2007, as a product of lower interest-bearing debt and an improvement in the international risk rating from BAA2 to BAA1.

***Amortization of goodwill*** decreased Ch\$781 million in relation to 2006, mainly because of the full amortization of the goodwill of Tecnonáutica during the first quarter of 2006, due to the restructuring of the Telefónica Chile group.

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**Other non-operating income** reached Ch\$1,569 million, Ch\$8,821 million less than in 2006. This decrease is explained by the costs incurred in the personnel restructuring that took place at the beginning of 2006.

**Price-level restatement** in 2006 shows a loss of Ch\$4,434 million, mainly because of a temporary accounting effect related to the difference between the market rate and the contract rate for derivative instruments that are used to hedge exchange rate risk. It should be noted that a 100% hedge has been maintained for exchange rate fluctuation and an 84% hedge for interest rate fluctuation.

### **3.3 NET INCOME FOR THE PERIOD**

The Company recorded net income of Ch\$1,053 million for the three months ended March 31, 2007, compared to Ch\$753 million for the same period in 2006. The higher income obtained in the 2007 period in comparison to 2006 is derived from a 57.6% reduction in non-operating loss , offset by the 4.5% increase in operating costs and by the increase in the level of income taxes.

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### 3.4 RESULTS BY BUSINESS AREA

**1. Local Telephony Business:** Recorded a net loss of Ch\$5,392 million as of March 31, 2007, compared to the loss of Ch\$4,562 million recorded in 2006. The difference is due to lower operating income, generated by a decrease in operating revenues added to an increase in operating costs. The lower operating income was offset by the lower non-operating loss, mainly due to the restructuring costs recorded in the first quarter of 2006.

**2. Corporate Communications Business:** This business contributed net income of Ch\$1,522 million in the period, a 43.5% decrease in relation to the Ch\$2,696 million recorded in 2006. The main explanation of the difference was lower operating income, due to the increase in depreciation cost, which was offset by the decrease in the cost of goods and services and by the increase in non-operating income.

**3. Long Distance Business:** As of March 31, 2007 presented net income of Ch\$5,216 million, higher than the Ch\$3,278 million recorded in 2006. This variation is produced mainly by improved operating income, complemented by an increase in non-operating income, which amounted to Ch\$551 million for the first three months of 2007.

**4. Other Businesses:** Other businesses mainly include the services of Telefónica Multimedia, Instituto Telefónica, t-gestiona and Fundación. These businesses altogether generated a net loss of Ch\$302 million in 2007, whereas during the same period the previous year they generated net income of Ch\$598 million. This is mainly due to the startup of operations of the television business through Telefónica Multimedia, in addition to lower income obtained by Fundación and Instituto Telefónica Chile (formerly Telepeajes).

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**4. STATEMENT OF CASH FLOWS**

**TABLE No. 3**  
**CONSOLIDATED CASH FLOWS**  
(Figures in millions of pesos as of March 31, 2007)

| DESCRIPTION                                                 | JAN-MAR<br>2006 | JAN-MAR<br>2007 | VARIATION<br>ThCh\$ | %             |
|-------------------------------------------------------------|-----------------|-----------------|---------------------|---------------|
| <b>Cash and cash equivalents at beginning of period</b>     | <b>97,457</b>   | <b>41,430</b>   | <b>(56,027)</b>     | <b>-57.5%</b> |
| Net cash from operating activities                          | 49,466          | 60,566          | 11,100              | 22.4%         |
| Net cash from financing activities                          | (39,467)        | 0               | (39,467)            | -100.0%       |
| Net cash from investing activities                          | (19,422)        | (23,609)        | 4,187               | 21.6%         |
| Effect of inflation on cash and cash equivalents            | 288             | (74)            | (362)               | -125.7%       |
| <b>Cash and cash equivalents at end of period</b>           | <b>88,322</b>   | <b>78,313</b>   | <b>(10,009)</b>     | <b>-11.3%</b> |
| <b>Net change in cash and cash equivalents for the year</b> | <b>(9,135)</b>  | <b>36,883</b>   | <b>46,018</b>       | <b>503.8%</b> |

The positive net variation in cash and cash equivalents of Ch\$ 36,883 million in cash flows for the period January March 2007, compared to the negative net variation of Ch\$ 9,135 million in 2006, is because in 2007 no cash flows were allocated to financing activities. In addition, greater cash flows were obtained from operating activities. Both effects were offset by the greater cash flows allocated to investing activities due to an increase in long-term investment.

