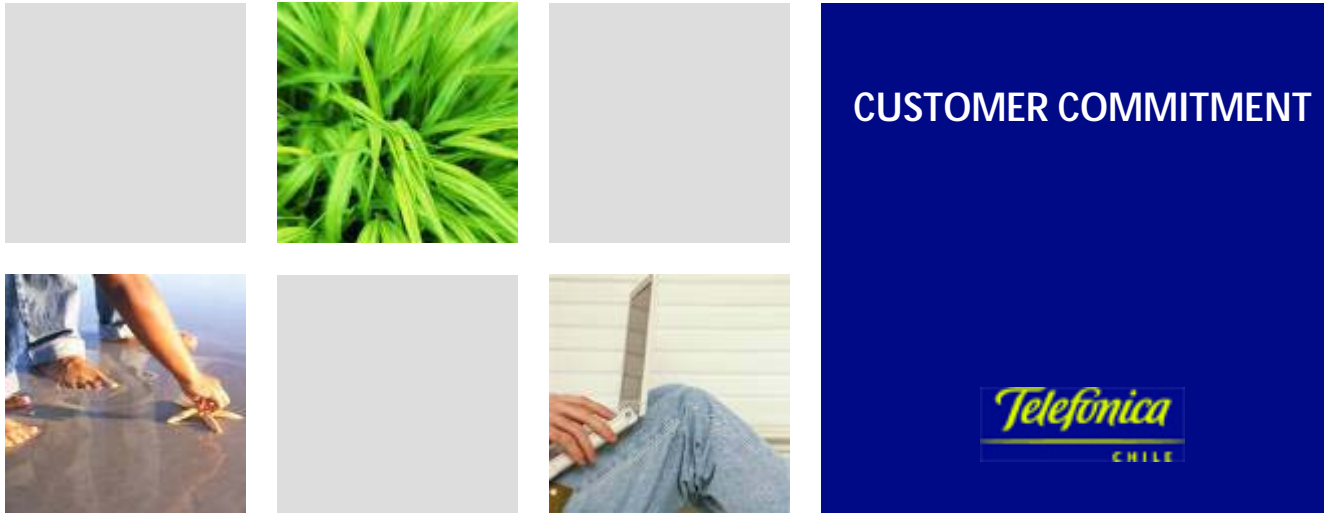


# UBS Conference



**Telefonica Chile**

**November 15, 2006**

| Telefónica Chile S.A.

*15 years on the NYSE  
125 years of history in Chile*



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## Legal Notice

This presentation contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1996, including but not limited to Compañía de Telecomunicaciones de Chile S.A.'s expectations for its performance. Forward looking statements may also be identified by words such as "believes", "expects", "anticipates", "projects", "intends", "should", "seeks", "estimates", "future", or similar expressions. The forward-looking statements included in this news release are based on current expectations, but actual results may differ materially from anticipated future results due to various factors many of which are beyond the control of Compañía de Telecomunicaciones de Chile S.A. and its subsidiaries. Certain factors which could cause the actual results of Compañía de Telecomunicaciones de Chile S.A. and its subsidiaries to differ materially from the expected results include, among others, changes in Chile's regulatory framework, impact of increased competition and other factors beyond Compañía de Telecomunicaciones de Chile S.A.'s control



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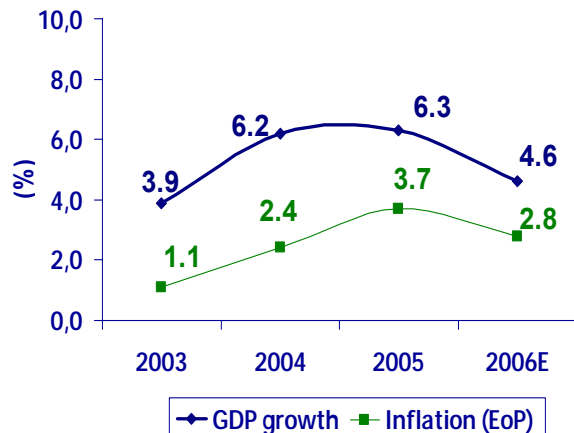
- Economic Environment & Industry
- The Company & Strategy
- Businesses
- Financials

# Chilean Macroeconomic Estimates

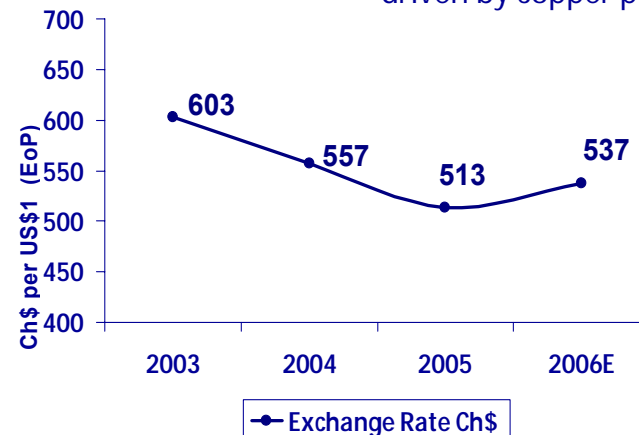


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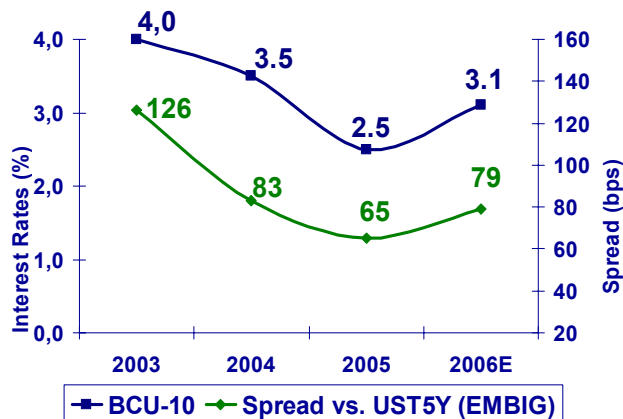
GDP & Inflation → Solid growth rate & controlled inflation



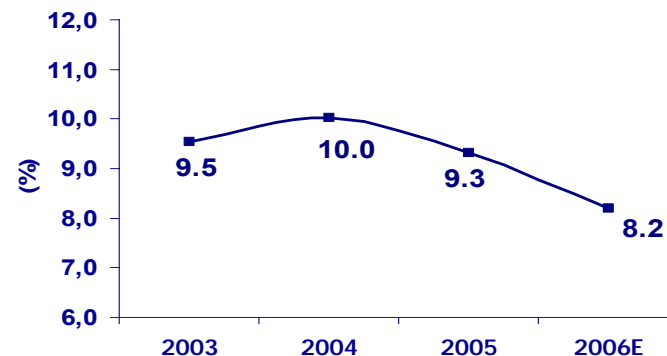
Exchange Rate → Peso appreciation driven by copper prices



