

TELECOMMUNICATIONS CO OF CHILE
Form 20-F
April 28, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF
THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-10579

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)

Republic of Chile
(Jurisdiction of incorporation or organization)

Avenida Providencia 111
Santiago, Chile
(Address of principal executive offices)

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Securities registered or to be registered pursuant to
Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Series A Common Stock	New York Stock Exchange*

*Listed not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Series A Common Stock 873,995,447
Series B Common Stock 83,161,638

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

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If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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CERTAIN TERMS AND CONVENTIONS

All references to “Chile” or the “Republic” are references to the Republic of Chile. All references to the “Government” are references to the Government of Chile. Unless otherwise specified, all references to “Telefónica Chile” or the “Company” are references to Compañía de Telecomunicaciones de Chile S.A., a publicly held stock corporation (sociedad anónima abierta) organized under the laws of Chile, and its subsidiaries. All references to “Telefónica” are references to Telefónica S.A., a publicly held stock corporation organized under the laws of the Kingdom of Spain that owned, directly and indirectly, 97.89% of the Company’s ordinary shares at January 31, 2009. All references to “Telefónica Group” are references to Telefónica and its subsidiaries, including Telefónica Chile.

Unless otherwise specified, all references to “\$,” “US\$,” “U.S. dollars” and “dollars” are to United States dollars, references to “Chilean pesos,” “pesos” or “Ch\$” are to Chilean pesos, references to “UF” are to Unidades de Fomento, a daily-indexed Chilean peso-denominated monetary unit that takes into account the effect of the Chilean inflation rate of the previous month, and references to “UTM” are to Unidad Tributaria Mensual, a monthly-indexed Chilean peso-denominated monetary unit that takes into account the effect of the Chilean inflation rate of the month before the previous month. All references to “euros” are to the common currency of the European Union. Unless otherwise specified, all references to “IFRS” are to international financial reporting standards as issued by the International Accounting Standards Board (the “IASB”), all references to “Chilean GAAP” are to generally accepted accounting principles in Chile and all references to “U.S. GAAP” are to generally accepted accounting principles in the United States. All references to the “SVS” or “Chilean Securities and Exchange Commission” are to the Superintendencia de Valores y Seguros de Chile.

PRESENTATION OF FINANCIAL INFORMATION

This Annual Report contains the audited consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and its Subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of income, shareholders’ equity and cash flows for each of the two years in the period ended December 31, 2008 (collectively, the “Audited Consolidated Financial Statements” or “Financial Statements”), which were audited by Ernst & Young Ltda.

Since January 1, 2008, the Company’s consolidated financial statements are and will be prepared in accordance with the International Financial Reporting Standards as published by the IASB.

The Company’s consolidated financial information as of and for the year ended December 31, 2007 included in the Company’s annual consolidated financial statements was restated in accordance with IFRS. See Note 3 to the Audited Consolidated Financial Statements of the Company as of and for the year ended December 31, 2008, included elsewhere in this Annual Report.

As permitted by IFRS, the Company maintained the restatement of adjustments since January 1, 2004, the same date used as the transition date to IFRS by Telefónica, the Company’s parent company.

IFRS differs in certain significant respects from Chilean GAAP. As a result, the Company’s financial information presented under IFRS is not directly comparable to its financial information presented under Chilean GAAP, and readers should avoid such a comparison. Merely for the convenience of the reader, translations of certain amounts into dollars at a specified rate have been included. Unless otherwise specified, or unless the context otherwise requires, the U.S. dollar equivalent for information in Chilean pesos is based on the exchange rate (the “Observed Exchange Rate”) reported by Banco Central de Chile (the “Central Bank”) that is computed, for any date, by averaging the exchange rates of the previous business day’s transactions in Chile’s Mercado Cambiario Formal (the “Formal Exchange Market”). On January 2, 2009, the Central Bank reported that the Observed Exchange Rate with reference to December 31, 2008,

the last business day in 2008 for which an exchange rate was reported, was Ch\$636.45 per US\$1.00. Telefónica Chile does not represent that the Chilean peso or U.S. dollar amounts in this Annual Report actually represent, or could have been or could be converted into, U.S. dollars or Chilean pesos, as the case may be, at the rates indicated, or at any particular rate or at all. See “Item 3. Key Information—Exchange Rates” for information regarding historical rates of exchange in Chile from January 1, 2004. Unless otherwise specified, references to the depreciation or the appreciation of the Chilean peso against the U.S. dollar are in nominal terms (without adjusting for inflation), based on the Observed Exchange Rates for the relevant period.

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FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

This Annual Report contains certain “forward-looking statements” within the meaning of Section 21E of the Exchange Act. Some of these forward-looking statements include forward-looking phrases such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “foresees,” “intends,” “may,” “should” or “will continue,” or similar expressions or the negatives thereof, or other variations on these expressions, or similar terminology, or discussions of strategy, plans or intentions. These statements also include descriptions in connection with, among other things:

- the Company’s business development plans and strategies, including its asset growth, cost-saving and financing plans;
- new offerings of services and acquisitions of licenses, and anticipated demand related to such new services and licenses;
 - the future impact of competition;
 - economic and political developments in Chile;
- the effects of inflation and currency volatility on the Company’s financial condition and results of operations;
- the outcome of regulatory proceedings in which the Company is involved, including its litigation with the State of Chile;
 - the Company’s unionized employees;
 - trends affecting the Company’s financial condition or results of operations; and
- regulations affecting the Company’s business, including tariff decrees, new rulings, concession and licenses.

Such statements reflect the Company’s current views regarding future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance or achievements that forward-looking statements may express or imply, such as, for example:

- changes in regulations and laws;
- the Company’s ability to implement its cost and expenses control plans and its investment program, including its ability to arrange financing where required;
 - the nature and extent of future competition and technological development;
 - political, economic and demographic developments in Chile; and
- other risks and uncertainties, some of which are described in more detail in “Item 3. Key Information—Risk Factors,” “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects.”

If one or more of these risks or uncertainties affects future events and circumstances, or if underlying assumptions do not materialize, actual results may vary materially from those described in this Annual Report as anticipated, believed, estimated or expected. The Company has no plans to update any industry information or forward-looking statements

set out in this Annual Report and have no obligation to update any such statements.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents selected financial data as of December 31, 2008 and the previous year. The selected financial data should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto, "Item 5. Operating and Financial Review and Prospects" and other financial information included herein.

Since January 1, 2008, the Company's consolidated financial statements are and will be prepared in accordance with the International Financial Reporting Standards as published by the International Accounting Standards Board (IASB).

The Company's consolidated financial information as of and for the year ended December 31, 2007 included in the Company's annual consolidated financial statements was restated in accordance with IFRS. See Note 3 to the Audited Consolidated Financial Statements of the Company.

As permitted by IFRS, the Company maintained the restatement of adjustments since January 1, 2004, the same date used as the transition date to IFRS by Telefónica, the Company's parent company.

IFRS differs in certain significant respects from Chilean GAAP. As a result, the Company's financial information presented under IFRS is not directly comparable to its financial information presented under Chilean GAAP, and readers should avoid such a comparison.

	For the year ended December 31,		
	2007	2008	2008
	(in millions of Chilean pesos for the years ended December 31)		(in millions of U.S. dollars)
Income Statement:			
Revenues	696,300	738,731	1,160.7
Other operating income	9,059	28,131	44.2
Employee expenses	(86,268)	(101,029)	(158.7)
Depreciation and amortization	(181,591)	(167,573)	(263.3)
Other miscellaneous operating expenses	(357,908)	(411,078)	(647.6)

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Financial expenses (net)	(11,044)	(27,009)	(42.4)
Participation in profit of associates accounted for using equity method	1,783	1,607	2.5
Foreign currency exchange differences	(29,793)	(7,504)	(11.8)
Profit Before Taxes	40,536	54,276	85.3
Income Taxes	(8,980)	(6,369)	(10.0)
Profit for the Year	31,556	47,907	75.2
Minority Interest	(91)	(69)	(0.1)
Profit attributable to equity holders of instruments of the parent	31,647	47,975	75.4
Earnings per ADS (US\$)(1)(3)	0.21	0.31	–
Earnings per Share (Ch\$)(1)	33.0	50.1	–
Dividend per Share(2)	19.4	11.3	0.02

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	For the year ended December 31,		
	2007	2008	2008
	(in millions of Chilean pesos for the years ended December 31)		(in millions of U.S. dollars)
Dividends per ADS (US\$)(3)	0.12	0.07	—
Weighted Average Number of Shares Outstanding	957,157,085	957,157,085	—
Consolidated Balance Sheet Data:			
Cash and cash and equivalents	73,084	71,555	112.4
Property, plant and equipment	1,028,281	1,011,577	1,589.4
Total Assets	1,463,544	1,485,456	2,333.9
Current liabilities	339,000	398,659	626.4
Non-current liabilities	503,395	482,058	757.4
Net cash flows used in financing activities	68,770	51,499	80.9
Total equity attributable to Shareholders of parent	621,149	604,739	950.2
Consolidated Cash Flow Data:			
Net cash flows from operating activities	228,958	178,137	279.9
Net cash flows used in investing activities	128,237	128,167	201.4
Capital Stock	737,179	697,936	1,096.6
Capital Expenditures (4)	141,304	147,989	232.5

- (1) Basic earnings (loss) per share have been computed using the weighted average number of shares outstanding during each period presented.
- (2) Dividends paid represents the amount of dividends paid in the periods indicated.
- (3) Calculated on the basis that each ADS represents four shares of Series A Common Stock. Dividends represent an amount equal to the interim dividends declared for each year and the final dividend for the preceding year declared in April of each year. See “Item 8. Financial Information—Dividend Policy and Dividends.”
- (4) Represents the amount disbursed in each year, irrespective of the year in which the investment was made.

The following table presents selected financial data expressed in Chilean pesos as of December 31, 2007 for the three previous years, in accordance with the Consolidated Financial Statements presented to the SEC in the form 20-F for the year 2007, which were prepared in accordance with Chilean GAAP, which differs in certain significant respects from U.S. GAAP. The following selected consolidated financial data was affected by certain changes in the Company’s corporate structure during the years presented. In particular, the data for 2004 reflects the divestiture and deconsolidation of the Company’s mobile subsidiary Telefónica Móvil pursuant to its sale in July 2004.

	2004 (1)	2005	2006
	(in millions of Chilean pesos for the year ended December 31, 2007)		
Statement of Operations Data:			
Chilean GAAP			
Operating Revenues	798,488	636,779	619,917
Operating Costs and Expenses	(504,908)	(409,073)	(400,629)

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Administrative and Selling Costs	(180,959)	(132,200)	(130,550)
Operating Results	112,619	95,505	88,738
Interest Income	10,549	8,755	4,765
Interest Expense, Net of Capitalized Interest	(61,406)	(32,350)	(20,922)
Price Level Restatement and Exchange Differences(1)	10,204	3,181	715
Other non-operating income, net(7)	353,258	(10,828)	(16,469)
Income before Income Taxes	425,223	64,264	56,826
Income Taxes	(70,883)	(36,616)	(31,790)
Net Income (loss)	354,019	27,615	25,081
Dividends Paid(2)	720,073	126,916	25,800
Chilean GAAP earnings (loss) per Share(3)	369.87	28.85	26.20
Earnings per ADS(4)	1,479.48	115.40	104.80
Dividends per Share(5)	752.3	13.60	26.95
Dividends per ADS(4)	3,009.22	530.39	107.82
Weighted Average Number of Shares Outstanding	957,157,085	957,157,085	957,157,085

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	2004 (1)	2005	2006
	(in millions of Chilean pesos for the year ended December 31, 2007)		
Statement of Operations Data:			
U.S. GAAP			
Net Income (loss) in accordance with U.S. GAAP	22,788.1	50,042.0	43,705.9
Net income (loss) from continuing operations*	24,209.0	50,042.0	43,705.9
Net income (loss) from discontinuing operations*	(1,420.9)	-	-
Number of Shares	957,157,085	957,157,085	957,157,085
Net Income (loss) in accordance with U.S. GAAP per Share	23.81	52.28	45.66
Net Income (loss) from continuing operations per Share	25.29	52.28	45.66
Net Income (loss) from discontinuing operations per Share	(1.48212)	-	-
Balance Sheet Data:			
Chilean GAAP			
Current Assets	479,776	349,041	315,448
Property, Plant and Equipment, net	1,570,989	1,426,066	1,330,430
Other Assets	101,580	101,229	87,771
Total Assets	2,152,345	1,876,336	1,733,648
Total Long-Term Debt (including Current Maturities)(8)	636,492	550,875	431,308
Total Shareholders' Equity	1,118,843	1,014,943	967,417
U.S. GAAP			
Total Assets	2,157,075	1,876,029	1,744,700
Shareholders' Equity	981,161	882,845	855,992
Paid in Capital	1,000,817	1,000,817	956,821
Other Data:			
Capital Expenditures(6)	92,404	79,024	117,629

* The Company has revised its amounts previously presented under U.S. GAAP to reclassify its discontinued operations for the sale of Telefónica Móvil de Chile S.A. in 2004. These revised numbers are unaudited. Under Chilean GAAP, the Company is not required to restate or reclassify financial information presented in previous years to reflect significant divestitures. For purposes of U.S. GAAP, the Company is required to eliminate the results of operations of certain divested operations from those of its continuing operations in presenting its U.S. GAAP results. See Note 37 to the Audited Consolidated Financial Statements.

(1) The Company has revised its amounts previously presented under U.S. GAAP to reclassify its discontinued operations for the sale of Telefónica Móvil de Chile S.A. in 2004. These revised numbers are unaudited. Under Chilean GAAP, the Company is not required to restate or reclassify financial information presented in previous years to reflect significant divestitures. For purposes of U.S. GAAP, the Company is required to eliminate the results of operations of certain divested operations from those of its continuing operations in presenting its U.S. GAAP results.

(2) Dividends paid represents the amount of dividends paid in the periods indicated.

(3) Basic earnings (loss) per share have been computed using the weighted average number of shares outstanding during each period presented.

(4) Calculated on the basis that each ADS represents four shares of Series A Common Stock.

- (5) Represents an amount equal to the interim dividends declared for each year and the final dividend for the preceding year declared in April of each year. See “Item 8. Financial Information—Dividend Policy and Dividends.”
- (6) Represents the amount disbursed in each year, irrespective of the year in which the investment was made.
- (7) The Company recorded a non-operating gain associated with the sale of its subsidiary Telefónica Móvil de Chile S.A. to Telefónica Móviles (TEM) in July 2004.
- (8) Total Long-Term Debt (including Current Maturities) includes notes and accounts payable to related companies and capital lease obligations.

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Exchange Rates

Chile's Ley Orgánica Constitucional del Banco Central de Chile No. 18,840 (the "Central Bank Act"), enacted in 1989, liberalized the rules that govern the purchase and sale of foreign exchange in Chile. Prior to 1989, Chilean law authorized the purchase and sale of foreign exchange only in those cases explicitly authorized by the Central Bank.

The Central Bank Act empowers the Central Bank to determine whether certain purchases and sales of foreign exchange must be carried out in the Formal Exchange Market, a market formed by banks and other institutions authorized by the Central Bank for that purpose. The Central Bank has ruled that certain foreign exchange transactions (including those attendant to foreign investments) may be effected only in the Formal Exchange Market. Banks and other institutions may purchase and sell foreign exchange in the Formal Exchange Market at such rates as they freely determine from time to time. The Central Bank reports an Observed Exchange Rate that is computed, for any date, by averaging the exchange rates of the previous business day's transactions in the Formal Exchange Market.

