

LARRAÍN VIAL CONFERENCE

Telefónica Chile
March 2008

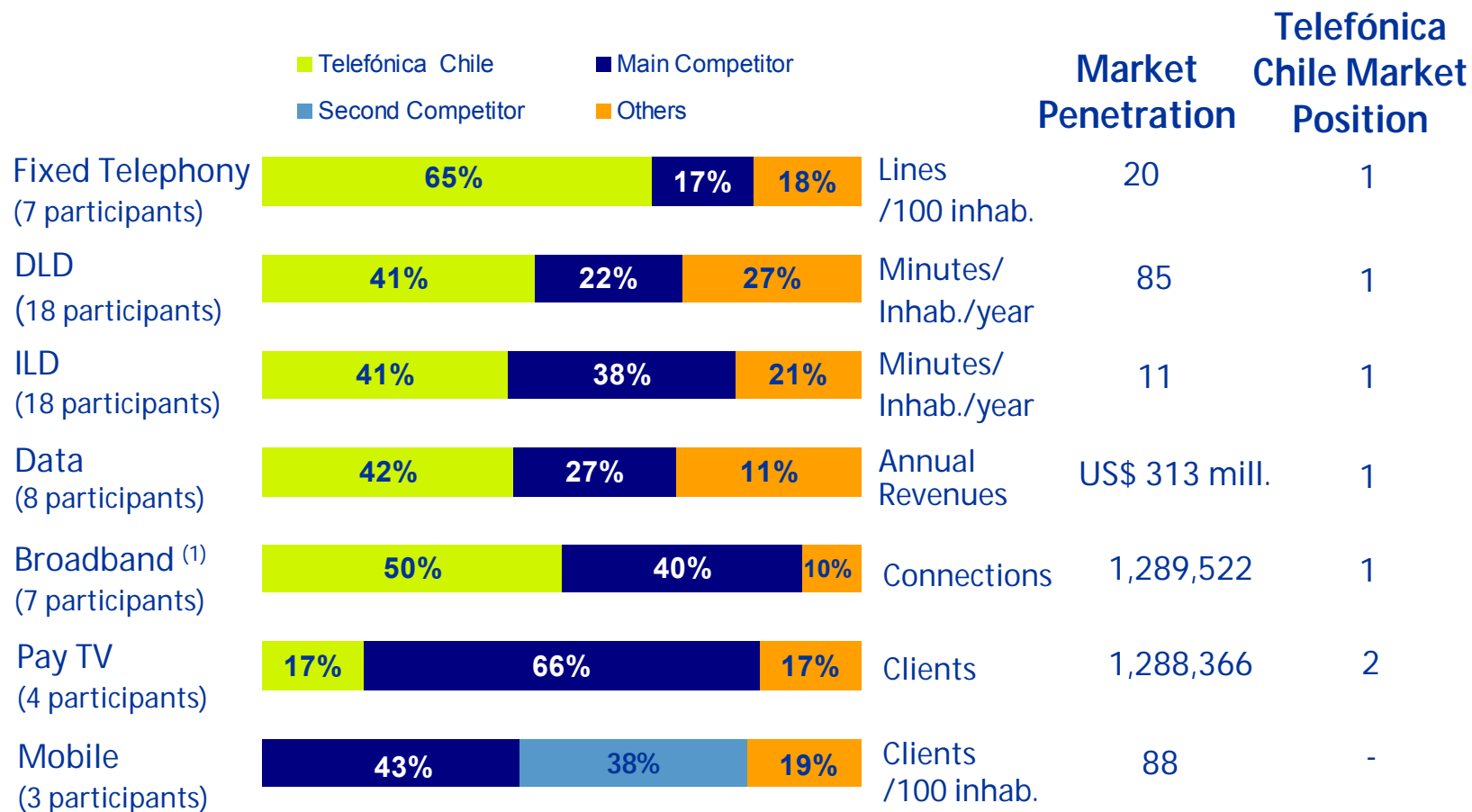
Espíritu de
PROGRESO



Telefónica
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> Competition in the Chilean Telco Industry