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



Unemployment → Gradual reduction of unemployment



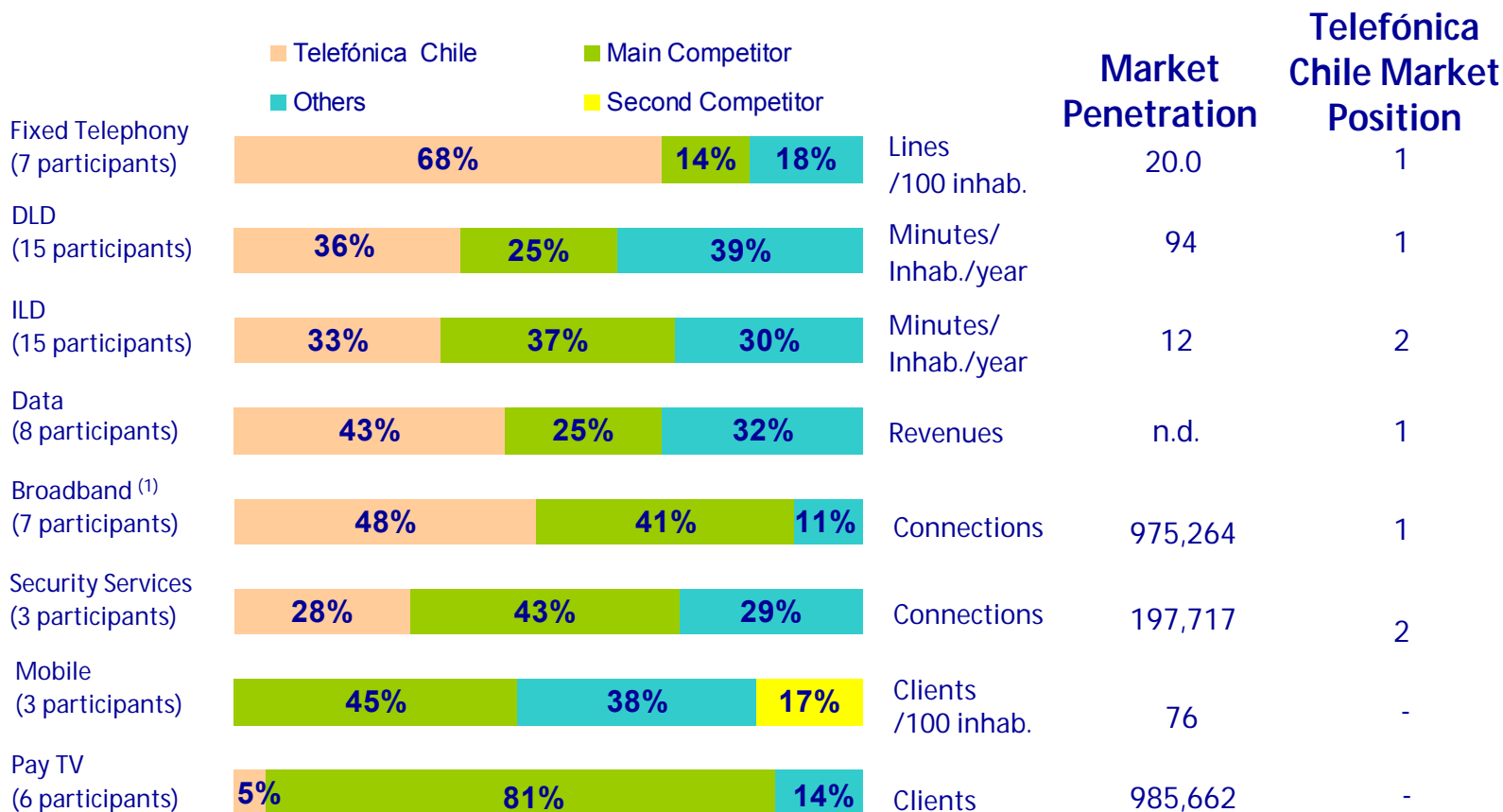
Source: T. Chile internal estimates (10.31.06)

# Competition in the Chilean Telecom Industry



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Telefónica Chile's market share vs. competitors as of 09/ 30/ 2006



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

Source: Telefónica Chile estimates  
Telefónica Chile S.A.  
[www.telefonicachile.cl](http://www.telefonicachile.cl)

# Regulatory Framework



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## Telecommunications Law

- Price regulation for public telecommunication services **only when Antitrust Commission defines that there is not enough competition.**
- Telefónica Chile services subject to tariff regulation: local service, public telephone service, line connections and network unbundling services
- Tariff regulation of maximum prices for interconnection services is **mandatory for all industry operators**
- **Maximum tariffs are fixed every 5 years**

## Tariff Decree (2004-2009)

- Establishes **maximum tariffs for May '04-May '09 for regulated services of Telefónica Chile**
- Published in February 2005 and applied retroactively.
- New tariffs had a **mild impact (+0.4%)** on regulated revenues vs. the previous tariff decree.

## Tariff Flexibility

- Following Company initiatives to deregulate local telephone rates, in February 2004, **tariff flexibility was authorized, allowing Telefónica Chile to offer plans other than the regulated plan**

Current Government's  
vision of the industry  
looks to:

- **Promote competition, service quality, consumer satisfaction and minimum necessary regulation.**
- **Assure increased connectivity, convergence of networks, universal access to telephony and reduced digital social gap**



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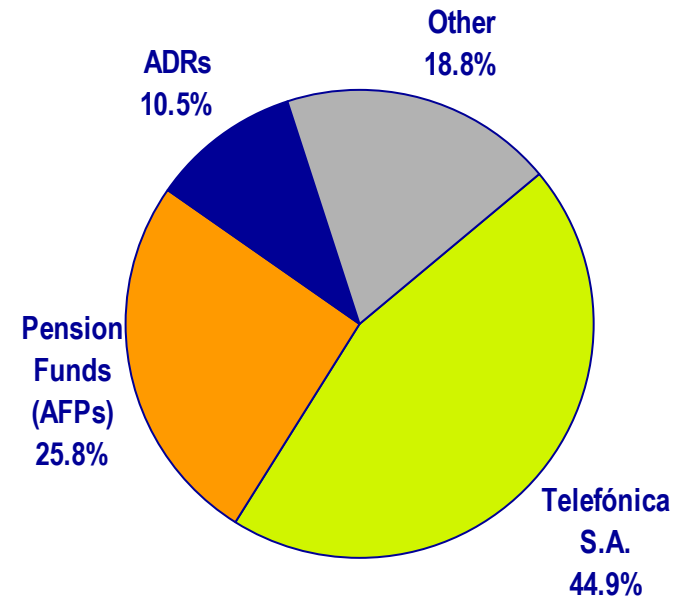
# Company Highlights and Ownership Structure



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- One of the main operators in the industry with a Market Capitalization of BUS\$1.80 (as of 10.31.06)
- Participates in local telephony, broadband, pay TV, long distance and data transmission businesses
- In 2005, T. Chile generated revenues of BUS\$1.13 and EBITDA of MUS\$554
- Consolidated debt/equity of 0.78 and interest coverage of 16.2 (as of 09.30.06)
- Current international debt ratings:
  - Fitch: BBB+/Stable Outlook
  - Moody's: Baa1/Stable Outlook

## Ownership Structure (as of 10.31.06)







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# The Company's Strategic Evolution: Redirecting the Focus