Since 1989, the Central Bank has also set a reference exchange rate known as the dólar acuerdo ("Reference Exchange Rate") that is reset monthly, taking internal and external inflation into account, and is adjusted daily to reflect variations in the parities between the Chilean peso and each of the U.S. dollar, the euro and the Japanese yen.

The Central Bank Act authorized the Central Bank to carry out its transactions at rates within a specified band set around the Reference Exchange Rate. While the band was in place, the Central Bank generally carried out its transactions at the spot rate. When banks needed to buy or sell U.S. dollars from or to the Central Bank, the Central Bank made such sales at rates as high as the upper limit of the band, and such purchases at rates as low as the lower limit of the band. Banks generally carried out authorized transactions on the Formal Exchange Market at the spot rate, which usually fluctuated within the range of the band.

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In order to keep fluctuations in the average exchange rate within the range of the band, the Central Bank of Chile in the past intervened by buying or selling foreign currency on the formal exchange market. On September 2, 1999, in order to allow for increased exchange rate flexibility, the Central Bank suspended its formal commitment to maintain the exchange rate within a specified band. The Central Bank may, however, still intervene in certain exceptional cases of exchange rate fluctuations to keep the average exchange rate within certain limits, and must inform the market of the reason for its intervention in each such event. Nonetheless, the Central Bank will continue to publish the Reference Exchange Rate as a reference for the market. Purchases and sales of foreign exchange that may be effected outside the Formal Exchange Market can be carried out in the Mercado Cambiario Informal (the “Informal Exchange Market”), a recognized currency market in Chile.

The following table sets forth the high, low, average and year-end Observed Exchange Rates for U.S. dollars for each year beginning with 2004 and for each of the past six months, as reported by the Central Bank. On March 31, 2009, the Observed Exchange Rate was Ch\$583.26 per US\$1.00.

	Observed Exchange Rates(1) (Ch\$ per US\$)			
	Low(2)	High(2)	Average(3)	Period-End
Year ended December 31, 2004	557.40	649.45	609.51	557.40
Year ended December 31, 2005	509.70	592.75	559.77	512.50
Year ended December 31, 2006	511.44	549.63	530.28	532.39
Year ended December 31, 2007	493.14	548.67	522.42	496.89
Year ended December 31, 2008	431.22	676.75	522.35	636.45
Month ended October 31, 2008	555.56	676.75	623.79	669.94
Month ended November 30, 2008	629.19	675.57	651.24	664.57
Month ended December 31, 2008	625.59	674.83	647.91	636.45
Month ended January 31, 2009	610.09	643.87	622.09	617.10
Month ended February 28, 2009	583.32	623.87	605.10	599.04
Month ended March 31, 2009	572.39	643.87	606.73	583.26

Source: Central Bank and Reuters Data Base

- (1) Reflects nominal pesos at historical values.
- (2) Exchange rates are the actual high and low for each period.
- (3) Corresponds to daily average rates during the period.

Telefónica Chile does not represent that the Chilean peso or U.S. dollar amounts referred to herein actually represent the amounts that were, could have been or could be converted into U.S. dollars or Chilean pesos, as the case may be, at the rates indicated, at any particular rate or at all.

The Central Bank regulates the international issuance by Chilean companies of non-peso-denominated debt, including, among other things, the repatriation and exchange for pesos of the foreign currency proceeds from such offerings. See “Item 10. Additional Information—Exchange Controls and Other Limitations Affecting Security Holders.”

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

The following discussion should be read together with this Form 20-F, including the Audited Consolidated Financial Statements, and the notes thereto.

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Risks Relating to the Company's Business

Regulation may adversely affect revenues in certain of Telefónica Chile's businesses.

Tariff regulation

The Chilean Government has historically regulated local telephony services in Chile. The Comisión Resolutiva Antimonopolios (the "Antitrust Authority", now known as the "Tribunal de Libre Competencia"), a Chilean government agency responsible for making certain determinations relating to competitive conditions in the telecommunications industry, determined that Telefónica Chile is a dominant operator of local telephony in many geographical areas of Chile. As a result, the Company is subject to tariff decrees that regulate certain rates and fees that the Company can charge for such local telephony services in most of the country. In accordance with the telecommunications law, all telecommunications operators are subject to regulation of their access charges (the charge to telecommunications operators for accessing another operator's network) which have been set at different levels depending on the operator. Consequently, costs of accessing different operators' networks differ. Regulatory changes in approved access charge rates may affect the revenues for local telephony and costs of interconnections to other local operators. Similarly, interconnections to local operators represent costs for the long distance and mobile businesses. Despite the above, in January 2009, the Antitrust Authority issued an opinion recognizing that current market conditions do not justify tariff regulation regarding local telephone service (fixed and variable charge), public telephones and line connections. The Chilean telecommunications authority, the Subsecretaría de Telecomunicaciones ("Subtel"), may confirm, modify or reject that opinion and, in any case, the Company can give no assurance that the eventual ruling, if any, will not have a material adverse effect on the results of operations or financial position of the Company.

Tariff regulation may have a significant impact on Company revenues and its ability to compete in the marketplace, as the Company is required to charge the same tariff to all clients in a designated tariff area. See "Item 4. Information on the Company—Business Overview—Licenses and Tariffs." In 2008, approximately 27% of Company revenues (including the regulated items in fixed charge, variable charge, access charges and public telephony) were from regulated business activities. The application of the local service tariffs, defined by Tariff Decree No. 169 for the period from 2004 to 2009, resulted in a minor impact in the 2004 and 2005 financial statements of Telefónica Chile. In contrast, the introduction of Tariff Decree No. 187 in May 1999 resulted in a reduction of approximately 25% in regulated revenues per line in the first year. Since 1999, the Company has sought administrative relief to correct what it believes are certain errors and illegalities in Tariff Decree No. 187. Upon denial of such relief, and having exhausted the administrative recourses available to it, in March 2002, Telefónica Chile filed a civil lawsuit for damages against the State of Chile, which is currently pending.

The Company can give no assurance that future tariff decrees for fixed telephony will not have a material adverse effect on the results of operations or financial position, as such future tariff decrees could cause alterations in demand or traffic volume, or changes in the timing of traffic distribution from more expensive to less expensive time slots.

Other regulations

New regulations or changes in the existing regulatory model may adversely affect the Company's businesses. No assurance can be given that future regulations, if any, will not have a material adverse effect on the Company's results of operations or financial position.

Law No. 18,168 (as amended, and together with the regulations promulgated thereunder, the "Telecommunications Law") also specifies certain causes for which an operator can be sanctioned through penalties or even the termination of its public or intermediate service license, if the operator is in violation of the law or does not comply with the terms and conditions to which the license is subject. If the holder believes that its license has been terminated unlawfully,

the holder may appeal the termination in Chilean courts. If a license is terminated, the holder is barred from applying for any license for a period of five years. Any such sanctions could have a material adverse effect on the Company's results of operations or financial position.

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Telefónica Chile faces intense competition.

Telefónica Chile faces intense competition in every aspect of its business, ranging from existing operators to new entrants. In addition, consolidation is leading to greater levels of competition.

In 2004, two leading cable operators merged. The combined company, VTR GlobalCom, currently leads the paid television market and is also a relevant player in broadband and fixed telephony. In the mobile telephony business, Telefónica Móviles (“TEM”) acquired Bellsouth in Chile and the mobile subsidiary of Telefónica Chile in 2004. In the same year, competition increased with the entry of new operators, primarily in the long distance and data transmission businesses. The Mexican operator Telmex, a data transmission operator, and América Móvil, a Telmex affiliate, entered the local mobile telephony market by acquiring Smartcom in August 2005. In 2007, Telmex also acquired ZAP, a local satellite television operator. Similarly, in September 2005, the local data transmission operator, GTD, acquired the local fixed operator Manquehue. In 2008, Telmex started building a hybrid fiber coaxial network with voice, broadband and pay television services. Telmex had already entered the residential segment through a bundled offer of telephony, broadband and satellite television. Its telephony and broadband services are provided over WiMax. See “Item 4. Information on the Company—Business Overview Areas—Market and Competition.”

In the fixed local telephony market, Telefónica Chile competes with both mobile telephony and other fixed and cable telephony operators, which are not subject to the same tariff regulations as the Company and therefore may compete with different conditions. Partly as a result, the Company’s market share has declined. In the corporate communications and data transmission services market, there are eight major operators in the main cities of Chile, three of which have nationwide infrastructure coverage. In the long distance services market, Telefónica Chile competes with numerous other long distance operators and with mobile telephone operators in the domestic long distance market. As a result, the Company has faced intense pricing pressure and a decreasing trend in traffic. Telefónica Chile also faces increasing competition in broadband services and in pay television services as well. The development of new technologies, such as wireless accesses like WiMax or 3G networks, deployed by mobile operators to provide wireless broadband has increased competition in the market. See “Item 4. Information on the Company—Business Overview—Market and Competition.” Increased competition or the entrance of new competitors could adversely affect the Company’s results of operations, financial condition or prospects.

Changes in technology could affect Telefónica Chile in ways it cannot predict.

The telecommunications industry as a whole has traditionally been, and is likely to continue to be, subject to rapid and significant changes in technology and the related introduction of new products and services. Although the Company believes that for the foreseeable future, existing and developing technologies will not materially adversely affect the viability or competitiveness of its telecommunications business, there can be no assurance as to the effect of such technological changes on the Company or that the Company will not be required to expend substantial financial resources on the development or implementation of new competitive technologies.

New services and technological advances may offer additional opportunities to compete against the Company on the basis of cost, quality or functionality. It may not be practicable or cost-effective for the Company to replace or upgrade its installed technologies in response to competitors’ actions. Responding to such change may require the Company to devote substantial financial resources to the development, procurement or implementation of new technologies and to write off obsolete assets relating to its existing technology. If the Company chooses to purchase or invest in the development of new telecommunications technology, there can be no assurance that such new products or services will not serve as a substitute to existing products and services offered by the Company. In the past, the Company has experienced such substitution with the introduction of mobile communications service, which has contributed to the declines in number of fixed lines, volume of traffic and in domestic long distance traffic.

Recent trends seen outside of Chile have shown an increased use of IP technology as a substitute for traditional voice services, which are often provided at lower prices. The Telecommunications Law requires a regulation to be defined for these services to be offered to the public. Additionally, in 2006, Subtel initiated a process of public inquiry for new regulations relating to IP telephony over broadband. After receiving comments from thirty actors during the inquiry process, on June 14, 2008, Rule No. 484 regarding voice over IP services was published in the Official Gazette. Even though, such rule favors the application of regulations similar to those of public telephone

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services to voice over IP, use of this technology may serve as a substitute for the Company's local and long distance traffic and increase pricing pressure.

As a result, if the Company chooses to introduce any such new telephony products or services, it can give no assurance that the benefits of such new products and services will not be materially offset by declines in existing products and services offered by the Company or that it will be permitted to participate in that business.

Labor relations may negatively impact Telefónica Chile.

As of December 31, 2008, approximately 60% of the Company's employees were union members. As of December 31, 2008, the Company had collective bargaining agreements in place with 22 unions.

The Company has taken steps to maintain stable labor relations, such as the contracts for periods from three to four years that were signed after a successful collective bargaining process, as well as the agreement between the Company and its employees in order to implement a new model of labor relations, which was designed to encourage a greater degree of participation and to address the interests of workers and management alike. In 2008, a collective labor agreement was signed with the Chilean telecommunications union, SINTELEFI, the largest union in terms of representation of Company employees, representing 1,605 employees. The agreement was negotiated in advance of its expiration, and modified the parameters for annual compensation and incentive adjustments, basing them on performance, productivity and alignment with business objectives. As of December 31, 2008, 92.8% of unionized employees have signed three to four year contracts.

However, the Company can provide no assurance that in the future it will be able to successfully negotiate new contracts on favorable terms, or that the unions involved in the negotiations will not choose to implement a labor strike or invoke Article 369 at such time. Article 369 of the Chilean Labor Code allows unions that are renewing labor agreements to freeze the conditions of the previous agreement for a period of 18 months. In addition, new regulations or changes in the existing labor laws may adversely affect the Company's businesses.

Telefónica is the controlling shareholder of Telefónica Chile, and thus may determine the outcome of actions requiring shareholder approval.

As a result of the tender offers launched by Inversiones Telefónica Internacional Holding Limitada in September and December 2008, Telefónica Internacional Chile S.A. increased its ownership of Telefónica Chile's common stock from 44.9% to 97.89%. Telefónica Internacional Chile is a 99.9% owned subsidiary of Telefónica Chile Holding B.V., which in turn is indirectly wholly-owned by Telefónica. Consequently, Telefónica has the ability to determine the outcome of any actions requiring shareholder approval. See "Item 10. Additional Information—Memorandum and Articles of Association—Shareholders' Meetings and Voting Rights." In addition, Telefónica's equity stake in Telefónica Chile allows Telefónica to control the Company's Board of Directors. At the General Annual Shareholders' Meeting held on April 13, 2007, Telefónica elected five of seven members of the Board of Directors.

The Company could be adversely affected if major suppliers fail to provide needed equipment and services on a timely basis.

The Company depends on suppliers for network infrastructure, equipment and services to satisfy its operating needs. Many suppliers rely heavily on labor; therefore, any work stoppage or labor relations problems affecting the Company's suppliers could adversely affect its operations. Suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. If these suppliers fail to deliver products and services on a timely basis that satisfies its customers' demands, the Company could be negatively affected. Similarly, interruptions in the supply of telecommunications equipment for networks could impede network

development and expansion.

The Company's historical consolidated financial and operating results may not be indicative of future performance.

The Company has divested subsidiaries in the past years. See "Item 4. Information on the Company—History and Development of the Company—Divestures." In October 2008, the Company sold the assets and customer portfolio of a subsidiary, Telefónica Asistencia y Seguridad S.A., to Prosegur for a total of Ch\$15,563 million. In

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July 2004, the Company sold its mobile subsidiary, which provided 29.2% of operating revenues in the year ended December 31, 2003, and generated Ch\$13,467 million (historic value) in operating income during the same period. The sale of businesses resulted in the loss of their contributions to the Company's operating results. No assurances can be given that the Company will or will not divest of additional businesses in the future or that such divestitures will or will not affect the Company's results and access to financing. As a result, the Company's historical consolidated financial results for and as of the end of periods ending on or prior to these transactions may not be indicative of its future operating and financial performance.

The Company may not be successful in the development of new businesses or product innovation.

The Company cannot ensure the success of any new services, products or the development of new businesses in the telecommunications market or other markets, or their impact on the Company's results.

Certain considerations related to platforms located in other countries.

The Company operates in Chile and most of its systems and platforms are located within Chile. Nevertheless, the Company also relies on shared platforms within the Telefónica Group, such as SAP accounting support, and other equipment outside Chile in order to provide the pay television service. As a result, the Company cannot assure that volatility or unfavorable economic, political and social conditions outside Chile will not materially affect its ability to provide services.

The Company may not be able to refinance its outstanding indebtedness.