**5. FINANCIAL INDICATORS**

**TABLE No. 4**  
**CONSOLIDATED FINANCIAL INDICATORS**

| DESCRIPTION                                                                                                    | JAN-DEC<br>2005 | JAN-DEC<br>2006 | JAN-MAR<br>2007 |
|----------------------------------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| <b><i>LIQUIDITY RATIOS</i></b>                                                                                 |                 |                 |                 |
| <b><u>Current Ratio</u></b><br>(Current Assets / Current Liabilities)                                          | 1.35            | 1.52            | 1.69            |
| <b><u>Acid Ratio</u></b><br>(Most liquid assets / Current Liabilities)                                         | 0.22            | 0.28            | 0.47            |
| <b><i>DEBT RATIOS</i></b>                                                                                      |                 |                 |                 |
| <b><u>Leverage Ratio</u></b><br>(Total Liabilities / Shareholders' Equity)                                     | 0.80            | 0.79            | 0.79            |
| <b><u>Long-term Debt Ratio</u></b><br>(Long-term Liabilities / Total Liabilities)                              | 0.69            | 0.73            | 0.73            |
| <b><u>Financial Expenses Coverage</u></b><br>(Income Before Taxes and Interest / Interest Expenses)            | 1.76            | 3.49            | 2.19            |
| <b><i>RETURN AND EARNINGS PER SHARE RATIOS</i></b>                                                             |                 |                 |                 |
| <b><u>Operating Margin</u></b><br>(Operating Income / Operating Revenues)                                      | 13.81%          | 14.31%          | 9.06%           |
| <b><u>Return on Fixed Assets</u></b><br>(Operating Income / Net Property, Plant and Equipment <sup>(1)</sup> ) | 1.50%           | 6.2%            | 1.1%            |
| <b><u>Earnings per Share</u></b><br>(Net Income / Average number of paid shares each year)                     | Ch\$0,8         | Ch\$24,4        | Ch\$1,1         |
| <b><u>Return on Equity</u></b><br>(Income / Average shareholders' equity)                                      | 0.08%           | 2.53%           | 0.12%           |
| <b><u>Profitability of Assets</u></b><br>(Income/Average assets)                                               | 0.04%           | 1.38%           | 0.07%           |
| <b><u>Operating Assets</u></b><br>(Net income / Average operating assets <sup>(2)</sup> )                      | 1.51%           | 6.46%           | 1.06%           |
| <b><u>Return on Dividends</u></b><br>(Paid dividends / Market Price per Share)                                 | 10.3%           | 24.4%           | 5.5%            |

***ACTIVITY INDICATORS***

|                                                                                    |                    |                 |                    |
|------------------------------------------------------------------------------------|--------------------|-----------------|--------------------|
| <b><u>Total Assets</u></b>                                                         | MCh\$<br>1,709,695 | MCh\$ 1,620,010 | MCh\$<br>1,618,994 |
| <b><u>Sale of Assets</u></b>                                                       | MCh\$ 349          | MCh\$ 1,037     | MCh\$ -            |
| <b><u>Investments in other companies and property, plant and equipment</u></b>     | MCh\$ 17,439       | MCh\$ 44,588    | MCh\$ 25,681       |
| <b><u>Inventory Turnover</u></b> (Cost of Sales / Average Inventory)               | 3.45               | 2.15            | 1.48               |
| <b><u>Days in Inventory</u></b> (Average Inventory / Cost of sales times 360 days) | 104.48             | 167.49          | 244.04             |

(1) Figures at the beginning of the year, restated.