- Industry-wide challenges facing traditional business:
  - ✓ Voice Cannibalization (mobile, Internet)
  - ✓ Strong competition in high income segments
  - ✓ Regulatory restrictions
- Focus 2000-2004: Cutting costs
- Focus 2004-forward: **growth through new sources of revenue and operating excellence**

# Strategic Drivers Ensure Transformation Success



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## Innovation

New launch of satellite pay TV service with unique flexible offer; IPTV to launch Q107

## Integration

Bundling services: Flexible plans and integrated offers (+101% yoy); Rapid growth in ADSL (+73% yoy)

## Productivity

Early agreements reached with unions  
→ 94% unionized employees  
→ 2,141 employees

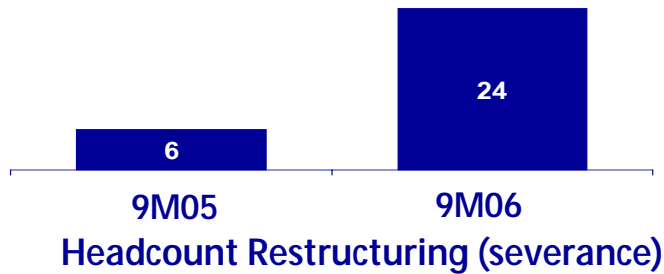
## Quality

Information systems upgrade (SAP, CRM software), increased capacity of call centers

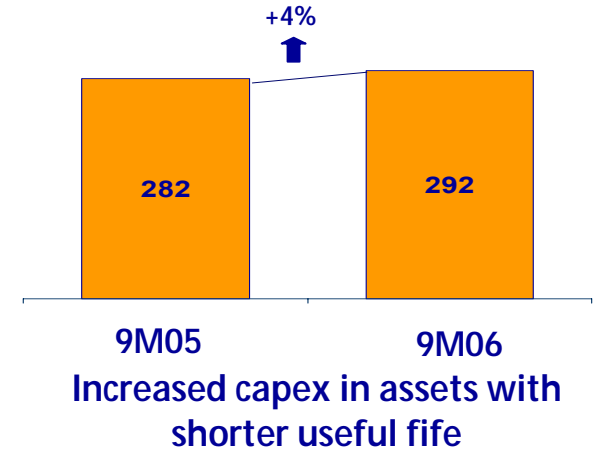
# Transformation process is affecting results in the near term

(Millions of US\$)

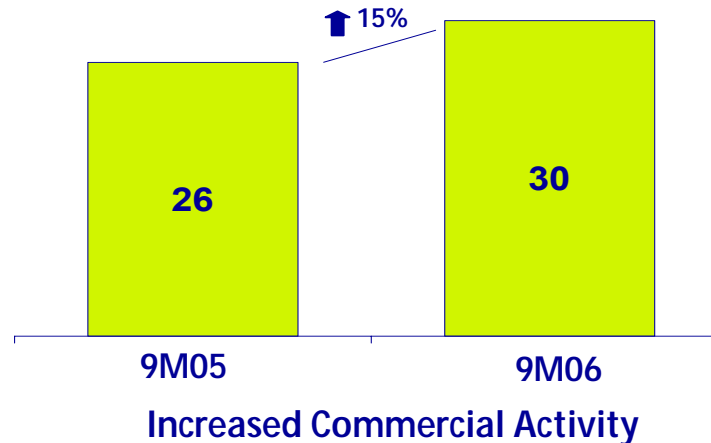
## Restructuring Costs



## Depreciation



## Sales Costs & Commissions



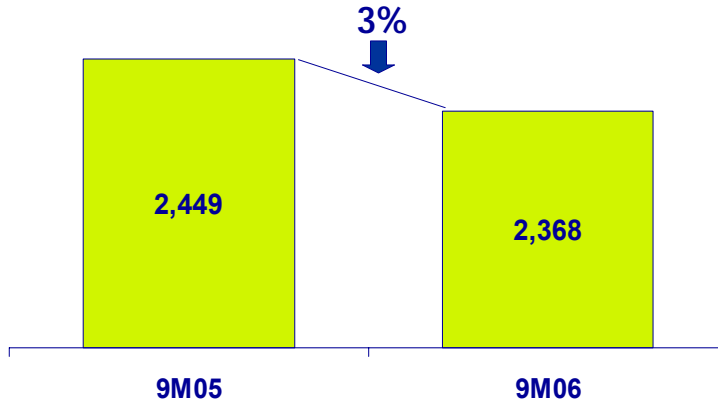
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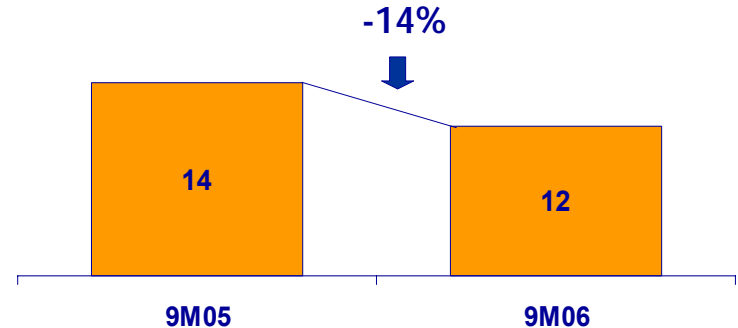
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# ...in an increasingly competitive market...

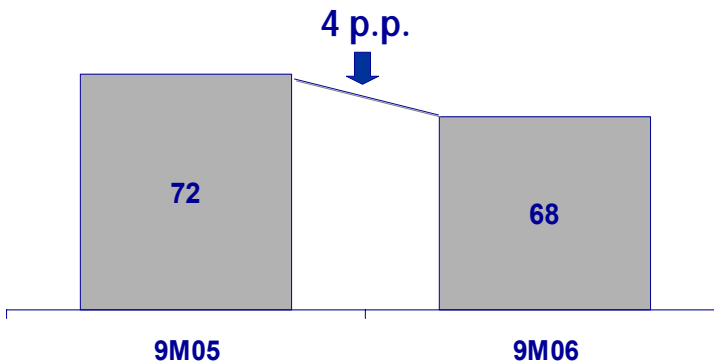
Avg. Lines in Service (000's)



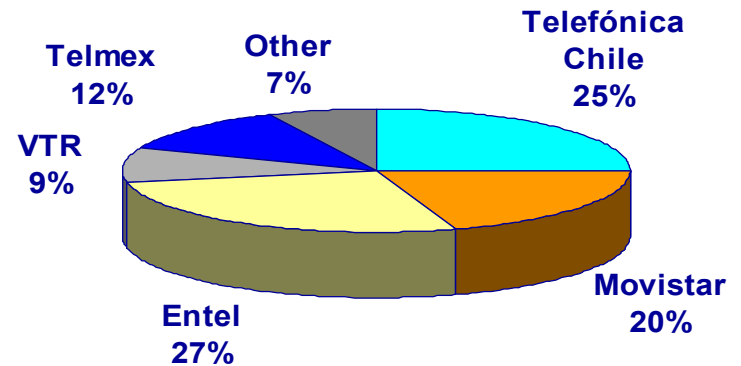
Avg. Fixed Traffic per Line (minutes/day)



Market Share (% of lines)