The Company's total financial debt as of December 31, 2008 amounted to Ch\$436,388 million, (US\$685.7 million), including current maturities, outstanding derivatives and fair value adjustments, with an average maturity of 2.4 years. Although in the past Telefónica Chile has relied substantially on public debt issuances and bank loans to meet its financing requirements, in recent years its main sources of liquidity have been cash flow generated from operations and cash flow resulting from savings associated with the refinancing of certain loans and sale of assets. In 2008, the Company continued with the renegotiation of loans and extending of maturities. As a result, the Company has similar amounts of debt maturing in each of the next five years, the repayments of which are expected to be funded through cash flow generated from operations and refinancings.

Due to recent turmoil in global credit markets and the continued decline in the global economy, the Company may not be able to refinance its debt at terms that are as favorable as those from which the Company previously benefited, at terms that are acceptable to the Company or at all. Refinancing of debt or increased levels of debt could have negative effects that include: difficulties in obtaining future financing; reductions in credit ratings issued by rating agencies; restrictions on cash flows or operations imposed by lenders; higher rates; and reduced flexibility to take advantage of or pursue other business opportunities. For these reasons, among others, if current economic conditions persist or decline, the Company's operating results and financial condition, as well as its ability to service debt and pay other obligations, could be adversely affected.

A system failure could cause delays or interruptions of service, which could cause us to lose customers.

To provide effective service, the Company will need to continue to provide its customers with reliable service over its network. Some of the risks to the Company's network and infrastructure include:

- physical damage to access lines and networks;

- power surges or outages;
- software defects;
- disruptions beyond the Company's control; and
- disruptions due to changes in obsolete equipment.

The Company's operations also rely on a stable supply of utilities. Given recent instability of those supplies, including the supply of gas from Argentina and electricity rationing in Chile, the Company can not ensure that future

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supply instability or interruptions will not impair its ability to procure required utility services in the future, which could adversely impact its operations.

Prolonged service interruptions could affect the Company's business. The Company relies heavily on its network equipment, telecommunications providers, data and software to support all of its functions. The Company relies on its networks and the networks of others for substantially all of its revenues. The Company is able to deliver services only to the extent that it can protect its network systems against damage from power or telecommunications failures, computer viruses, natural disasters, unauthorized access, theft of copper wires from external networks and other disruptions. While the Company endeavors to provide for failures in the network by providing backup systems and procedures, it cannot guarantee that these backup systems and procedures will operate satisfactorily in an emergency. Should the Company experience a prolonged failure, it could seriously jeopardize its ability to continue operations. In particular, should a significant service interruption occur, its customers may choose a different provider and its reputation may be damaged, reducing its attractiveness to new customers.

The Company may not be successful in currently pending legal proceedings.

The Company is a party to lawsuits and other legal proceedings in the ordinary course of its businesses, some of which have been pending for several years. An adverse outcome in, or any settlement of, these or other lawsuits could result in significant costs and negatively impact the Company's financial results. See "Item 8. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings."

Risks Relating to Chile

A downturn in the Chilean economy may adversely affect Telefónica Chile.

Nearly all of Telefónica Chile's customers are Chilean companies or individuals, and substantially all of Telefónica Chile's operations are located in Chile. For these reasons, the results of the Company's operations and its financial condition are sensitive to, and dependent upon, the level of economic activity in Chile. Historically, growth in the Chilean telecommunications industry has been tied to the state of Chile's economy, particularly levels of consumer spending and demand.

Unfavorable general economic conditions, such as a recession or economic slowdown in Chile, could negatively affect the affordability of and demand for some of the Company's products and services. In difficult economic conditions, consumers may seek to reduce discretionary spending by forgoing purchases of the Company's products, electing to use fewer higher-margin services or obtaining products and services under lower-cost programs offered by other companies. Similarly, under these conditions the business customers that the Company serves may delay purchasing decisions, delay full implementation of service offerings or reduce their use of services. Furthermore, adverse economic conditions may lead to an increased number of the Company's consumer and business customers that are unable to pay for services. If any of these events were to occur, it could have a negative effect on the Company's results of operations.

The Company can give no assurance that Chile's economy will continue to grow in the future, nor can it give assurances that future developments in or affecting the Chilean economy will not impair its ability to proceed with its business plan or materially adversely affect its business, financial condition or results of operations.

Developments in other emerging markets or in the global telecommunications market may adversely affect Telefónica Chile.

Developments in the global telecommunications market and in other emerging markets, particularly in Latin America, may adversely affect the market for Telefónica Chile's securities and the availability of foreign capital in Chile. The Company cannot predict whether events in other markets will adversely affect the price of, or market for, its securities.

Unfavorable general economic conditions, including the current recession in the United States and the recent financial crisis affecting the global banking system and financial markets, have caused a decrease in the amount of foreign capital invested in emerging markets, including Chile and Latin America. In turn, this has caused securities markets in many emerging markets, including Chile and Latin America, to decrease in value and has led to depreciation of emerging market currencies compared to the U.S. dollar. The Company cannot give any assurance

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that negative developments in Latin America or other emerging markets will not occur or that such negative developments would not adversely affect the securities markets in which the Company's securities trade or affect the Company's access to sources of financing.

An increase in inflation may adversely affect Telefónica Chile.

Chile has experienced high levels of inflation in the past. High levels of inflation in Chile could adversely affect the Chilean economy and Telefónica Chile's financial condition and results of operations. The rate of inflation as measured by changes in the Chilean consumer price index in the years 2004, 2005, 2006, 2007 and 2008 was 2.4%, 3.7%, 2.6%, 7.8% and 7.1% respectively. Over the past two years, inflation has exceeded the Central Bank's target range. Generally, high levels of inflation will adversely affect the Company's financial condition to the extent that, during any given period:

- the Company's average domestic inflation-indexed liabilities exceed its average domestic inflation-indexed assets;
 - the Company's average monetary assets exceed its average monetary liabilities; or
- the Company is unable to transfer increased inflation-indexed costs such as labor and supplies to customers.

Any significant increase in the level of inflation in the future may adversely affect the performance of the Chilean economy and the operating results of the Company.

Currency devaluations and foreign exchange fluctuations may adversely affect Telefónica Chile.

Volatility of the value of the Chilean peso against the U.S. dollar could adversely affect the Company's financial condition and results of operations. In 2004, 2005 and 2007, the peso recorded a nominal appreciation against the U.S. dollar of 6.1%, 8.1% and 6.7%, versus the prior year. However, in 2006 and 2008 the peso experienced a nominal depreciation of 3.9% and 28.1%, respectively.

The main driver of exchange rate volatility in the past years was the significant devaluations in other Latin American countries, mainly Brazil, as well as general uncertainty and trade imbalances in global markets. In 2007, Chilean peso appreciation was driven by improvement in Chilean economic indicators and record commodities prices, together with weakness in the U.S. dollar. More recently, the primary driver of exchange rate volatility has been the substantial appreciation of the U.S. dollar relative to emerging markets currencies, including the Chilean peso. The value of the Chilean peso against the U.S. dollar may continue to fluctuate significantly in the future. See "Item 3. Key Information—Selected Financial Data—Exchange Rates."

Historically, a significant portion of the Company's indebtedness has been denominated in U.S. dollars, while a substantial part of its revenues and operating expenses has been denominated in pesos. If the peso's value declines against the dollar, Telefónica Chile will need more pesos to repay the same amount of dollar-denominated debt. As a result, fluctuations in the Chilean peso to U.S. dollar exchange rate may affect the Company's financial condition and results of operations. As of December 31, 2008, 67.8% of the Company's interest-bearing debt was denominated in U.S. dollars and was fully hedged against exchange rate variations between the peso and the U.S. dollar through financial instruments such as forward exchange agreements and cross-currency swaps. The remainder of the Company's interest-bearing debt is UF- or peso-denominated and therefore not subject to exchange rate risk. The Company's hedging policy against foreign exchange fluctuations is disclosed in "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Risk of Variations in Foreign Currency Exchange Rates."

Risks Relating to the Company's ADSs

The relative illiquidity and volatility of Chilean securities markets and the decreased liquidity of the Company's common stock could adversely affect the price of the Company's ADSs and common stock.

Chilean securities markets are substantially smaller and less liquid than the major securities markets in the United States. In addition, Chilean securities markets may be affected materially by developments in other emerging markets, particularly in other countries in South America. Since the completion of the tender offers launched by

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Telefónica Internacional Holding Limitada, the liquidity of the Company's common stock in the Chilean market has markedly decreased. The relatively low liquidity of the Chilean market and the low liquidity of the Company's common stock may impair the ability of holders of ADSs to sell shares of the Company's common stock withdrawn from the ADS program into the Chilean market in the amount and at the price and time they wish to do so.

The termination of the deposit agreement relating to the Company's ADSs may impair ADS holders' ability to transfer their ADSs, delay ADS holders' receipt of any dividends and result in the cancellation of the ADSs and the subsequent sale of the securities underlying the ADSs.

The Company has directed Citibank, N.A., as depository, (the "Depository") to terminate the deposit agreement relating to the Company's ADSs. Upon effectiveness of the termination, which the Company expects to occur on or about May 7, 2009 (the "Termination Date"), the Depository will cease to provide certain services, including the registration of transfer of Telefónica Chile's ADSs, and it will suspend the distribution of dividends to the holders of the ADSs. Existing ADS holders may exchange their ADSs for the underlying Series A Common Stock of the Company at any time until the expiration of a 60-day period commencing on the Termination Date. In addition, after the expiration of such 60-day period, the Depository may, and intends to, sell the securities underlying the ADSs and may thereafter hold the net proceeds of any such sale, together with any other cash then held by it under the deposit agreement, in an unsegregated account, without liability for interest, for the pro rata benefit of the holders of the ADSs. The Company cannot guarantee that such termination will not impair ADS holders' ability to transfer their ADSs when and if they choose to do so, will not delay the receipt of any dividends or that the sale of any securities underlying the ADSs will occur in a manner that maximizes the price obtained for such securities. See "Item 9. The Offer and Listing—Offer and Listing Details—Common Stock Prices and Related Matters" for more information.

The delisting of the Company's ADS' from the NYSE and the Company's expected deregistration with the SEC may reduce the liquidity of the market for the Company's ADSs.

Effective February 19, 2009, the Company's ADSs have been delisted from the New York Stock Exchange. Following the delisting and the termination of the deposit agreement, the Company will deregister with the U.S. Securities and Exchange Commission (the "SEC") if it becomes eligible to do so under the SEC's rules. The company hopes to do so in or around October 2009. If it is able to deregister with the SEC, the Company will no longer be required to file annual or periodic reports with the SEC, and investors will have to rely on its filings with the SVS and the Chilean Stock Exchanges, which are made in the Spanish language, for information. As a result, there can be no assurance that a liquid market for the Company's ADSs exists now or will exist in the future. See See "Item 9. The Offer and Listing—Offer and Listing Details—Common Stock Prices and Related Matters" for more information.

Controls on foreign investment and repatriation of investments in Chile may adversely impact the Company's ADS holders' ability to obtain and dispose of the shares of the Company's common stock underlying its ADRs.

Equity investments in Chile by persons who are not Chilean residents are generally subject to exchange control regulations that restrict the repatriation of investments and earnings from Chile. The Company's ADSs are subject to an ADR foreign investment contract among us, the Depository and the Central Bank of Chile which is intended to grant holders of the Company's ADSs and the Depository access to Chile's formal exchange market. See "Item 3. Key Information—Exchange Rates." Pursuant to current Chilean law, the Company's ADR foreign investment contract may not be amended unilaterally by the Central Bank of Chile. However, the Company cannot make any assurances that additional Chilean restrictions applicable to holders of its ADSs, the disposition of underlying shares of its common stock or the repatriation of the proceeds from the disposition of the underlying common stock could not be imposed in the future, nor can the Company assess the duration or impact of the restrictions if imposed. If for any reason, including changes to the Company's ADR foreign investment contract or Chilean law, the Depository is unable to convert Chilean pesos to U.S. dollars, investors would receive dividends or other distributions in Chilean pesos.

Transferees of shares of the Company's common stock withdrawn from the ADR facility will not be entitled to access to the formal exchange market unless the withdrawn shares are redeposited with the Depositary.

Holders of ADSs may be unable to exercise preemptive rights.

The Ley de Sociedades Anónimas (Law No. 18,046), the Reglamento de Sociedades Anónimas (the "Chilean Corporations Law") and applicable regulations require that whenever the Company issues new common stock for

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cash, the Company grants preemptive rights to all of its shareholders (including holders of ADSs), giving them the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Such an offering would not be possible unless a registration statement under the U.S. Securities Act of 1933, as amended, were effective with respect to such rights and common stock or an exemption from the registration requirements thereunder were available.

Since the Company is not obligated to elect to make a registration statement available with respect to such rights and the common stock, holders of ADSs may not be able to exercise their preemptive rights. If a registration statement is not filed or an applicable exemption is not available, the Depositary will sell holders' preemptive rights and distribute the proceeds thereof if a premium can be recognized over the cost of any such sale.

Holders of ADSs may have fewer and less well-defined shareholders' rights than with shares of a company in the United States.

The Company's corporate affairs are governed by its estatutos, or bylaws, and the laws of Chile. Under such laws, the Company's shareholders may have fewer or less well-defined rights than they might have as shareholders of a corporation incorporated in a U.S. jurisdiction.

Foreign Exchange risks may adversely affect the U.S. dollar amount of dividends payable to holders of the Company's ADSs.

Chilean trading in the shares of the common stock underlying ADSs is conducted in pesos. The Depositary will receive cash distributions that the Company makes with respect to the shares underlying the ADSs in pesos. The Depositary will then convert such pesos to U.S. dollars at the then prevailing exchange rate to make dividend and other distribution payments in respect to ADSs. If the Chilean peso depreciates against the U.S. dollar, the value of the ADSs and the distributions ADS holders receive from the Depositary may decrease.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Telefónica Chile is a corporation organized under the Chilean Corporations Law. Telefónica Chile was incorporated on November 18, 1930 and has a duration through August 10, 2068. The address and telephone numbers of the Company's registered office and the Company's agent in the United States are as follows:

Compañía de Telecomunicaciones de Chile S.A.	CT Corporation System
Avenida Providencia 111	111 Eighth Avenue
Santiago, Chile	New York, New York 10011
Telephone: (562) 691-2020	Telephone: (800) 624-0909

Telephone service in Chile commenced in 1880 with the formation of Compañía de Teléfonos Edison in Valparaíso. In 1927, the International Telephone and Telegraph Corporation ("ITT") acquired the Chile Telephone Company, which had 26,205 telephones in operation at the time. In 1930, the Company was formed as a stock company named Compañía de Teléfonos de Chile S.A. In 1971, the Chilean Government intervened to take management control of the Company and, in 1974, the Chilean Government's Corporación de Fomento de la Producción ("Corfo") acquired 80% of the total shares issued by the Company, then held by ITT.

In August of 1987, Corfo announced that it would reduce its shareholdings and privatize the Company by selling approximately 30% of Corfo's shares in the Company. In January of 1988, 151 million shares of Series A Common Stock of the Company were transferred to Bond Chile. After giving effect to a capital increase in an April 1988 offering and other additional purchases of Series A Common Stock and Series B Common Stock of the Company, Bond Chile owned approximately 50% of the then issued and outstanding capital stock of the Company.

