SANTANDER CONFERENCE

Telefónica Chile
January 2008

Telefónica
CHILE

Current Regulatory Issues

Proposed Modifications to Chilean Telco Law

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

Regulatory Framework

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

Tariff Deregulation

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

Upcoming Tariff-Setting Process (2009-2014)

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**

Competition in the Chilean Telco Industry

Telefónica Chile's market share vs. competitors as of 9/ 30/ 2007

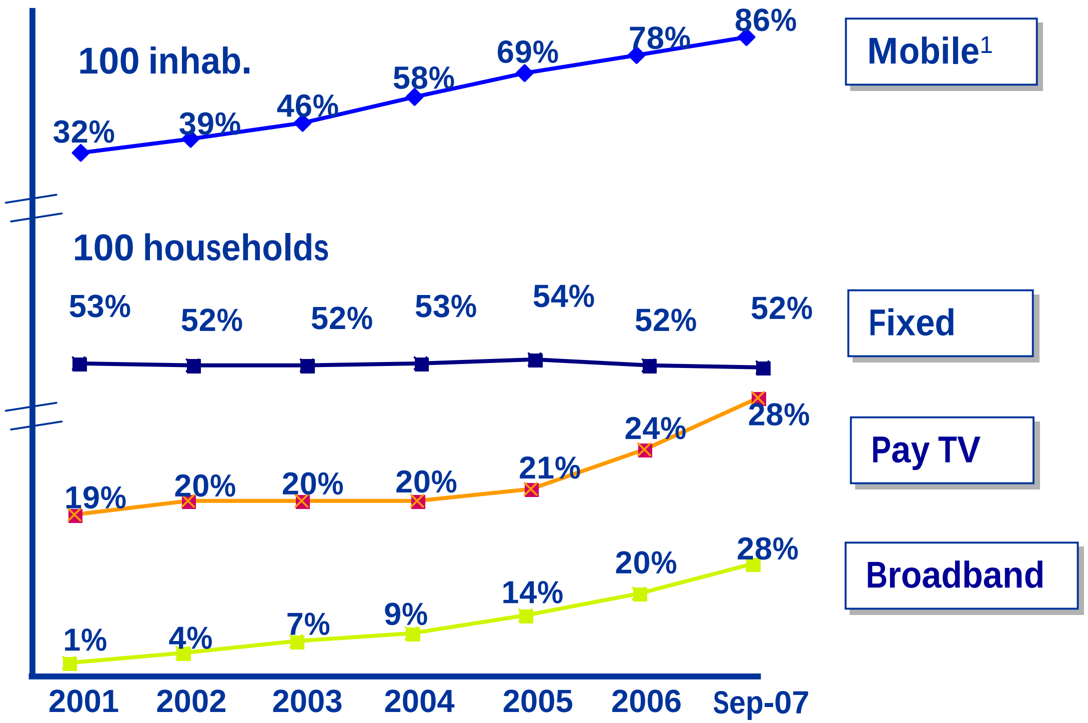
	Telefónica Chile	Main Competitor	Second Competitor	Others		Market Penetration	Telefónica Chile Market Position
Fixed Telephony (7 participants)	66%	16%		18%	Lines /100 inhab.	20	1
DLD (18 participants)	40%	22%		28%	Minutes/ Inhab./year	85	1
ILD (18 participants)	41%	38%		21%	Minutes/ Inhab./year	11	1
Data (8 participants)	43%	25%		11%	Annual Revenues	US$ 373 mill.	1
Broadband [1] (7 participants)	49%	40%		11%	Connections	1,232,822	1
Pay TV (4 participants)	16%	67%		17%	Clients	1,241,279	2
Mobile (3 participants)		43%	39%	18%	Clients /100 inhab.	86	-

[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

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

% households, Dec. 2006E

Large gap with respect to other countries

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

54% of households

(1) Exchange rate Ch$532.4/US$1
(2) Household penetration increases 1 p.p when dial-up internet connections are included.