Telecom. Industry Revenue Breakdown\* (%)



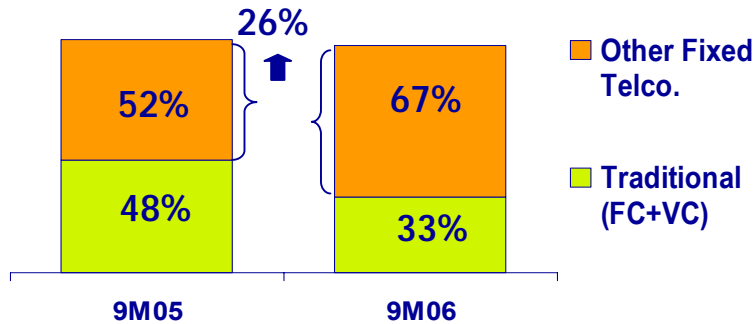
\* Note: '05 figures, including Pay TV and only Chilean operations  
Source: public filings



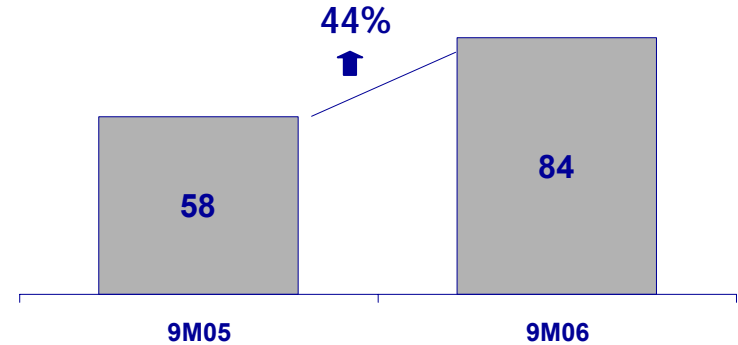
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# ...but our strategy is beginning to show positive results

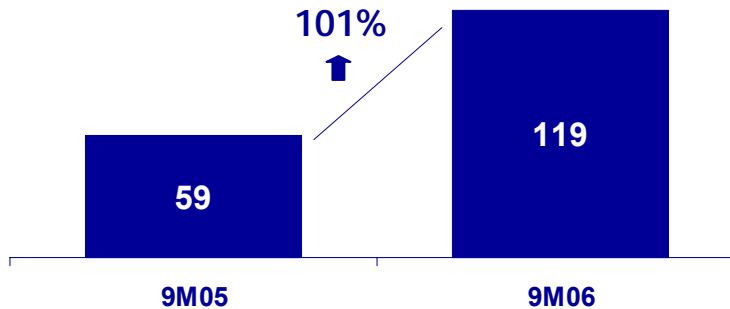
Change in Mix of Fixed Telecom Revenue



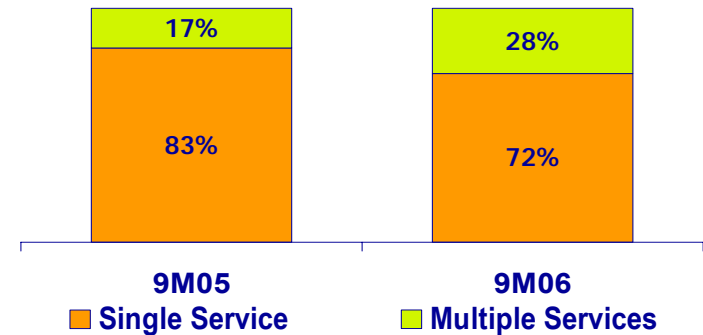
ADSL Revenues (million US\$)



Flexible Plan Revenues (million US\$)



Total Company Clients

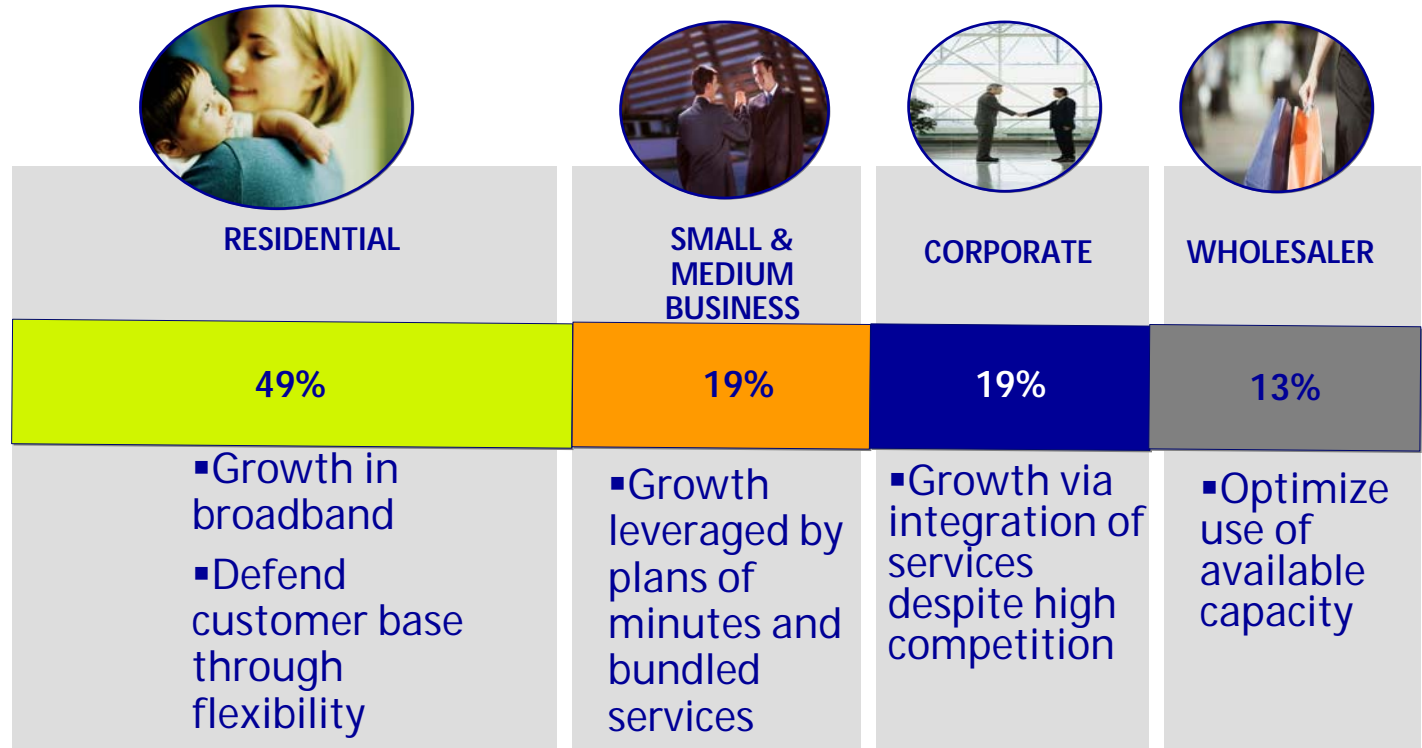




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# Segmentation, Bundled Services and Superior Service are Key to Defend Client Revenues

% of Consolidated Total Revenues by customer segment:



Through increased segmented bundled service offerings, client loyalty is strengthened and competitiveness improves



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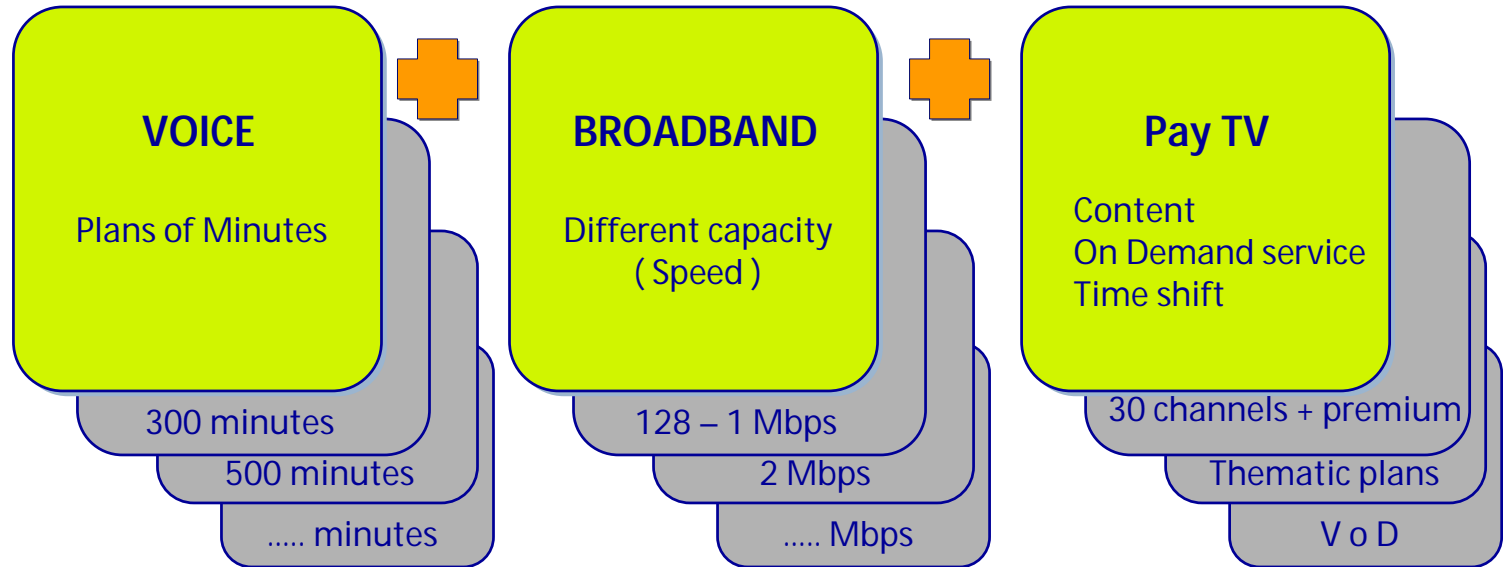
## *15 years on the NYSE 125 years of history in Chile*

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# Telefónica Chile: Our Businesses



A shift towards the integration of Voice, Broadband and Home Entertainment services (Pay TV)



# Bundling and flexibility: A new look at basic telephony



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- Basic telephony decreases due to lower traffic.
- However, decreases are **substantially offset by strategic migration of clients to flexible plans** and additional services through bundling.

	<u>9M06</u>	<u>Var.9M06/9M05</u>
<u>Basic Telephony revenues (US\$ mill):</u>	<b>377.8</b>	<b>-11.9%</b>
Plans of minutes (Flexibility)	118.8	+101.4%
Fixed charge+ Variable charge	208.1	-32.6%
Other basic telephony	50.9	-16.9%
<i>Traffic per line/day (minutes)</i>	12	-14%
<u>ADSL + TV revenues</u>	<b>85.6</b>	<b>+46.9%</b>

## Flexible Plans (clients):



Basic telephony revenues represented 46.6% of consolidated revenues in 9M06



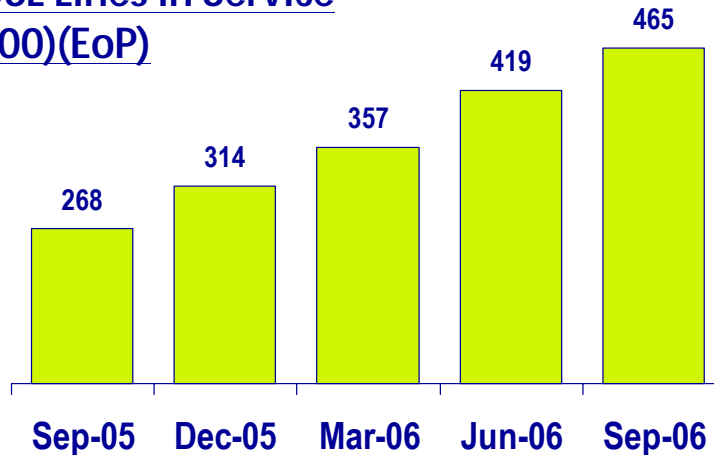
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# Broadband (ADSL): Growth and Market Leadership

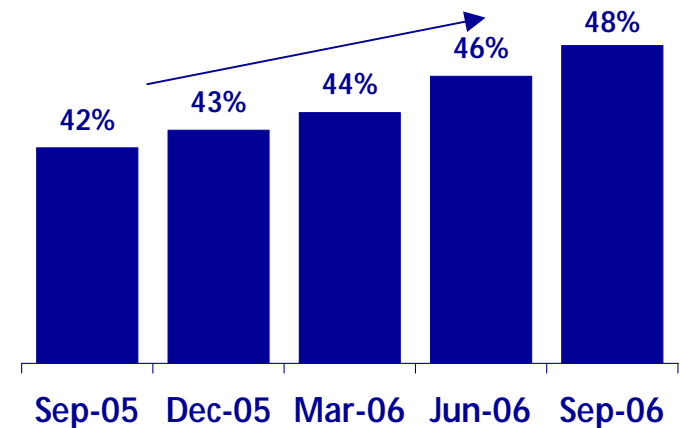
- Increasing growth rates driven by bundling of services
- Leadership in market share  48%\* as of 09/30/06

\* Download speeds over 128 Kbps

### ADSL Lines in Service (‘000)(EoP)



### ADSL Market Share



Annual Growth:	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06
	49%	57%	61%	69%	73%

**Broadband (ADSL) revenues contributed 10.4% to 9M06 consolidated revenues**



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# Telefónica Digital TV : A Flexible Offer

## Base Plan:

- 24 pay channels plus 6 local channels
- Antenna, Set-top box and remote control
- On-screen programming guide
- Parental Controls
- Program search and alarm
- Access to pay per view



## Movie-Family-World:

- 3 thematic plans with 10 channels each, among others.