(2) Property, plant and equipment are considered operating assets

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The key points from the table above are the following:

The current ratio increase is the result of a 2.0% drop in current assets and an 18.6% drop in current liabilities. The change in current liabilities is explained by a decrease in financial debt in comparison to March of the previous year.

The decrease in the indebtedness ratio is explained by a 6% drop in the level of demand liabilities, whereas shareholders' equity decreased by 4.6%, mainly due to the capital reduction in 2006, for the purpose of distributing additional cash to the shareholders.

#### **6. EXPLANATION OF THE MAIN DIFFERENCES BETWEEN MARKET OR ECONOMIC VALUE AND THE BOOK VALUE OF THE COMPANY'S ASSETS**

Due to market imperfections regarding the capital assets of the sector, there is no economic or market value that can be compared to their accounting values. However, there are certain buildings with a book value equal or close to zero. These buildings have a market value, but it is not significant with respect to the Company's assets in the aggregate.

For other assets with a referential market value, such as marketable securities (shares and promissory notes), provisions have been established when the market value is less than the book value.

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## **7. ANALYSIS OF MARKETS, COMPETITION AND RELATIVE MARKET SHARE**

### **Relevant Aspects of the Industry**

During the first quarter of 2007 development of broadband, service convergence, wireless solutions development and growth of the mobile sector continued.

In the first quarter the main operators have publicly announced their broadband wireless technology prospects. Telmex commercially launched the Wimax service in March while with the same technology VTR declared its intention to extend its coverage for bidirectional services in 2007. Entel launched 3.5G (technology that allows the granting of mobile connectivity to the Internet).

In keeping with the dynamics of the fixed telephone industry in convergence of services, GDT Manquehue and Telsur operators announced their projects / offers for triple play services (voice, broadband and digital TV).

### **Market Evolution**

It is estimated that lines in service as of March 2007 reached approximately 3.3 million, reflecting a 4.6% decrease with respect to March 2006. Voice services show drops on the order of 6.7% in local, 13.4% in DLD and 16.3% in ILD with respect to the same period the previous year.

According to estimates, as of March 2007 the mobile telephone market had a total of 13.4 million subscribers, which represents growth of 16% in comparison to March 2006.

In the Internet market the migration from narrowband to broadband continues, resulting in a 57% decrease in dial-up connections and a 52% decrease in traffic, falling to approximately 300 million minutes for the first three months of 2007. The broadband market recorded a 33% increase with respect to the same period in 2006, reaching 1,070,000 accesses.

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**Relative Market Share**

The following table shows the relative market share of Telefónica Chile in the markets where it participates, as of March 31, 2007:

| <b>Business</b>             | <b>Market Share</b> | <b>Market Penetration</b>           | <b>Telefónica Chile's Position in the Market</b> |
|-----------------------------|---------------------|-------------------------------------|--------------------------------------------------|
| Fixed Telephony             | 67%                 | 19.7 lines /<br>100 inhabitants     | 1                                                |
| Domestic Long Distance      | 39%                 | 85 minutes / inhabitant per<br>year | 1                                                |
| International Long Distance | 39%                 | 11 minutes / inhabitant per<br>year | 2                                                |
| Corporate Communications    | 44%                 | Ch\$ 201,161 million                | 1                                                |
| Broadband                   | 49%                 | 1,070,000 Connections               | 1                                                |
| Security Services           | 27%                 | 205,000 Connections                 | 2                                                |
| Pay TV                      | 11%                 | 1,124,000 Customers                 | 2                                                |

## 8. ANALYSIS OF MARKET RISK

### **Financial Risk Coverage**

Due to the attractive foreign interest rates in certain periods, the Company has obtained financing abroad, denominated mainly in dollars and in certain cases at a floating interest rate. Consequently, the Company faces two types of financial risks: the risk of exchange rate fluctuations and the risk of interest rate fluctuations.