Telefónica Chile's market share vs. competitors as of 12/ 31/ 2007



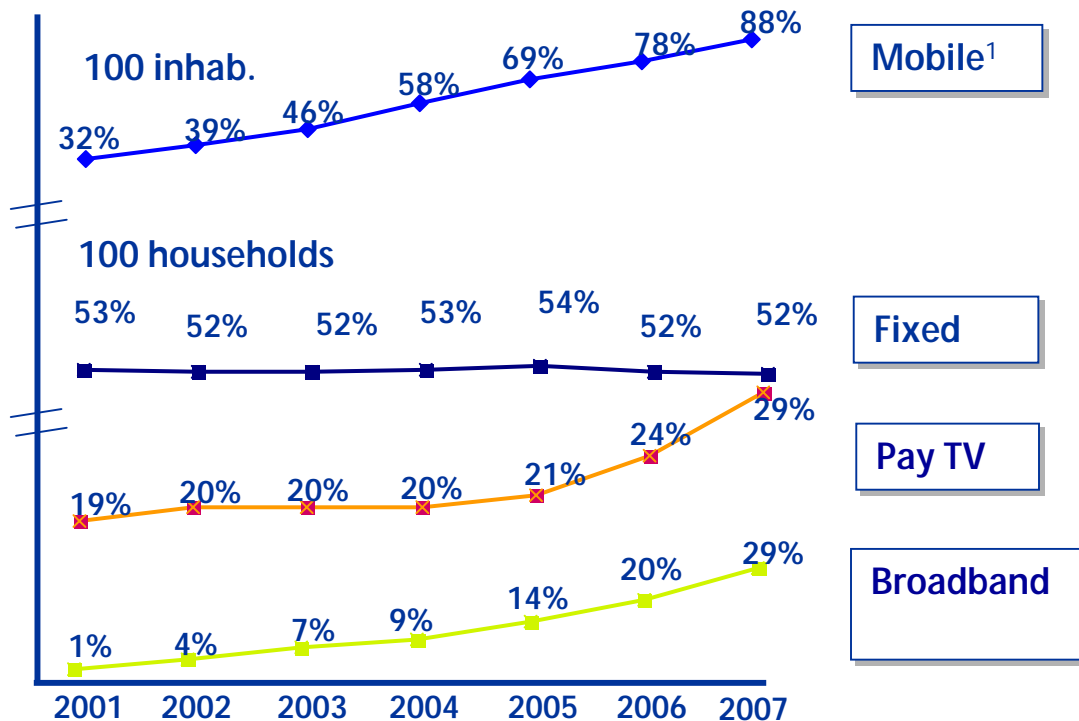
⁽¹⁾ Includes connections with download speeds over 128 Kbs.

Source: Telefónica Chile estimates



Evolution of Service Penetration in the Chilean Telco Market

Service Penetration



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





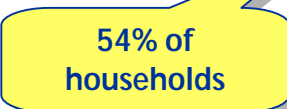
(1) Mobile penetration for Chilean population

Telefónica Chile's focus is to strengthen its voice customer base with higher growth services of BB and TV, through flexible/bundled offers

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

% households, Dec. 2007E

 Large gap with respect to other countries

Household income US\$/ month ¹	Households thous.	Socio- Econ. Segm.	 Mobile	 Fixed	 Broadband	 Pay TV	Development Level
5,506	318	ABC1	98%	89%	84%	77%	High
2,035	590	C2	96%	85%	56%	64%	
1,159	1,181	C3	94%	72%	29%	52%	Medium
439	2,381	D & E	73%	29%	9%	2%	Low
		TOTAL	83%	52%	26% ²	29%	

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

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

Company Strategy



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> Telefónica Chile: a Company in Transformation

Process initiated in 2004 in all areas to face future challenges

Commercial

- Flexible offers to counter voice revenue decline
- Promote BB growth
- Generate new & sustainable revenue sources

Operations

- Increase capacity (installations up 2.3X since '03)
- Increased efficiency (total headcount decreased 6% since '03 and systems upgrade)
- Modernization of infrastructure

Organization

- Customer orientation
- Company structure by client segments (Residential, SME's, Corporate, Wholesalers)
- Closer relationship with customers and their needs
- Processes driven by service levels
- Employee satisfaction

The goal is to be a company that is Highly competitive, Innovative and preferred for its Quality of service

> Drivers of the Company's Strategic Transformation:



