

# *Telefónica*

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*CHILE S.A. AND SUBSIDIARIES*

**REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

As of June 30, 2013, December 31, 2012 and June 30, 2012

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

# INDEX

Page N°

➤ Consolidated Classified Statements of Financial Position .....	3
➤ Consolidated Statements of Comprehensive Income .....	5
➤ Consolidated Statements of Changes in Shareholders' Equity .....	7
➤ Consolidated Statements of Cash Flows Direct .....	8

## Notes to the Consolidated Financial Statements

1. Corporate information .....	9
2. Significant accounting principles .....	9
3. Changes in accounting policy and disclosures .....	26
4. Financial information by segment .....	27
5. Cash and cash equivalents .....	30
6. Other current and non-current financial assets .....	32
7. Other current and non-current non-financial assets .....	33
8. Trade and other current receivable .....	33
9. Receivables from and payable to related companies .....	39
10. Inventory .....	44
11. Income taxes .....	45
12. Non-current receivables .....	49
13. Intangible assets other than goodwill .....	50
14. Goodwill .....	52
15. Property, plant and equipment .....	53
16. Non-current assets and surrendered units available for sale or held for distribution to the owners .....	56
17. Other current and other non-current financial liabilities .....	56
18. Trade and other payables .....	63
19. Financial instruments .....	64
20. Other short-term provisions .....	72
21. Employee benefits accrual .....	73
22. Other current and non-current non-financial liabilities .....	74
23. Equity .....	75
24. Earnings per share .....	78
25. Income and expenses .....	78
26. Operating leases .....	81
27. Local and foreign currency .....	82
28. Contingencies and restrictions .....	84
29. Environment .....	88
30. Risk management .....	89
31. Subsequent events .....	94

ThCh\$ : Thousands of Chilean Pesos

MCh\$ : Millions of Chilean Pesos

CONSOLIDATED CLASSIFIED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2013 and December 31, 2012

*Telefónica*

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

	Notes	06.30.2013	12.31.2012
		ThCh\$	ThCh\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	(5)	150,001,448	246,567,966
Other current financial assets	(6)	11,337,938	4,998,135
Other current non-financial assets	(7)	24,178,987	21,297,059
Trade and other current receivables	(8a)	142,662,092	140,799,919
Current receivables from related companies	(9a)	54,902,170	63,462,235
Inventory	(10a)	6,274,878	6,147,395
Current tax assets	(11b)	5,225,514	1,570,818
<b>Total current assets other than assets groups of assets for disposal, classified as available for sale or as held for distribution to owners</b>		<b>394,583,027</b>	<b>484,843,527</b>
Non-current assets or groups of assets for disposal, classified as available for sale or held for distribution to owners	(16)	65,627	65,627
<b>TOTAL CURRENT ASSETS</b>		<b>394,648,654</b>	<b>484,909,154</b>
<b>NON-CURRENT ASSETS</b>			
Other non-current financial assets	(6)	25,127,570	16,709,646
Other non-current non-financial assets	(7)	2,282,148	2,662,177
Non-current receivables	(12)	16,663,999	18,048,113
Non-current receivables from related companies	(9b)	1,366,521	1,366,521
Intangible assets other than goodwill, net	(13a)	30,951,600	38,105,530
Goodwill	(14)	21,660,128	21,660,128
Property, plant and equipment	(15a)	959,258,190	949,333,937
Deferred tax assets	(11c)	5,791,459	7,035,425
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,063,101,615</b>	<b>1,054,921,477</b>
<b>TOTAL ASSETS</b>		<b>1,457,750,269</b>	<b>1,539,830,631</b>

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements

CONSOLIDATED CLASSIFIED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2013 and December 31, 2012

*Telefónica*

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

	Notes	06.30.2013	12.31.2012
		ThCh\$	ThCh\$
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Other current financial liabilities	(17)	148,038,869	85,101,325
Trade and other payables	(18)	146,128,739	187,498,669
Current payables to related companies	(9c)	74,234,372	81,725,309
Other current provisions	(20)	1,386,922	1,549,209
Current tax liabilities	(11f)	3,123,318	7,588,500
Current employee benefits accrual	(21a)	4,502,969	4,426,045
Other current non-financial liabilities	(22)	18,156,170	16,886,055
<b>TOTAL CURRENT LIABILITIES</b>		<b>395,571,359</b>	<b>384,775,112</b>
<b>NON-CURRENT LIABILITIES</b>			
Other non-current financial liabilities	(17)	346,716,233	468,889,617
Other non-current provisions		543,244	543,244
Deferred tax liabilities	(11c)	50,536,614	51,895,208
Non-current employee benefits accrual	(21a)	24,742,577	25,888,804
Other non-current non-financial liabilities	(22)	5,569,572	5,606,229
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>428,108,240</b>	<b>552,823,102</b>
<b>TOTAL LIABILITIES</b>		<b>823,679,599</b>	<b>937,598,214</b>
<b>NET SHAREHOLDERS' EQUITY</b>			
Issued capital	(23a)	578,078,382	578,078,382
Retained earnings		48,728,312	24,198,873
Other reserves	(23d)	2,847,158	(2,679,791)
Shareholders' equity attributable to owners of the parent		629,653,852	599,597,464
Non-controlling interest	(23e)	4,416,818	2,634,953
<b>TOTAL NET SHAREHOLDERS' EQUITY</b>		<b>634,070,670</b>	<b>602,232,417</b>
<b>TOTAL NET LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>1,457,750,269</b>	<b>1,539,830,631</b>

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the periods ended June 30, 2013 and 2012

Telefónica

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

	Notes	For the period from	For the six-month	For the period from	For the six-month
		April 1 to June 30,	period ended	April 1 to June 30,	period ended
		2013	2013	2012	2012
		ThCh\$	ThCh\$	ThCh\$	ThCh\$
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>					
Income from ordinary operations	(25a)	169,228,239	332,398,693	173,245,613	345,592,912
Other income, by segment	(25b)	1,343,245	1,384,258	2,756,597	3,030,846
Employee benefits expenses	(21c)	(19,336,161)	(42,973,104)	(21,005,646)	(43,036,122)
Depreciation and amortization expense	(13b)(15b)	(39,868,929)	(77,129,235)	(37,992,218)	(77,693,980)
Other expenses, by nature	(25c)	(89,258,532)	(167,723,605)	(85,198,304)	(170,012,699)
<b>Profit from operating activities</b>		<b>22,107,862</b>	<b>45,957,007</b>	<b>31,806,042</b>	<b>57,880,957</b>
Interest income	(25d)	1,333,542	3,842,021	1,880,754	2,451,257
Interest expense	(25d)	(7,586,186)	(15,917,013)	(5,394,073)	(11,113,983)
Share in earnings (losses) of associates accounted for using the equity method	(25f)	-	-	230,370	538,145
Foreign exchange differences	(25e)	33,333	(506,082)	(5,494)	82,605
Income from indexation units	(25e)	137,707	635,470	(18,560)	(28,986)
<b>Profits before tax from continuing operations</b>		<b>16,026,258</b>	<b>34,011,403</b>	<b>28,499,039</b>	<b>49,809,995</b>
Income tax expense	(11e)	(3,912,575)	(7,699,714)	(6,947,909)	(9,515,765)
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>12,113,683</b>	<b>26,311,689</b>	<b>21,551,130</b>	<b>40,294,230</b>
<b>Profit attributable to holders of equity instruments of the controller and minority interest:</b>					
Profit attributable to owners of the parent		11,230,000	24,529,439	20,848,919	38,273,225
Profit attributable to non-controlling interest	(23e)	883,683	1,782,250	702,211	2,021,005
<b>PROFIT FOR THE PERIOD</b>		<b>12,113,683</b>	<b>26,311,689</b>	<b>21,551,130</b>	<b>40,294,230</b>
<b>EARNINGS PER SHARE</b>					
		Ch\$	Ch\$	Ch\$	Ch\$
<b>Earnings per basic share</b>					
Earnings per basic share for continuing operations	(24)	11.73	25.63	21.78	39.99
Earnings per basic share for discontinuing operations		-	-	-	-
Earnings per basic share		11.73	25.63	21.78	39.99
<b>Diluted earnings per share</b>					
Diluted earnings per share from continuing operations		11.73	25.63	21.78	39.99
Diluted earnings per share from discontinuing operations		-	-	-	-
Diluted earnings per share		11.73	25.63	21.78	39.99

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the periods ended June 30, 2013 and 2012



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

	For the period from April 1 to June 30,	For the six-month period ended June 30,	For the period from April 1 to June 30,	For the six-month period ended June 30,
	2013	2013	2012	2012
STATEMENTS OF COMPREHENSIVE INCOME	ThCh\$	ThCh\$	ThCh\$	ThCh\$
PROFIT FOR THE PERIOD	12,113,683	26,311,689	21,551,130	40,294,230
OTHER COMPREHENSIVE INCOME				
<b>Components of other comprehensive income before taxes</b>				
Profit (loss) on new measurement of financial assets available for sale	(623,696)	(16,289)	(1,589,903)	(1,340,601)
Profit (loss) on cash flow hedges	10,101,101	6,929,048	(2,595,581)	24,860
Participation in profits of associates accounted for using the equity method	-	-	2,235	2,500
<b>Total other components of other comprehensive income, before taxes</b>	<b>9,477,405</b>	<b>6,912,759</b>	<b>(4,183,249)</b>	<b>(1,313,241)</b>
<b>Income taxes related to components of other comprehensive income</b>				
Income tax related to hedging cash flows from other comprehensive income	(2,020,221)	(1,385,810)	483,169	(4,243)
<b>Total income taxes related to components of other comprehensive income</b>	<b>(2,020,221)</b>	<b>(1,385,810)</b>	<b>483,169</b>	<b>(4,243)</b>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	7,457,184	5,526,949	(3,700,080)	(1,317,484)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	19,570,867	31,838,638	17,851,050	38,976,746
COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Comprehensive income attributable to owners of the parent	18,687,184	30,056,388	17,148,839	36,955,741
Comprehensive income attributable to non-controlling interest	883,683	1,782,250	702,211	2,021,005
TOTAL COMPREHENSIVE INCOME	19,570,867	31,838,638	17,851,050	38,976,746

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the periods ended June 30, 2013 and 2012

Telefónica

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

	Changes in capital (Note 23a)	Changes in the other reserves (Note 23d)				Retained earnings	Equity attributable to owners of the parent	Non controlling interests (Note 23e)	Total equity	
	Issued capital	Cash flow hedge reserves	Benefit plan gain and loss reserve	Accrual of profits or losses on remeasurement of financial assets available for sale	Other miscellaneous reserves					Total other reserves
<b>Beginning balance as of 01.01.2013</b>	578,078,382	(3,716,944)	(2,415,709)	3,452,862	-	(2,679,791)	24,198,873	599,597,464	2,634,953	602,232,417
<b>Changes in equity</b>										
<b>Comprehensive income</b>										
Profit	-	-	-	-	-	-	24,529,439	24,529,439	1,782,250	26,311,689
Other comprehensive income	-	5,543,238	-	(16,289)	-	5,526,949	-	5,526,949	-	5,526,949
<b>Comprehensive income</b>		5,543,238	-	(16,289)	-	5,526,949	24,529,439	30,056,388	1,782,250	31,838,638
Other decrease from transfers and other changes	-	-	-	-	-	-	-	-	(385)	(385)
<b>Total changes in shareholders' equity</b>	-	5,543,238	-	(16,289)	-	5,526,949	24,529,439	30,056,388	1,781,865	31,838,253
<b>Ending balance as of 06.30.2013</b>	578,078,382	1,826,294	(2,415,709)	3,436,573	-	2,847,158	48,728,312	629,653,852	4,416,818	634,070,670
<b>Beginning balance as of 01.01.2012</b>	578,078,382	863,954	(3,225,153)	5,603,354	364,309	3,606,464	57,937,660	639,622,506	(1,360,058)	638,262,448
<b>Changes in equity</b>										
<b>Comprehensive income</b>										
Profit	-	-	-	-	-	-	38,273,225	38,273,225	2,021,005	40,294,230
Other comprehensive income	-	20,617	-	(1,340,601)	2,500	(1,317,484)	-	(1,317,484)	-	(1,317,484)
<b>Comprehensive income</b>		20,617	-	(1,340,601)	2,500	(1,317,484)	38,273,225	36,955,741	2,021,005	38,976,746
Other increase (decrease) from transfers and other changes	-	-	-	-	(364,915)	(364,915)	-	(364,915)	(79,115)	(444,030)
<b>Total changes in shareholders' equity</b>	-	20,617	-	(1,340,601)	(362,415)	(1,682,399)	38,273,225	36,590,826	1,941,890	38,532,716
<b>Ending balance as of 06.30.2012</b>	578,078,382	884,571	(3,225,153)	4,262,753	1,894	1,924,065	96,210,885	676,213,332	581,832	676,795,164

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended June 30, 2013 and 2012

*Telefónica*

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

	Notes	For the periods ended June 30,	
		2013	2012
		ThCh\$	ThCh\$
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
<b>Classes of operating activity charges</b>			
<b>Proceeds from sale of assets and services rendered</b>			
Proceeds from sales and services		414,650,510	419,638,614
Proceeds from related entities		97,542,860	74,612,593
<b>Classes of payments</b>			
Payments to suppliers for supplying goods and services		(257,434,512)	(262,577,917)
Payments to and on account of employees		(81,705,026)	(75,333,060)
Other operating activity payments		(49,473,764)	(46,501,596)
<b>Net cash flows provided by (used in) operating activities</b>		<b>123,580,068</b>	<b>109,838,634</b>
Income taxes (paid) reimbursed classified as operating activities (less)		20,568,884	13,001,070
<b>Cash flows provided by (used in) operating activities</b>		<b>103,011,184</b>	<b>96,837,564</b>
<b>CASH FLOWS PROVIDED BY (USED IN) INVESTMENT ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment, classified as investing activities		4,778	3,505,244
Additions to property, plant and equipment, classified as investing activities		(103,148,480)	(101,697,592)
Dividends received, classified as investing activities	(6b)	235,123	2,372,403
Interest received, classified as investing activities		4,056,920	1,147,875
Other cash inputs (outputs), classified as investing activities		32,977	(6,516,983)
<b>Net cash flows provided by (used in) investment activities</b>		<b>(98,818,682)</b>	<b>(101,189,053)</b>
<b>CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>			
<b>Proceeds from loans, classified as financing activities</b>			
Proceeds from non-current loans		-	60,000,000
Reimbursement of loans classified as financing activities	(17a)	(71,923,653)	(806,077)
Payments of financial lease liabilities, classified as financing activities		(691,112)	(709,090)
Payments of loans to related entities		(14,423,540)	-
Interest paid, classified as financing activities		(13,720,715)	(6,839,658)
<b>Net cash flows provided by (used in) financing activities</b>		<b>(100,759,020)</b>	<b>51,645,175</b>
<b>Increase (decrease) in cash and cash equivalents, before the effects of changes in the exchange rate</b>		<b>(96,566,518)</b>	<b>47,293,686</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(96,566,518)</b>	<b>47,293,686</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>246,567,966</b>	<b>40,789,117</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	(5)	<b>150,001,448</b>	<b>88,082,803</b>

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements



**1. Corporate information:**

Telefónica Chile S.A. and Subsidiaries (“the Company”) provides telecommunications services in Chile, consisting of fixed telecommunications, television, long distance, corporate communications and other services. The Company is located on Avenida Providencia No. 111, Santiago, Chile.