## Premium Movies:

- 12 combinations of channels, among others:



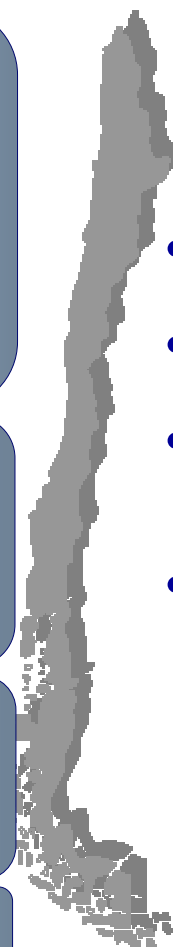
## Sports:

- 2 premium sports channels:



Discounts for additional plans

- Nationwide Coverage
- Digital Quality
- Flexibility in content and pricing
- Bundled services (Dúos & Tríos) with voice and broadband (ADSL)



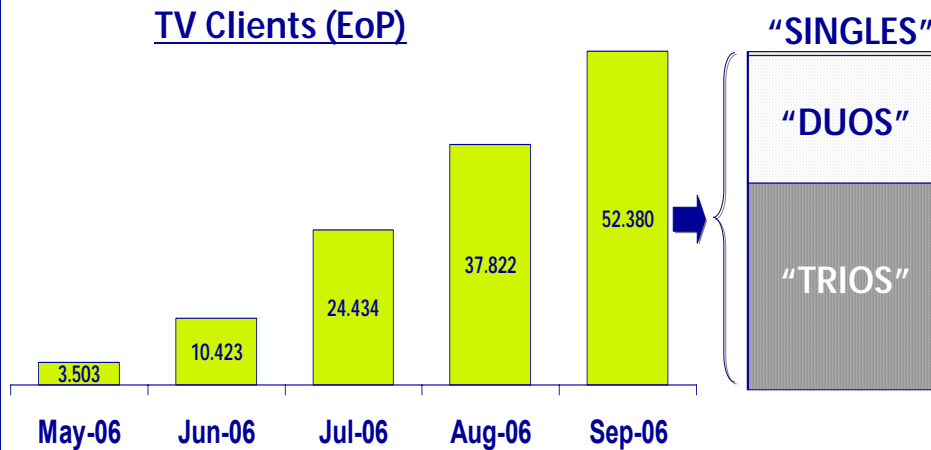
## Solid Customer Base:

2.2 million fixed telephony customers  
465,000 ADSL customers



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# Telefónica Digital TV



Official Launch: June 14, 2006



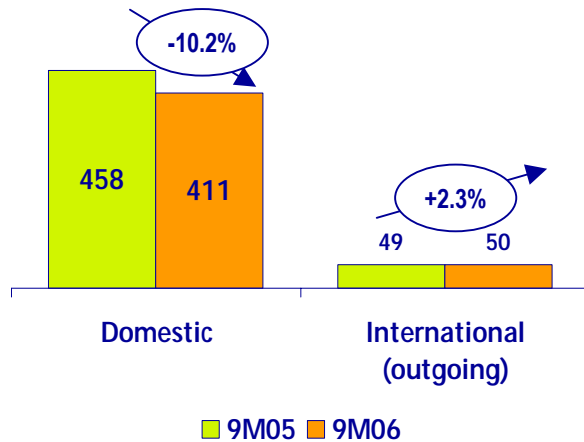
- 99% of customers bundle with voice ("Duo") or with voice + ADSL ("Trio")
- 65% of customers order the basic plan with additional packages of channels
- 75% of customers are existing T. Chile voice clients
- 58% of customers are entrants to pay TV industry



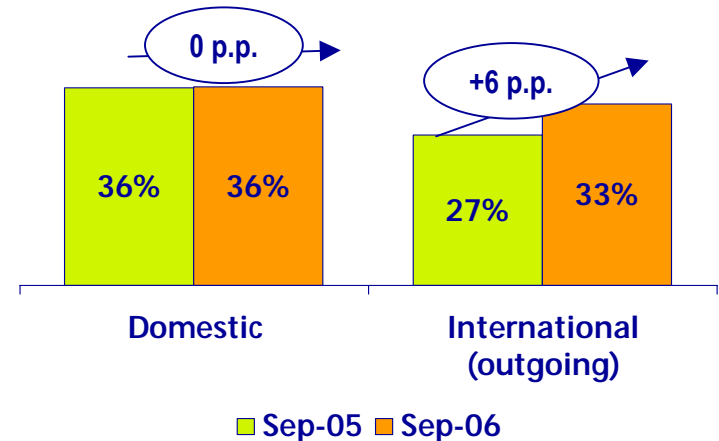
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# Long Distance business mitigates negative industry trends

Long Distance Traffic  
(millions of minutes)



Long Distance Market Share



- Taking advantage of existing infrastructure (no new investments are required), while continuing to generate cash
- Increased market share and cost efficiency in the face of declining industry traffic trend

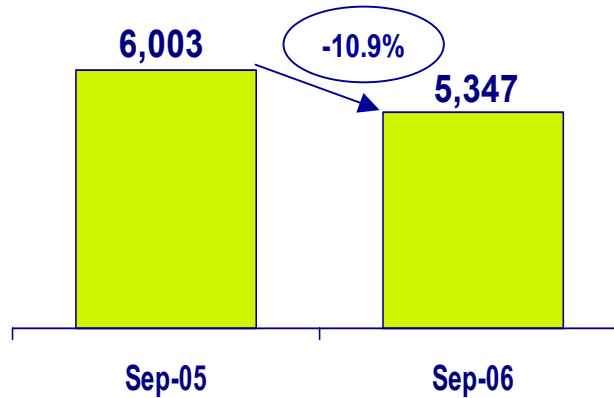
LD revenues contributed 10.1% to 9M06 consolidated revenues

# Corporate Communications affected by ongoing price competition

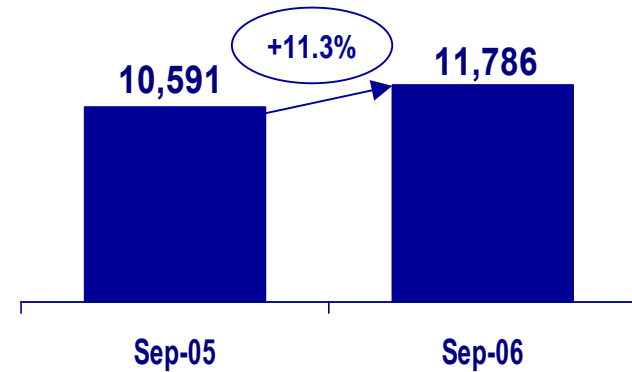


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Datared Clients



Dedicated IP Clients



- Migration to new technologies and new projects, such as the Health Ministry, will help offset revenue decrease of traditional technologies
- Continued price competition within the industry
- Leverage synergies within the Latin America Telefónica Group, strengthening regional approach in order to serve global clients

Corporate Communications revenues contributed  
12.9% to 9M06 consolidated revenues