In April of 1990, TISA, a subsidiary of Telefónica, indirectly acquired the stock of Bond Chile—and thus all of Bond Chile's interest in the Company. Bond Chile then changed its name to Telefónica Internacional Chile S.A. ("TIC").

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The Company's July 1990 international offering of American Depositary Shares ("ADSs") reduced TIC's ownership to 44.5% of the Company's issued and outstanding capital stock. Subsequently, payments made by third parties for subscribed but unpaid shares further reduced TIC ownership to 43.6% by 2003. In July 2004, TIC purchased an additional 1.3%, increasing its ownership stake in the Company up to 44.9%.

An Extraordinary Shareholders' Meeting held on April 20, 2006 approved the modification of the Company's brand name to "Telefónica Chile." The legal name of the Company has not changed.

On September 17, 2008, Telefónica, acting through its subsidiary, Inversiones Telefónica Internacional Holding Limitada ("Inversiones Telefónica"), itself a subsidiary of TIC, launched a tender offer in Chile and the U.S. for the 55.1% of the shares of Telefónica Chile that it did not control. The tender offer was for any and all Telefónica Chile shares, including its ADSs, trading on the Santiago and New York exchanges, at a price per share of Ch\$1000 for Series A shares (Ch\$4000 per ADS) and Ch\$900 for Series B shares. Among other conditions, the tender offer was subject to the approval at an Extraordinary Shareholders' Meeting of an amendment to the Company's bylaws that, among other things, would permit a shareholder to own more than 45% of the Company's common stock. Although 55% of the shares voted in favor, the 75% majority required for approval was not achieved and the amendment was not approved. On October 28, 2008, an Extraordinary Shareholders' Meeting was held to submit the aforementioned bylaw amendment to a vote after certain terms of the offer were modified, including an increase in the offer price to Ch\$1100 per Series A share (Ch\$4400 per ADS) and Ch\$990 per Series B share.

With the approval of 85.9% of all outstanding shares eligible to vote, the Company's shareholders approved the elimination of the following articles of the Company's estatutos ("bylaws"): Article 1 bis (subject to Decree Law 3500); Article 5 bis (maximum permitted shareholding concentration of 45% of the outstanding shares, minimum minority shareholding requirement of 10% of the outstanding shares, minimum number of unrelated shareholders and minimum shareholdings of such shareholders requirement of 15% of the outstanding shares held by 100 or more shareholders, and restrictions pertaining to registration in the shareholders' registry); Article 17 bis (minimum quorum required for certain actions by the board of directors); Article 24 bis (board faculty limits); Article 28 (selection of account inspectors); Article 32 bis (requirement of approval of investment and financing policy at the ordinary shareholders' meeting); Article 33 bis (approval of the disposition of any assets essential to the Company's operations, establishment of guarantees regarding such assets and early modification of the investment and financing policy at the extraordinary shareholders' meeting); Article 40 bis (limitations on voting rights); Article 45 bis (minimum quorum requirement for modification of certain bylaw articles); Article 47 bis (Pension Funds Administrators' right of withdrawal); and Article 51 bis (requirement to send certain information to shareholders). All the above relate to Title XII of Decree Law 3500.

On November 2, 2008, Inversiones Telefónica announced the success of the tender offer launched on September 17, 2008, having thus acquired a 96.75% equity interest. Pursuant to Chilean regulatory requirements, on December 2, 2008, Inversiones Telefónica launched a subsequent tender offer in Chile and the U.S. for all remaining shares at the same offer price as the previous tender offer. As a result of the tender offers, Inversiones Telefónica purchased 53.0% of the Company's outstanding capital stock.

Currently, Telefónica Chile is controlled by TIC, which, directly and through Inversiones Telefónica, holds a combined 97.89% interest in the Company. TIC is indirectly wholly-owned by Telefónica S.A., a Spanish communications company whose shares are listed on various European, American and Asian stock exchanges. Telefónica's capital stock is widely held and Telefónica does not have a controlling shareholder.

On January 29, 2009, Telefónica Chile's Board of Directors resolved to terminate its ADR program, delist its ADSs from the New York Stock Exchange, deregister with the SEC and terminate the Foreign Investment Contract among Telefónica Chile, the Central Bank of Chile and Citibank, N.A., as depositary, under Chapter XXVI of the Compendium of International Foreign Exchange Regulation.

The Company's website address is www.telefonicachile.cl.

Mergers, Acquisitions and New Subsidiaries

During the last three years, Telefónica Chile has not participated in any merger or acquisition activities material to the business. However, during 2006, 2007 and 2008, the Company reorganized its subsidiaries in the following manner:

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- In January 2006, 100% ownership of Tecnonaútica was transferred from Telefónica Internet Empresas S.A. (“TIE”) to Telefónica Chile. Following this transfer, the subsidiary changed its name to Telefónica Multimedia and expanded its line of business to pay television services.
 - Also in January 2006, ownership of TIE was transferred from Telefónica Empresas to Telefónica Chile.
 - In March 2006, CTC Equipos was absorbed by Telefónica Chile.
- Also in March 2006, Telefónica Chile’s long distance subsidiaries, Telefónica Mundo and Globus, merged to form a new subsidiary called Telefónica Larga Distancia. In June 2006, as part of this merger process, a payment of Ch\$674 million (historical) was made to 2,375 shareholders of Telefónica Mundo who exercised their right of withdrawal.
- In September 2007, Telefónica Chile acquired the remaining outstanding stock of TIE, equivalent to 0.0005%, at book value. In December 2007, the Board of Directors agreed to the dissolution of TIE, transferring all its assets and liabilities to the Company, which is its legal continuer.
- In November 2007, TIE sold its participation in Telepeajes de Chile S.A. to Telefónica Gestión de Servicios Compartidos de Chile, S.A. (“t-gestiona”), a Telefónica Chile subsidiary.
- In November 2007, t-gestiona purchased a third party’s participation, achieving 99.99% ownership of Telepeajes de Chile S.A. Finally, Telepeajes de Chile S.A. changed its name to Instituto Telefónica Chile and a new and unique line of business in training was adopted.
- In December 2008, after the Company purchased from t-gestiona its .001% interest in Teleemergencia, thus gathering 100% of its capital stock, the Board of Directors agreed to the dissolution of Teleemergencia, transferring all of its assets and liabilities to the Company, which is its legal continuer.

Divestitures

- In October 2008, the Company executed agreements for the sale of the assets and customer portfolio of its subsidiary Telefónica Asistencia y Seguridad S.A. (“Teleemergencia”) to Prosegur for a total of Ch\$15,563 million (US\$24.4 million).

Capital Expenditures

Capital expenditures disbursed by the Company in 2007 and 2008 amounted to, respectively, Ch\$141,304 million (US\$228.4 million) and Ch\$147,989 million (US\$232.5 million). The Company has been steadily adjusting its capital expenditures in local telephony and using its available installed capacity to expand service, rather than investing in new lines. During 2008, the Company focused its investment primarily on consolidating business growth (especially in broadband), projects for the corporate segment and digital television. Together, these investments consumed approximately 64% of the year’s capital expenditures. In the fixed telecommunications business, investments were used for commercializing lines with minute plans and for maximizing the use of installed capacity, focusing on network deployment in areas of real estate development. The investment plan for the year also emphasized initiatives designed to update network infrastructure by replacing old equipment and introducing new generation technologies, such as IP telephony, with a view to attaining high service-quality standards with more stable and flexible platforms. Additional emphasis was placed on simplifying the processes and systems that support tools for the Company’s business, technical and administrative management.

Since January 2001, all capital expenditures made by the Company have been on projects located within Chile. Capital expenditures have been financed substantially with cash flow generated from operations.

B. Business Overview

The Company provides a broad range of telecommunications and other services throughout Chile, including:

- local telephone services;

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- broadband services;
- pay television services;
- long distance services;
- data transmission;
- dedicated lines (direct lines dedicated to a customer's exclusive use);
 - terminal equipment sales and leasing;
 - public telephone service;
- interconnection services (connecting calls from long distance, mobile and local telephone networks to Telefónica Chile's local telephone network); and
- value-added services (including the sale of telephone numbers, such as "600," "700" and "800" numbers for toll calls, to providers of telephone-based services, and the provision of supplementary services and direct dialing).

The Company provides all of its fixed telephony services through its own digital telecommunications network, including local telephone, broadband and interconnection services. In addition, the Company, through its subsidiaries Telefónica Empresas and Telefónica Larga Distancia S.A. ("Telefónica Larga Distancia"), provides substantially all of its data transmissions and domestic and international long distance services with its own equipment and data and long distance networks, respectively. The pay television service, which utilizes satellite technology and was launched in June 2006, is provided by the Telefónica Multimedia Chile S.A. subsidiary.

Chilean law currently requires companies to obtain licenses from the government before providing many telecommunications services. Telefónica Chile holds licenses to provide local telephone service and data transmission services throughout Chile. The Company also holds licenses to provide long distance service throughout Chile and internationally through its subsidiary Telefónica Larga Distancia. In addition, Telefónica Chile, through Telefónica Empresas, holds nationwide public service data transmission licenses for an indefinite term.

Moreover, the Chilean Government sets the maximum prices, fees and charges that Telefónica Chile may charge for certain services, including local telephone service, public telephones, interconnection services and related administrative services, unbundled network services, and line connections. The regulation applies to the Company's fixed monthly charge, variable charge, connections and other installations, access charges for rural companies, the number for information services through an operator, access charges and interconnection, and public telephones. In 2008, approximately 27% of Telefónica Chile's total operating revenues were generated through the provision of services subject to tariff regulation. The Chilean Government does not currently regulate the prices that Telefónica Chile charges for its other products and services, including, among others, long distance, data transmission, broadband, pay television, value-added services, directory advertising, and sales and leasing of terminal equipment.

Despite the above, in 2008, the Ministry of Transportation and Telecommunications asked the Competition Tribunal to review the telephony services currently subject to regulation in light of changes in market conditions. In January 2009, the Competition Tribunal issued its opinion, recognizing that market conditions did not currently justify tariff regulation regarding local telephone service (fixed and variable charge), public telephones and interconnection services. Subtel must still make a ruling based on this opinion.

Telecommunications Products and Services

The Company's primary business focus in 2008 was on marketing its "Dúo" and "Trío" voice, broadband and television bundles, whose main feature is the flexibility given to customers to choose the services they desire according to their specific interests. In other words, customers may build their own service bundles with the amount of voice minutes, the broadband speed and the television plan that suits their personal preferences. The Company

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developed a page on its website displaying valuation and comparison mechanisms that include all possible bundles. The main products and services offered by the Company are described below:

Fixed Telecommunications Services

The Company provides basic telephone services to its customers over the public telephone network in two forms:

Regulated Plans

Regulated plans include telephone line service (fixed monthly charge) and variable charges that includes local traffic defined as measured local service (“MLS”) and traffic from local lines to Internet and mobile telephones (“local tranche”).

Minute Plans (Tariff Flexibility Plans)

In order to mitigate the adverse impact of regulation and the decrease in traffic and other negative factors affecting fixed-line revenues, Telefónica Chile has focused on offering various non-regulated services over its local network infrastructure, thus adding value to existing fixed lines and mitigating the decrease in revenues per line. Starting in 2004, as an alternative to the regulated plan, the Company began to market Flexible Plans (see “—Regulatory Framework” below) such as: (i) Planes de Minutos (“Minute Plans”), consisting of telephone service with a certain number of minutes for a monthly charge; (ii) Línea Económica (“Economy Line”), consisting of a monthly amount from which customer calls are deducted, allowing for additional calls to be placed using prepaid cards; (iii) Línea Súper Económica (“Super Economy Line”), which enables customers to make calls for a certain number of minutes through prepaid cards charged on a monthly basis; and (iv) bundled services, such as broadband plus minute plans. Marketed individually or bundled with broadband and pay television plans, the Minute Plans have slowed the rate of decline in fixed lines.

During 2008, 389,566 new fixed lines were connected, a 11.3% decrease and 1.4% increase in new line connections as compared to 2007 and 2006, respectively, and 447,797 lines were disconnected, a 5.9% and a 26.5% decrease compared with 2007 and 2006, respectively. As a result, lines in service under fixed telephony as of December 31, 2008 totaled 2,120,974, representing a decrease of 2.7% and 4.3% as compared to December 31, 2007 and December 31, 2006, respectively.

The following table sets forth certain fixed-line performance and line connection information for the periods indicated.

	For the year ended December 31,				
	2004	2005	2006	2007	2008
Lines installed	3,043,379	3,007,432	3,021,487	3,032,522	3,058,238
Fixed lines in service	2,427,364	2,440,827	2,215,629	2,179,205	2,120,974
Average fixed lines in service	2,406,266	2,451,356	2,332,634	2,185,823	2,147,544
Lines per 100 inhabitants(1)	15.0	15.1	13.4	13.1	12.6
Number of new lines connected	343,318	358,088	384,003	439,224	389,566
Number of lines disconnected	332,733	344,625	609,201	475,648	447,797
Defects per line (annual average)(2)	0.40	0.44	0.54	0.52	0.45
Local traffic (in millions of minutes)(3)	13,759	12,012	9,643	8,395	7,313

(1)

Telefónica Chile fixed lines per 100 inhabitants. Population figures are based on National Institute of Statistics reports, which estimated Chile's population to be 16.8 million as of December 2008.

(2) Defects refer to any technical problems occurring in telephone lines, ADSL and equipment as well as in the Company's external plant and central switches.

(3) As of February 1, 2000, per-second billing was implemented.

Over the past four years, Telefónica Chile's fixed-line traffic has decreased, mainly due to customers' greater use of mobile services and electronic communications.

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As of December 31, 2008, 1,661,452 lines, a 3% increase compared with 2007, have been signed up for flexible tariff plans in accordance with Decree No. 742, which provides regulations governing the terms on which dominant local public telephony service operators may provide alternative plans and joint offers, representing 78.3% of the Company's total lines in service and thus significantly contributing to the growth of the fixed-line market.

Although the effective rates charged for flexible tariff plans are less than those charged in traditional plans, these types of products allow the Company to use the available capacity of the network to be more competitive.

Broadband Services

Telefónica Chile offers broadband ADSL technology to residential customers, small and medium enterprise customers and corporate clients, as well as to Internet Service Providers ("ISPs") as resellers.

Although broadband service is currently primarily used for high-speed Internet access, it also allows the Company to offer customers other services, such as virtual private networks ("VPNs"), security systems with remote monitoring from anywhere in the world, e-learning, wireless connections, intranet IP telephony (voice over IP) for corporate customers and multimedia applications. The broadband service also allows the provision of value-added services, including online antivirus and firewall protection, parental controls for Internet and computer technical support, both remote and in-home.