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



- New technology and commercial creativity



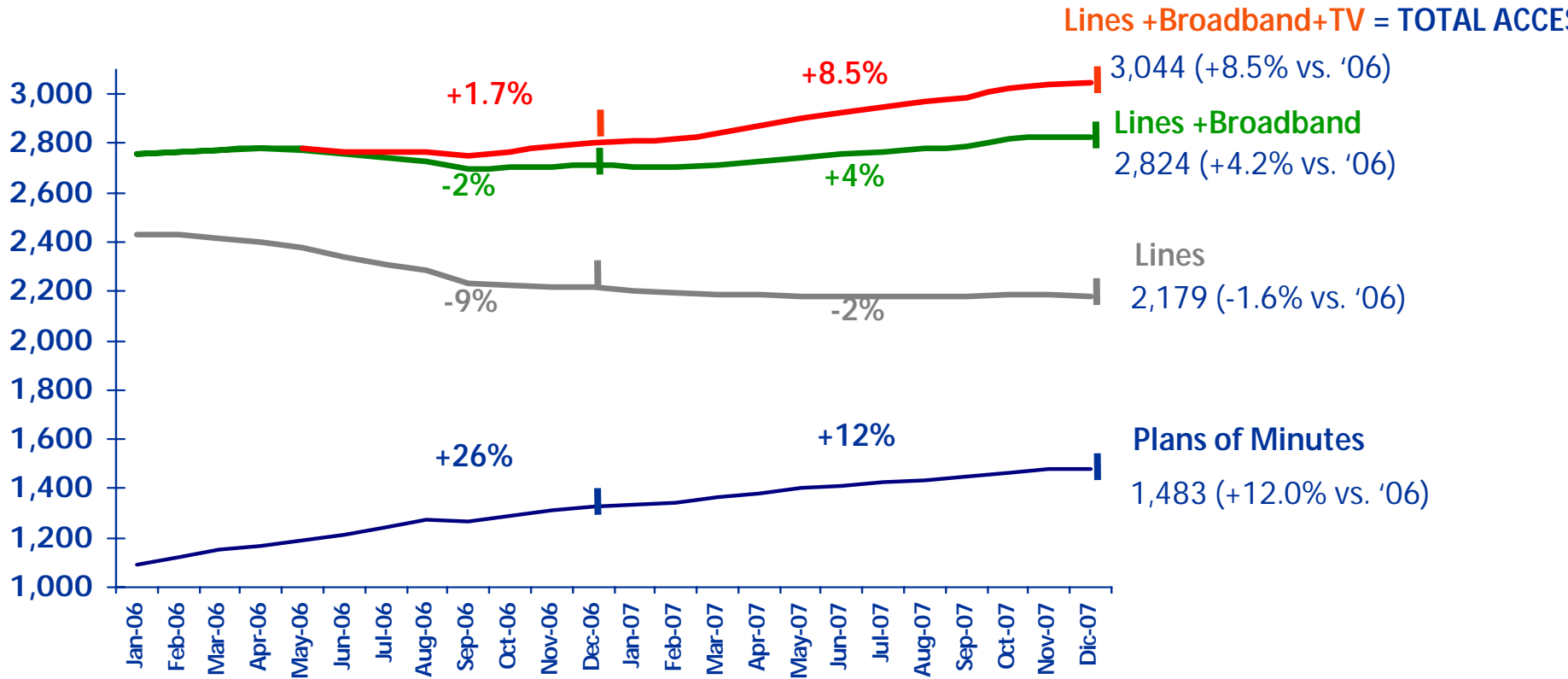
- Cost efficiency and solid financial structure facilitate business development
- Investments targeting growth



- Ongoing challenge to provide high-quality service

> Plans of Minutes and Flexible Plans mitigate decline in LIS

Total Accesses (thous.)
(end of period)

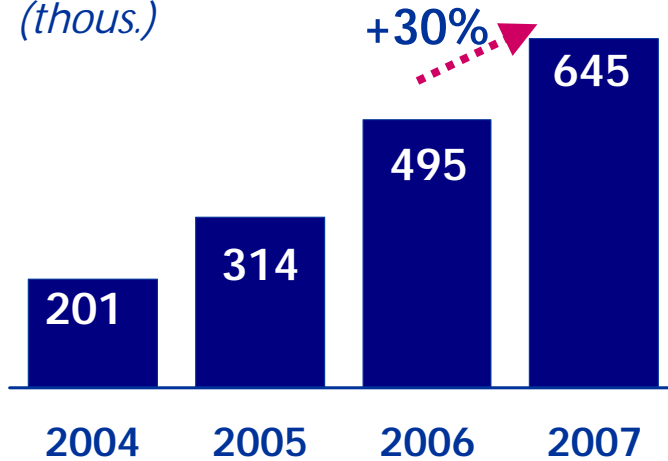


Plans of Minutes represent 68% of total LIS vs. 60% in '06 and 43% in '05

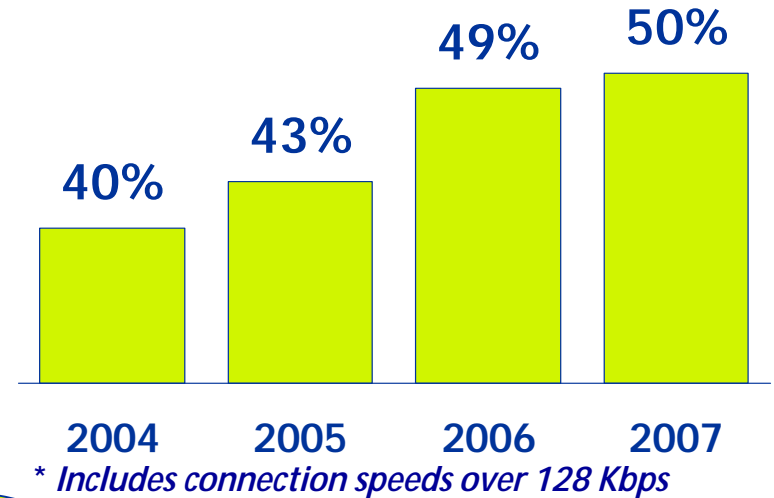
> Consolidating our Broadband leadership position through bundling number one in the market

ADSL Accesses*

(thous.)