The Company is a publicly traded corporation registered with the Securities Registry, under No. 009 and therefore is subject to supervision by the Chilean Superintendency of Securities and Insurance (“SVS”).

At the Extraordinary Shareholders' Meeting held on April 23, 2009 the shareholders agreed to change the name of “Compañía de Telecomunicaciones de Chile S.A” to “Telefónica Chile S.A.”.

Telefónica Chile S.A. is part of the Telefónica Group. Its parent company is Telefónica Internacional Holding Ltda., which is indirect subsidiary of Telefonica S.A., headquartered in Spain.

The subsidiary company registered in the Securities Registry is:

Subsidiary	Taxpayer number	Registration number	Participation percentage (direct and indirect)	
			06.30.2013	12.31.2012
			%	%
Telefónica Larga Distancia S.A.	96.672.160-K	1061	99.93	99.93

**2. Significant accounting principles:****a) Accounting period**

These consolidated financial statements (hereinafter, “financial statements”) cover the following periods: Statements of Financial Position are presented as of June 30, 2013 and December 31, 2012; Statement of Changes in Equity for the six-month periods ended as June 30, 2013 and 2012, Statements of Comprehensive Income for the period between April 1 and June 30, 2013 and 2012, and for the six-month periods ended as of June 30, 2013 and 2012, and Statement of Cash Flows for the six-month periods ended as of June 30, 2013 and 2012.

**b) Basis of presentation**

The financial statements for December 31, 2012 and their corresponding notes are shown in a comparative manner in accordance with Note 2a).

Certain minor reclassifications have been performed in the 2012 financial statements. i) Statement of Financial Position: from current tax assets and liabilities, recoverable taxes in the amount of ThCh\$8,639,367 and taxes payable in the amount of ThCh\$10,276,802 (which are taxes other than income tax) were reclassified to “other current non-financial assets” and “other current non-financial liabilities”, respectively.

## 2. Significant accounting principles, continued

## c) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) 34 (IAS 34) “Interim Financial Information”, incorporated in IFRS. The figures included in these financial statements are expressed in thousands of Chilean pesos, since the Chilean peso is the Company's functional and reporting currency. All values are rounded to the nearest thousands, except when otherwise indicated.

The information contained in these financial statements is the responsibility of the Company's Board of Directors, which expressly manifests its responsibility for the consistent and reliable nature of the application of IFRS.

Certain accounting practices applied by the Company that conform to IFRS may not conform to generally accepted accounting principles in the United States (“US GAAP”).

For the convenience of the reader these financial statements have been translated from Spanish to English.

## d) Basis of consolidation

The financial statements of Telefónica Chile S.A. and its subsidiaries include assets and liabilities as of June 30, 2013 and December 31, 2012, and shareholders' equity, income and cash flows as of June 30, 2013 and 2012. Balances with related companies, unrealized income and expenses and net income and losses have been eliminated and non-controlling interest has been recognized under “Non-controlling interest” (note 23e).

The financial statements of the consolidated companies cover the periods ended on the same dates as the individual financial statements of the parent Company, Telefónica Chile S.A. and have been prepared using the same accounting policies.

Non-controlling interest represents the portion of net income or loss and net assets of certain subsidiaries that are not owned by the parent company, and are presented in the consolidated statements of income and equity, separately from shareholders' equity.

The following subsidiaries are included in consolidation:

Taxpayer No.	Company Name	Country of origin	Functional currency	Participation percentage			12.31.2012
				06.30.2013	Total		
				Direct	Indirect	Total	Total
96.961.230-5	Telefónica Gestión de Servicios Compartidos Chile S.A.	Chile	CLP	99.99	-	99.99	99.99
76.181.946-1	Telefónica Multimedia Chile Dos S.A. (1)	Chile	CLP	-	-	-	99.99
78.703.410-1	Telefónica Empresas Chile S.A. (Ex - Telefónica Multimedia Chile S.A.)	Chile	CLP	99.99	-	99.99	99.99
96.811.570-7	Instituto Telefónica Chile S.A.	Chile	CLP	-	99.99	99.99	99.99
96.672.160-k	Telefónica Larga Distancia S.A.	Chile	CLP	99.93	-	99.93	99.93
76.086.148-0	Telefónica Chile Servicios Corporativos Ltda.	Chile	CLP	49.00	2.00	51.00	51.00

(1) On April 30, 2013 Telefónica Chile S.A. absorbed subsidiary Telefónica Multimedia Chile Dos S.A., acquiring all its assets and liabilities and succeeding it in all its rights and obligations as legal continuer incorporating all shareholders' equity.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

2. Significant accounting principles, continued

d) Basis of consolidation, continued

The summarized financial information at June 30, 2013 of the companies included in the consolidation is as follows:

Taxpayer No.	Company Name	% Participation	Currents assets	Non-currents assets	Total assets	Currents liabilities	Non-currents liabilities	Total liabilities	Equity	Revenues from ordinary operations	Profit (loss), Net
			ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
96.961.230-5	Telefónica Gestión de Servicios Compartidos Chile S.A.	99.9990000	9,746,229	3,198,528	12,944,757	6,415,954	950,767	7,366,721	5,578,036	8,356,757	1,052,202
78.703.410-1	Telefónica Empresas Chile S.A. (Ex - Telefónica Multimedia Chile S.A.)	99.9999997	142,582,442	79,161,190	221,743,632	75,509,842	2,636,754	78,146,596	143,597,036	106,852,299	2,410,850
96.672.160-k	Telefónica Larga Distancia S.A.	99.9297221	112,206,448	70,785,312	182,991,760	23,832,632	3,289,646	27,122,278	155,869,482	42,293,615	15,620,220
76.086.148-0	Telefónica Chile Servicios Corporativos Ltda.	51.0000000	67,105,935	43,750,629	110,856,564	71,684,894	30,381,420	102,066,314	8,790,250	87,084,664	3,614,818
96.811.570-7	Instituto Telefónica Chile S.A.	99.9999531	177,224	279,294	456,518	1,410,340	22,468	1,432,808	(976,290)	-	(27,179)

The summarized financial information at December 31, 2012 of the companies included in the consolidation is as follows:

Taxpayer No.	Company Name	% Participation	Currents assets	Non-currents assets	Total assets	Currents liabilities	Non-currents liabilities	Total liabilities	Equity	Revenues from ordinary operations	Profit (loss), Net
			ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
96.961.230-5	Telefónica Gestión de Servicios Compartidos Chile S.A.	99.9990000	9,360,852	3,305,868	12,666,720	7,307,022	1,106,576	8,413,598	4,253,122	15,883,119	909,042
78.703.410-1	Telefónica Empresas Chile S.A. (Ex - Telefónica Multimedia Chile S.A.)	99.9999997	135,620,608	73,127,499	208,748,107	69,354,167	2,829,830	72,183,997	136,564,110	212,715,721	14,497,451
76.181.946-1	Telefónica Multimedia Chile Dos S.A. (1)	99.9999000	3,577,733	638	3,578,371	8,323	-	8,323	3,570,048	-	(854,719)
96.672.160-k	Telefónica Larga Distancia S.A.	99.9297221	113,757,453	67,821,562	181,579,015	37,500,936	3,277,060	40,777,996	140,801,019	89,435,083	38,185,128
76.086.148-0	Telefónica Chile Servicios Corporativos Ltda.	51.0000000	75,555,181	46,815,222	122,370,403	85,818,722	31,376,249	117,194,971	5,175,432	175,075,825	6,980,594
96.811.570-7	Instituto Telefónica Chile S.A.	99.9999531	224,577	285,985	510,562	1,437,205	22,468	1,459,673	(949,111)	604,157	(563,873)

(1) On April 30, 2013 Telefónica Chile S.A. absorbed subsidiary Telefónica Multimedia Chile Dos S.A., acquiring all its assets and liabilities and succeeding it in all its rights and obligations as legal continuer incorporating all shareholders' equity.

## 2. Significant accounting principles, continued

### e) Foreign exchange differences

Assets and liabilities in US\$ (United States dollars), Euros, Brazilian Real, JPY (Japanese Yen) and UF (Unidades de Fomento), have been converted to Chilean Pesos using the observed exchange rates as of each period-end, detailed as follows:

DATE	USD	EURO	REAL	JPY	UF
30.Jun.2013	507.16	659.93	227.43	5.11	22,852.67
31.Dec.2012	479.96	634.45	234.98	5.58	22,840.75
30.Jun.2012	501.84	635.08	250.08	6.28	22,627.36

Differences resulting from foreign currency translation in the application of this standard are recognized in income for the period through the "foreign currency translation" account and differences resulting from the valuation of the UF are recognized in income for the period in the "income from indexation units" account.

### f) Financial assets and liabilities

#### 1. Financial assets other than derivatives

##### Classification and presentation

The Company classifies its financial assets into the following categories: loans and accounts receivable, financial assets at fair value through profit and loss, financial assets held to maturity and assets-held-for-sale. The classification depends on the purpose for which the financial assets were acquired. The Company determines the classification of its financial assets at the time of initial recognition.

##### i) Loans and accounts receivable

Loans and accounts receivable are financial assets with fixed and determinable payments that are not quoted in an active market. Trade receivables are recognized for the amount of the invoice, and an adjustment is recorded if there is objective evidence of customer payment risk.

Allowance for doubtful accounts have been determined on uncollectable debts based on stratification of the customer portfolio and age of the debts. Total uncollectability is reached 90 days after the due date of the debt, with a 100% allowance, except for the customer portfolio for the corporate segment, where the total accrual is reached 180 days after the due date.

Loans and accounts receivable are included in "trade and other accounts receivable" in the statement of financial position, except for those with due dates in excess of 12 months from the closing date which are classified as non-current accounts receivable.

They are recorded at amortized cost using the effective interest rate method, which is its initial fair value.

2. Significant accounting principles, continued

f) Financial assets and liabilities, continued

1. Financial assets other than derivatives, continued

i) Loans and accounts receivable, continued

The effective interest rate method is a method for calculating the amortized cost of a financial asset or liability and imputing finance income or expenses throughout the relevant period. The effective interest rate is the discount rate that exactly matches the estimated cash flows receivable or payable throughout the expected life of the financial instrument (or, when adequate in a shorter period) with the net carrying amount of the financial asset or liability.

Short-term trade receivables are not discounted. The Company has determined no difference between the amount invoiced and the amortized cost, as the transaction has no significant associated costs.

ii) Financial assets at fair value through profit or loss

Financial assets are classified to the category of financial assets at fair value through profit or loss when they are held for trading or designated in their initial recognition at fair value through profit or loss. A financial asset is classified in this category if it is mainly acquired for the purpose of being sold in the short-term. Profits and losses on assets held for trading are recognized in income.

The financial assets are recorded in the statement of financial position at fair value and changes in value are recorded directly in income when they occur as are the costs of the initial transaction.

iii) Financial assets held to maturity

Financial assets held to maturity are financial assets with fixed and determinable payments and fixed maturity, that the Company has the positive intention and capacity to hold to maturity. If the Company sold a significant amount of its financial assets held to maturity, the entire category would be reclassified to financial assets held for sale.

Investments are recognized initially at fair value plus transaction costs and are subsequently recorded at amortized cost using the effective interest rate method.

iv) Financial assets available for sale

Financial assets available for sale are non-derivative assets that are designated in this category or not classified in any of the other categories. They are included in non-current assets unless the Company intends to dispose of the investment in the 12 months following the closing date.

Investments are initially recognized at fair value less transaction costs and are subsequently recorded at their fair value.

## 2. Significant accounting principles, continued

### f) Financial assets and liabilities, continued

#### 1. Financial assets other than derivatives, continued

##### iv) Financial assets available for sale, continued

These investments figure in the statement of financial position at their fair value when it is possible to determine it reliably. In the case of interests in companies that are not quoted or that are not very liquid, normally the market value cannot be reliably determined, therefore when this occurs, they are valued at acquisition cost or a lower amount when there is evidence of impairment.