Telefónica Chile's broadband service continued to expand, supported by bundling with voice and pay television plans, as evidenced by a 10% increase in the number of connections. In addition, fixed telephony operators continued to develop capacity, boosting speeds (tripling and doubling them in April and December, respectively) and increasing the average installed access speed by 75%. In 2008, the broadband market was highly dynamic as a result of the sector's strong growth. In addition, the entrance of new competitors, such as the Mexican operator Telmex, and increased 3.5G broadband sales by existing mobile telephony operators led to increased competition. Nevertheless, as of December 31, 2008, ADSL connections totaled 710,797, representing an increase of 10.3% and 43.4% with respect to 2007 and 2006, respectively. The following table sets forth the number of ADSL connections in service as of the dates indicated:

	As of December 31,				
	2004	2005	2006	2007	2008
ADSL connections in service	200,794	314,177	495,479	644,522	710,797
ADSL/Lines in service	8.3%	12.9%	22.4%	29.6%	33.5%

Other Fixed Telephony Services**Prepaid Services**

Prepaid services have supported the development of flexible plans. The prepaid service known as Tarjeta Línea Propia ("TLP") allows customers to make calls from any fixed telephone, public phone or enabled mobile phone, and surf the web on a broadband connection using Wireless Fidelity ("Wi-Fi") or through dial-up access. TLP allows customers to refill the Super Economy Line and the bundled Prepaid Broadband through prepaid or postpaid lines. In addition to the physical TLP, the Company also sells an electronic version. As of December 31, 2008, 15.7 million TLPs were sold at Ch\$1,000 each, representing a decrease of 1.2% over 2006 and an increase of 5.3% over 2005. The total number of prepaid lines reached 336,973 in 2008, which represents decreases of 5.5% with respect to 2007 and 5.6% with respect to 2006.

Public Telephones (Payphones)

Telefónica Chile offers public telephony services and is responsible for the installation and operation of its own public telephones on public roadways and in indoor areas, the marketing of public telephone equipment to private third parties and fixed telephony installation. Currently, the public telephony market in Chile is made up of seven operators and numerous private parties. The revenues in this business area are generated by traffic on public phones owned by the Company, the management of its own call centers, maintenance agreements for indoor installations,

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and post-sales maintenance and business support services provided to third parties such as owners of public telephones purchased from the Company.

Alarm Monitoring and Security Services

Telefónica Chile, through its subsidiary Teleemergencia, offered alarm monitoring services to residential customers and SMEs until October 14, 2008 when Teleemergencia's assets and client portfolio were sold to Prosegur, an international company operating in the alarm monitoring market, for Ch\$15,563 million (US\$24.4 million).

Value-Added Services

Telefónica Chile markets value-added services to its fixed telephone service customers. Such services include caller ID (incoming and call waiting), voice mail, call waiting, call forwarding, control of outbound traffic to mobile phones, information and entertainment services ("600" and "700" numbers), itemized local call lists and guaranteed in-home maintenance.

In 2008, revenues from fixed telecommunications were Ch\$553,530 million (US\$869.7 million), representing 74.9% of total ordinary income, increased 3.8% from 2007, mainly as a result of 0.8% and 22.1% increases in revenues from voice and broadband, respectively, as compared with 2007.

Multimedia (Television Services)

On June 14, 2006, Telefónica Chile launched its pay satellite television service with a flexible marketing format unique to the local market.

Telefónica Chile was the first company to provide flexible pay television. Customers pay for what they watch, which means that the services are tailored to the interests and budget of each home. The plan is known as the Telefónica digital television offering, and it offers an entry-level plan for Ch\$9,900, including a selection of the channels in greatest demand such as Disney Channel, Discovery Kids, Discovery Channel, Cartoon Network, TNT, Sony, Warner, ESPN football channel and Fox. For a variety of prices, the customer has the opportunity to add an assortment of thematic or premium movie plans, family, sports and premiere film channels under this format.

The service provides national coverage and offers additional services to customers, which include, among others, parental control, an on-screen programming guide, program reminders, access to pay-per-view service and a thematic search feature. In order to provide this service, the Company invested in information technology systems and software as well as equipment for installation in customers' homes, such as satellite receivers and set-top boxes. In addition, the Company incurred costs associated with satellite transmission services and content acquisition. After one year of offering this service, the Company launched broadband television service ("IPTV"), starting a gradual deployment of this project by initially providing service only to a limited number of clients as a trial. The service is offered in areas of Santiago where the Company's network meets the technological requirements. This service constitutes part of the digital television flexible contents offer, and includes interactive functions such as video on demand ("VoD"), by which clients have available a wide and diverse range of films, series and audio-visual content from a digital library with more than 200 hours of content. Telefónica Chile was the first Latin American company to provide this technology. Moreover, in September 2007, the personal video recorder ("PVR") service was launched, which allows users to record programs and pause, forward and rewind live programming.

The pay television service is provided by the Telefónica Multimedia Chile S.A. subsidiary, and is marketed in bundles: "Dúo," combining television and fixed telephony and "Trío," combining television, fixed telephony and broadband service. About 17% of the Company's total clients have subscribed to the television service.

Growth is achieved by providing flexibility to customers, who can purchase a convenient service tailored to their interests and budgets. As of December 31, 2008, the Company had 262,957 pay television customers, making it the second-largest pay television operator in the country.

In 2008, revenues from digital television services were Ch\$39,235 million (US\$61.6 million), which represented 5.3% of total ordinary income.

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Corporate Customer Communications and Data

The corporate communications business, operated through the Telefónica Empresas subsidiary, has the mission of providing a comprehensive response to the communications needs of the larger and more complex organizations established in Chile. Clients of Telefónica Empresas include government ministries, public institutions, associations, and large corporations, both national and international, that are involved in a broad range of economic activities.

“Communications” play an essential role in the mission-critical processes of these clients. For this reason, the services provided by Telefónica Empresas are subject to continuous challenges, which include increasing capacity, availability and quality standards, and the need for progressive convergence and integration of different technologies. By integrating technologies, this subsidiary delivers solutions that add value to its clients’ businesses, meeting their requirements more efficiently.

One of the primary services provided by Telefónica Empresas is data transmission, mainly through IP-based services. In some cases, circuit-based solutions and value-added services are delivered through data links such as Frame Relay and ATM. Telefónica Empresas also provides corporate clients with basic and advanced telephony solutions, private IP telephony and IP Centrex solutions based on the Next Generation Network infrastructure. In addition to providing a range of solutions such as PABX, videoconferencing and point-to-point data circuits, Telefónica Empresas offers advanced telecommunications solutions in the form of consulting projects, professional services and outsourcing. Telefónica Empresas supplements these offerings with international services tailored to each customer’s needs. These services take advantage of Grupo Telefónica’s international presence and network, delivering relevant added value for global customers. In recent years, Telefónica Empresas has begun offering networked IT services that ensure the availability, protection and operational continuity of a company’s IT systems and involve managing the infrastructure at both the customer’s facilities and the Telefónica Chile datacenter. Telefónica Empresas also provides and manages the IT equipment and voice terminals, as well as integrated corporate connectivity and Internet access for the customer’s employees, with features tailored to each position.

The following table sets forth information regarding some of the Company’s data services as of the dates indicated.

	As of December 31,				
	2004	2005	2006	2007	2008
Dedicated IP connections	10,377	10,869	12,634	15,581	19,122
Dated (circuits)	9,770	5,821	5,353	4,808	4,742
Frame Relay (points)	3,892	2,621	1,930	1,865	1,388
ATM (points)	1,660	1,085	1,101	1,101	1,090

In 2008, revenues from the corporate customer communications and data business segment, which include revenues from equipment sales and rental, data transmission services and complementary services, amounted to Ch\$88,480 million (US\$139.0 million), representing 12.0% of total ordinary income. Revenues from this segment increased 11.4% compared to 2007.

Long Distance

The Company provides a broad offering of domestic and international long distance services, including public and private voice, data and video services, through its subsidiary Telefónica Larga Distancia. The long distance (“LD”) business segment also includes the rental of Telefónica Larga Distancia’s LD network to other telecom operators, such as other LD carriers with and without their own networks, as well as mobile companies, including Telefónica Móvil, which was sold by Telefónica Chile in July 2004, and ISPs. Telefónica Larga Distancia, like many other LD operators, has a business area dedicated to international businesses. This area is involved in negotiating settlement

rates and volumes for incoming and outgoing international traffic with different international operators, as well as establishing agreements for the intermediation of international traffic among LD carriers.

During 2008, the Company recorded an increase of 5.3% in domestic LD traffic compared to 2007 and 5.5% compared to 2006 due to the growing use of mobile telephones, e-mail and Internet, and the increase in lines blocked for LD calls. On the other hand, in terms of international LD business, traffic increased 5.4% compared to

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2007 and increased 14.7% compared to 2006, primarily owing to the increased competition in prices for international LD destinations.

The following table sets forth traffic information for domestic and international LD telephone traffic carried by Telefónica Larga Distancia for the periods indicated.

	2004	2005	2006	2007	2008
Domestic LD traffic (in millions of minutes)	664	602	542	543	572
Outgoing international LD traffic (in millions of minutes)	67	66	68	74	78

The business continues to face major challenges as a result of increased penetration by the mobile industry, which is replacing long distance telephone service. In addition, there has been a significant shift in the way Chileans communicate towards e-mail and the Internet. As a result, the Company's strategy has been to maximize installed capacity and to create innovative product plans that generate traffic, ensure customer loyalty and allow it to lead the industry. In 2008, Telefónica Larga Distancia installed the Puerto Natales-Cerro Castillo fiber-optic network, having received the contract through a public tender held by the Telecommunications Development Fund to provide telecommunications infrastructure for residents of rural areas in the region. This helped Telefónica Larga Distancia overcome the negative industry trend in 2008 and position itself as the market leader.

The main sales channels through which the Company offers its long distance products and services are direct telemarketing sales campaigns conducted by third parties. The Company also uses third-party call centers to sell domestic and international LD traffic plans and other products, such as prepaid cards.

In 2008, revenues from LD were Ch\$55,697 million (US\$87.5 million), which represented 7.5% of total consolidated revenues. Revenues from LD decreased by 8.8% and 15.8% compared to 2007 and 2006, respectively.

Other Businesses

t-gestiona

Telefónica Gestión de Servicios Compartidos Chile S.A. ("t-gestiona"), a subsidiary of Telefónica Chile, provides support services to all Company subsidiaries and other Telefónica Group companies. Its services include, without limitation, logistics, e-learning, accounting, insurance, collections, payroll, real estate management and general services.

Fundación Telefónica

Fundación Telefónica is a non-profit organization whose mission is to develop and channel the community and cultural activities of the Grupo Telefónica companies in Chile.

In 2008, Fundación Telefónica continued to promote the Educational Internet project, which has provided free Internet connections to more than 5,500 educational establishments throughout Chile and has trained more than 30,000 teachers in educational uses of the Internet. In 2008, the Fundación Telefónica media portal (www.educared.cl) developed educational content in the sciences, technology and mathematics, and received almost one and a half million visits during the year.

Another important program sponsored by Fundación Telefónica is "Pro-niño," a community initiative providing support for children and youth at social risk by offering full scholarships that allow them to continue their education. In

addition, the “Volunteer Army” – made up of some 1,500 individuals and led by Fundación Telefónica – organized various support activities and fundraisers in 2008 that directly benefited more than 7,000 underprivileged people.

In addition, in 2008, the Fundación Telefónica Hall of the Arts presented the highly successful exhibit “Cubism and its Surroundings” with works from the Telefónica España art collection, notably by Juan Gris and other world-renowned artists. This was followed by “Territories and Existences, Gobi-Southern Atacama,” an exhibit by Magdalena Correa, and “Tesla, a Digital Culture Encounter,” a collective exhibit of the work of major Chilean artists. As a form of national cultural outreach, Fundación Telefónica also continued its traveling photo exhibit “One Day in Chile,” which visited the cities of Temuco, Talca and Curicó.

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Market and Competition

The telecommunications industry in Chile, including the pay television business, achieved sales of US\$5.0 billion in 2008, an increase of 14% from 2007. This increase was largely driven by mobile growth and broadband development.

In 2008, the industry advanced with an important growth in Internet access speeds for residential and business users and a great momentum toward full market availability of integrated services. In the residential segment, there was significant growth in the area of bundled voice, broadband and television. A similar situation is developing in the small and medium enterprises (“SME”) segment, where voice and broadband plans are becoming available. The corporate communications segment is witnessing a consolidation of IP networks, making it possible to offer voice and data services and facilitating integration toward IT-based business processes.

Additionally, there has been massive, across-the-board growth in mobile communications in all of Chile’s social and business strata. Mobile broadband services have similarly spread throughout Chilean society and represented more than 50% of total broadband market net gains.

At the country level, there has been a clear consolidation of a competitive model based on “overlapping” networks that primarily employ the following access technologies:

- Four operators utilize copper pair and ADSL broadband technology for telephony, data and ADSL broadband, with estimated potential coverage of 65% of the country’s 4.5 million households and a majority of businesses.
- Coaxial network concentrated in one cable television company with potential coverage of almost 53% of all households. In 2008, the development of a second cable network commenced with an estimated additional coverage of 15%. Additionally, several operators, including the Company, offer television services through satellite transmission.
- Fiber-optic networks for corporations with an approximate length of 25,000 kilometers, operated primarily by four operators.
- Mobile coverage using the GSM standard in approximately 95% of the country’s inhabited territory; mobile service provided by three companies.

Nationwide, a competitive model based on network infrastructure that mainly uses copper pair (“ADSL”), coaxial, fiber optic and wireless technologies (“3G”, “WiMax” and “PHS”) remains in place. During 2008, the consolidation of bundled services continued generating a competitive focus among diverse sectors’ operators, which create their own services or alliances with third parties. As a result, almost all fixed operators in the residential segment offer bundled services of voice, broadband and pay television. A similar situation exists in the small and medium enterprise segment with offers of voice plans and broadband. In the corporate segment, operators offer bundled solutions that allow corporations to consolidate their IP networks for transmitting voice and data, simplifying the integration of business processes based on IT. Similarly, mobile communications have grown in the country, becoming a mass service and penetrating all segments of the population.

In the context of solutions of wireless last mile, Telmex maintains its WiMax service for voice and broadband, VTR maintains its intention of expanding its current coverage under the same technology and Telsur continues to implement its wireless telephony services with its own and rented infrastructure.

In 2008, Telmex started building a hybrid fiber coaxial (“HFC”) network with voice, broadband and pay television services. Telmex had already entered the residential segment through a bundled offer of telephony, broadband and

satellite television. The telephony and broadband services are provided over WiMax, while its acquisition of ZAP TV allowed it to bundle these services with satellite television.

In mobile business, 3G technology was included in the operators' sale offers and utilizes the UMTS and HSDPA standards. As a result, mobile broadband was the business with highest growth in the industry in 2008.

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The following chart shows the business segments in which the main Chilean telecommunications companies operate:

Company	Fixed Telephony	Broadband (1)	Long Distance	Mobile Communications	Data Transmission	ISP	Pay Television (9)
Telefónica Chile(2)	ü	ü	ü		ü	ü	ü
Movistar(3)		ü	ü	ü			
ENTEL(4)	ü	ü	ü	ü	ü	ü	
VTR(5)	ü	ü	ü		ü	ü	ü
Claro(6)		ü		ü			
Telmex Chile(7)	ü	ü	ü		ü	ü	ü
Telefónica del Sur	ü	ü	ü		ü	ü	ü
Terra Networks						ü	
CMET	ü	ü	ü		ü	ü	ü
Direct TV					ü		ü
GTD - Manquehue(8)	ü	ü	ü		ü	ü	

(1) Broadband with last mile access. Does not include resellers or ISPs and does not consider dedicated accesses to corporations.

(2) In July 2004, the extraordinary shareholders' meeting of Telefónica Chile approved the offer made by TEM to acquire 100% of the Company's subsidiary, Telefónica Móvil de Chile S.A. ("Movistar"). See "Item 4. Information on the Company—History and Development of the Company—Divestitures."