Company Strategy

Drivers of the Company's Strategic Transformation:

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

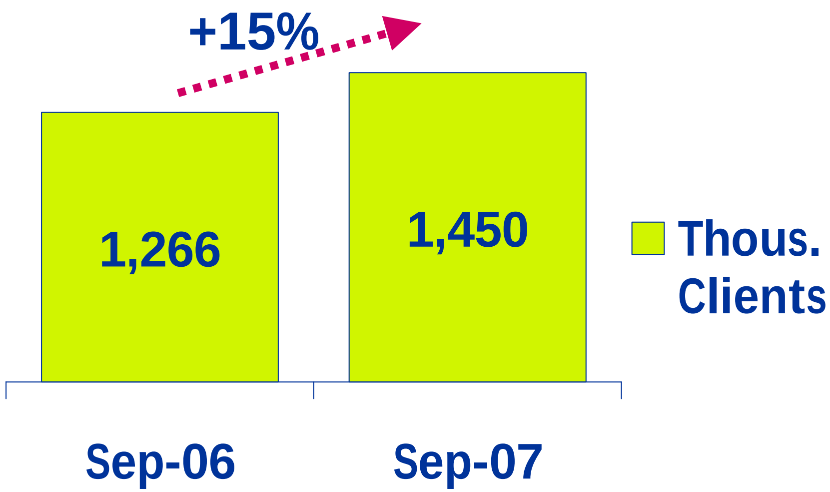
Innovation
- New technology and commercial creativity

Efficiency
- Cost efficiency and solid financial structure facilitate business development
- Stability and productivity in labor relations
- Investments targeting growth

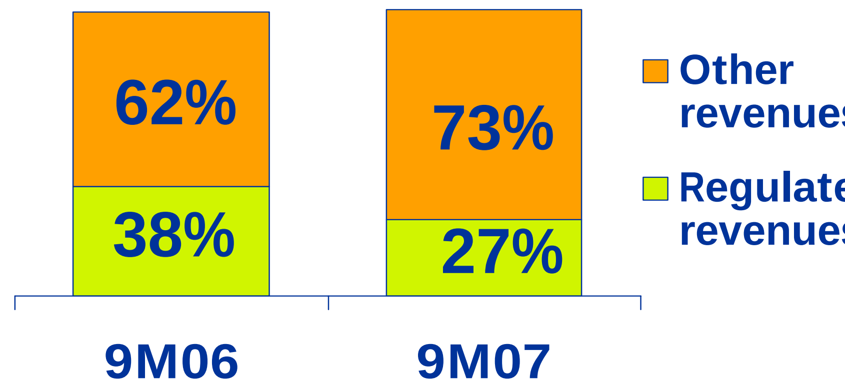
Quality
- Ongoing challenge to provide high-quality service