### **Financial risk due to foreign currency fluctuations**

The Company has exchange rate hedging instruments. The purpose of these instruments is to reduce the negative impact of fluctuations of the dollar on Company results. The percentage of interest-bearing debt exposure is defined and continuously reviewed, basically considering the volatility of the exchange rate, its trend, and the cost and availability of hedging instruments for different terms.

The main hedging instruments used are Cross Currency Swaps and dollar/UF and dollar/peso exchange insurance.

As of March 31, 2007, the interest-bearing debt in original currency expressed in dollars was US\$ 746 million, including US\$ 500 million in dollar denominated financial liabilities, and US\$ 246 million of debt expressed in UF. Consequently, US\$ 500 million corresponds to debt directly exposed to the variations of the dollar.

During the period, the Company had Cross Currency Swaps, dollar/peso exchange insurance and assets in dollars that resulted, as of the end of the first quarter 2007, in close to 0% exposure to foreign exchange fluctuations.

### **Financial risk due to floating interest rate fluctuations**

The policy for hedging interest rates seeks to reduce the negative impact on financial expenses due to interest rate increases.

As of March 31, 2007, the Company had debt at the variable interest rates Libor and TAB, mainly for bank loans.

To protect the Company from increases in the floating interest rates, derivative financial instruments have been used, particularly Cross Currency Swaps (which cover the Libor rate), to limit the future fluctuation of interest rates. As of March 31, 2007, the use of these swaps has allowed the Company to limit its exposure to 16% of the total interest-bearing debt in Chilean pesos.

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**Public Tender to Grant Wireless Local Public Telephone Concessions on the 3,400 – 3,600 MHz Frequency Band**

On September 15, 2005, the companies participating in the public tender called by Subtel to grant wireless local public telephone concessions on the 3,400 – 3,600 MHz band delivered their proposals. The companies participating in the tender were Telefónica Chile, Telmex Servicios Empresariales, MIC Chile S.A. (owned by Telmex Chile) and VTR.

On December 13, 2005, Subtel informed that VTR and Telmex were awarded the concessions to offer wireless local telephone throughout the country, through the preferential rights of both companies.

Telefónica Chile appealed the awarding of the concessions in conformity with the procedure established in the General Telecommunications Law. Additionally on December 27, 2005 Telefónica Chile filed a public law motion to vacate before the 2nd Civil Court of Santiago against the Ministry of Transportation and Telecommunications and Subtel, requesting that the recognition of the preferential right of Telmex Servicios Empresariales S.A. be declared null. The Court accepted the mentioned complaint for processing. On February 1, 2006, Telefónica Chile presented a complaint before the General Controllershship of the Republic, claiming that the provisions for the Bases of the Public Tender to grant concessions are illegal. The Company subsequently desisted from the complaint and withdrew the presentation to the General Controllershship of the Republic.

On January 4, 2007 the Official Gazette published the decree granting Telmex the national coverage concession. The decrees granting VTR the concession by region were published in the Official Gazette of March 2, 2007.

Regarding the projects corresponding to Regions XI and XII, the Ministry of Transportation and Telecommunications communicated that by means of Resolutions No. 64 and No. 65, both of January 20, 2006, it assigned the regional concessions to provide wireless local telephone services in Regions XI and XII to Telefónica Chile, since it was the only bidder.

**Modifications of the Regulatory Structure****Commission of telecommunications experts**

On May 17, 2006, the Ministry of Transportation and Telecommunications formed a commission of experts in order to prevent the regulation and the regulator from becoming obsolete. The first stage of the work involved proposing the terms of reference of the telecommunications market review. The second stage involves proposing the regulation in accordance with industry requirements, generating greater competition, eliminating entry barriers, and identifying consumer rights and guarantees.