(3) Includes operations from Bellsouth Chile acquired by TEM in 2004. The Antitrust Commission approved the merger of both companies in January 2005.

(4) Telecom Italia sold its stake in Entel Chile (55%) to Chilean investors in 2005.

(5) Includes Metrópolis Intercom merged in July 2005.

(6) Until July 2006, it was named Smartcom. It was acquired by América Móvil in August 2005.

(7) In 2008, Telmex Chile began to offer voice, broadband and pay television services over its HFC network.

(8) Includes Manquehue Net, which was acquired by GTD in September 2005.

(9) Only those companies that own the infrastructure to provide the service.

Telefónica Chile faces intense competition in every aspect of its business activities. Unless otherwise indicated, all statements regarding the competitive position of Telefónica Chile are based on the Company's internal estimates.

Fixed Telecommunications

The fixed telephony market in Chile reached approximately 3.4 million lines as of December 2008, the same as year-end 2007. The rate of penetration of fixed lines, as of December 2008, was 20.2 lines per 100 inhabitants.

Although Telefónica Chile operates approximately 63% of the local fixed lines in service in Chile, its market share has been declining for the past seven years because of intense competition in key niches of the market due to the aggressive offers of competitors.

Currently, there are ten operators that provide fixed telephony service and, in the aggregate, operate the total number of fixed lines in service in Chile as of December 31, 2008. In certain areas of the Santiago Metropolitan Region, Complejo Manufacturero de Equipos Telefónicos S.A.C.I. (“CMET”), GTD S.A. (“Grupo Teleductos”), which includes operations from Manquehue Net and Telesat S.A., VTR Telefónica S.A. (“VTR”), which is an 80% subsidiary of Liberty Media, Entel Telefonía Local S.A. (“Entelphone”), which is a local telephony subsidiary of Empresa Nacional de Telecomunicaciones S.A. (“Entel”), and Compañía Nacional de Teléfonos (“Telefónica del Sur” or “Telsur”), hold licenses to provide local service. Furthermore, two companies, Telsur and its subsidiary Compañía Telefónica de Coyhaique S.A. (“Telcoy”), have licenses to provide local service in southern Chile—Telsur in Regions X and XI and Telcoy in Regions XI and XII. Additionally, Telmex operates in the corporate segment of the main cities in the country and recently entered the residential segment with an offer of bundled services which is enhanced by its development of its HFC network. Apart from Telefónica Chile, three other companies provide local telephone service in rural areas. Telefónica Chile also competes with providers of private communications systems, particularly in areas of significant business activity.

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Broadband

Broadband connections (ADSL, cable modem, W:Max and Wireless Local Loop (“WLL”)) in Chile currently represent 99% of all Internet connections (broadband, narrowband and dedicated). Broadband penetration of total homes in Chile (calculated as “total accesses”/“total homes”) has increased from 29% in 2007 to 32% at the end of 2008. Moreover, broadband through fixed lines (“fixed broadband”) connections grew to 1,450,000 by year-end 2008, a 13% increase. As of December 2008, ADSL broadband connections represented 57% of the country’s total broadband use.

There are nine operators in the Chilean broadband market (broadband being defined as connections of 128 kbps or more) using the different technologies. One of the nine operators provides broadband service utilizing cable modems (VTR). Four use only ADSL technology (Telefónica Chile, Telefónica del Sur, GTD and CMET). Additionally, Entel utilizes ADSL and WLL technology and Telmex utilizes ADSL and WiMax. Claro and Telefónica Chile offer mobile broadband access. The Company estimates that, as of December 31, 2008, its ADSL service (including direct sales and as a wholesale provider) accounted for approximately 49% of all fixed broadband access offered in Chile.

Long Distance

The LD telephony market in Chile maintains its trend toward decreased traffic, observed since 1999. Thus, annual domestic LD traffic decreased by 11% in 2008 compared to the previous year, while international LD traffic fell by 4% in the same period. These results are primarily due to the substitution by mobile telephony and Internet communications.

In 2008, Telefónica Larga Distancia’s market share represented approximately 47% of domestic LD voice traffic and 43% of outgoing international LD voice traffic, maintaining market leadership in domestic and international LD, according to Telefónica Chile estimates.

Corporate Customer Communications and Data

Strong competition remains in the corporate communications and data transmission market in Chile because of the ongoing aggressiveness exhibited by operators. Operators are continuing to migrate their traditional services (ATM, Frame Relay and Dated) to IP networks and are expanding their services into outsourcing of IT services. As of December 2008, there are eight operators in the country’s major cities and only three have national infrastructure coverage. Telefónica Chile estimates that as of December 31, 2008, its share of the total revenues generated by the market for these services was approximately 44%. In this market, the Company competes mainly with Entel, Telmex Chile, Teleductos and Telsur.

Security

Telefónica Chile, through its subsidiary Teleemergencia, participated in the security business until October 2008, when the client portfolio and related assets were sold to a third party.

Corporate Goals and Business Strategy

Telefónica Chile’s goal is to lead the growth and innovative development of the information society in Chile by building relationships of deep-seated trust and mutual benefit with customers, employees, shareholders, the government and the country at-large.

The Company harnesses its corporate values, communications solutions and Telefónica Group’s technological innovations in the service of this goal, striving to improve the lives of its customers and contribute to the country’s

welfare.

Accordingly, in 2008, despite the turbulent global and local economies, Telefónica Chile invested over US\$150 million in the deployment of broadband technologies, high-speed networks, data services and information technologies.

This has led to significant advances, the most noteworthy being:

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- Quadrupling broadband connection speed from an average of 600 kpbs in late 2007 to 2.4 Mpbs in late 2008.
- Ensuring broadband network coverage and quality in almost 99% of its current infrastructure through upgrades in the external copper network, new nodes and fiber-optic links.
 - Making IP service convergence a reality in the corporate markets (VoIP, VPN IP and Centrex).

Corporate and Business Strategy

The internal action plan for the Company's strategy is based on "Plan Ahora," launched in early 2007, defining specific goals for each of the company's four strategic pillars: customers, employees, society and shareholders.

In 2008, the Company made significant progress in meeting the plan's components, the most noteworthy being: a customer-oriented organizational culture; implementation of several initiatives designed to improve service and customer care quality; reducing revenue growth's dependence on traditional businesses; motivating employees to achieve common targets; the "Pro-niño" project; and the "Public-Private Agreement for Digital Connectivity in Chile."

The specific goals of the plan's four pillars are:

Customers: "The best customer experience"

The goal is to lead the industry in customer satisfaction. To achieve this, the Company promotes an organizational culture based on excellence, innovation and customer focus in all areas, emphasizing service delivery and customer care quality with a view to consolidating its competitive and market leadership position.

Employees: "The best company to work for in the telecommunications industry"

With a view to attracting the best talent and assembling a team that is not only the best but is also motivated and keen to accomplish its goals, the Company has implemented an internal workplace management model that focuses on five areas of action: leadership, communications, compensation, development and recognition.

Society: "Social commitment"

The Company's goal is to be recognized as a socially responsible company in light of its efforts to shrink the digital-social gap by providing broadband access to the low-income population and by contributing to education through digital literacy and connectivity programs at schools and through social programs.

Shareholders: "The best combination of growth and profitability"

The Company maintains particular emphasis on constant innovation and on productivity gains, with the aim of growing profitably and in line with shareholders' demands. Thus, the Company invests in businesses with the greatest potential impact, ensuring efficient operations and process management.

Licenses and Tariffs

Licenses

Under Law No. 18,168 (as amended, and together with the regulations promulgated thereunder, the "Telecommunications Law"), companies must obtain licenses in order to provide the following telecommunications

services:

- public telecommunications services (services provided to the public, such as local and mobile telephony, data transmission, paging and trunking);
- intermediate telecommunications services (services provided to companies that are holders of telecommunications licenses, as well as domestic and international LD services provided under the Multicarrier System); and

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- broadcasting services, such as those provided by radio and television stations.

Only corporate entities may obtain licenses. Licenses specify the conditions that the license holder must fulfill in order to install, operate and develop the service and business that are the subject of the license. Licenses granted since 1994 for public and intermediate services generally have 30-year terms and may be renewed indefinitely for 30-year periods at the request of the operator (although certain licenses held by Telefónica Chile have longer terms).

Holders of local telephone service licenses are required to provide service to all parties located in the license area that have requested such service within two years of such request. In addition, license holders must provide service to all parties situated outside the license area who are willing to pay for the line extensions required to reach their location from the license holder's facilities.

The Telecommunications Law requires that holders of public telecommunications service licenses interconnect their networks to other networks providing the same type of service. This requirement is intended to ensure that subscribers and users of public services are able to communicate with each other, both inside the country and abroad. The same requirement applies to holders of intermediate service licenses for LD services, who are required to interconnect their networks to the local telephone network. Subtel sets the tariffs applicable to services provided through the interconnection of networks, in accordance with the procedures established in the Telecommunications Law. The structure, level and indexing of these interconnection rates are fixed by a tariff decree.

More than one service license may be granted for the same geographic area. Moreover, in instances where the number of licenses to be granted is limited by technical or other concerns, such licenses are awarded through a public bidding process.

The Telecommunications Law specifies certain causes for which an operator can be sanctioned through the termination of its public or intermediate service license. A license may be terminated, after notice of noncompliance with the applicable technical regulations, by executive decree, if the operator is in violation of the law or does not comply with the terms and conditions to which the license is subject. If the holder believes that its license has been terminated unlawfully, the holder may appeal the termination in Chilean courts. If a license is terminated, the holder is barred from applying for any license for a period of five years.

The following table provides the breakdown of those products and services offered by Telefónica Chile that are regulated under the 2004 to 2009 tariff decree ("Tariff Decree No. 169") or are unregulated and that require or do not require licenses.

Services Subject to Tariff Regulation		Activities Not Subject to Tariff Regulation	
License Required(1)	License Required	License Not Required	
Local telephone service	Domestic long distance service	Sale of advertising in telephone directories	
Access charges and interconnection	International long distance service	Direct marketing	
Public telephones(1)	Mobile communications(2)	Sales and leasing of telephone and facsimile equipment and private exchanges ("PABX")	

Line connections	Public data transmission	Supplementary services
Unbundled network services(3)	Other unbundled network services(3)	Broadband
	Pay television	

(1) All services subject to tariff regulation require licenses, except the public telephony. However, Telefónica Chile's public telephony services are regulated.

(2) The interconnection fee for calls to the mobile networks is regulated under the CPP structure. See “—Licenses and Tariffs—Calling Party Pays Structure” below. The mobile business was sold in July 2004.

(3) Only the unbundling of the local network, as defined by the Antitrust Commission, is regulated.

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Licenses Held by Telefónica Chile

Telefónica Chile holds the following licenses for the provision of telecommunications services:

- **Local Telephony Public Service Licenses.** Telefónica Chile holds a license for local telephone service in all regions of Chile for a 50-year renewable period beginning as of December 1982, except Regions X and XI, which were incorporated to said license in 1995. In addition, the Company holds licenses for local telephone service in the Santiago Metropolitan Region and in certain cities in Regions V and VIII for an indefinite term. Telefónica Chile also holds a nationwide public service renewable license for data transmission for a 30-year period beginning as of July 1995.
- **Multicarrier Long Distance Licenses.** Under the Multicarrier System, Telefónica Chile's long distance subsidiary, Telefónica Larga Distancia S.A. (formerly, Telefónica Mundo), held 30-year renewable licenses beginning as of April 1993 to install and operate a nationwide fiber-optic network, a network of base stations and other transmission equipment, and to provide domestic and international LD services, including voice, data and image transmission, throughout Chile. The Company's other LD subsidiary, Globus, also held licenses for an indefinite term to provide domestic and international LD services through central switches and cable and fiber-optic networks nationwide. Since the merger of Globus and Telefónica Mundo in 2006, all the aforementioned licenses are owned by Telefónica Larga Distancia.
 - **Public Service Data Transmission.** In addition to the 30-year data transmission license previously mentioned, Telefónica Chile, through Telefónica Empresas, holds, as of March 1987, nationwide public service data transmission licenses for an indefinite term.
- **Limited Television License.** The Company's subsidiary, Telefónica Multimedia, formerly known as Tecnonáutica S.A. (see "Item 4. History and Development of the Company—Divestitures"), has a license to establish, operate and use a portion of the spectrum of the 2.6 GHz bandwidth in Santiago, Chile, for an indefinite period. The license was modified to be an intermediate telecommunications service concession, authorizing the frequencies used to communicate voice, data and images for a 30-year period. This period started on February 29, 2008. Since December 2005, Telefónica Chile, through Telefónica Multimedia, has held a nationwide 10-year renewable license to provide limited satellite television service. Additionally, in January 2006, Telefónica Chile, through Telefónica Multimedia, was assigned a limited television service license to provide the service nationwide in the main municipalities, except Region III and Region Metropolitana, through the Company's xDSL broadband network for an indefinite period. Moreover, in March 2007, a limited television service license was granted in order to provide this service through the xDSL broadband network in the Metropolitan Region for an indefinite period.
- **Wireless Local Telephony Licenses.** Telefónica Chile also holds licenses for wireless local telephony (3400 to 3700 MHz) in Regions XI and XII, which enable the transmission of voice, data and images. This frequency may be used for Wi-Fi and Wi-Max developments, among others.

The Tariff System

Pursuant to the Telecommunications Law, prices for public telecommunications services and intermediary telecommunications services in Chile are not regulated unless the Antitrust Authority ("Competition Tribunal") specifically rules that the conditions existing in the market are insufficient to ensure a free pricing system, in which case maximum tariffs for certain telecommunications services must be subject to tariff regulation. The Competition Tribunal may subject public local telephony services and domestic and international long distance services, except for mobile telephone services to the public, which are expressly exempted under the Telecommunications Law, and the switching services and signals provided as intermediate telecommunications service or as private circuits, to price

regulation. In addition, maximum prices for interconnection services (mainly inter-company access fees for network usage) are, as a matter of law, subject to tariff regulation and are set in accordance with procedures established by the Telecommunications Law.

Also pursuant to the Telecommunications Law, once the Competition Tribunal has determined that tariff regulation is necessary, the structure, level and indexing of the maximum tariffs that may be charged for tariff-regulated services are fixed by a joint decree issued by the Ministry of Transport and Telecommunications and the

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Ministry of the Economy (together, the “Ministries”). The Ministries determine such maximum tariffs by applying to each regulated company an economic model based on the costs, efficiency and growth rates of a hypothetical company that provides only regulated services, and calculating a rate of return on such services in line with the hypothetical company’s market cost of capital. Telefónica Chile’s actual rate of return, however, may vary from the predictions of the model. Each maximum tariff takes into account the relevant cost components associated with providing the regulated service, and is adjusted monthly in accordance with the tariff index (the “Tariff Index”), as contemplated in the tariff structure and described below. A distinct Tariff Index exists for each individual regulated service that reflects the different theoretical cost components associated with each such service.

As part of the tariff-setting process, license holders prepare studies of each regulated service that they provide in each license area, calculating the incremental development costs and the total long-term cost with respect to each such service for a five-year period. The purpose of these studies is to propose to the Ministries a structure for and level of future tariffs for each regulated service in each license area.