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

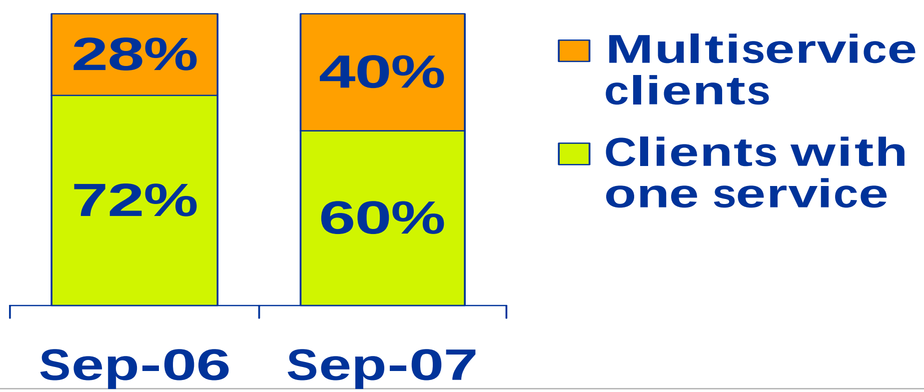
Clients with Flexible Plans



Consolidated Revenues



Client Mix

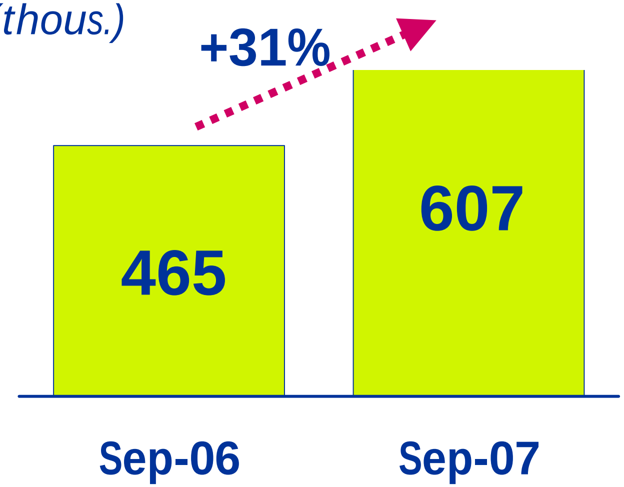


The market prefers flexibility: 67% of clients choose a flexible plan

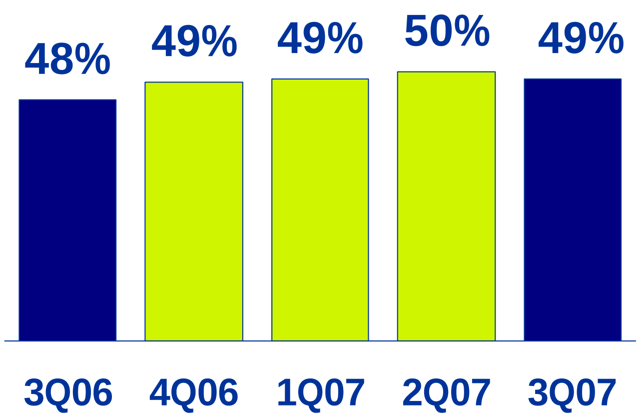
> Integration: Consolidating our Broadband leadership position through bundling ➔ number one in the market

ADSL Accesses*

(thous.)



ADSL Market Share*



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

**** Includes connection speeds over 128 Kbps***

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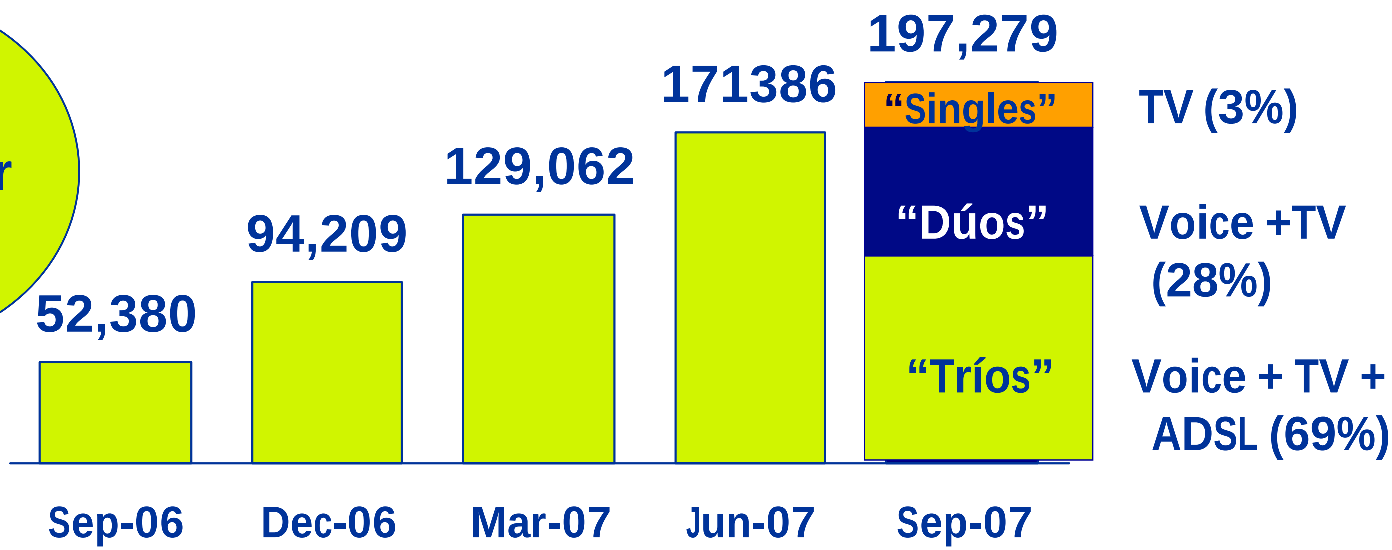
> Innovation in Service: **Launch of Digital TV in June 2006 and IPTV in June 2007**