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The commission of experts issued the Strategic Review of Telecommunications Regulation Term of Reference document ( Revisión Estratégica de la Regulación de las Telecomunicaciones - Termino de Referencia ) published on October 11, 2006, which contains the terms of reference for the future review of the telecommunications sector and identifies among basic policy aspects: promotion of competition, regulation of access rates and charges, management of the radio-electric spectrum, equal access to basic telecommunications services, quality of service and regulatory institution.

#### **Public inquiry on Removal of Obstacles for the Development of Telecommunications in the Short-term**

On May 18, 2006, the Undersecretary of Telecommunications carried out a public inquiry in order to identify the barriers and obstacles detected in the technical and regulatory standards that do not allow efficient market development in terms of competition, investment incentives and protection of the interests of customers and users of telecommunications services. This public inquiry seeks to proceed with the derogations, modifications, formal interpretations or incorporations for any obsolete, ambiguous or missing standard in order to achieve a more equitable, competitive sector that protects society, which can be carried out in the short-term.

On October 13, 2006, the Undersecretary of Telecommunications published a Document of Response to the 350 contributions received from Telefónica Chile, Movistar and other companies in the sector. The document indicates the commitments and actions that Subtel acquires in respect to 36 issues to be addressed during 2006 and 10 issues to be addressed in 2007.

Telefónica Chile has actively participated in the analysis of and proposed modifications to the regulations and technical standards.

#### **Public inquiry of Bill Modifying Law No. 18168 (The General Telecommunications Act) in order to Create a Panel of Experts to Resolve Disputes Arising in the Telecommunications Sector**

On September 6, 2006, the Undersecretary of Telecommunications carried out a formal inquiry on a bill aimed at creating a Panel of Experts, made up of seven professionals, to resolve disputes in the telecommunications sector. The document proposes, among other things, a list of matters to be resolved by the Panel, the panel's powers and duties, its composition (five engineers and two lawyers named by the Antitrust Commission), and the areas where it lacks jurisdiction. The costs of the panel will be borne by the concession holders on a prorated basis, which may take into account the value of their assets and/or the estimated number of disputes affecting them, as well as the nature and complexity of these disputes.

Telefónica Chile submitted its proposal and comments in due time, along with Movistar, Telmex, Telefónica del Sur y Telcoy, GTD, VTR, Entel, SOFOFA, Colegio de Ingenieros, and Instituto Libertad y Desarrollo.

The Ministry of Transportation and Telecommunications, through the Undersecretary of Telecommunications is preparing an amended draft of the General Telecommunications Act.

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**Public inquiry on Regulation of Internet voice public services .**

On December 19, 2006, the Undersecretary of Telecommunications announced a public inquiry on a bill created to define the conditions to be adhered to by any party interested in providing public voice over internet services.

Telefónica Chile presented its comments and observations in due time. To date, Subtel has not issued the regulation.

**Public hearings on Digital Terrestrial Television standard**

On November 17, 2006, Telefónica Chile participated in the Public Hearings on the introduction of Digital Terrestrial Television in Chile. The Ministry of Transportation and Telecommunications began the first program of public hearings with the participation of the President of the National Television Council, representatives of Organismo de Medios FUCATEL and VTR Banda Ancha S.A.

The second, third and fourth hearings were held on November 24, December 15 and December 19, respectively.

The Minister of Transportation and Telecommunications announced that the definition of the technical standard on Terrestrial Digital Television has been delayed.

**Bill modifying the free competition law.**

On June 6, 2006, the Government announced a legal initiative that seeks to modify the law on free competition to eliminate the risks implicit in market concentration. This initiative is aimed at taking preventive action and increasing the maximum penalty that the Antitrust Commission may impose from 20,000 to 30,000 Annual Tax Units (US \$22 million).

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 17, 2007

**COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A.**

By: /s/ Julio Covarrubias F.

Name: Julio Covarrubias F.

Title: Chief Financial Officer

**FORWARD-LOOKING STATEMENTS**

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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