Regulatory Framework

The first five-year tariff period commenced in 1989, at which time the Competition Tribunal determined that the conditions prevailing in the local and domestic and international LD markets did not guarantee free competition and therefore would be subject to regulation. However, according to Resolution No. 515, in April 1998, the Antitrust Commission determined that only local services, public telephone services and line connections offered by dominant companies would be subject to tariff regulation. In addition, Resolution No. 515 included the unbundled network services among the services subject to tariff regulation.

On January 18, 2001, the Company estimated that market conditions had changed and consequently asked the Antitrust Commission to deregulate local telephone rates charged to the public, stating, in its opinion, that the then-existing market conditions warranted deregulation throughout the country. However, on July 11, 2001, by Resolution No. 611, the Antitrust Commission rejected the Company’s petition, although the Antitrust Commission asked the National Economic Attorney General’s Office to monitor the evolution of the market in order to detect changes as they occur that could lead to the deregulation of certain services in certain geographic areas. The Antitrust Commission also decided that Telefónica Chile could request authorization to offer alternative tariff plans and request the authority to issue complementary resolutions to Tariff Decree No. 187, which would allow for differentiated rates within each tariff area. In accordance with this decision, in the second half of 2001, the Company submitted a proposal to Subtel for alternative tariff plans for different customer categories. In this regard, on May 24, 2002, Subtel approved the Company’s proposal to offer prepaid service for fixed line customers. Moreover, on August 24, 2002, the Ministries issued Decree No. 455, which approved a high usage plan oriented toward residential customers and a very high usage plan oriented toward corporate customers, which were based on a flat monthly fee.

Tariff Setting Process for Telefónica Chile’s Services for 2004 to 2009: Tariff Decree No. 169

On January 13, 2003, Telefónica Chile requested that the Antitrust Commission, on the basis that market conditions were sufficient to guarantee healthy competition, rule in favor of fully deregulating tariffs in specific geographical areas. The Company also requested that, in cases where conditions are not sufficient to guarantee competition, the Antitrust Commission define the services that will be subject to tariff regulation by the corresponding ministries, nonetheless affording the Company the flexibility to offer alternative tariff plans to the regulated rates without previous authorization.

On May 22, 2003, the Antitrust Commission issued Resolution No. 686. This Resolution ruled against deregulation of rates charged by Telefónica Chile for services to the public. The Antitrust Commission did not issue a specific pronouncement regarding the request for tariff flexibility. In view of this, on September 1, 2003, the Company

submitted to the Antitrust Commission a request for an explanation and expansion of Resolution No. 686 regarding tariff flexibility.

Thus, on October 13, 2003, the Antitrust Commission issued Resolution No. 709, unanimously approving the Company's September 1, 2003 request for local telephony services tariff flexibility and making it possible to offer alternative plans within a framework of conditions to be subsequently specified by the regulator.

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On February 26, 2004, a rule of procedures regarding how the Company may offer alternative tariff plans was published in the Official Gazette. A relevant aspect is that no previous authorization is required to offer these plans. Plans are not subject to maximum tariffs or predetermined structures, and may include joint offers with other telecommunications and non-telecommunications services.

By Exent Resolution No. 1,418, dated November 25, 2008, Subtel affirmed 2007's level of average monthly consumption of "heavy use" plans of 5,000 minutes per customer for 2009.

Resolution No. 686 of May 2003, also defined the services subject to tariff regulation by the Ministries for the 2004 to 2009 tariff decree, which were substantially similar to the services regulated in Tariff Decree No. 187.

In February 2005, Tariff Decree No. 169 was approved and published in the Official Gazette. Starting in May 2004, the Company began charging customers with the published rates retroactively from May 6, 2004, as required by the Telecommunications Law. In addition to the new tariffs, Tariff Decree No. 169 also provides for seven tariff areas compared to four in the previous decree, three time slots (normal from 08:00 to 19:59 hrs.; reduced from 20:00 to 24:00 hrs.; and night from 0:00 to 8:00 hrs. on weekdays) versus two in Tariff Decree No. 187, adjustments in the composition of the tariff indicator and a new prepaid tariff. The average variation in tariffs between Tariff Decree No. 169 and the existing Tariff Decree, based on 2003 traffic, is as follows:

	Average Tariff Variation Between Decree No. 169 and Decree No. 187(1)
Fixed Charge	+7.7%
Variable Charge—Measured Local Service (MLS)	-18.3%
Local Tranche (to mobile and rural operators)	+48.2%
Local Tranche (to Internet and 10X numbers)	+28.3%
Access Charge	+49.1%

- (1) Traffic is weighted according to 2003 Company traffic in the different time slots. 2003 was used as the reference year, because 2004 traffic was influenced by the impact of two different tariffs (under Tariff Decrees No. 187 and No. 169). Tariff Decree No. 169 also introduced a regulated prepaid tariff which amounted to Ch\$150.48 in Chilean pesos as of Dec. 2002 (excluding VAT).

A Tariff Index has also been defined to adjust monthly maximum regulated tariffs, which is different for the fixed monthly charge and the variable charges (including the variable charge per minute, the local interconnection charge and access charges), taking into account: (i) the monthly variation of the wholesaler price index ("WPI") for domestic goods, (ii) the monthly variation of the WPI for imported goods, (iii) consumer price index, (iv) wholesaler price index, (v) access charge index (for variable charge only) and (vi) the prevailing corporate income tax rate. The use of the Tariff Index permits the Company to significantly minimize the impact of inflation on its revenues from tariff-regulated services.

The following is the Tariff Index for Tariff Decree No. 169:

Index	WDGPI(1)	WIGPI(2)	Index of Wages and Salaries	CPI(3)	WPI(4)	Access Charge Index(5)
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Fixed Charge	36%	21.3%	–	12.4%	30.3%	–
Variable Charge (MLS)	9.5%	34.0%	–	19.4%	26.3%	10.8%

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- (1) WDGPI: Wholesaler domestic goods price index.
- (2) WIGPI: Wholesaler imported goods price index (U.S. dollar component).
- (3) CPI: Consumer price index.
- (4) WPI: Wholesaler price index.
- (5) Access charge index: A composite of access charges for non-Telefónica Chile operators.

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Tariff Setting Process for Telefónica Chile's Services for 2009-2014

In January 2008, through a petition by the Ministry of Telecommunications to the Competition Tribunal to determine if prevailing market conditions warranted a free pricing regime in local telephony services, the process for setting tariffs for the period from 2009 to 2014 commenced. After a discussion process and presentation of antecedents by almost all industry actors, the Competition Tribunal, through Report No. 2/2009 of January 30, 2009, liberalized tariffs for the following services: telephony line service, variable charge, line connection and public telephony.

Additionally, price regulation for "local tranche" and value-added services, including disconnection and replacement of the service, access entitled for domestic and international LD and complementary services, among others, was expanded to apply to all companies, not just dominant companies. Also, tariff regulation for unbundled network services for all fixed-line companies remains in effect.

Moreover, the Competition Tribunal upheld the classification of Telefónica del Sur (and its related company, Telcoy) in Regions X, XI and XIV, ENTEL in Isla de Pascua and Telefónica Chile in the rest of the country as dominant companies.

Furthermore, the Competition Tribunal made several recommendations for increasing competition, including:

- requiring service providers to offer "effectively" bundled services separately and to identify the unit price by service and discount associated with the bundling;
- measures to prevent the offering of fixed-mobile bundling services;
- maintaining close oversight of contracts and agreements between related fixed and mobile companies;
- maintaining regulations, such as "Flexibility Ruling (No. 742)," for commercializing plans and increasing transparency in price information and plan conditions;
- reassigning the responsibility for defining "unbundling" and "resale of services" from the Competition Tribunal to Subtel;
 - requiring Subtel to assure an effective resale offer from fixed telephony companies with installed networks;
- suggesting eliminating call price differences among same company telephones ("on net") and towards different ones ("off net"); and
 - the rapid implementation of number portability for fixed and mobile telephony.

In conjunction with the above, in April 2008, Telefónica Chile presented its technical and economic basis proposal for a new Tariff Setting Process for the Company's regulated services for the period from 2009 to 2014. Subtel issued definitive technical and economic bases in June 9, 2008, through Exent Resolution No. 562. On November 7, 2008, the Company presented its tariff proposal for the different regulated services and on March 7, 2009, the Ministry of Transportation and Telecommunications issued the objections and counterproposals report. Telefonica Chile requested the constitution of an expert panel, whose recommendation will be included in Telefonica Chile's reply. Finally, a new Tariff Decree regulating services that remain subject to tariff regulation under Report No. 2/2009 of the Competition Tribunal, for the period from 2009 to 2014, will be in place on May 7, 2009.

Multicarrier System

On March 10, 1994, Law No. 19,302 amended the Telecommunications Law to introduce the Multicarrier System for LD services. Among other things, the Multicarrier System permits local telephone service providers to obtain licenses to supply domestic and international LD services through a subsidiary or affiliate using their own equipment. Under this system, users are able to select LD carriers on a dialed or pre-subscribed basis.

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Calling Party Pays Structure

Calling Party Pays (“CPP”) was implemented on February 23, 1999. Under this tariff structure, local telephone companies pay mobile telephone companies an interconnection charge for calls placed from fixed networks to mobile networks.

On April 12, 2004, the Chilean General Comptroller approved the tariff decrees for mobile interconnection tariffs and interconnection facilities of the mobile telephony networks, applicable to the operators in this market for the 2004 to 2009 period, which were published in the Official Gazette on April 14, 2004. These decrees were applied retroactively to January 23, 2004 for mobile operators, except for Telefónica Móvil de Chile S.A., for which it is applied retroactively to February 12, 2004. The tariff decrees stipulate three time slots defined as “peak,” “reduced” and “night” and new per-minute tariffs for the period. The tariffs implied a decline of 26.5% in the first year, compared to the average tariff in Chilean pesos as of December 2002, with a subsequent 0.5% decrease per year thereafter. The new tariffs imply an average decrease of 27.4% for the period of 2004 to 2009 in comparison with the average tariff in Chilean pesos as of December 2002.

In July 2004, the Company sold its mobile subsidiary and therefore is no longer regulated in this business. See “—History and Development of the Company—Divestitures” above.

The tariff-setting process for interconnection rates of the mobile companies, corresponding to the period from 2009 to 2014, finished with the issuance of tariff decrees in January 2009, establishing an average decrease of 44.6% from outstanding tariffs as of December 2008. Although these decrees were published in the Official Gazette on April 13, 2009, they will apply retroactively to January 24, 2009.

Lawsuit Against the State of Chile

On October 31, 2001, Telefónica Chile filed an administrative motion for reconsideration with the Ministries, to correct the following errors in the issuance of Tariff Decree No. 187: a mathematical error in determining the fixed monthly charge for telephone line service; unlawful application of the depreciation method; failure to consider the costs of telephone directories; incorrectly assuming lower investments related to the location of switching centers; erroneous application of the same local telephone service non-payment rate to the CPP service; and failure to scale access charges and local tranche charges. On January 29, 2002, the Ministries issued a joint response rejecting the administrative motion filed by Telefónica Chile.

Upon exhausting the administrative recourses available to correct what the Company believes are illegal actions taken in the tariff-setting process discussed above, in March 2002, Telefónica Chile filed a lawsuit for damages against the State of Chile. This legal action seeks damages in the amount of Ch\$181,038 million (US\$274 million, historical value as of the date of the lawsuit), plus adjustments and interests, covering past and prospective losses through May 2004 arising from errors incurred in Tariff Decree No. 187. Experts’ reports have been presented on various aspects of the case supporting the position held by Telefónica Chile’s position. On March 29, 2005, the judge called the period of discussion and proof provision from the interested parties to a close, in order to issue a sentence in first instance. In March 2008, the trial court rejected the Company’s claims. The Company is appealing this decision.

For further information, see “Item 8. Financial Information—Legal Proceedings.”

Voissnet Lawsuit

Voissnet has filed two complaints before the Antitrust Commission against Telefónica Chile alleging improper business practices related to the commercialization of its broadband and telephony offerings. Telefónica Chile has

requested that both complaints be rejected. The Competition Tribunal stated it would issue a combined ruling on both claims.

For further information, see “Item 8. Financial Information—Legal Proceedings.”

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Key Proposed Changes to the Regulatory Framework

Public Inquiries on Regulations for IP Telephony Services

In July and August 2004, Subtel initiated a process of public inquiries addressed to the main participants in the telecommunications industry in connection with their proposals regarding network unbundling and IP telephony.

The proposal for IP telephony defined a special type of telephony over broadband, which is provided over existing infrastructure and with lower regulatory requirements than traditional telephony. This discriminates against traditional local operators, which are subject to different conditions for the same service. The Company, along with other operators, presented its comments on, and legal objections to, the proposal, calling it, among other things, discriminatory and likely to inhibit investment in new infrastructure and broadband.

On December 20, 2006, Subtel made a public inquiry on the proposed rules governing public voice over IP. As was required, Telefónica Chile provided its comments and proposals on January 26, 2007.

From the new regulation presented by Subtel, the most relevant proposals were:

- The concessionaires of public telephone services and LD intermediate telecommunication services will be able to obtain concessions for the new service, without restrictions or limitations of any sort. This means that the regulation does not exclude or limit the participation of Telefónica Chile and Telefónica Larga Distancia.
 - To provide public services of voice over IP, a concession obtained by supreme decree will be required.
 - The concessionaires of the new services must establish and accept the interconnection with telephony public services networks. Costs of interconnections must be charged to the new operators.
 - The coverage of the concession will be nationwide.
- The concessionaires of the new services must provide access to emergency services and will not be obligated to distribute phone directories.
 - The concessionaires will be able to use the telephone service numbering.
- The regulation will come into effect 6 months from the date of the publication in the Official Gazette.

Thirty companies provided comments. In general, the telephone companies approved of the regulation and favored the application of regulations similar to those of public telephone service to voice over IP. Companies from the computer sector, however, supported having less regulation over this service.

The resulting regulation, Rule No. 484, regarding voice over IP services was published in the Official Gazette on June 14, 2008. Rule No. 484 was generally similar to the proposed regulations described above.

Public Inquiry on “Bill Amending Law No. 18,168 (the General Telecommunications Act) to Create a Panel of Experts to Resolve Disputes Arising in the Telecommunications Industry”

On September 6, 2006, Subtel announced a public inquiry on a bill to create an expert committee, made up of seven professionals, to resolve disputes in the telecommunications industry. 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

attorneys named by the Antitrust Commission), and the areas where it lacks jurisdiction. The costs of the panel would be borne by the concessionaires 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 duly submitted its proposal and comments, along with Movistar, Telmex, Telefónica del Sur and Telcoy, GTD, VTR, Entel, SOFOFA, Colegio de Ingenieros, and Instituto Libertad y Desarrollo.

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On April 29, 2008, the Government presented a bill before the National Congress in order to create the expert committee.

Public Inquiry on “Creation of an Office of Superintendent of Telecommunications”

This bill aims at modifying the Telecommunications Law in order to create a jurisdictional separation between the setting of telecommunications policy and the monitoring and punitive preventive control of market operations. As of January 31, 2009, no bill had been presented before the National Congress on this matter.

Public Inquiry on “Amendment of License Regime”

This bill aims to give network operators and service providers a set of rules to eliminate bureaucratic procedures when initiating services. In view of technological advances leading to a convergence of networks and services, the proposed system is designed, among other issues, to replace the license and permit granting procedures currently required prior to initiating service. The new registration-based system would make it necessary to register before telecommunications service can be provided, but would eliminate the need for prior approval from regulatory authorities unless the service involves exclusive use of the radio spectrum.