Customized solutions: Dúos and Tríos drive TV growth

16% market share after only 15 months

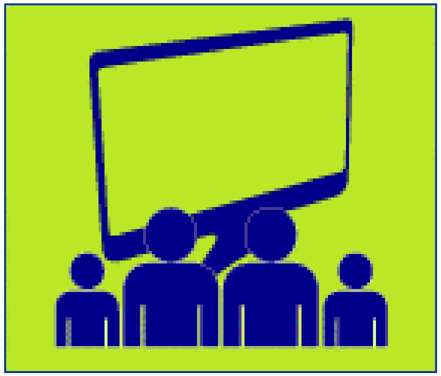


Competitive advantages of Satellite TV:

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

New IPTV Product (launched June '07):

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



> Innovation in Offer: **Commercial Flexibility**

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

Voice

Plans of Minutes

300 minutes
500 minutes
Unlimited min.

Broadband

Different Capacity (Speed)

128 – 1 Mbps
2 Mbps
..... Mbps

Pay TV

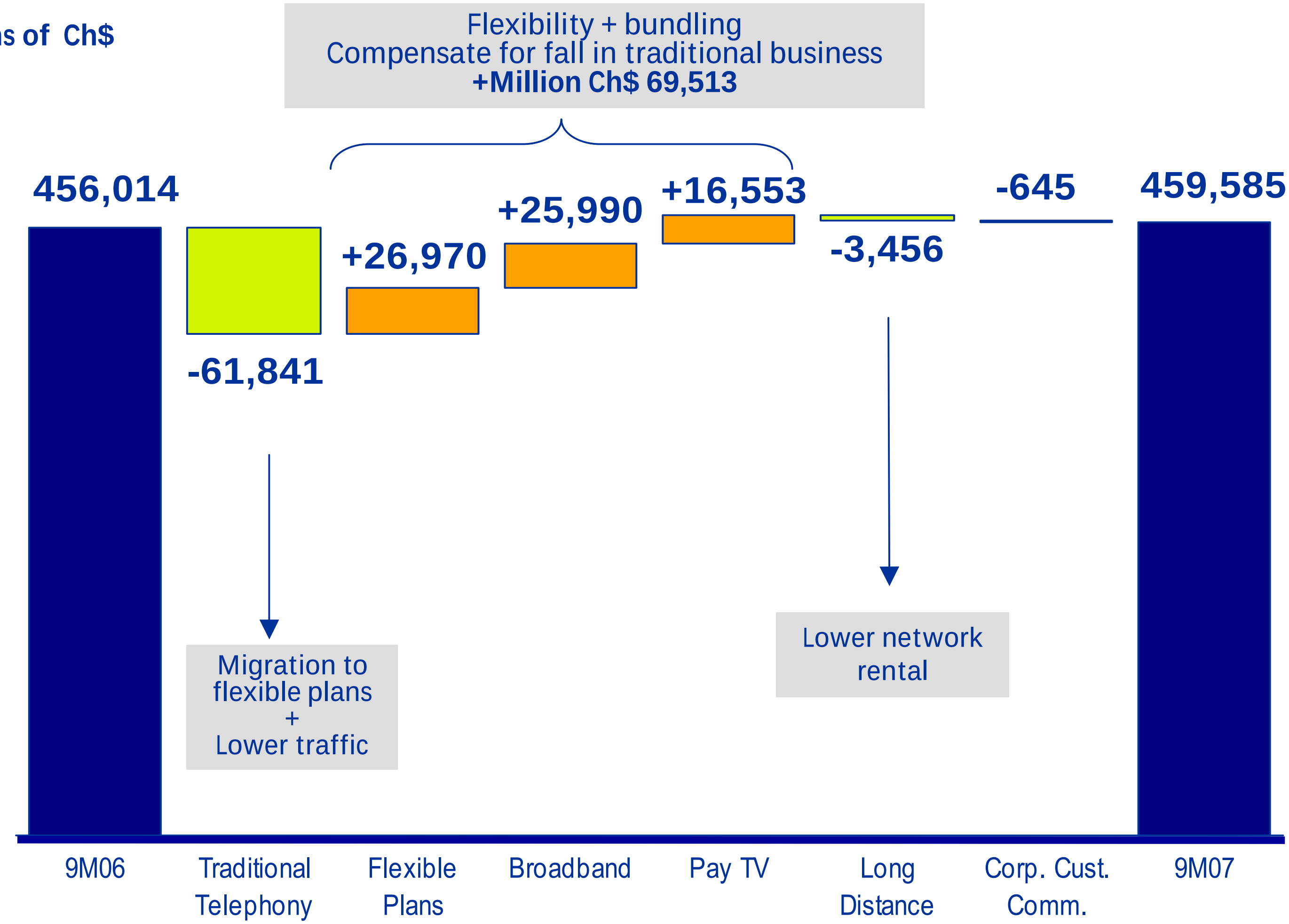
Content
On Demand Service

30 channels + premium
Thematic plans
V o D & PVR

Transformation strategy allows the Company to stabilize revenues

9Mo Accumulated Revenues (Sept.07/Sept.06) +0.8 %

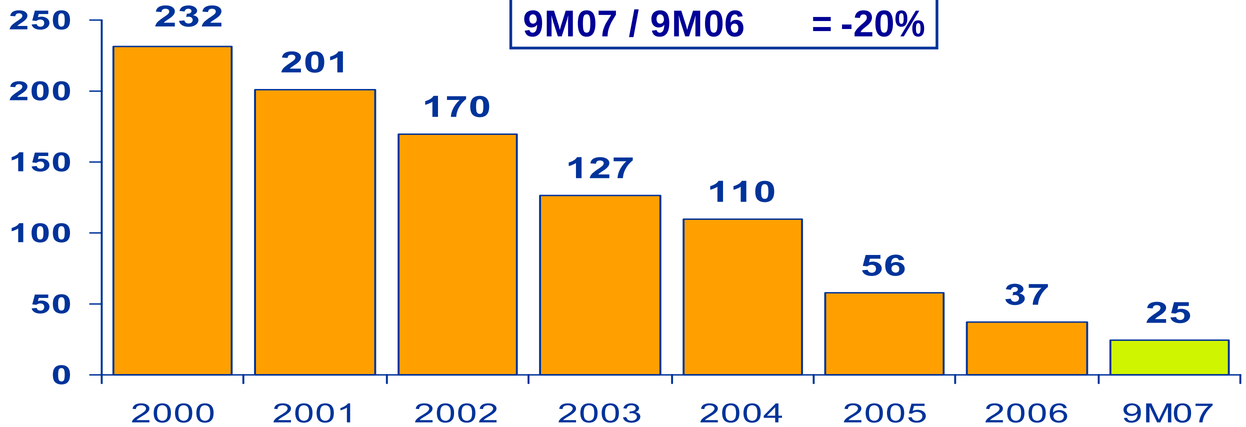
Millions of Ch$



Efficiency: **Effective financial management supports business development**

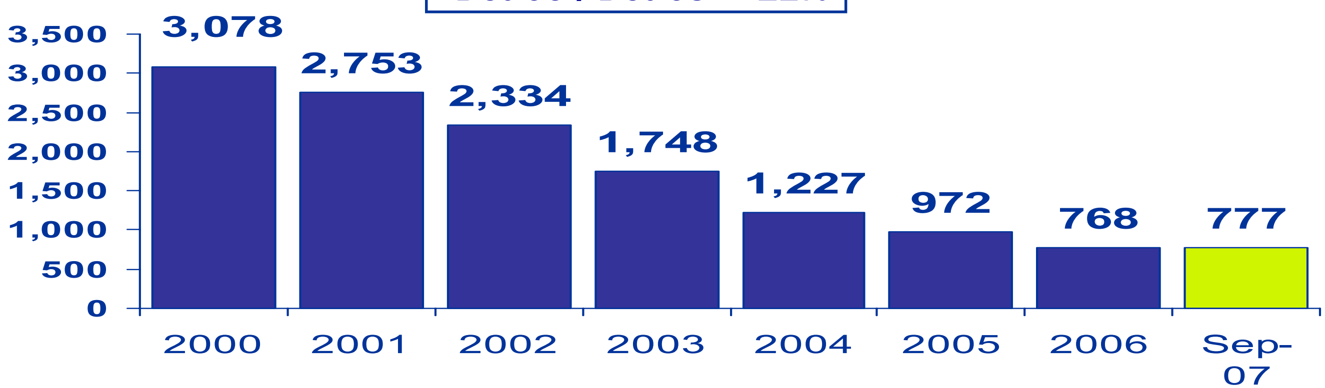