Changes in fair value, net of their tax effect, are recorded in the comprehensive income statement: other comprehensive income, up to the time of disposal of these investments, time at which the accumulated amount in this heading is imputed fully to profit or loss for the year.

Should the fair value be less than the cost of acquisition, if there is objective evidence that the asset has suffered impairment that cannot be considered temporary, the difference is recorded directly in loss for the year.

It should be noted that the Company will stop recognizing this asset when the contractual rights over the cash flows of the financial asset have expired or this financial asset is transferred if, and only if the contractual rights to receive the cash flows of the financial asset are retained, but it assumes the contractual obligation to pay them to one or more beneficiaries.

Purchases and sales of financial assets are accounted for using the trading date.

#### 2. Cash and cash equivalents

Cash and cash equivalents recognized in the financial statements includes cash balances, checking accounts, time deposits and investments in instruments with original maturity of ninety days or less. These items are recorded at their historical cost, which does not significantly differ from their realization value.

There are no restrictions on the use of cash and cash equivalents contained in this heading.

#### 3. Financial liabilities

The Company classifies its financial liabilities in the following categories: at fair value through profit or loss, trade accounts payable, interest bearing loans or derivatives designated as effective hedge instruments (see Note 19).

The Company determines the classification of its financial liabilities at the time of initial recognition.

## 2. Significant accounting principles, continued

### f) Financial assets and liabilities, continued

#### 3. Financial liabilities, continued

Financial liabilities are derecognized when the obligation is cancelled, liquidated or expires. When an existing financial liability is replaced by another from the same lender under substantially different terms, or the terms of an existing liability are substantially modified, that exchange or modification is treated as an accounting derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Financial liabilities are initially recognized at fair value and in the case of loans, include costs that are directly attributable to the transaction. Subsequent measurement of financial liabilities depends on their classification as explained below.

#### i) Financial liabilities at fair value through profit or loss

Financial liabilities are classified to the category of financial liabilities at fair value through profit or loss when they are held for trading or designated at fair value through profit or loss in their initial recognition.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling them in the short-term.

Profits or losses on liabilities held for trading are recognized with a charge or credit to comprehensive income. This category includes derivative instruments not designated for hedge accounting and also considers embedded derivatives.

#### ii) Trade accounts payable

Balances payable to suppliers are subsequently valued at amortized cost using the effective interest rate method. Trade accounts payable expiring in accordance with generally accepted commercial terms are not discounted.

#### iii) Interest-bearing loans

Loans are valued at amortized cost using the effective interest rate method. Amortized cost is calculated taking into account any premium or discount of the acquisition and includes transaction costs that are an integral part of the effective interest rate. The difference between the cash received and the reimbursement value is imputed directly to income over the term of the contract. Financial obligations are presented as non-current liabilities when their expiry exceeds 12 months.

2. Significant accounting principles, continued

f) Financial assets and liabilities, continued

4. Derivative financial instruments

The Company holds hedge derivatives to manage its exposure to interest and/or exchange rate risks. The Company's objective in respect to derivatives is to minimize these risks using the most effective method to eliminate or reduce the impact on underlying hedged transactions.

Derivative instruments are recognized at fair value on the date of the statement of financial position under "Other financial assets" or "Other financial liabilities" depending on whether their fair value is positive or negative respectively. They are classified as current or non-current depending on whether they mature in less than or more than twelve months. Derivative instruments that meet all the requirements for being treated as hedge instruments for long-term items are presented as non-current assets or liabilities, based on their balance separately from the hedged items, as indicated in IAS 39.

Hedges for risks of variations, in exchange rates, in firmly committed transactions, may be treated indistinctly as either a fair value hedge or cash flow hedge.

Variations in the fair value of derivatives that have been designated as and meet the requirements for being treated as fair value hedge instruments, are recorded in the comprehensive income statement netting the effects of the part of the underlying for which the risk is being hedged

In the case of cash flow hedges, changes in the fair value of derivatives are recorded, for the effective part of those hedges, in an equity reserve called "Cash flow hedge reserve". The accumulated deficit or profit in that heading is transferred to the comprehensive statement of income to the extent that the underlying has an impact on the comprehensive income statement for the hedged risk, netting that effect. The part of the hedge considered to be ineffective is recorded directly in the comprehensive income statement.

Initially, the Company formally documents the hedge relationship between the derivative and the hedged item, as well as the objectives and risk management strategies pursued in establishing the hedge. This documentation includes identifying the hedge instrument, hedged item or transaction as well as the nature of the hedged risk. It also specifies the method for assessing the degree of effectiveness when offsetting the exposure to changes in the hedged element, whether in its fair value or in the cash flows attributable to the hedged risk. The effectiveness assessment is performed prospectively and retroactively, both at inception of the hedge relationship and systematically throughout the period for which it were designated.

The fair value of the derivative portfolio reflects estimates based on calculations performed using observable market data, employing specific valuation and risk management tools widely used by diverse financial entities.



2. Significant accounting principles, continued

g) Inventory

Materials for consumption and replacement are valued at cost or net realization value, whichever is lower.

When cash flows related to inventory purchases are covered by an effective hedge, the corresponding gains and losses accumulated in equity become part of the cost of acquired inventory.

The value of products that are obsolete, defective or have a slow turnover has been reduced to their possible net realization value, which has been determined on the basis of a study of materials with slow turnover, which according to the Company's policies have been defined as materials that have not been commercialized and/or have not had any turnover in a period of 24 months or more. Likewise, products or accessories in warehouse for scrapping are considered a total loss.

h) Non-current assets destined for sale

Non-current assets destined for sale are measured at the lower end of the book and fair values, less the cost to sell. Assets are included in this heading when the book value can be recovered through a sales transaction, which is highly likely to take place when they are immediately available in their present condition. Management must be committed to a plan to sell the asset and must have actively begun a program to find a buyer and complete the plan. Likewise, it must be expected that the sale will qualify for full completion within a year following its classification date.

Property, plant and equipment classified as held for sale is not depreciated.

i) Impairment of non-current assets

At each year-end non-current assets are evaluated for possible indications of impairment. If such indications exist, the Company estimates the asset's recoverable amount, which is its value in use or its fair value, less cost to sell, whichever is greater. Value in use is determined by discounting estimated future cash flows. When an asset's recoverable amount is less than its net book value, impairment is recorded.

To calculate impairment, the Company estimates the return on assets assigned to the different cash generating units based on expected cash flows.

Discount rates used are determined before taxes and adjusted for the respective country and business risk. Thus, in 2013 and 2012 the rate used was 8.62% and 10.80% respectively. There were no impairment adjustments made in 2013 and 2012.

j) Leases

Leased assets for which the lessor retains a significant part of the risks and rewards of ownership are classified as operating leases. Payments made on this type of lease are charged to income on a straight-line basis over the term of the lease. Future obligations on these contracts are detailed in Note 26.

## 2. Significant accounting principles, continued

### j) Leases, continued

Leased assets for which the significant risks and rewards of ownership are transferred to the Company are considered finance leases. Initially, the asset and associated liability are recorded at the fair value of the leased asset or the present value of the minimum agreed-upon lease payments if lower. Interest expense is charged to income throughout the life of the lease. Depreciation of these assets is included in depreciation of Property, Plant and Equipment. The Company reviews all contracts to determine if they contain an embedded lease. As of June 30, 2013 and 2012 no embedded leases were identified.

### k) Income taxes

The income tax expense for each year comprises current and deferred income taxes.

Tax credits and liabilities for the current year and prior years are measured at the estimated amount recoverable or payable to the tax authorities. The Company uses the tax rates and government regulations current as of each period-end to calculate those amounts, which is 20% for 2013 and 18.5% for 2012.

The deferred tax amount is obtained from analyzing temporary differences that arise due to differences between the tax and book values of assets and liabilities, mainly allowance for doubtful accounts, depreciation of Property, plant and equipment and staff severance indemnities.

Under Chilean tax regulations tax loss carry forwards can be realized as future tax benefits with no time restrictions.

Temporary differences generally become taxable or deductible when the related asset is recovered or the related liability is settled. A deferred tax liability or asset represents the amount of tax payable or refundable in future years under the currently enacted tax laws and rates as a result of temporary differences at the end of the current year.

Deferred tax assets and liabilities are not discounted at their current value and are classified as non-current.

### l) Goodwill

Goodwill represents the surplus of the acquisition cost in comparison to the fair value, as of the acquisition date, of identifiable assets, liabilities and contingent liabilities acquired. After initial recognition, goodwill is recorded at cost, less any accumulated impairment loss.

The Company tests goodwill impairment annually and when there are indicators that the net carrying amount might not be fully recoverable. The impairment test which is based on fair value is performed for each cash generating unit, for which the goodwill has been allocated. If that fair value is less than the carrying amount, an irreversible impairment loss is recognized in the income statement.

## 2. Significant accounting principles, continued

### m) Intangibles

Intangibles includes software licenses and the right to use underwater cable, which are recorded at acquisition or production cost, less accumulated amortization and less any accumulated impairment loss.

Software licenses and rights to use underwater cable have finite useful lives and are amortized over their estimated useful lives. As of the balance sheet date there is an analysis underway to determine whether there are events or changes that indicate that the net book value might not be recoverable, in which case impairment tests will be carried out.

The methods and periods of amortization applied are reviewed as of each year-end and if applicable, adjusted in a prospective manner.

The Company amortizes software licenses and the right to use underwater cable using the straight-line method over their estimated useful lives, which for software licenses is 3 years and for rights to use underwater cables, a maximum of 15 years.

### n) Property, plant and equipment

Property, plant and equipment items are valued at acquisition cost, less accumulated depreciation and less applicable impairment losses. Land is not depreciated.

Acquisition cost includes external costs plus internal costs necessary to carry out the investment, comprised of direct costs, direct labor costs used in the installation and any other cost necessary to carry out the investment. In addition the initial cost includes an estimate of future dismantling and removal, criteria that is applied in a uniform manner for costs mandatorily incurred as a consequence of the use of those assets.

Interest and other financial expenses incurred and directly attributable to the acquisition or construction of qualifying assets, may be capitalized. Qualifying assets, under the criteria of the Telefónica Group, are assets that require at least 18 months of preparation for their use or sale. At period-end of 2013 and 2012 there are no capitalized interests.

Costs for improvements that result in increased productivity, efficiency, or extension of the useful lives of assets, are capitalized as higher cost of such assets when they comply with the requirements to be recognized as an asset.

Repair and maintenance expenses are charged to the income statement account for the period, in which they are incurred.

## 2. Significant accounting principles, continued

## ñ) Depreciation of property, plant and equipment

The Company depreciates Property, plant and equipment from the moment when the assets are in condition to be used, distributing the cost of the assets on a straight-line basis over the respective estimated useful life. The average annual financial depreciation rate of the Company is approximately 8.36% for June, 2013 (7.96% for June, 2012).

Estimated useful lives are summarized in the following detail:

Assets	Useful lives in years	
	Minimum	Maximum
Buildings	12	40
Transportation equipment	7	10
Supplies and accessories	7	10
Office equipment	10	10
Other property, plant and equipment	2	20

Estimated residual values, amortization methods and periods are reviewed as of each period-end and if appropriate, adjusted prospectively.

## o) Provisions

## i) Post-employment benefits

The Company is obligated to pay staff severance indemnities in respect of collective negotiation agreements, which are provisioned using the method of actuarial value of the accrued cost of the benefit, using an nominal annual discount rate of 5.8% at June 30, 2013 and 4.8% in 2012, considering estimations such as future permanence, employee mortality rate and future salary increases determined on the basis of actuarial calculations. Discount rates are determined by reference to market interest curves.

## ii) Provision for dismantling expenses

Corresponds to the cost that will be incurred in the future for dismantling microwave antennas from the telecommunications infrastructure once the third-party site rental contract ends. This cost is calculated at current value and recorded as a property, plant and equipment item in assets and as a non-current accrual for future obligations. That property, plant and equipment item is amortized over the duration of the asset associated to that accrual.

## iii) Other provisions

Provisions are recognized when the Company has a present legal or constructive obligation, as a result of a past event, whose settlement requires an outflow of resources that is considered likely and can be reliably estimated. This obligation can be legal or constructive, derived from among other factors, regulations, contracts, common practices or public commitments that create a valid third-party expectation that the Company will assume certain responsibilities.

## 2. Significant accounting principles, continued

### p) Income and expenses

Income and expenses are recognized in the income statement based on the accrual criteria, i.e. when the real flow of goods and services that they represent is produced and can be reliably measured, regardless of the moment at which the cash flows or financing derived from it is produced.

The Company's income is produced mainly by providing the following telecommunications services: traffic voice and broadband traffic, international business (correspondents), multiservice network services and capacities, television, connection charges, monthly fees for the use of the network, interconnection, network and equipment rental, sale of equipment and other services, such as value added services. Products and services can be sold separately or jointly, in commercial packages.

Income from traffic is based on the call initiation establishment tariff, plus tariffs per call, which vary depending on the time consumed by the user, the distance of the call and type of service. Traffic is recorded as income as it is used.

The amount corresponding to traffic that has been pre-paid and use is pending generates deferred income which is recorded in liabilities. Electronic top-ups usually have an expiry period of up to 90 days, and any unused prepaid traffic is recognized directly in income when the card expires, since as of that moment the Company has no remaining obligations to provide the service.

In the case of sale of traffic, as well as of other services, through a fixed tariff for a certain period of time (flat rate), income is recognized using the straight-line method over the period of time covered by the rate paid by the customer.