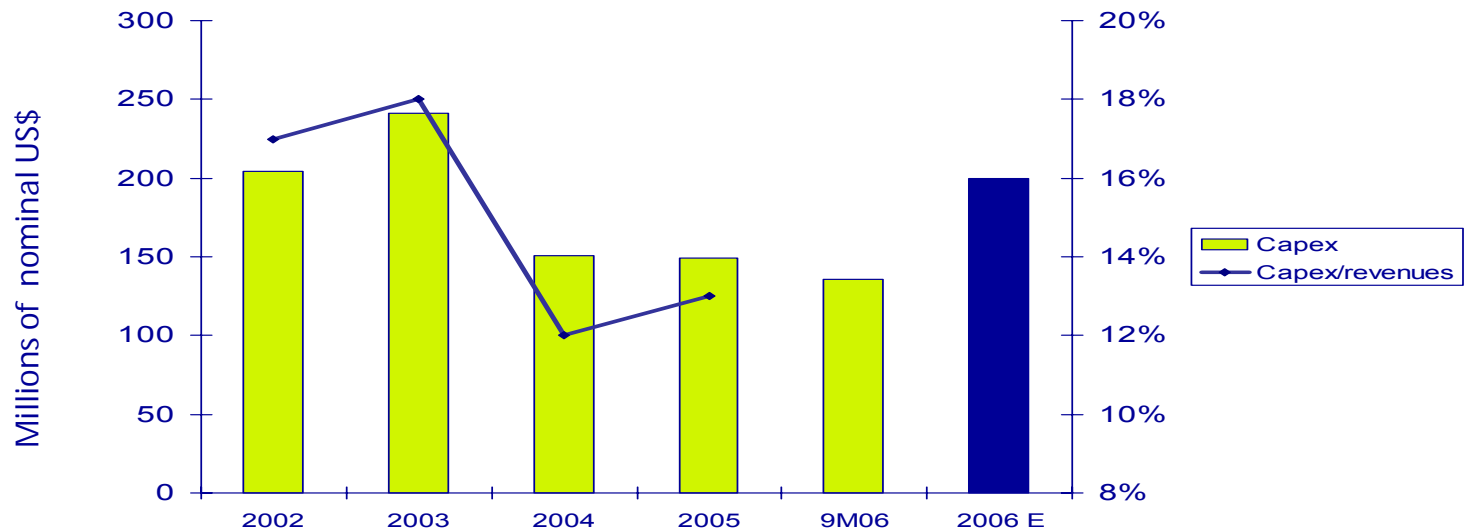


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# Profit-Oriented Investment Plan Drives Strategic Growth

	2005	9M06	2006E
Fixed Telephony	27	27	34
Broadband & TV	44	56	103
Data	32	28	30
Long Distance	1	0	2
Other	45	25	31
<b>TOTAL</b>	<b>149</b>	<b>136</b>	<b>200</b>

- Focus on ADSL and TV
- TV Capex includes set-top boxes, antenna, among others.
- "Other" includes capex for improving internal management systems



Note: '06 estimates in US\$ as of 12.31.05 (Ch\$ 512.5/US\$1)



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## *15 years on the NYSE 125 years of history in Chile*

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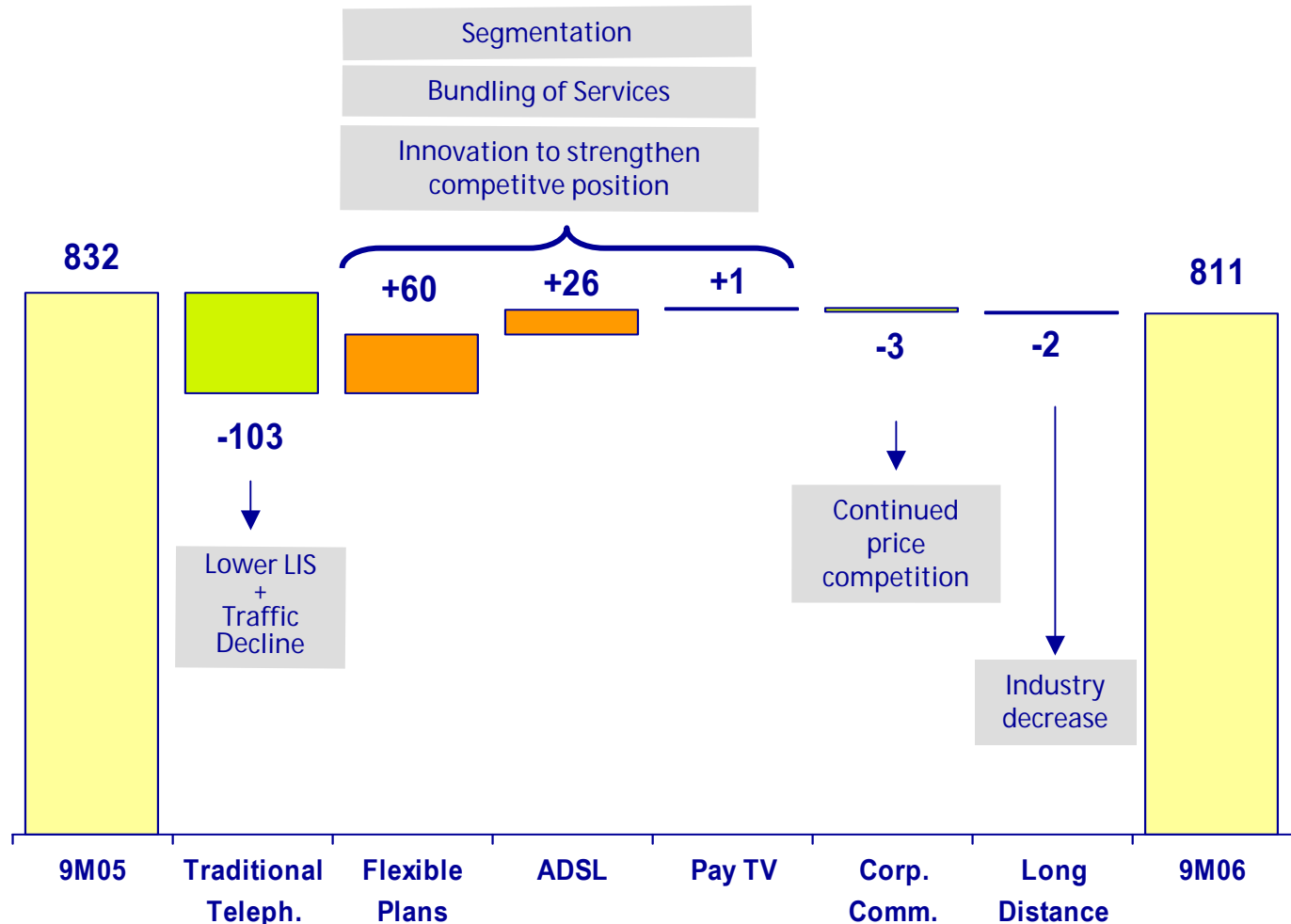
# Bundled Services and Segmentation Stabilize Revenues



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Revenues 9M06/9M05 (million US\$)

-2.6%





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# Cost Efficiencies Contribute to Improved Productivity

## ▪Headcount restructuring:

- ✓307 people in 2006
- ✓(-11.8% 1H06/1H05)

## ▪Collective bargaining process in 2006

- ✓44% of headcount renewed agreements until 2009
- ✓Stable wages (annual adjustment = CPI)