Broadband Market Share*



Growth (3x) driven by:

- Accesses
- Bundling
- Increased speeds

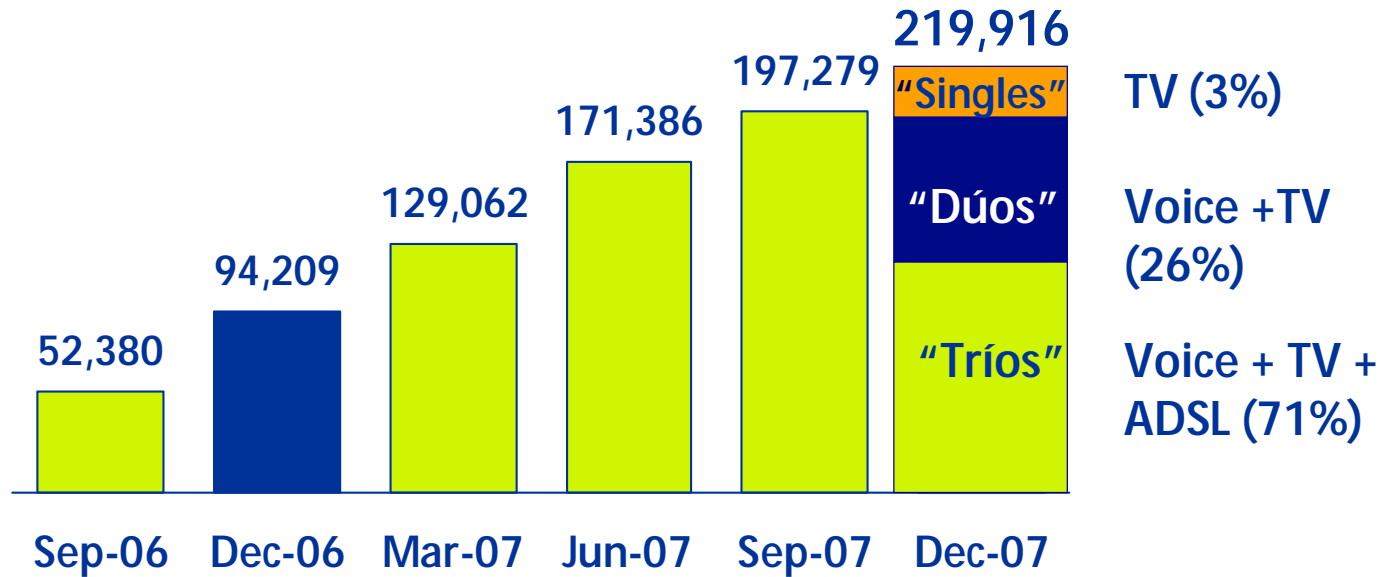
March '08:
T. Chile tripled
BB speed



'04-'07 Broadband Revenues: + 5x

> Innovation in Service: Launch of Digital TV in June 2006

Customized solutions: Dúos and Tríos drive TV growth ➡ 2.4X



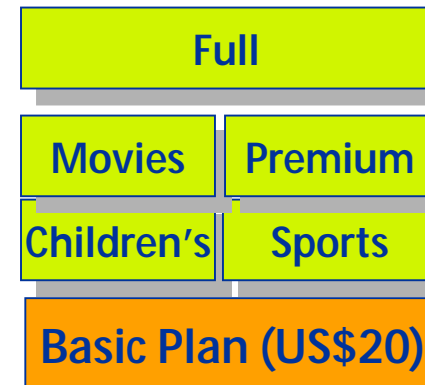
Competitive advantages:

- National coverage
- Flexibility to choose plans of channels

IPTV service launched June '07:

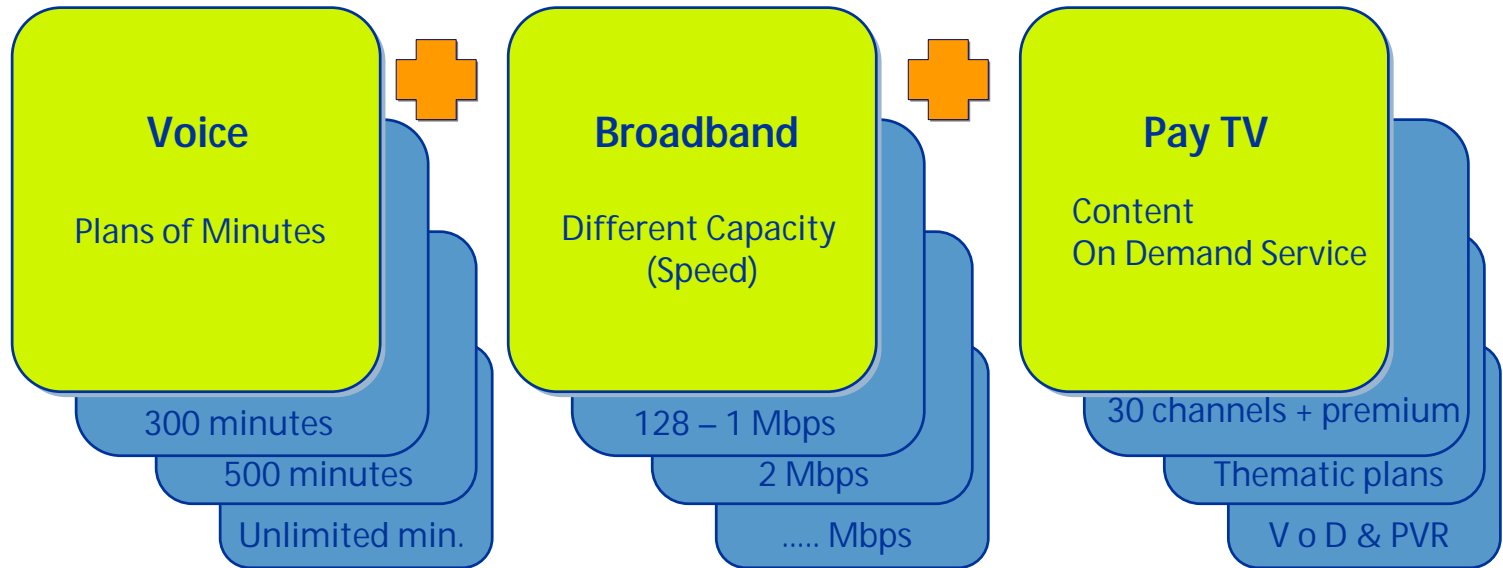
- Greater flexibility to choose content and adjust programming to their own schedules

17% market share in only 18 months & 4% of revenues



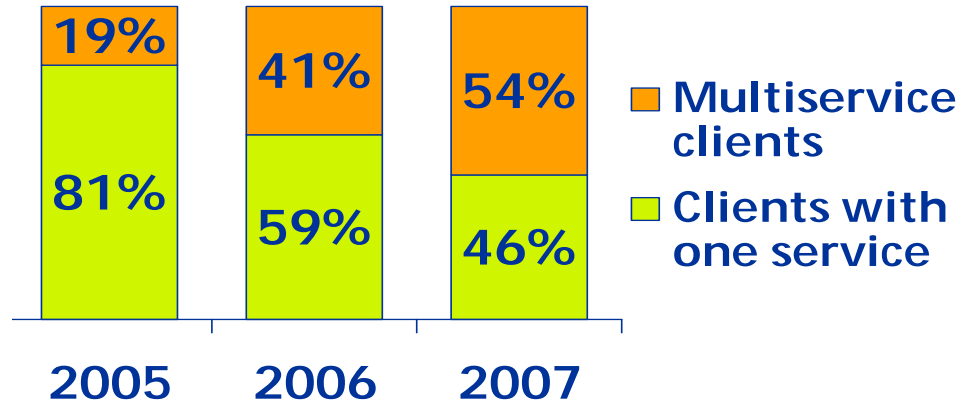
> Innovation in Offer: Commercial Flexibility provides a wide array of customized commercial solutions

Segmentation of clients and bundling of service differentiate T. Chile

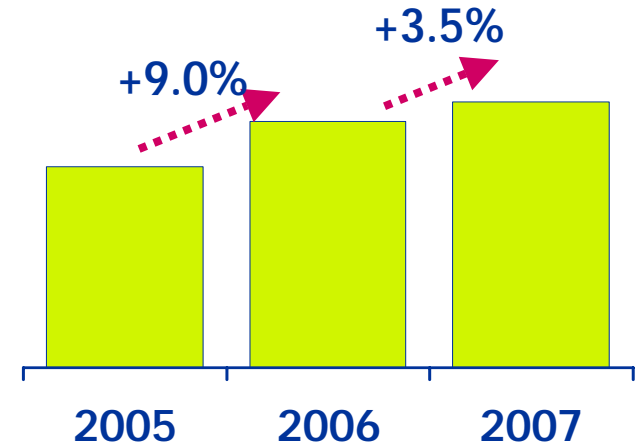


> Integration: **Bundling of voice with broadband and TV facilitates revenue diversification and greater client loyalty**