Income from connection charges originate when customers connect to the Company's network are deferred and recognized in income over the average estimated term of the duration of the relationship with the customer, and vary depending on the type of service. All associated costs, except those related to extension of the network, and administrative and commercial expenses, are recognized in the income statement when they are incurred.

Monthly fees are recognized as income using the straight-line method in the corresponding period. Rentals and other services are recognized as income as the service is provided.

Income from interconnection of fixed-mobile and mobile-fixed calls, as well as from other services used by customers, are recognized in the period in which those calls are made.

The commercial package offers a combination of different elements, in the activities of telephone service, internet and television, are analyzed to determine whether it is necessary to separate the different elements identified, applying in each case the appropriate income recognition criteria. Total income from the package is distributed among its identified elements by function of their respective fair values (i.e. the fair value of each individual component in relation to the total fair value of the package).

## 2. Significant accounting principles, continued

### p) Income and expenses, continued

Income from capacities and multiservice networks is accrued to the extent that the service is rendered and invoiced, generally as of the following period.

The Company has current agreements with foreign correspondents, with conditions which are established to regulate international traffic and their collection or payment is performed in accordance with net traffic exchange and the rates set in each agreement. Accounting for this exchange is on an accrual basis, recognizing the costs and income in the period in which they are produced, recording balances receivable or payable for each correspondent under "Trade and Other Receivables" or "Trade and Other Payables", as applicable.

All expenses related to these mixed commercial offers are recognized in the income statement as they are incurred.

### q) Use estimates

The following section shows the main future hypotheses assumed and other relevant sources of uncertainty in estimates as of the reported periods that could have a significant effect on the financial statements in the future.

#### i) Property, plant and equipment and intangibles

The accounting treatment for Property, plant and equipment and intangible assets uses estimates to determine useful life for the purpose of calculating depreciation and amortization.

Determination of useful lives requires estimates regarding expected technological progress and alternative use of assets. Hypotheses regarding technological framework and its future development imply a significant degree of judgment, as the timing and nature of future technological change is difficult to predict.

#### ii) Deferred taxes

The Company evaluates probability of recovery of deferred tax assets based on estimates of future earnings. This probability of recovery ultimately depends on the Company's capacity to generate taxable income throughout the period in which the deferred tax assets are deductible. This analysis takes into consideration the forecasted reversal calendar for deferred tax liabilities as well as estimates of taxable income, based on internal projections that are updated to reflect recent trends.

Determining the proper classification of tax items depends on various factors, including timing estimates, realization of deferred tax assets and the expected timing of tax payments. The real flows of income tax payments and recoveries may differ from estimates made by the Company as a consequence of changes in tax legislation or of unforeseen future transactions that may affect tax balances.

2. Significant accounting principles, continued

q) Use estimates, continued

iii) Provisions

Given the uncertainty inherent to estimates used to determine provisions, real disbursements may differ from the amounts originally recognized using these estimates.

Determination of the amounts of provisions is based on the best estimate of the disbursements that must be made for the corresponding obligations, taking into consideration all information available as of period-end, including the opinion of independent experts, such as legal advisors and consultants.

iv) Income recognition: agreements combining more than one element

Commercial packages that combine different elements are analyzed to determine if these elements must be separated, applying the appropriate income recognition criteria in each case. Total income from the package is distributed among the identified elements based on their respective fair values.

Determining the fair value of each identified element requires making estimates due to the particular nature of the business

A change in relative fair value estimates could affect distribution of income among components.

v) Post-employment benefits

The cost of defined benefit post retirement plans as well as the present value of the obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate management considers the interest rates of instruments issued by the Central Bank of Chile. The mortality rate is based on publicly available mortality tables for the specific country.

Future salary increases and pension increases are based on expected future inflation rates for the specific country. View details of the assumptions used in Note 21a).

vi) Financial assets and liabilities

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instrument.

## 2. Significant accounting principles, continued

## r) Methods of consolidation

Consolidation has been carried out using the global integration method for companies where there is control, whether through effective control or the existence of agreements with the rest of the shareholders.

All balances and transactions between consolidated companies have been eliminated in the consolidation process. Likewise, the margins included in these operations performed by companies dependent on other companies of the Company for capitalized goods or services have been eliminated in the consolidation process.

The accounts in the statement of comprehensive income and consolidated cash flows gather, respectively, the income, expenses and cash flows of companies that stop being a part of the Company up to the date on which the participation has been sold or the company has been liquidated. Likewise, in the case of new acquisitions, income and expenses and cash flows of the new companies are gathered from the date of purchase of those companies.

The value of the participation of non-controlling shareholders in the equity and income of dependent companies consolidated using the global integration method is presented in “non-controlling interests” and “income attributable to non-controlling interests”, respectively.

## s) New IFRS and Interpretations of the IFRS Interpretations Committee

IFRS improvements and amendments, as well as interpretations that have been published during the period are detailed below. As of the closing date, these standards are still not in forced and the Company has not opted for early application of any of them:

New Standard		Mandatory application date
IFRIC 21	Levies	January 1, 2014
IFRS 9	Financial instruments: Classification and measurement	January 1, 2015

## IFRIC 21 “Levies”

IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets that was issued in May 2013. IAS 37 establishes the criteria for recognition of assets, one of which is the requirement that the entity must have a present obligation as a result of a past event. The interpretation clarifies that this past event from which the payment obligation of a levy arises is the activity described in the relevant legislation that triggers payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.



## 2. Significant accounting principles, continued

## s) New IFRS and Interpretations of the IFRS Interpretations Committee, continued

## IFRS 9 “Financial instruments: Classification and measurement”

This standard introduces new requirements for the classification and measurement of financial assets, allowing for early application. It requires that all financial assets be classified totally on the basis of the entity's business model for managing financial assets and the characteristics of contractual cash flows of financial assets. Financial assets under this standard are measured either at amortized cost or fair value. Only financial assets classified as measured at amortized cost must be tested for impairment. Application is effective for annual periods beginning on or after January 1, 2015, early adoption is allowed.

The Company has evaluated the impact that the application of these standards might have on the date of its coming into effect and has determined that it will have no significant impact on the consolidated financial statements.

	Improvements and amendments	Mandatory application date
IFRS 10	Consolidated Financial Statements	January 1, 2014
IFRS 12	Disclosure of Participation in other Entities	January 1, 2014
IAS 27	Separate Financial Statements	January 1, 2014
IAS 32	Financial instruments: Presentation	January 1, 2014
IAS 36	Impairment of Assets	January 1, 2014
IAS 39	Financial Instruments: Recognition and Measurement	January 1, 2014

## IFRS 10 “Consolidated financial statements”, IFRS 12 “Disclosure of interest in other entities”, IAS 27 “Separate Financial Statements”

Amendments to IFRS 10 Consolidated financial statements, IFRS 12 Disclosure of interests in other entities and IAS 27 Separate financial statements arise from proposals of the Investment Entities Standard Project published in August 2011. Amendments define an investment entity and introduce an exception to consolidate certain subsidiaries belonging to investment entities.

These amendments require that an investment entity measure these subsidiaries at fair value with changes in income in accordance with IFRS 9 Financial instruments in their consolidated and separate financial statements. The amendments also introduce new information disclosure requirements in IFRS 12 and IAS 27 related to investment entities. Entities are required to apply the amendments to annual periods commencing as of January 1, 2014. Early application is allowed.

## 2. Significant accounting principles, continued

### s) New IFRS and Interpretations of the IFRS Interpretations Committee, continued

#### IAS 32 “Financial Instruments: Presentation”

Amendments to IAS 32 issued in December 2011 are destined to clear up differences in the application in relation to compensation and reduce the level of diversity in current practice. The standard is applicable as of January 1, 2014 and its early adoption is allowed.

#### IAS 36 “Impairment of Assets”

Amendments to IAS 36, issued in May 2013, are destined to disclosure of information regarding the recoverable amount of impaired assets, if the amount is based on the fair value less disposal costs. These amendments are in relation to the issuance of IFRS 13 Fair Value Measurement. Amendments must be applied retrospectively for annual periods commencing on or after January 1, 2014. Early application is allowed when the entity has already applied IFRS 13.

#### IAS 39 “Financial Instruments: Recognition and Measurement”

Amendments to IAS 39, issued in June 2013, provide an exception to the requirement to suspend hedge accounting in situations in which over the counter derivatives designated in hedge relations are directly or indirectly novated to a central counterparty entity, as a consequence of laws or regulations, or the introduction of laws or regulations. It is required that entities apply the amendments to annual periods commencing as of January 1, 2014. Early application is allowed.

The Company has determined that the application of these new accounting improvements and amendments will not have a significant impact on the consolidated financial statements.

## 3. Changes in Accounting Policy and Disclosures

During the periods covered by these consolidated financial statements, the international financial reporting standards have been consistently applied.

#### 4. Financial information by segment

Telefónica Chile S.A. discloses segment information in accordance with IFRS 8, “Operating Segments” which establishes the standards for reporting operating segments and related disclosures for products and services and geographical areas. Operating segments are defined as components of an entity for which there is separate financial information that is regularly used by the main decision maker to decide how to assign resources and to evaluate performance. The Company presents segment information that is used by management for internal decision making purposes.

The Company manages and measures the performance of its operations by business segment. Since the Company’s corporate organization coincides basically with that of the businesses, and therefore the segments, distribution established in the information presented below, is based on the financial information of the companies. These are integrated in each segment. The operating segments reported internally are as follows:

##### a) Fixed Telecommunications

Fixed telephone services include basic services, line connections and installations, value added services, handset commercialization marketing and dedicated lines. Consistent with the financial statements, income is recorded as the services are provided or the equipment is sold.

Assets and liabilities correspond to those directly attributable to the segment.

##### b) Television Services

Multimedia services include direct and indirect development, installation, maintenance, marketing and operations of television services via cable, satellite, broadband or any other physical means using any physical or technical means, including individual paid services or multiple basic channels, special or paid, videos on demand and interactive or multimedia television services. Corresponding with the financial statements, income is recognized as the services are delivered.

Assets and liabilities correspond to those directly attributable to the segment.

##### c) Long Distance

The Company provides national and international long distance services. The long distance business segment also rents its long distance network to other telecommunications operators, such as long distance carriers, mobile telephone operators and Internet service suppliers. Consistent with the financial statements, income is recognized as the services are provided.

Assets and liabilities correspond to those directly attributable to the segment.

##### d) Corporate Communications and Data

The corporate communications service includes sale and rental of telecommunications equipment and sale of networks to corporate customers, rental of networks associated with private corporate customer network projects, and data transmission services. Income is recognized as the services are provided.

Assets and liabilities correspond to those directly attributable to the segment.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

4. Financial information by segment, continued

e) Other

“Other” includes logistics, personnel and management services.

Relevant information regarding Telefónica Chile S.A. and its main subsidiaries, which represent different segments, together with information regarding other subsidiaries, to the periods ended June 2013 and 2012 is as follows:

For the period ended as of June 30, 2013	Fixed Telecommunications	Long Distance	Corporate Communication and Data	Television Services	Other	Eliminations	Total
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Income from external customers	205,822,074	21,036,124	54,152,442	50,095,166	1,292,887		332,398,693
Income between segments	36,487,184	21,257,491	2,604,691	-	94,148,534	(154,497,900)	-
<b>Income from external customers and between segments</b>	<b>242,309,258</b>	<b>42,293,615</b>	<b>56,757,133</b>	<b>50,095,166</b>	<b>95,441,421</b>	<b>(154,497,900)</b>	<b>332,398,693</b>
<b>Income from ordinary activities arising from interest</b>							
Interest expense	17,348,863	3,150	57,397	19,139	1,002,837	(2,514,373)	15,917,013
Interest income	3,868,850	1,964,375	389,089	116,882	17,198	(2,514,373)	3,842,021
<b>Finance income, net segment</b>	<b>(13,480,013)</b>	<b>1,961,225</b>	<b>331,692</b>	<b>97,743</b>	<b>(985,639)</b>	<b>-</b>	<b>(12,074,992)</b>
Depreciation and amortization	57,419,594	4,347,648	8,108,187	7,253,496	310	-	77,129,235
Other significant income (expense) items	(165,822,474)	(20,638,536)	(48,451,436)	(40,130,464)	(88,767,354)	154,497,813	(209,312,451)
Participation in profit of associated companies accounted for using the equity method	20,843,544	14,459	46,993	-	10,844	(20,915,840)	-
Income tax expense	2,195,815	3,857,533	109,384	514,076	1,022,906	-	7,699,714
Other significant non-cash items	294,533	194,638	(112,267)	(238,567)	(9,034)	85	129,388
<b>Profits(loss) before tax</b>	<b>26,725,254</b>	<b>19,477,753</b>	<b>463,928</b>	<b>2,570,382</b>	<b>5,689,928</b>	<b>(20,915,842)</b>	<b>34,011,403</b>
<b>Profit (loss) for the period from continuing operations</b>	<b>24,529,439</b>	<b>15,620,220</b>	<b>354,544</b>	<b>2,056,306</b>	<b>4,667,022</b>	<b>(20,915,842)</b>	<b>26,311,689</b>
<b>Profit (loss) for the period from discontinuing operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit (loss) for the period</b>	<b>24,529,439</b>	<b>15,620,220</b>	<b>354,544</b>	<b>2,056,306</b>	<b>4,667,022</b>	<b>(20,915,842)</b>	<b>26,311,689</b>
Assets	1,488,723,684	182,991,760	139,776,597	81,967,035	124,257,839	(559,966,646)	1,457,750,269
Investments in associates accounted for using the equity method	309,242,177	35,161	114,273	-	26,375	(309,417,986)	-
Increases in non-current assets	54,803,389	7,045,653	16,387,018	6,507,952	-	-	84,744,012
Liabilities	859,069,832	27,122,278	53,765,820	24,380,776	109,889,554	(250,548,661)	823,679,599
Shareholders' equity	629,653,852	155,869,482	86,010,777	57,586,259	14,368,285	(309,417,985)	634,070,670
Liabilities & Shareholders' equity	1,488,723,684	182,991,760	139,776,597	81,967,035	124,257,839	(559,966,646)	1,457,750,269
Cash flows provided by (used in) operating activities	87,353,297	11,585,065	229,263	202,810	3,344,897	(278,178)	102,437,154
Cash flows provided by (used in) investment activities	(61,801,607)	(8,575,809)	(9,753,534)	(18,113,702)	-	-	(98,244,652)
Cash flows provided by (used in) from in financing activities	(123,712,040)	(3,191,400)	13,051,450	15,871,049	(3,056,257)	278,178	(100,759,020)