## ▪Information Systems upgrade underway

- ✓SAP. Accounting system
- ✓ATIS and @tiempo. Billing and Client systems

## ▪Debt reduction

- ✓17.7% reduction Dec. 2005-Sept 2006

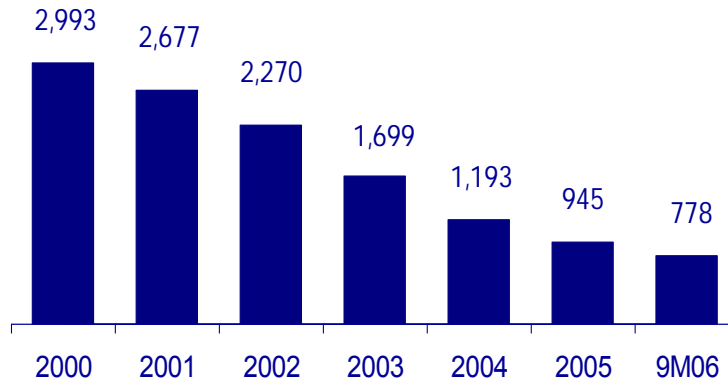


# Significant Debt Reduction



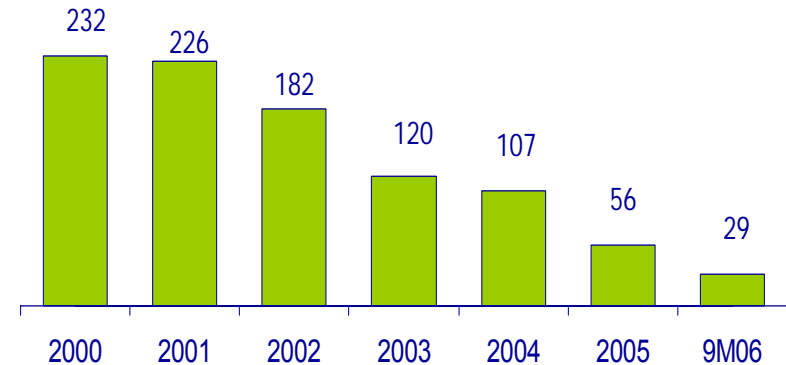
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### Financial Debt (MUS\$)



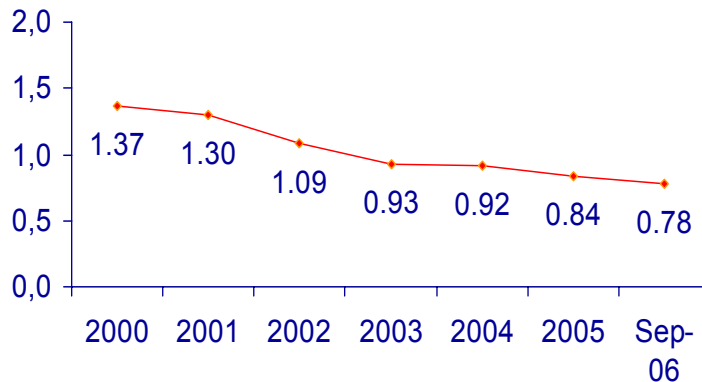
Debt Reduction: Dec '00 / Dec '05 = **-68%**

### Financial Expenses (MUS\$)

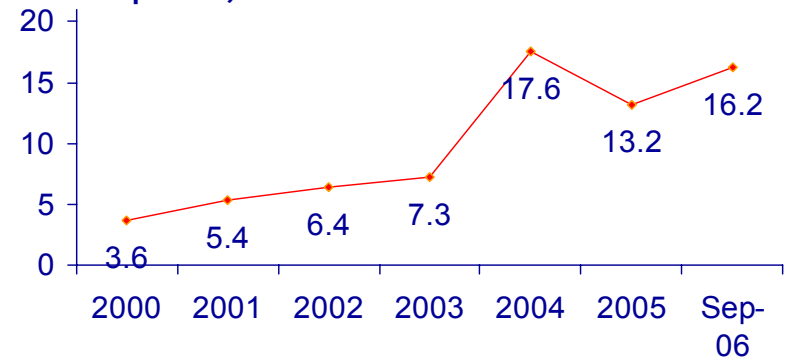


Fin. Expenses Reduction: Dec '00 / Dec '05 = **-76%**

### Leverage (Debt/Equity)



### Interest Coverage Ratio (EBITDA/Interest expenses)

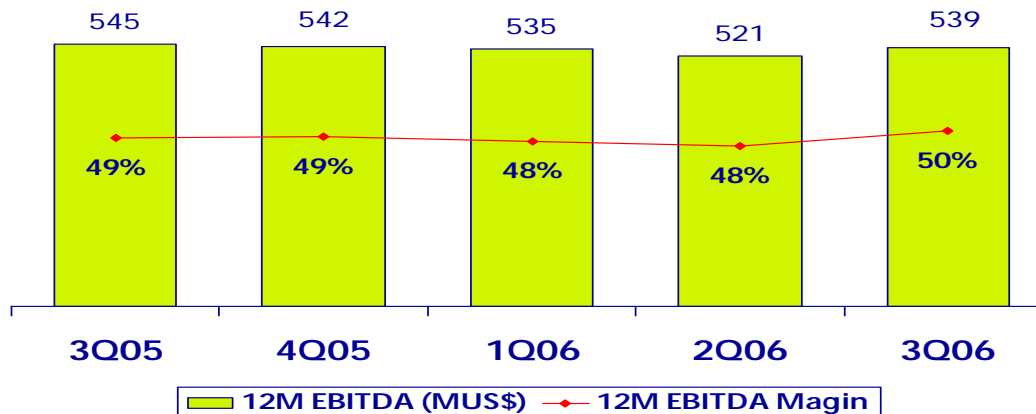


# Transformation Strategy Maintains Stable Level of EBITDA Generation



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<i>In millions of US\$ as of 9/30/06</i>	9M06	9M05	Var. 9M06/05
<b>OPERATING REVENUES</b>	811.1	832.7	-2.6%
<b>OPERATING RESULTS</b>	114.6	127.7	-10.3%
<i>Operating Margin</i>	14.1%	15.3%	-1.2 pp
<b>EBITDA</b>	406.8	409.3	-0.6%
<i>EBITDA Margin</i>	50.2%	49.2%	1.0 pp
<b>NON-OPERATING RESULTS</b>	(37.5)	(38.1)	-1.8%
Taxes	(40.8)	(47.7)	-14.6%
<b>NET INCOME</b>	36.8	42.0	-12.4%



➔ •Rolling  
EBITDA margin  
stable at roughly  
50%



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# Payment of interim dividend No. 172, charged against 2006 net income

In accordance with the dividend policy informed at the General Shareholders Meeting (April 20, 2006), the Board approved:

- Gross amount per share: Ch\$11 per share  
(approx. US\$0.08\*/ADR)
- Total: Ch\$10.5 billion
- Record date (Chile): November 17, 2006
- Payment date (Chile): November 23, 2006

\* Exchange rate 09.30.06 = Ch\$537.03/1US\$



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# In conclusion...

- Transformation process underway to face industry trends
- Successful sales performance of new satellite TV service (DTH)
- ADSL growth of 73% driven by bundling strategy
- Continued growth of flexible plans (48% of total LIS)
- Revenues stabilized through innovation and integration of services
- EBITDA margin maintained stable at 50% level

# Telefonica

CHILE

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