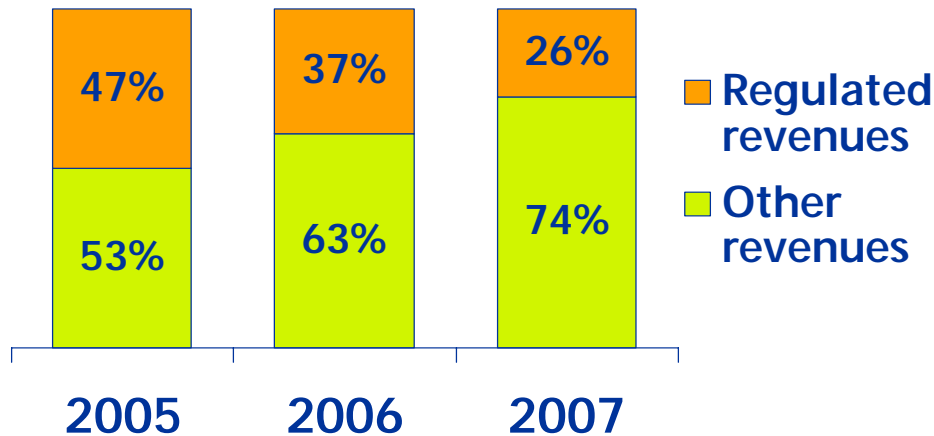
Client Mix



ARPU/Client



Consolidated Revenues



Diversified Revenues & Improved Quality of Service



Strengthen client loyalty and lead to long term sustainability

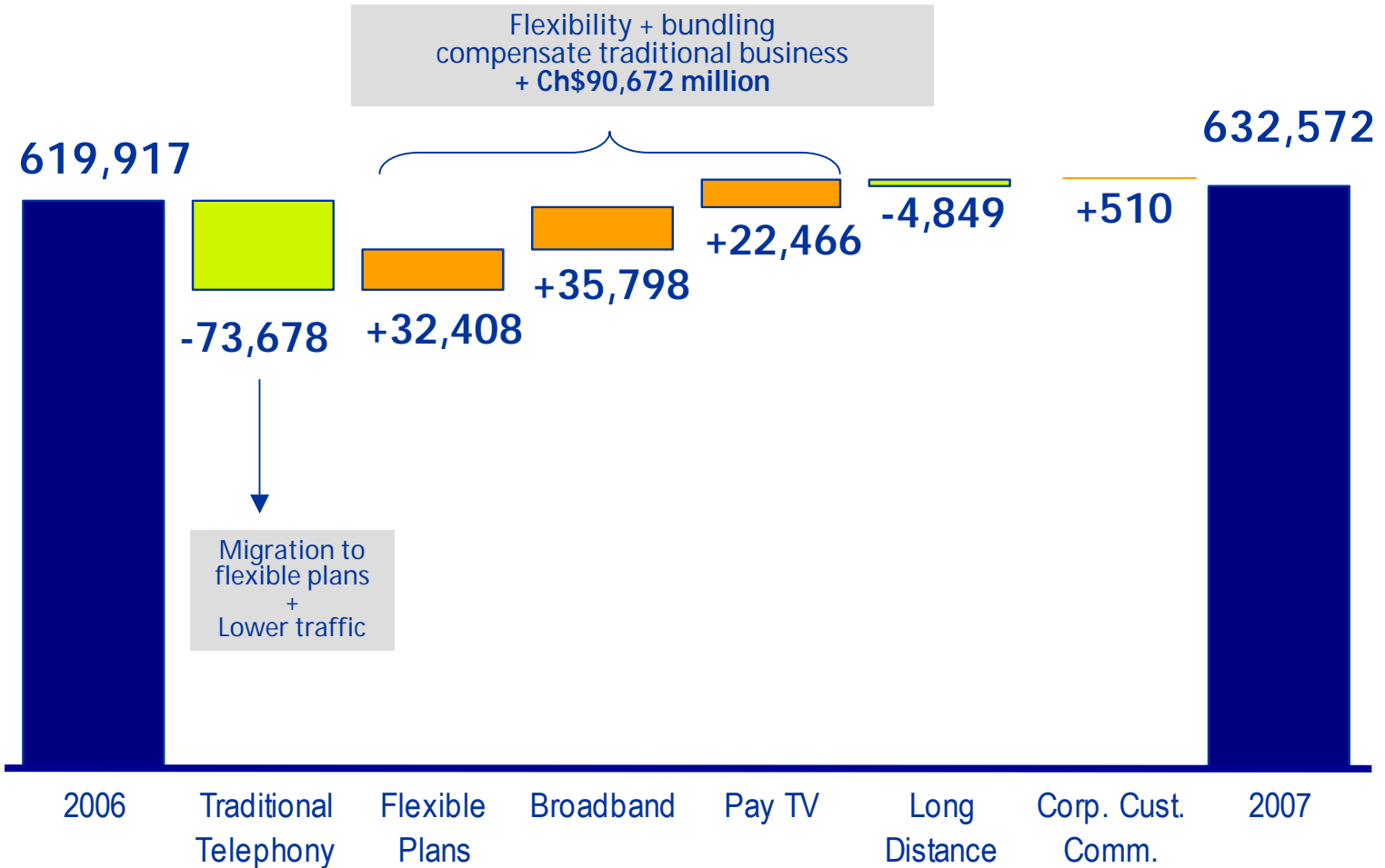
> Bundling services strategy has reverted revenue trend

Annual Operating Revenues (2007/2006)

+2.0 %

Millions of Ch\$

(real terms)