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

4. Financial information by segment, continued

For the year period as of June 30, 2012	Fixed Telecommunications	Long Distance	Corporate Communication and Data	Television	Other	Eliminations	Total
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Income from external customers	216,122,421	23,747,723	51,703,122	52,558,129	1,461,517	-	345,592,912
Income between segments	36,729,007	21,348,542	2,693,343	-	95,654,963	(156,425,855)	-
<b>Income from external customers and between segments</b>	<b>252,851,428</b>	<b>45,096,265</b>	<b>54,396,465</b>	<b>52,558,129</b>	<b>97,116,480</b>	<b>(156,425,855)</b>	<b>345,592,912</b>
<b>Income from ordinary activities arising from interest</b>							
Interest expense	16,258,608	20,131	13,441	21,366	1,042,406	(6,241,969)	11,113,983
Interest income	2,508,917	5,263,270	897,153	17,252	6,634	(6,241,969)	2,451,257
<b>Finance income, net segment</b>	<b>(13,749,691)</b>	<b>5,243,139</b>	<b>883,712</b>	<b>(4,114)</b>	<b>(1,035,772)</b>	<b>-</b>	<b>(8,662,726)</b>
Depreciation and amortization	56,294,283	4,476,776	5,572,367	11,133,989	216,565	-	77,693,980
Other significant income (expense) items	(177,326,905)	(21,595,494)	(45,256,959)	(31,853,542)	(90,429,244)	156,444,169	(210,017,975)
Participation in profit of associated companies accounted for using the equity method	34,684,947	25,151	58,465	12,687	12,286	(34,255,391)	538,145
Income tax expense	2,189,387	3,675,993	917,104	1,456,369	1,276,912	-	9,515,765
Other significant non-cash items	297,116	(236,443)	633	1,772	8,855	(18,314)	53,619
<b>Profits(loss) before tax</b>	<b>40,462,612</b>	<b>24,055,842</b>	<b>4,509,949</b>	<b>9,580,943</b>	<b>5,456,040</b>	<b>(34,255,391)</b>	<b>49,809,995</b>
<b>Profit (loss) for the period from continuing operations</b>	<b>38,273,225</b>	<b>20,379,849</b>	<b>3,592,845</b>	<b>8,124,574</b>	<b>4,179,128</b>	<b>(34,255,391)</b>	<b>40,294,230</b>
<b>Profit (loss) for the period from discontinuing operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit (loss) for the period</b>	<b>38,273,225</b>	<b>20,379,849</b>	<b>3,592,845</b>	<b>8,124,574</b>	<b>4,179,128</b>	<b>(34,255,391)</b>	<b>40,294,230</b>
Assets	1,547,029,814	311,939,459	120,095,710	82,984,826	118,349,739	(803,825,399)	1,376,574,149
Investments in associates accounted for using the equity method	362,198,230	108,472	225,844	-	2,669	(356,096,860)	6,438,355
Increases in non-current assets	46,759,790	307,159	4,282,032	11,577,343	-	-	62,926,324
Liabilities	870,816,482	102,461,181	41,488,187	23,337,104	109,404,571	(447,728,540)	699,778,985
Shareholders' equity	676,213,332	209,478,278	78,607,523	59,647,722	8,945,168	(356,096,859)	676,795,164
Liabilities & Shareholders' equity	1,547,029,814	311,939,459	120,095,710	82,984,826	118,349,739	(803,825,399)	1,376,574,149
Cash flows provided by (used in) operating activities	72,089,091	12,841,811	6,311,039	17,802,569	(3,783,237)	(8,423,709)	96,837,564
Cash flows provided by (used in) investment activities	(79,269,899)	(3,968,521)	(6,540,837)	(15,832,633)	-	4,422,837	(101,189,053)
Cash flows provided by (used in) from in financing activities	54,688,495	(9,062,834)	443,592	(2,345,900)	3,920,950	4,000,872	51,645,175

There are no differences in the criteria used, in respect to the previous year, in relation to measurement and valuation of segment income and valuation of their assets and liabilities, as well as transactions between segments.

There are no changes in the measurement methods used to determine income presented by the segments in respect to the previous year.

Accounting criteria regarding transactions between subsidiaries of Telefónica Chile S.A. which are performed at market prices, independently and in a manner similar to transactions with third parties, consider that balances, transactions and profits or losses remain in the segment of origin and are only eliminated in the consolidated financial statements of the entity.

**5. Cash and cash equivalents**

Cash and cash equivalents are detailed as follows:

Concepts	Currency	06.30.2013 ThCh\$	12.31.2012 ThCh\$
<b>Cash (a)</b>		<b>101,839</b>	<b>104,247</b>
	CLP	45,676	43,160
	USD	40,882	40,321
	EUR	15,281	20,766
<b>Banks (b)</b>		<b>8,260,345</b>	<b>10,939,658</b>
	CLP	7,651,371	10,608,029
	USD	423,277	136,003
	EUR	185,697	195,626
<b>Time deposits (c)</b>		<b>138,701,001</b>	<b>214,834,792</b>
	CLP	5,427,975	8,535,201
	UF	-	62,213,631
	USD	133,273,026	144,085,960
<b>Repurchase agreements (d)</b>		<b>2,938,263</b>	<b>20,689,269</b>
	CLP	2,938,263	20,689,269
<b>Total cash and cash equivalents</b>		<b>150,001,448</b>	<b>246,567,966</b>
<b>Sub-total by currency</b>	<b>CLP</b>	<b>16,063,285</b>	<b>39,875,659</b>
	<b>UF</b>	<b>-</b>	<b>62,213,631</b>
	<b>USD</b>	<b>133,737,185</b>	<b>144,262,284</b>
	<b>EUR</b>	<b>200,978</b>	<b>216,392</b>

Each item within cash and cash equivalents is detailed as follows:

**a) Cash**

The cash balance is composed of funds to be rendered destined to minor expenses and the book value is the same as the fair value.

**b) Banks**

The balance in banks is composed of money held in checking accounts and the book value is the same as the fair value.

## Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

## 5. Cash and cash equivalents, continued

## c) Time deposits

Time deposits maturing in less than 90 days are recorded at fair value and as of June 30, 2013 and December 31, 2012 are detailed as follows:

Type of investment	Currency	Principal in original currency (thousands)	Average annual rate	Average days to maturity	Principal in local currency ThCh\$	Accrued interest in local currency ThCh\$	06.30.2013 ThCh\$
Time deposits	CLP	5,410,720	4.97%	13	5,410,720	17,255	5,427,975
Time deposits	USD	262,722	3.50%	31	133,242,044	30,982	133,273,026
<b>Total</b>					<b>138,652,764</b>	<b>48,237</b>	<b>138,701,001</b>

Type of investment	Currency	Principal in original currency (thousands)	Average annual rate	Average days to maturity	Principal in local currency ThCh\$	Accrued interest in local currency ThCh\$	12.31.2012 ThCh\$
Time deposits	CLP	8,526,000	5.15%	16	8,526,000	9,201	8,535,201
Time deposits	UF	2,713	3.70%	90	61,959,287	254,344	62,213,631
Time deposits	USD	299,955	4.04%	78	143,965,001	120,959	144,085,960
<b>Total</b>					<b>214,450,288</b>	<b>384,504</b>	<b>214,834,792</b>

## d) Repurchase agreements

Repurchase agreements are instruments from different financial entities.

The balance to June 30, 2013 and December 31, 2012 are as follows:

Code	Dates		Counterparty	Original currency	Subscription value original currency (in thousands)	Annual rate %	Final value ThCh\$	Identification of instruments	Book value ThCh\$
	Beginning	Ending							
CRV	Jun-27-13	Jul-02-13	BBVA	CLP	2,785,000	4.8	2,785,000	BCU0300216	2,786,114
CRV	Jun-28-13	Jul-02-13	BBVA	USD	300	1.2	152,148	BCP0600617	152,149
<b>Total</b>							<b>2,937,148</b>		<b>2,938,263</b>

Code	Dates		Counterparty	Original currency	Subscription value original currency (in thousands)	Annual rate %	Final value ThCh\$	Identification of instruments	Book value ThCh\$
	Beginning	Ending							
CRV	Dec-27-12	Jan-02-13	BCI	CLP	8,400,000	4.8	8,404,480	BCU0300216	8,404,480
CRV	Dec-28-12	Jan-02-13	BBVA	CLP	12,280,000	4.7	12,284,789	BCP0600617	12,284,789
<b>Total</b>							<b>20,689,269</b>		<b>20,689,269</b>

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

6. Other current and non-current financial assets

Other current financial assets are detailed as follows:

Concepts		06.30.2013		12.31.2012	
		Current ThCh\$	Non-Current ThCh\$	Current ThCh\$	Non-Current ThCh\$
Guarantees established	(a)	478,482	138,284	478,482	200,959
Other investments	(b)	-	7,270,729	-	7,287,018
Exchange rate hedge	(See Note 19.2)	10,859,456	17,718,557	4,519,653	9,221,669
<b>Total</b>		<b>11,337,938</b>	<b>25,127,570</b>	<b>4,998,135</b>	<b>16,709,646</b>

a) Guarantees are those established for clients, official organizations and other institutions.

b) Other investments are detailed as follows:

Participation	Country	Investment currency	06.30.2013 ThCh\$	12.31.2012 ThCh\$
Telefónica Brasil (Ex - Telecomunicacoes de Sao Paulo S.A.) (1) (2)	Brazil	REAL	7,259,399	7,275,688
Other participation	Chile	CLP	11,330	11,330
<b>Total</b>			<b>7,270,729</b>	<b>7,287,018</b>

(1) This investment is valued at market value through the trading of its shares, information obtained in the Sao Paulo Stock Exchange (Bovespa), and variations in their value are recorded when they occur, directly in equity under other reserves.

(2) During the first half of 2013 dividends were received in the amount of ThCh\$235,123 and as of December 31, 2012 ThCh\$1,128,472 for the participation of 0.06% in Telefónica Brasil.



**7. Other current and non-current non-financial assets**

Other non-financial assets correspond to prepayments are detailed as follows:

Concepts	06.30.2013		12.31.2012	
	Current ThCh\$	Non-current ThCh\$	Current ThCh\$	Non-current ThCh\$
Support and repair services	2,901,194	-	2,570,125	-
Insurance	27,096	-	605,588	-
Leases	10,290	-	10,536	-
Franchised commissions	7,081,270	-	6,176,928	-
Other amortizable expenses (1)	6,318,190	2,282,148	3,294,515	2,662,177
Other taxes (2)	7,840,947	-	8,639,367	-
<b>Total</b>	<b>24,178,987</b>	<b>2,282,148</b>	<b>21,297,059</b>	<b>2,662,177</b>

(1) The Company negotiated a collective agreement with part of the employees from different unions, which resulted in the early payment of bonuses, among other things.

(2) Includes retained earnings prepaid tax installments, Sence credit, remaining VAT credit and other recoverable taxes.