Financial expenses:
(Millions of US$)

Dec 06 / Dec 00 = -84%
Dec 06 / Dec 05 = -35%
9M07 / 9M06 = -20%



Financial debt:
(Millions of US$)

Sept 07 / Dec 00 = -75%
Dec 06 / Dec 05 = -21%



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**

	9M06	9M07
Fixed telephony	29.9	49.9
Broadband and TV	61.8	103.9
Data	30.4	21.7
Long Distance	0.3	1.8
Other	28.4	16.1
Total	**150.8**	**193.4**

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

* Excludes capex in mobile business

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

Giving Back to Our Shareholders: Additional Cash Distributio

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

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	7.0%

(1) Charged to retained earnings

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

> Quality: **A Top Priority Within Our Strategy**

Network

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

Commercial Support

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

Customer Service

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

Additional Information

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Financial Summary

Millions of Ch$	9M06	9M07	Variation 9M07/06
Revenues	456,014	459,585	0.8%
Operating Costs	391,606	415,836	6.2%
Operating income	64,408	43,749	-32.1%
EBITDA	228,733	202,907	-11.3%
EBITDA margin	50.2%	44.2%	-6.0 p.p.
Non-operating Income	-21,312	-10,126	-52.5%
Taxes	-22,691	-23,969	5.6%
Net Income	20,673	9,948	-51.9%
Capex (Mill. US$)	151	193	28.2%

Summarized Balance Sheet

Millions of Ch$	09.30.07	09.30.06
Current Assets	324,453	294,579
Fixed Assets, net	1,243,301	1,313,231
Other Assets	77,321	85,089
TOTAL ASSETS	1,645,076	1,692,899
Short-Term Liabilities	238,385	194,133
Long-Term Liabilities	514,212	542,951
TOTAL LIABILITIES	752,597	737,084
Minority Interest	93	1,260
SHAREHOLDERS' EQUITY	892,387	954,555
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,645,076	1,692,899

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