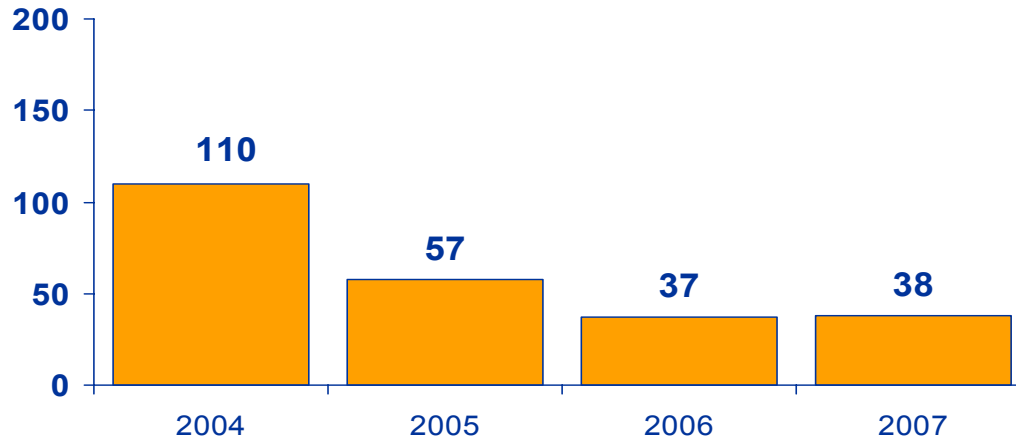


> Efficiency: Effective financial management supports business development

Financial expenses:

(Millions of US\$)

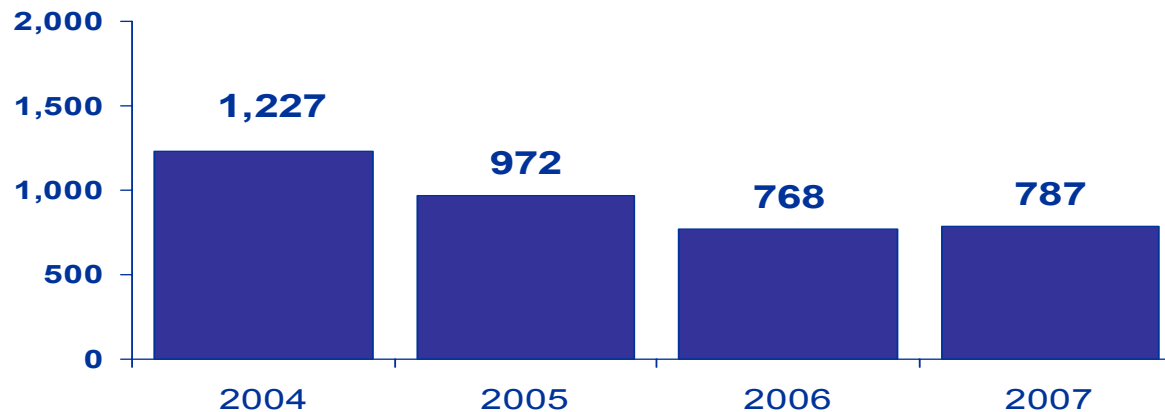
Dec 07 / Dec 06 = +3%



Financial debt:

(Millions of US\$)

Dec 07 / Dec 06 = +2%



Local and international credit ratings:

■ Decrease in spreads:

✓ International ratings:

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

✓ Local ratings:

- Fitch Ratings: **AA-** (long-term debt) and **F1+** (short-term debt)

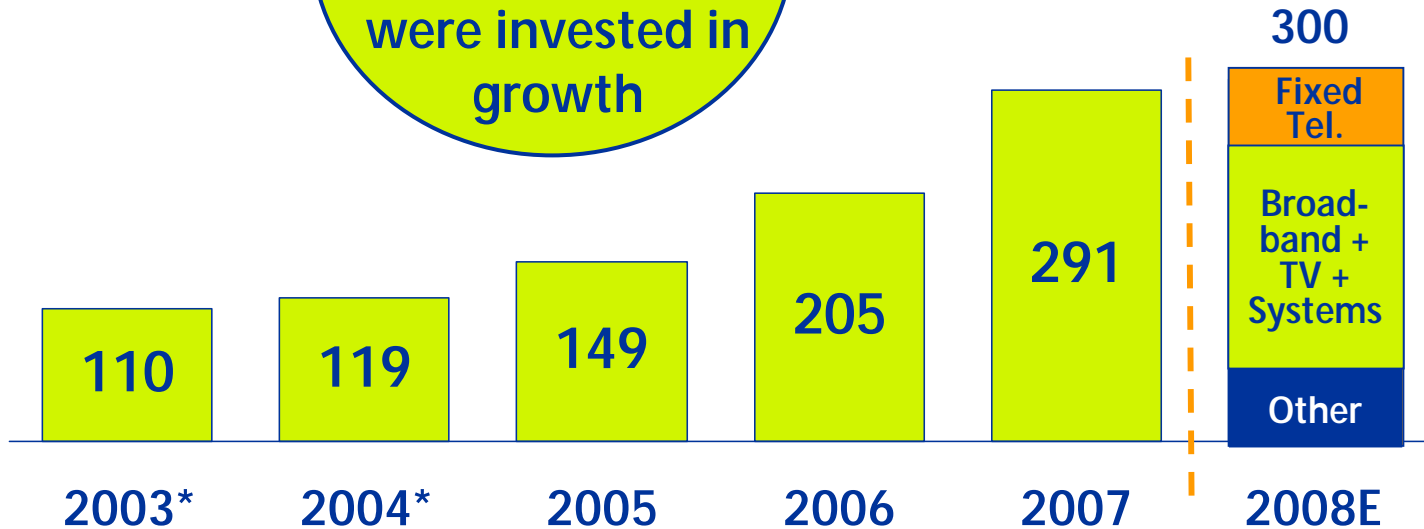
- International Credit Rating: **AA** (long-term debt) and **N1+/AA** (short-term debt)