**8. Trade and other current receivables**

a) The composition of trade and other current accounts receivable is as follows:

Concepts	06.30.2013			03.31.2012		
	Gross value ThCh\$	Allowance for doubtful accounts ThCh\$	Net value ThCh\$	Gross value ThCh\$	Allowance for doubtful accounts ThCh\$	Net value ThCh\$
<b>Receivables on current loan transactions</b>	<b>294,021,111</b>	<b>(157,692,548)</b>	<b>136,328,563</b>	<b>280,205,250</b>	<b>(146,837,574)</b>	<b>133,367,676</b>
Invoiced services	251,913,698	(157,692,548)	94,221,150	234,666,169	(146,837,574)	87,828,595
Services provided and not invoiced	42,107,413	-	42,107,413	45,539,081	-	45,539,081
<b>Miscellaneous receivables</b>	<b>6,333,529</b>	<b>-</b>	<b>6,333,529</b>	<b>7,432,243</b>	<b>-</b>	<b>7,432,243</b>
<b>Total</b>	<b>300,354,640</b>	<b>(157,692,548)</b>	<b>142,662,092</b>	<b>287,637,493</b>	<b>(146,837,574)</b>	<b>140,799,919</b>

b) The following table contains trade and other current receivables that are past due and have not been paid or covered by the valuation allowance, listed in order of maturity:

Concepts	06.30.2013					12.31.2012				
	Less than 3 months	3 to 6 months	6 to 12 months	Greater than 12 months	Total	Less than 3 months	3 to 6 months	6 to 12 months	Greater than 12 months	Total
Miscellaneous receivables	28,173,865	6,962,563	-	-	35,136,428	32,573,446	5,670,638	-	-	38,244,084
<b>Total</b>	<b>28,173,865</b>	<b>6,962,563</b>	<b>-</b>	<b>-</b>	<b>35,136,428</b>	<b>32,573,446</b>	<b>5,670,638</b>	<b>-</b>	<b>-</b>	<b>38,244,084</b>

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

8. Trade and other current receivables, continued

- c) The movement of allowance for doubtful accounts, which includes “current trade and other receivables” and “non-current receivables” found in Note 12, is detailed as follows:

Movements	06.30.2013 ThCh\$	12.31.2012 ThCh\$
<b>Beginning balance</b>	<b>147,919,771</b>	<b>133,790,620</b>
Increases	10,829,680	23,435,016
Eliminations/ Additions	-	(9,305,864)
<b>Movements, subtotal</b>	<b>10,829,680</b>	<b>14,129,151</b>
<b>Ending balance</b>	<b>158,749,451</b>	<b>147,919,771</b>

- d) Allowance for doubtful account movements according to the composition of the portfolio as of June 30, 2013 and December 31, 2012 are detailed as follows:

Provisions and write-offs	04.01.13 al 06.30.13 M\$	06.30.2013 M\$	04.01.12 al 06.30.12 M\$	06.30.2012 M\$
Accrual for portfolio that has not been renegotiated	5,790,818	11,001,014	5,736,562	12,002,483
Accrual for renegotiated portfolio	(217,977)	(171,334)	(7,046)	8,996
Write-offs for the year	-	-	-	-
Recoveries for the year	-	-	-	-
<b>Total</b>	<b>5,572,841</b>	<b>10,829,680</b>	<b>5,729,516</b>	<b>12,011,479</b>

- e) As of June 30, 2013 and December 31, 2012 the portfolio of returned documents and those in judicial collection is detailed as follows:

Portfolio of returned documents and judicial collection as of 06.30.2013	Returned notes receivable portfolio w/o guarantee	Returned notes receivable, portfolio w/guarantee	Notes receivable in judicial collection, portfolio w/o guarantee	Notes receivable in judicial collection, portfolio w/guarantee
Number of customers in portfolio of returned documents or those in judicial collection	10,367	-	-	-
Portfolio of returned documents or those in judicial collection (ThCh\$)	2,506,070	-	-	-

Portfolio of returned documents and judicial collection as of 12.31.2012	Returned notes receivable portfolio w/o guarantee	Returned notes receivable, portfolio w/guarantee	Notes receivable in judicial collection, portfolio w/o guarantee	Notes receivable in judicial collection, portfolio w/guarantee
Number of customers in portfolio of returned documents or those in judicial collection	10,161	-	-	-
Portfolio of returned documents or those in judicial collection (ThCh\$)	2,467,651	-	-	-

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

8. Trade and other current receivables, continued

Trade and other current receivables aged by segment for the period ending June 2013 are as follows:

Aging of portfolio by segment for the period-ended June 2013	Up to date ThCh\$	From 1 to 30 days ThCh\$	From 31 to 60 days ThCh\$	From 61 to 90 day ThCh\$	From 91 to 120 days ThCh\$	From 121 to 150 days ThCh\$	From 151 to 180 days ThCh\$	From 181 to 210 days ThCh\$	From 211 to 250 days ThCh\$	More than 250 days ThCh\$	Total portfolio w/o guarantee ThCh\$
<b>Fixed Telecommunications</b>											
Number of clients w/o renegotiation (1)	433,311	186,838	28,032	23,704	19,885	18,908	17,254	16,956	15,000	1,681,968	2,441,856
Gross portfolio w/o renegotiation	43,700,911	6,775,647	3,288,557	2,282,285	162,183	50,553	20,262	-	-	-	56,280,398
Debt	43,700,911	6,775,647	3,288,557	2,563,015	1,680,265	1,179,738	1,605,460	1,067,934	1,274,200	111,284,203	174,419,930
Accrual	-	-	-	(280,730)	(1,518,082)	(1,129,185)	(1,585,198)	(1,067,934)	(1,274,200)	(111,284,203)	(118,139,532)
Number of clients w/renegotiation	17,984	11,580	3,982	2,397	1,067	438	357	313	296	7,361	45,775
Gross renegotiated portfolio	552,450	51,365	1,571	3	-	-	-	-	-	-	605,389
Debt	1,015,020	213,493	58,007	31,930	14,225	7,038	5,900	21,965	21,283	430,914	1,819,775
Accrual	(462,570)	(162,128)	(56,436)	(31,927)	(14,225)	(7,038)	(5,900)	(21,965)	(21,283)	(430,914)	(1,214,386)
<b>Total number of clients</b>	<b>451,295</b>	<b>198,418</b>	<b>32,014</b>	<b>26,101</b>	<b>20,952</b>	<b>19,346</b>	<b>17,611</b>	<b>17,269</b>	<b>15,296</b>	<b>1,689,329</b>	<b>2,487,631</b>
<b>Total Fixed Telephone Portfolio</b>	<b>44,253,361</b>	<b>6,827,012</b>	<b>3,290,128</b>	<b>2,282,288</b>	<b>162,183</b>	<b>50,553</b>	<b>20,262</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>56,885,787</b>
Debt	44,715,931	6,989,140	3,346,564	2,594,945	1,694,490	1,186,776	1,611,360	1,089,899	1,295,483	111,715,117	176,239,705
Accrual	(462,570)	(162,128)	(56,436)	(312,657)	(1,532,307)	(1,136,223)	(1,591,098)	(1,089,899)	(1,295,483)	(111,715,117)	(119,353,918)
<b>Long Distance</b>											
Number of clients w/o renegotiation (1)	90,136	30,797	14,154	9,365	10,512	9,937	9,912	8,410	8,047	880,966	1,072,236
Gross portfolio w/o renegotiation	3,765,190	3,390,096	2,086,533	2,010,166	1,794,280	331,123	762,663	-	-	-	14,140,051
Debt	3,765,190	3,390,096	2,086,533	2,032,390	1,872,621	532,036	1,776,843	204,589	186,159	17,852,461	33,698,918
Accrual	-	-	-	(22,224)	(78,341)	(200,913)	(1,014,180)	(204,589)	(186,159)	(17,852,461)	(19,558,867)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
<b>Total number of clients</b>	<b>90,136</b>	<b>30,797</b>	<b>14,154</b>	<b>9,365</b>	<b>10,512</b>	<b>9,937</b>	<b>9,912</b>	<b>8,410</b>	<b>8,047</b>	<b>880,966</b>	<b>1,072,236</b>
<b>Total Long Distance Portfolio</b>	<b>3,765,190</b>	<b>3,390,096</b>	<b>2,086,533</b>	<b>2,010,166</b>	<b>1,794,280</b>	<b>331,123</b>	<b>762,663</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,140,051</b>
Debt	3,765,190	3,390,096	2,086,533	2,032,390	1,872,621	532,036	1,776,843	204,589	186,159	17,852,461	33,698,918
Accrual	-	-	-	(22,224)	(78,341)	(200,913)	(1,014,180)	(204,589)	(186,159)	(17,852,461)	(19,558,867)
<b>Corporate Communication and Data</b>											
Number of clients w/o renegotiation (1)	2,676	1,711	378	318	347	203	280	235	249	6,807	13,204
Gross portfolio w/o renegotiation	40,625,258	845,851	3,372,095	2,305,772	1,481,007	345,721	2,004,741	-	-	-	50,980,445
Debt	41,134,912	845,851	3,372,095	2,305,772	1,481,007	345,721	2,004,741	313,300	301,374	4,507,076	56,611,849
Accrual	(509,654)	-	-	-	-	-	-	(313,300)	(301,374)	(4,507,076)	(5,631,404)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
<b>Total number of clients</b>	<b>2,676</b>	<b>1,711</b>	<b>378</b>	<b>318</b>	<b>347</b>	<b>203</b>	<b>280</b>	<b>235</b>	<b>249</b>	<b>6,807</b>	<b>13,204</b>
<b>Total Corporate Communication and Data Portfolio</b>	<b>40,625,258</b>	<b>845,851</b>	<b>3,372,095</b>	<b>2,305,772</b>	<b>1,481,007</b>	<b>345,721</b>	<b>2,004,741</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,980,445</b>
Debt	41,134,912	845,851	3,372,095	2,305,772	1,481,007	345,721	2,004,741	313,300	301,374	4,507,076	56,611,849
Accrual	(509,654)	-	-	-	-	-	-	(313,300)	(301,374)	(4,507,076)	(5,631,404)

(1) The information contained under this line, refers to the number of documents pending collection, which in turn can be related to current and non-current clients.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

8. Trade and other current receivables, continued

Aging of portfolio by segment for the period-ended June 2013	Up to date ThCh\$	From 1 to 30 days ThCh\$	From 31 to 60 days ThCh\$	From 61 to 90 day ThCh\$	From 91 to 120 days ThCh\$	From 121 to 150 days ThCh\$	From 151 to 180 days ThCh\$	From 181 to 210 days ThCh\$	From 211 to 250 days ThCh\$	More than 250 days ThCh\$	Total portfolio w/o guarantee ThCh\$
<b>Television</b>											
Number of clients w/o renegotiation (1)	189,917	72,241	10,355	8,998	8,343	7,554	7,339	8,402	7,493	459,746	780,388
Gross portfolio w/o renegotiation	11,604,914	658,705	530,056	575,163	4,010	3,570	2,451	-	-	-	13,378,869
Debt	11,604,914	658,705	530,056	575,163	441,645	359,051	573,459	417,757	489,407	10,742,980	26,393,137
Accrual	-	-	-	-	(437,635)	(355,481)	(571,008)	(417,757)	(489,407)	(10,742,980)	(13,014,268)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
<b>Total number of clients</b>	<b>189,917</b>	<b>72,241</b>	<b>10,355</b>	<b>8,998</b>	<b>8,343</b>	<b>7,554</b>	<b>7,339</b>	<b>8,402</b>	<b>7,493</b>	<b>459,746</b>	<b>780,388</b>
<b>Total Television Portfolio</b>	<b>11,604,914</b>	<b>658,705</b>	<b>530,056</b>	<b>575,163</b>	<b>4,010</b>	<b>3,570</b>	<b>2,451</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,378,869</b>
<b>Debt</b>	<b>11,604,914</b>	<b>658,705</b>	<b>530,056</b>	<b>575,163</b>	<b>441,645</b>	<b>359,051</b>	<b>573,459</b>	<b>417,757</b>	<b>489,407</b>	<b>10,742,980</b>	<b>26,393,137</b>
<b>Accrual</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(437,635)</b>	<b>(355,481)</b>	<b>(571,008)</b>	<b>(417,757)</b>	<b>(489,407)</b>	<b>(10,742,980)</b>	<b>(13,014,268)</b>
<b>Other</b>											
Number of clients w/o renegotiation (1)	-	-	-	-	-	-	-	-	-	-	-
Gross portfolio w/o renegotiation	7,276,940	-	-	-	-	-	-	-	-	-	7,276,940
Debt	7,276,940	-	-	-	-	-	-	6,247	-	127,844	7,411,031
Accrual	-	-	-	-	-	-	-	(6,247)	-	(127,844)	(134,091)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
<b>Total number of clients</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Other Portfolio</b>	<b>7,276,940</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,276,940</b>
<b>Debt</b>	<b>7,276,940</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,247</b>	<b>-</b>	<b>127,844</b>	<b>7,411,031</b>
<b>Accrual</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,247)</b>	<b>-</b>	<b>(127,844)</b>	<b>(134,091)</b>
<b>Consolidated Portfolio</b>											
Number of clients w/o renegotiation (1)	716,040	291,587	52,919	42,385	39,087	36,602	34,785	34,003	30,789	3,029,487	4,307,684
Gross portfolio w/o renegotiation	106,973,213	11,670,299	9,277,241	7,173,386	3,441,480	730,967	2,790,117	-	-	-	142,056,703
Debt	107,482,867	11,670,299	9,277,241	7,476,340	5,475,538	2,416,546	5,960,503	2,009,827	2,251,140	144,514,564	298,534,865
Accrual	(509,654)	-	-	(302,954)	(2,034,058)	(1,685,579)	(3,170,386)	(2,009,827)	(2,251,140)	(144,514,564)	(156,478,162)
Number of clients w/renegotiation	17,984	11,580	3,982	2,397	1,067	438	357	313	296	7,361	45,775
Gross renegotiated portfolio	552,450	51,365	1,571	3	-	-	-	-	-	-	605,389
Debt	1,015,020	213,493	58,007	31,930	14,225	7,038	5,900	21,965	21,283	430,914	1,819,775
Accrual	(462,570)	(162,128)	(56,436)	(31,927)	(14,225)	(7,038)	(5,900)	(21,965)	(21,283)	(430,914)	(1,214,386)
<b>Total number of clients</b>	<b>734,024</b>	<b>303,167</b>	<b>56,901</b>	<b>44,782</b>	<b>40,154</b>	<b>37,040</b>	<b>35,142</b>	<b>34,316</b>	<b>31,085</b>	<b>3,036,848</b>	<b>4,353,459</b>
<b>Total Consolidated Portfolio</b>	<b>107,525,663</b>	<b>11,721,664</b>	<b>9,278,812</b>	<b>7,173,389</b>	<b>3,441,480</b>	<b>730,967</b>	<b>2,790,117</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>142,662,092</b>
<b>Debt</b>	<b>108,497,887</b>	<b>11,883,792</b>	<b>9,335,248</b>	<b>7,508,270</b>	<b>5,489,763</b>	<b>2,423,584</b>	<b>5,966,403</b>	<b>2,031,792</b>	<b>2,272,423</b>	<b>144,945,478</b>	<b>300,354,640</b>
<b>Accrual</b>	<b>(972,224)</b>	<b>(162,128)</b>	<b>(56,436)</b>	<b>(334,881)</b>	<b>(2,048,283)</b>	<b>(1,692,617)</b>	<b>(3,176,286)</b>	<b>(2,031,792)</b>	<b>(2,272,423)</b>	<b>(144,945,478)</b>	<b>(157,692,548)</b>