In addition, this bill:

- establishes differences between network operators and service operators;
- eliminates local and domestic long distance separation and domestic LD multicarrier, keeping it only for international LD;
- amends the freedom to determine service areas by providing that service areas originally listed upon registration may not be reduced;
 - defines broadband as a “telecommunications service”;
 - provides for higher penalties by increasing fines; and
- shortens the period for addressing service supply requests from two years to six months.

As of January 31, 2009, no bill had been presented before the National Congress on this matter.

Network Neutrality Bill

Aimed at ISPs and telecommunications access providers, the Network Neutrality Bill, among other provisions, contains the prohibition against blocking, interfering with, discriminating against or hindering the ability of users to access, utilize, send, receive or offer any legitimate content, application or service through the Internet; requires access providers and ISPs to take action designed to ensure user privacy, virus protection and network security; and sets a 90-day period for Subtel to issue regulatory provisions for operating issues and identify practices restricting the free use of content or services. This bill is now at its second constitutional stage. Telefónica Chile has submitted a report, including comments and proposals, to the Senate Public Works, Transportation and Telecommunications Committee, including comments and proposals.

Digital Connectivity

In 2007, Telefónica Chile jointly executed a Digital Connectivity Agreement with Subtel, Fundación País Digital, fixed and mobile telephony licensees, LD carriers, the Mobile Telephony Association and the Association of Internet Providers. By setting goals aimed at improving telecommunications service coverage, the agreement seeks to enhance collaborative efforts toward significantly reducing the digital gap. Goals include facilitating communications for the general public, attaining two million broadband access points, connecting 100% of rural schools, providing access to telecommunications services to 95% of the country's rural population, and driving the country's productive development through information and communication technologies.

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Telefónica Chile will participate in various work areas described in the Digital Connectivity Agreement. These include: digital connectivity regulations, competition and new technology, the Telecommunications Development Fund and corporate social responsibility, and indicators and tracking.

Bill to Amend the Free Competition Act

In June, 2006, the Government announced a legal initiative seeking to amend the law on free competition to eliminate the implicit risk of 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 (from US\$15 to US\$22 million). This bill is now at its second constitutional stage in the Congress.

Law Project that Modifies the Telecommunications Development Fund

Currently, companies with public and intermediate telecommunications service concessions that offer LD services and companies with limited television service permits may participate in public auctions for the right to develop telecommunications projects financed by the Telecommunications Development Fund, which is financed by the Government. In order to participate in the auctions of this fund, these companies were required to create separate corporations, which are subject to the laws and standards governing publicly traded companies and to the regulation of the Superintendency of Securities and Insurance. On July 12, 2007, Law No. 20,196 was passed, modifying Article 28F of the Ley General de Telecomunicaciones, eliminating the obligation for concessionaires and permit holders of telecommunications services to create separate corporations when participating in public bidding processes of the Telecommunications Development Fund.

C. Organizational Structure

As a result of the tender offers described above, Telefónica Chile is now controlled by TIC, which holds a 97.89% interest. The shareholders of TIC are Telefónica Chile Holding B.V. (99.99%) and Telefónica Internacional Holding B.V. (0.01%), both of which are 100% controlled by Telefónica, a Spanish communications company whose shares are listed on various European, American and Asian stock exchanges. Telefónica's capital stock is widely held and Telefónica does not have a controlling shareholder. Telefónica S.A. also has direct or indirect ownership interests in the following companies that operate in the Chilean market: Atento Chile S.A., Terra Networks Chile S.A., Telefónica International Wholesale Services Chile S.A., Telefónica Móviles Soluciones y Aplicaciones S.A. and Telefónica Móviles Chile S.A.

Subsidiaries and Certain Affiliates of Telefónica Chile

The following chart sets forth the organization of Telefónica Chile's subsidiaries and affiliates, all of which are Chilean corporations, except for TBS Celular Participações S.A., which is a Brazilian corporation. Percentage ownership information is as of December 31, 2008.

Telefónica Chile's business activities are managed through the following operating subsidiaries:

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On October 2008, Telefónica Chile sold the assets and client portfolio of Telemergencia to Prosegur for Ch\$15,563 million (US\$24.4 million). Subsequently, the Company purchased from t-gestiona its .001% interest in Telemergencia, thus gathering 100% of its capital stock, and then dissolved the company as of December 31, 2008.

Subsidiaries and Related Companies

Telefónica Larga Distancia

Telefónica Larga Distancia S.A. (“Telefónica Larga Distancia”), formerly Telefónica Mundo S.A., a subsidiary formed in 1989, is the Company’s domestic and international long distance subsidiary carrier. See “—Business Overview—Licenses and Tariffs—The Tariff System—Multicarrier System” and “—Business Overview—Licenses and Tariffs—License Government granted Telefónica Larga Distancia licenses to provide domestic and international long distance services with its own equipment effective August 27, 1994.

On October 14, 1998, Telefónica Chile completed its acquisition of 99.9% of the equity securities of VTR Larga Distancia, a telecommunications company offering data transmission and domestic and international long distance services throughout Chile. The LD business of VTR Larga Distancia was transferred to a newly created subsidiary, Globus, and the data transmission business of VTR Larga Distancia was later absorbed by Telefónica Empresas, the subsidiary which largely forms the Company’s corporate customers communications and data business area. In 2006, Telefónica Larga Distancia was formed out of the merger of Globus and Telefónica Mundo.

Telefónica Larga Distancia currently operates the most extensive fiber-optic network in the country, stretching from Region I (the Peruvian border) to Region XII (Punta Arenas), including connections to Peru and Argentina. In 2006, a new tranche of the network was inaugurated from Region X (Osorno) to Region XII, passing through Argentina between Aduana Pajaritos (Region X) and reaching Cerro Redondo and Punta Arenas in Region XII. In 2007, this connection was complemented with a new fiber optic link between Aduana Pajaritos and Puerto Natales (XII Region). Telefónica Larga Distancia also operates digital satellite and microwave links. In addition, Telefónica Larga Distancia participates actively in the development and use of submarine fiber-optic networks such as Unisur, Americas II, Atlantis II, Panamericano, Maya I, TPC-5, Pencan 5, Taino Caribe, Sea Me We-3 and SAM-1 (TIWS), and in the Hispasat, Intelsat and Telesat (formerly Loral Skynet) satellite systems.

Telefónica Empresas

In 1992, Telefónica Empresas Chile S.A. (“Telefónica Empresas”) began operating Telefónica Chile’s private telecommunications services (including data transmission, and the sale and rental of networks and equipment) and managing the Company’s large business and institutional customer accounts.

Telefónica Multimedia

In February 2006, the Tecnonáutica subsidiary changed its name to Telefónica Multimedia, extending its corporate purpose to television services. This subsidiary is responsible for developing, installing, maintaining, marketing, and operating cable, satellite and regular or broadband television services using any physical or technical media, including basic, special or paid individual or multi-channel services, video on demand, and interactive or multimedia television services.

t-gestiona

On August 1, 2001, Telefónica Gestión de Servicios Compartidos Chile S.A. (“t-gestiona”) began operations. This subsidiary is responsible for the provision of support services to other business areas of the Company, including

logistics delivery, e-learning, fund management, insurance, collection, personnel, tax, real estate administration and general services.

Instituto Telefónica

In November 2006, a former Telefónica Chile subsidiary, Telepeajes, changed its name to Instituto Telefónica Chile and also changed its corporate purpose to training under the terms set forth in Law No. 19,518, including training in private security matters.

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Atento Chile

Atento Chile S.A. (“Atento Chile”) was created on May 5, 1999. Currently Telefónica Chile holds 28.84% (27.41% directly and 1.43% indirectly) of this affiliate, which operates an integrated global call-center business platform among its members. Atento Chile offers Telefónica Chile directory assistance, technical assistance and customer complaint management, as well as general commercial and sales information.

Teleemergencia

Telefónica Asistencia y Seguridad S.A. was created in 2001 to offer security services through alarm monitoring systems connected to the phone line, as well as home assistance services. This subsidiary was dissolved as of December 31, 2008.

Fundación Telefónica

Fundación Telefónica Chile (“Fundación Telefónica”) has existed since 1999 when it was created to contribute to the improvement of living conditions for the most vulnerable social groups, encouraging the development of education and equal opportunity by applying new information technologies to the learning process. The equity interest of Telefónica Chile in this subsidiary amounts to 50.0%.

TBS Celular

The primary purpose and activity of TBS Celular Participações S.A. (“TBS Celular”) is to hold the shares of Companhia Riograndense de Telecomunicações (“CRT”) acquired through an international bidding process conducted pursuant to Edital COD 04/96 or any other shares that may be offered in the future. In addition, TBS Celular performs any and all activities pertaining to the management of CRT, as well as to acquire an interest as a partner or shareholder in other companies in connection with its primary activities. The ownership interest of Telefónica Chile in TBS Celular is 2.61%.

In February 2006, CRT merged with Vivo Participações S.A. (formerly Telesp Celular Participações S.A.); therefore, Telefónica Chile indirectly holds 0.124% of Vivo Participações S.A. through TBS Celular.

D. Property, Plant and Equipment

The principal plant and equipment of the Company consists of outside plant and switching equipment and operating units that are located throughout the country. Furthermore, there is an extensive network consisting of 707 central switches linked by 58,500 kilometers of copper cabling and 7,500 kilometers of local fiber optic cabling. This represents 3.0 million lines, of which 2.1 million are in service. Within the xDSL broadband network, the Company has deployed 1,800 broadband nodes (DSLAM) with capacity to serve roughly 900,000 clients. In addition, in June 2006, Telefónica Chile launched a new satellite digital television service which by the end of 2008 had 262,957 clients with an average of 2.1 set-top boxes per home. Additionally, Telefónica Chile’s LD subsidiary currently owns the longest LD fiber-optic network in the country (4,450 kilometers), which includes connections to Peru and Argentina.

The Company’s land and buildings principally consist of its telephone exchanges and other technical, administrative and commercial properties. As of December 31, 2008, the Company’s telephone plants and equipment represented 71.7% of its gross fixed assets (including depreciation), construction in progress represented 2.0%, land and buildings represented 20.2%, and furniture, office equipment and other assets represented 6.2%.

Substantially all of Telefónica Chile's telephone exchanges are situated within buildings owned by the Company. Telefónica Chile also owns its corporate headquarters located at Avenida Providencia 111 in Santiago. This building, which houses the Company's principal offices, was completed in October 1996 and currently provides office space for the majority of the administrative and technical staff of Telefónica Chile and its subsidiaries. The assets of Telefónica Chile and its subsidiaries are insured, subject to standard deductibles and other terms and conditions, for all events of physical damage and loss of revenue resulting from service outages. As of December 31, 2008, the value of the assets and operating revenue insured totaled approximately Ch\$1,679,095 million (US\$2,638.2 million), which consisted of Ch\$1,100,943 million (US\$1,729.8 million) in insured assets and Ch\$578,152 million (US\$908.4 million) in insured revenues.

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ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The information in this Item 5 should be read in conjunction with the Company's Audited Consolidated Financial Statements and the notes thereto included elsewhere in this Annual Report.

Since January 1, 2008, the Company's consolidated financial statements are and will be prepared in accordance with the International Financial Reporting Standards as published by the International Accounting Standards Board (IASB).

The Company's consolidated financial information as of and for the year ended December 31, 2007 included in the Company's annual consolidated financial statements was restated in accordance with IFRS. See Note 3 to the Audited Consolidated Financial Statements of the Company.

As permitted by IFRS, the Company maintained the restatement of adjustments since January 1, 2004, the same date used as the transition date to IFRS by Telefónica, the Company's parent company.

IFRS differs in certain significant respects from Chilean GAAP. As a result, the Company's financial information presented under IFRS is not directly comparable to its financial information presented under Chilean GAAP, and readers should avoid such a comparison.

IFRS No. 1 provides for certain exemptions from full retrospective application of IFRS in the opening balance sheet. See Note 3 to the Audited Consolidated Financial Statements of the Company for a discussion of the exceptions elected by the Company.

Overview

Telefónica Chile is the largest local telephony operator in Chile. The Company provides a broad range of telecommunications services throughout Chile, including local telephone service, domestic and international long distance service, data transmission, broadband access and services, dedicated lines, terminal equipment sales and leasing, public telephone service, interconnection services, certain value-added services and pay television service.

To strengthen the Company's leadership in broadband growth, in 2008 Telefónica Chile reinforced its commitment to putting Chile on the path to communications levels similar to those of developed countries, investing over US\$150 million in the deployment of broadband technologies, high-speed networks, data services and information technologies. Additionally, the Company strengthened its bundled offers, which include the "Dúo", combining broadband services and fixed telephone service, and "Trío," combining broadband services, fixed telephone service and pay television service. This strategy has strengthened client loyalty and new service adds, increasing the revenue per customer.

Several factors that influence the Company's financial results are described in "—Trend Information" below.

Critical Accounting Policies

Significant accounting principles, as well as significant estimates, judgments and assumptions in applying those principles, are described in detail in the notes to the consolidated financial statements. See Note 2 to the Audited

Consolidated Financial Statements of the Company.

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A. Operating Results

Figures in the following discussion are expressed in millions of Chilean pesos of their corresponding period.

	For the years ended December 31,		
	2007	2008	2008
	(in millions of Chilean pesos for the years ended December 31)		(in millions of U.S. dollars)
Revenues	696,300	738,731	1,161
Fixed Telephony	533,271	553,530	869.7
Telephony (Voice)	330,210	332,891	523.0
Broadband	94,335	115,139	180.9
Access Charges	54,275	58,599	92.1
Complementary Services	54,451	46,901	73.7
Television Services	25,274	39,235	61.6
Corporate Customers Communications and Data	79,390	88,480	130.0
Long Distance	56,045	55,697	87.5
Others	2,320	1,789	2.8
Other Operating Income	9,059	28,131	44.1
Personnel expenses	(86,268)	(101,028)	(158.7)
Depreciation and amortization	(181,590)	(167,573)	(263.3)
Other miscellaneous operating expenses	(357,908)	(411,078)	(645.9)
Financial expenses (net)	(11,044)	(27,009)	(42.4)
Participation in profits of associates accounted for using the equity method	1,783	1,607	2.5
Foreign currency exchange differences	(29,793)	(7,504)	(11.8)
Profit before taxes	40,536	54,276	85.3
(Income) on tax on profits	(8,980)	(6,369)	(10.0)
NET PROFIT	31,556	47,907	75.2

Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Operating Revenues

Operating revenues increased by 6.1% to Ch\$738,731 million (US\$1,160.7 million) in 2008 from Ch\$696,300 million in 2007. This growth resulted mainly from increased revenues from broadband, pay television and corporate communications which grew 22.1%, 55.2%, and 11.4%, respectively, compared to 2007. This increase was offset by decreased revenues from complementary services and LD which declined 13.9% and 0.6%, respectively, compared to 2007.

Other Operating Income

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Other operating income increased 210.5% to Ch\$28,131 million (US\$44.2 million) in 2008 from Ch\$9,050 million in 2007, mainly explained by the sale of the security services subsidiary, Teleemergencia S.A., that generated a gain of Ch\$15,500 million (US\$24.4 million) in the period.

Expenses