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

	2006	2007
Fixed telephony	48.0	72.9
Broadband	56.6	75.6
TV	50.2	72.0
Data	40.7	39.8
Long Distance	1.2	1.9
Other	40.0	28.5
Total	236.7	290.7

Strategy Capex:
In 2007, US\$2
of every US\$3
were invested in
growth

Millions of nominal US\$



* Excludes capex in mobile business

Exch. Rate Ch\$496.9/US\$1 (12.31.2007)

> Giving Back to Our Shareholders: Additional Cash Distribution

- The Company distributes 100% of net income to shareholders, per its dividend policy.
- In addition, the dividend policy allows additional cash distributions to shareholders, as long as business and financial obligations have been fulfilled and there is excess free cash flow.
 - At the Extraordinary Shareholders' Meeting to be held on April 14, 2008, a capital reduction of **Ch\$39.243 million (Ch\$41 per share)** will be decided.

Recent distributions to shareholders:

Gross amount per ADR (Ch\$)

	Interim Dividend	Final Dividend	Additional Dividend ⁽¹⁾	Capital Reduction	Total Per ADR	% Yield ⁽²⁾
2005	44.0	235.4	203.96	--	483.36	7.8%
2006	44.0	61.24	--	168.0	273.24	6.1%
2007	24.0	53.76		204.0	281.76	6.7%

(1) Charged to retained earnings

(2) % of ADR price at start of year

> Quality: A Top Priority Within Our Strategy

Network

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

Commercial Support

- Improve handling of customer requests by implementing accountability and zero tolerance policies
- Improve billing and collections processes

Customer Service

- Implement ongoing improvements in customer service, both by phone and in commercial offices
- Maximize number of customers whose requests are resolved upon initial contact

Regulation



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> Current Regulatory Issues

Regulatory Framework

- Price regulation for public telco services only when Antitrust Commission defines that there is not enough competition.
- Maximum tariffs are fixed every 5 years

Proposed Modifications to Chilean Telco Law

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

Tariff Deregulation

- In Jan. '08, Subtel requested that the Antitrust Commission review competition in the Chilean telco industry to determine whether T. Chile is dominant in local telephony.
- Interconnection rates would not be affected by tariff deregulation, as these rates are regulated for all Chilean telco operators.

> Upcoming Tariff-Setting Process (2009-2014)

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

Antitrust Commission Ruling

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

April 11, 2008

- Technical and Economic Bases Proposal (T. Chile)

July 20, 2008

- Presentation of definitive technical and economic bases (Subtel)

Nov. 6, 2008

- Presentation of tariff study (T. Chile)

Mar 6, 2009

- Objections and counterproposals report (Subtel)

May 5, 2009

- New Tariff Decree for the period 2009-2014

Additional Information



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> 2007 Financial Summary: Income Statement

<i>Millions of Ch\$ (as of 12.31.07)</i>	2006	2007	Variation 2007/2006
Revenues	619,917	632,572	2.0%
Operating Costs	531,179	564,237	6.2%
Operating Income	88,738	68,335	-23.0%
EBITDA	311,359	283,251	-9.0%
EBITDA margin	50.2%	44.8%	-5.4pp
Non-operating Income	-32,150	-24,375	-24.2%
Taxes	-31,552	-33,214	5.3%
Net Income	25,081	10,856	-56.7%
Capex (Mill. US\$)	237	291	22.8%

> Summarized Balance Sheet

<i>Millions of Ch\$</i>	12.31.07	12.31.06
Current Assets	352,577	315,448
Fixed Assets, net	1,257,311	1,320,581
Other Assets	75,027	97,620
TOTAL ASSETS	1,684,916	1,733,648
Short-Term Liabilities	333,789	212,833
Long-Term Liabilities	444,303	552,076
TOTAL LIABILITIES	778,092	764,909
Minority Interest	281	1,321
SHAREHOLDERS' EQUITY	906,534	967,417
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,684,916	1,733,648

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