(1) The information contained under this line, refers to the number of documents pending collection, which in turn can be related to current and non-current clients.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

8. Trade and other current receivables, continued

Trade and other current receivables aged by segment for the year ending December 2012 are as follows:

Aging of portfolio by segment for the year-ended December 2012	Up to date ThCh\$	From 1 to 30 days ThCh\$	From 31 to 60 days ThCh\$	From 61 to 90 day ThCh\$	From 91 to 120 days ThCh\$	From 121 to 150 days ThCh\$	From 151 to 180 days ThCh\$	From 181 to 210 days ThCh\$	From 211 to 250 days ThCh\$	More than 250 days ThCh\$	Total portfolio w/o guarantee ThCh\$
<b>Fixed Telecommunications</b>											
Number of clients w/o renegotiation (1)	720,739	86,802	62,030	55,700	56,544	53,591	52,218	50,243	49,124	1,772,496	2,959,487
Gross portfolio w/o renegotiation	36,859,026	5,723,589	2,588,633	1,463,897	1,256,699	219,948	(58,657)	-	-	-	48,053,135
Debt	36,859,026	5,723,589	2,588,633	1,693,068	1,669,418	1,428,713	1,310,112	1,259,039	1,316,321	105,631,640	159,479,559
Accrual	-	-	-	(229,171)	(412,719)	(1,208,765)	(1,368,769)	(1,259,039)	(1,316,321)	(105,631,640)	(111,426,424)
Number of clients w/renegotiation	20,721	13,283	5,223	3,334	1,853	1,301	867	704	644	7,469	55,399
Gross renegotiated portfolio	583,337	53,198	2,084	-	-	-	-	-	-	-	638,619
Debt	1,148,989	246,285	74,027	41,589	23,279	17,469	12,854	21,302	20,640	417,906	2,024,340
Accrual	(565,652)	(193,087)	(71,943)	(41,589)	(23,279)	(17,469)	(12,854)	(21,302)	(20,640)	(417,906)	(1,385,721)
<b>Total number of clients</b>	<b>741,460</b>	<b>100,085</b>	<b>67,253</b>	<b>59,034</b>	<b>58,397</b>	<b>54,892</b>	<b>53,085</b>	<b>50,947</b>	<b>49,768</b>	<b>1,779,965</b>	<b>3,014,886</b>
<b>Total Fixed Telephone Portfolio</b>	<b>37,442,363</b>	<b>5,776,787</b>	<b>2,590,717</b>	<b>1,463,897</b>	<b>1,256,699</b>	<b>219,948</b>	<b>(58,657)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,691,754</b>
Debt	38,008,015	5,969,874	2,662,660	1,734,657	1,692,697	1,446,182	1,322,966	1,280,341	1,336,961	106,049,546	161,503,899
Accrual	(565,652)	(193,087)	(71,943)	(270,760)	(435,998)	(1,226,234)	(1,381,623)	(1,280,341)	(1,336,961)	(106,049,546)	(112,812,145)
<b>Long Distance</b>											
Number of clients w/o renegotiation (1)	41,359	35,363	18,907	9,808	10,290	9,763	10,835	9,705	8,204	871,077	1,025,311
Gross portfolio w/o renegotiation	3,710,751	4,555,917	3,145,592	1,198,894	1,176,513	37,652	969,934	-	-	-	14,795,253
Debt	3,710,751	4,555,917	3,152,269	1,225,305	1,236,512	212,677	1,972,976	216,181	195,771	17,290,055	33,768,414
Accrual	-	-	(6,677)	(26,411)	(59,999)	(175,025)	(1,003,042)	(216,181)	(195,771)	(17,290,055)	(18,973,161)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
<b>Total number of clients</b>	<b>41,359</b>	<b>35,363</b>	<b>18,907</b>	<b>9,808</b>	<b>10,290</b>	<b>9,763</b>	<b>10,835</b>	<b>9,705</b>	<b>8,204</b>	<b>871,077</b>	<b>1,025,311</b>
<b>Total Long Distance Portfolio</b>	<b>3,710,751</b>	<b>4,555,917</b>	<b>3,145,592</b>	<b>1,198,894</b>	<b>1,176,513</b>	<b>37,652</b>	<b>969,934</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,795,253</b>
Debt	3,710,751	4,555,917	3,152,269	1,225,305	1,236,512	212,677	1,972,976	216,181	195,771	17,290,055	33,768,414
Accrual	-	-	(6,677)	(26,411)	(59,999)	(175,025)	(1,003,042)	(216,181)	(195,771)	(17,290,055)	(18,973,161)
<b>Corporate Communication and Data</b>											
Number of clients w/o renegotiation (1)	16,034	4,933	2,188	790	644	916	542	497	525	9,920	36,989
Gross portfolio w/o renegotiation	45,751,168	7,746,630	2,695,914	740,767	515,443	454,657	1,501,660	-	-	-	59,406,239
Debt	45,751,168	7,746,630	2,695,914	740,767	515,443	454,657	1,501,660	214,736	357,894	4,166,584	64,145,453
Accrual	-	-	-	-	-	-	-	(214,736)	(357,894)	(4,166,584)	(4,739,214)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
<b>Total number of clients</b>	<b>16,034</b>	<b>4,933</b>	<b>2,188</b>	<b>790</b>	<b>644</b>	<b>916</b>	<b>542</b>	<b>497</b>	<b>525</b>	<b>9,920</b>	<b>36,989</b>
<b>Total Corporate Communication and Data Portfolio</b>	<b>45,751,168</b>	<b>7,746,630</b>	<b>2,695,914</b>	<b>740,767</b>	<b>515,443</b>	<b>454,657</b>	<b>1,501,660</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,406,239</b>
Debt	45,751,168	7,746,630	2,695,914	740,767	515,443	454,657	1,501,660	214,736	357,894	4,166,584	64,145,453
Accrual	-	-	-	-	-	-	-	(214,736)	(357,894)	(4,166,584)	(4,739,214)

(1) The information contained under this line, refers to the number of documents pending collection, which in turn can be related to current and non-current clients.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

8. Trade and other current receivables, continued

Aging of portfolio by segment for the year-ended December 2012	Up to date ThCh\$	From 1 to 30 days ThCh\$	From 31 to 60 days ThCh\$	From 61 to 90 day ThCh\$	From 91 to 120 days ThCh\$	From 121 to 150 days ThCh\$	From 151 to 180 days ThCh\$	From 181 to 210 days ThCh\$	From 211 to 250 days ThCh\$	More than 250 days ThCh\$	Total portfolio w/o guarantee ThCh\$
<b>Television</b>											
Number of clients w/o renegotiation (1)	87,314	30,935	10,245	8,867	8,406	8,411	8,647	9,073	17,938	234,164	424,000
Gross portfolio w/o renegotiation	7,000,250	630,747	535,627	552,728	2,318	1,852	1,694	-	-	-	8,725,216
Debt	7,000,250	630,747	535,627	552,728	611,193	599,004	556,151	503,793	479,617	7,441,315	18,910,425
Accrual	-	-	-	-	(608,875)	(597,152)	(554,457)	(503,793)	(479,617)	(7,441,315)	(10,185,209)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
<b>Total number of clients</b>	<b>87,314</b>	<b>30,935</b>	<b>10,245</b>	<b>8,867</b>	<b>8,406</b>	<b>8,411</b>	<b>8,647</b>	<b>9,073</b>	<b>17,938</b>	<b>234,164</b>	<b>424,000</b>
<b>Total Television Portfolio</b>	<b>7,000,250</b>	<b>630,747</b>	<b>535,627</b>	<b>552,728</b>	<b>2,318</b>	<b>1,852</b>	<b>1,694</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,725,216</b>
<b>Debt</b>	<b>7,000,250</b>	<b>630,747</b>	<b>535,627</b>	<b>552,728</b>	<b>611,193</b>	<b>599,004</b>	<b>556,151</b>	<b>503,793</b>	<b>479,617</b>	<b>7,441,315</b>	<b>18,910,425</b>
<b>Accrual</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(608,875)</b>	<b>(597,152)</b>	<b>(554,457)</b>	<b>(503,793)</b>	<b>(479,617)</b>	<b>(7,441,315)</b>	<b>(10,185,209)</b>
<b>Other</b>											
Number of clients w/o renegotiation (1)	-	-	-	-	-	-	-	-	-	-	-
Gross portfolio w/o renegotiation	9,181,457	-	-	-	-	-	-	-	-	-	9,181,457
Debt	9,181,457	-	-	-	-	-	-	-	-	127,845	9,309,302
Accrual	-	-	-	-	-	-	-	-	-	(127,845)	(127,845)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
<b>Total number of clients</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Other Portfolio</b>	<b>9,181,457</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,181,457</b>
<b>Debt</b>	<b>9,181,457</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>127,845</b>	<b>9,309,302</b>
<b>Accrual</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(127,845)</b>	<b>(127,845)</b>
<b>Consolidated Portfolio</b>											
Number of clients w/o renegotiation (1)	865,446	158,033	93,370	75,165	75,884	72,681	72,242	69,518	75,791	2,887,657	4,445,787
Gross portfolio w/o renegotiation	102,502,652	18,656,883	8,965,766	3,956,286	2,950,973	714,109	2,414,631	-	-	-	140,161,300
Debt	102,502,652	18,656,883	8,972,443	4,211,868	4,032,566	2,695,051	5,340,899	2,193,749	2,349,603	134,657,439	285,613,153
Accrual	-	-	(6,677)	(255,582)	(1,081,593)	(1,980,942)	(2,926,268)	(2,193,749)	(2,349,603)	(134,657,439)	(145,451,853)
Number of clients w/renegotiation	20,721	13,283	5,223	3,334	1,853	1,301	867	704	644	7,469	55,399
Gross renegotiated portfolio	583,337	53,198	2,084	-	-	-	-	-	-	-	638,619
Debt	1,148,989	246,285	74,027	41,589	23,279	17,469	12,854	21,302	20,640	417,906	2,024,340
Accrual	(565,652)	(193,087)	(71,943)	(41,589)	(23,279)	(17,469)	(12,854)	(21,302)	(20,640)	(417,906)	(1,385,721)
<b>Total number of clients</b>	<b>886,167</b>	<b>171,316</b>	<b>98,593</b>	<b>78,499</b>	<b>77,737</b>	<b>73,982</b>	<b>73,109</b>	<b>70,222</b>	<b>76,435</b>	<b>2,895,126</b>	<b>4,501,186</b>
<b>Total Consolidated Portfolio</b>	<b>103,085,989</b>	<b>18,710,081</b>	<b>8,967,850</b>	<b>3,956,286</b>	<b>2,950,973</b>	<b>714,109</b>	<b>2,414,631</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>140,799,919</b>
<b>Debt</b>	<b>103,651,641</b>	<b>18,903,168</b>	<b>9,046,470</b>	<b>4,253,457</b>	<b>4,055,845</b>	<b>2,712,520</b>	<b>5,353,753</b>	<b>2,215,051</b>	<b>2,370,243</b>	<b>135,075,345</b>	<b>287,637,493</b>
<b>Accrual</b>	<b>(565,652)</b>	<b>(193,087)</b>	<b>(78,620)</b>	<b>(297,171)</b>	<b>(1,104,872)</b>	<b>(1,998,411)</b>	<b>(2,939,122)</b>	<b>(2,215,051)</b>	<b>(2,370,243)</b>	<b>(135,075,345)</b>	<b>(146,837,574)</b>

(1) The information contained under this line, refers to the number of documents pending collection, which in turn can be related to current and non-current clients.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

9. Receivables from and payable to related companies

a) Current receivables from related companies:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	06.30.2013 ThCh\$	12.31.2012 ThCh\$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	<b>Total</b>			<b>43,711,758</b>	<b>53,963,248</b>
				Professional Serv.	CLP	60 days	32,045,270	45,013,569
				Access & interc. charges	CLP	60 days	6,959,545	5,890,536
				Media rental	CLP	60 days	3,777,717	2,210,164
				Others	CLP	60 days	929,226	848,979
Telefónica del Perú S.A.	Foreign	Peru	Relationship w/parent	Correspondent	USD	180 days	3,122,115	2,679,361
Telefónica Argentina S.A.	Foreign	Argentina	Relationship w/parent	<b>Total</b>			<b>2,644,259</b>	<b>2,619,657</b>
				Correspondent	USD	180 days	2,396,380	2,233,326
				Long-distance Service	USD	180 days	165,457	120,742
				Others	USD	180 days	82,422	265,589
Telefónica International Wholesale Services Chile S.A.	96.910.730-9	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	1,330,855	960,876
Telefónica de España S.A.U.	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	180 days	1,203,372	798,385
Media Networks Perú	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	90 days	801,703	659,793
Telcel Venezuela	Foreign	Venezuela	Relationship w/parent	Serv. Provided	USD	180 days	413,110	291,438
Telefónica Internacional S.A.U.	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	280,763	244,530
Colombia Telecomunicaciones S.A.E.S.P	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	259,858	235,557
Telefónica Brasil	Foreign	Brazil	Relationship w/parent	Serv. Provided	USD	90 days	246,811	208,234
Telefónica Larga Distancia Puerto Rico	Foreign	Puerto Rico	Relationship w/parent	Serv. Provided	USD	90 days	187,956	170,534
Wayra Chile Tecnología e Innovación Ltda. (1)	96.672.150-2	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	154,206	36,809
Terra Networks Chile S.A.	96.834.230-4	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	66,363	110,134
Telefónica Móviles Soluciones y Aplicaciones S.A.	96.990.810-7	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	87,588	98,406
Telefónica S.A.	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	75,616	80,387
Fundación Telefónica Chile S.A.	74.944.200-k	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	90,820	89,001
Telefónica International Wholesale Services España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	69,640	62,083
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	64,330	48,221
Telefónica Slovakia	Foreign	Slovakia	Relationship w/parent	Serv. Provided	USD	180 days	27,850	27,850
Otecel S.A.	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	19,801	27,038
Telefónica Internacional Chile S.A.	96.527.390-5	Chile	Parent company	Serv. Provided	CLP	60 days	1,165	5,401
Telefónica Móviles Guatemala	Foreign	Guatemala	Relationship w/parent	Serv. Provided	USD	90 days	4,641	3,619
Telefónica Móviles El Salvador	Foreign	El Salvador	Relationship w/parent	Serv. Provided	USD	90 days	2,748	3,080
Telefónica USA Inc.	Foreign	USA	Relationship w/parent	Serv. Provided	USD	180 days	1,213	1,213
Telefónica Data Corp	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	60 days	33,629	33,629
Telefónica Factoring Chile	70.096.189-2	Chile	Relationship w/parent	Serv. Provided	USD	90 days	-	3,751
<b>Total</b>							<b>54,902,170</b>	<b>63,462,235</b>

(1) On May 22, 2012 the name of Telefónica Móviles Chile Inversiones S.A. was changed to Wayra Chile Tecnología e Innovación Ltda

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

9. Receivables from and payable to related companies, continued

b) Non-current receivables from related companies:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	06.30.2013 ThCh\$	12.31.2012 ThCh\$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	H.R. obligation	CLP	-	1,366,521	1,366,521
<b>Total</b>							<b>1,366,521</b>	<b>1,366,521</b>

There are no allowances for doubtful accounts or guarantees related to amounts included in outstanding balances. For amounts in excess of 5% of their total heading the origin of the service rendered is specified.

c) Current payables to related companies:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	06.30.2013 ThCh\$	12.31.2012 ThCh\$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	<b>Total</b>			<b>40,932,854</b>	<b>46,958,601</b>
				Financial Serv.	CLP	60 days	31,243,300	35,173,112
				Fixed – Mobile cost	CLP	60 days	2,815,942	3,725,749
				Collection payable	CLP	60 days	3,705,756	3,582,973
				Access charges	CLP	60 days	1,474,746	2,015,350
				Other	CLP	60 days	1,693,110	2,461,417
Telefónica International Wholesale Services Chile S.A.	96.910.730-9	Chile	Relationship w/parent	<b>Total</b>			<b>9,958,923</b>	<b>16,681,726</b>
				Financial Serv.	CLP	60 days	1,445,686	11,254,015
				IP Voice Traffic	CLP	60 days	2,827,683	1,558,245
				Data and Links	CLP	60 days	5,090,652	3,280,482
				Other	CLP	60 days	594,902	588,984
Telefónica S.A.	Foreign	Spain	Relationship w/parent	<b>Total</b>			<b>6,542,178</b>	<b>3,350,736</b>
				Brand Fee	EUR	90 days	5,129,400	2,614,910
				Other	EUR	90 days	1,412,778	735,826
Telefónica Internacional S.A.U. - España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	3,473,731	2,597,832
Telefónica del Perú S.A.	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	180 days	2,626,568	2,362,401
Telefónica Argentina S.A.	Foreign	Argentina	Relationship w/parent	Serv. Provided	USD	180 days	2,278,383	1,832,285
Media Networks Perú	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	90 days	2,210,035	1,061,557
Telefónica Compras Electrónicas	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	2,003,142	1,963,898
Telefónica Brasil	Foreign	Brazil	Relationship w/parent	Serv. Provided	USD	90 days	1,479,301	1,430,267
Fundación Telefónica Chile	74.944.200-k	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	788,475	526,766
Telefónica Data USA Inc.	Foreign	USA	Relationship w/parent	Serv. Provided	USD	60 days	371,423	248,070
Terra Networks Chile S.A.	96.834.230-4	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	344,015	628,642
Telefónica de España S.A.U	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	180 days	243,184	166,546
Telecom Italia	Foreign	Italy	Relationship w/parent	Serv. Provided	EUR	90 days	213,173	162,517
Telefónica Gestión de Servicios Compartidos - Perú	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	60 days	192,071	160,250
Telefónica Global Technology	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	149,088	579,203
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	136,206	328,444
Colombia Telecomunicaciones S.A.E.S.P. (Telecom.)	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	112,809	128,807
Telefónica International Wholesale Services España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	93,030	435,993
Telefónica Servicios de Música -España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	25,358	26,398
<b>Subtotal next page</b>							<b>74,173,947</b>	<b>81,630,939</b>



Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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



9. Receivables from and payable to related companies, continued

c) Current payables to related companies, continued:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	06.30.2013 ThCh\$	12.31.2012 ThCh\$
<b>Subtotal previous page</b>							<b>74,173,947</b>	<b>81,630,939</b>
Telefónica Larga Distancia Puerto Rico	Foreign	Puerto Rico	Relationship w/parent	Serv. Provided	USD	90 days	24,479	21,096
Telcel Venezuela	Foreign	Venezuela	Relationship w/parent	Serv. Provided	USD	180 days	17,145	14,115
Otecel S.A.	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	9,125	14,950
Telefónica Móviles El Salvador	Foreign	El Salvador	Relationship w/parent	Serv. Provided	USD	90 days	3,596	3,615
Televisión Federal Telefe – Argentina	Foreign	Argentina	Relationship w/parent	Serv. Provided	USD	90 days	3,347	-
Inversiones Telefónica Móviles	76.124.890-1	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	1,529	1,532
Telefónica Factoring - España	Foreign	Spain	Relationship w/parent	Serv. Provided	USD	60 days	1,204	2,892
Telefónica Learning	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	60 days	-	1,141
Wayra Chile Tecnología e Innovación Ltda.	96.672.150-2	Chile	Relationship w/parent	Serv. Provided	CLP	90 days	-	35,029
<b>Total</b>							<b>74,234,372</b>	<b>81,725,309</b>

There are no guarantees related to amounts included in outstanding balances.

For amounts in excess of 5% of their total heading the origin of the service rendered is specified.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

9. Receivables from and payable to related companies, continued

d) Transactions:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	06.30.2013	12.31.2012
						ThCh\$	ThCh\$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	<b>Total</b>		<b>57,082,798</b>	<b>56,574,871</b>
				Prof. Services	CLP	44,882,084	36,398,614
				Access charges and Interconnects	CLP	13,771,913	13,110,938
				Fixed - Mobile	CLP	4,089,245	4,261,659
				General services	CLP	1,134,896	1,332,443
				Other	CLP	2,235,849	1,471,217
				Fixed - Mobile cost	CLP	(7,910,357)	(1,732,106)
				Telephone service	CLP	(2,016,651)	(968,009)
				Interest expense	CLP	(969,255)	(994,066)
				Other	CLP	-	(1,761,586)
Atento Chile (1)	96.895.220-k	Chile	-	Sale	CLP	-	267,664
				Cost	CLP	-	(7,699,250)
				<b>Total</b>		<b>(6,703,120)</b>	<b>(6,435,907)</b>
Telefónica International Wholesale Services Chile S.A.	96.910.730-9	Chile	Relationship w/parent	Sale	CLP	1,126,532	902,146
				Interest income	CLP	2,522	-
				IP voice traffic and Internet Access	CLP	(7,607,120)	(5,726,506)
				Interest expense	CLP	(29,007)	(92,468)
				Other	CLP	(225,054)	(1,611,547)
				Brand Fee	EUR	(4,905,843)	(3,642,678)
				Other	EUR	(378,057)	(2,075,901)
Telefónica S.A.	Foreign	Spain	Relationship w/parent	Sale	USD	641,602	628,350
				Cost	USD	(2,248,092)	(2,564,385)
Telefónica Argentina S.A.	Foreign	Argentina	Relationship w/parent	Cost	EUR	(502,628)	(680,000)
Telefónica Global Technology	Foreign	Spain	Relationship w/parent	Cost	EUR	(1,469,280)	(1,209,667)
Telefónica Compras Electrónica S.A.	Foreign	Spain	Relationship w/parent	Cost	EUR	(502,628)	(680,000)
Telefónica International Wholesale Services América	Foreign	Uruguay	Relationship w/parent	Cost	USD	(714,298)	(714,298)
Telefónica International Wholesale Services España	Foreign	Spain	Relationship w/parent	Sale	EUR	47,662	266,979
				Cost	EUR	-	(36,627)
Telefónica España	Foreign	Spain	Relationship w/parent	Sale	EUR	460,821	401,317
				Cost	EUR	-	(303,214)
Terra Networks Chile S.A.	93.834.230-4	Chile	Relationship w/parent	Sale	CLP	39,948	40,037
				Cost	CLP	(190,204)	(429,304)
Telefónica Internacional S.A.U.	Foreign	Spain	Relationship w/parent	Sale	EUR	90,524	63,642
				Cost	EUR	(2,080,275)	(1,096,363)
Telefónica Brasil	Foreign	Brazil	Relationship w/parent	Sale	USD	127,065	76,877
				Cost	USD	(241,962)	(247,526)
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Relationship w/parent	Sale	CLP	13,560	10,011
				Cost	CLP	(540,787)	(399,956)
Telefónica del Perú S.A.	Foreign	Peru	Relationship w/parent	Sale	USD	473,285	472,570
				Cost	USD	(5,945)	(410,565)
Telefónica Servicios de Música	Foreign	Spain	Relationship w/parent	Sale	EUR	-	2,526
				Cost	EUR	(142,241)	(162,683)
Atento Perú	Foreign	Peru	-	Cost	USD	-	(173,671)
				<b>Total</b>		<b>126,653</b>	<b>46,509</b>
Colombia Telecomunicaciones S.A.E.S.P. (Telecom.)	Foreign	Colombia	Relationship w/parent	Sale	USD	-	(29,443)
				Cost	USD	-	(29,443)
Telefónica Móviles El Salvador	Foreign	El Salvador	Relationship w/parent	Sale	USD	396	-
				Cost	USD	(132)	(21,690)
Telefónica Learning	Foreign	Spain	Relationship w/parent	Cost	EUR	-	(630)
Telefónica Empresas Brasil	Foreign	Brazil	Relationship w/parent	Sale	USD	-	148,755

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

9. Receivables from and payable to related companies, continued

d) Transaction, continued

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	06.30.2013	12.31.2012
						ThCh\$	ThCh\$
Telefónica Móviles Soluciones y Aplicaciones S.A.	96.990.810-7	Chile	Relationship w/parent	Sale	CLP	55,101	55,350
Otecel S.A.	Foreign	Colombia	Relationship w/parent	Sale	USD	53,151	29,412
				Cost	USD	(261)	(26,958)
Telefónica Larga Distancia Puerto Rico	Foreign	Puerto Rico	Relationship w/parent	Sale	USD	60,021	73,993
				Cost	USD	-	(15,888)
Wayra Chile Tecnología e Innovación Ltda.	96.672.150-2	Chile	Relationship w/parent	Sale	CLP	135,204	29,133
				Cost	CLP	-	(17,603)
Telefónica Internacional Chile S.A.	96.527.390-5	Chile	Parent company	Sale	CLP	4,101	2,256
Telcel Venezuela	Foreign	Venezuela	Relationship w/parent	Sale	USD	209,562	134,560
				Cost	USD	-	(3,443)
Televisión Federal Telefe – Argentina	Foreign	Argentina	Relationship w/parent	Cost	USD	(18,762)	-
Telefónica Celular Nicaragua	Foreign	Nicaragua	Relationship w/parent	Sale	USD	-	3,751
Telecom Italia S.P.A.	Foreign	Italy	Relationship w/parent	Sale	EUR	119,607	34,576
				Cost	EUR	-	(10,820)
Telefónica Móviles Guatemala	Foreign	Guatemala	Relationship w/parent	Sale	USD	7,573	1,024
Telefónica Gestión de Servicios Compartidos Perú	Foreign	Peru	Relationship w/parent	Cost	USD	(46,139)	-
Telefónica USA Inc.	Foreign	USA	Relationship w/parent	Cost	USD	(224,369)	(396,740)
Media Networks Perú	Foreign	Peru	Relationship w/parent	Cost	USD	(2,194,565)	(2,131,786)
Fundación Telefónica Chile S.A.	74.944.200-k	Chile	Relationship w/parent	Sale	CLP	13,343	8,752
				Interest expense	CLP	(14,329)	(8,504)

(1) During the last quarter of 2012 the Telefónica Group closed the sale of the Atento Group (call center subsidiary) to a group of companies controlled by Bain Capital (USA) a risk capital fund, and it stopped forming part of the group of related companies.

For amounts greater than 10% of their total heading the origin of the specified transaction is reported.

Title XVI of the Company's Law, and other relevant standards, requires that a publicly traded corporation's transactions with related companies are carried out under terms similar to those commonly prevailing in the market.

There have been charges and credits to current accounts in the receivables of companies due to billing for sale of materials, equipment and services.

The conditions of the Mercantile Current Account and Mandate are current, accruing interest at a variable interest rate that adjusts to market conditions.

Sales and service rendering expire in the short-term (less than one year) and the expiry conditions for each case vary by virtue of the transaction that generates them.

**9. Receivables from and payable to related companies, continued**

- e) Remuneration and benefits received by the Company's key employees:

The Company is managed by a Board of Directors composed of 14 members and its key employees are 72 executives for June 2013 and 77 for 2012.

Concepts	06.30.2013	06.30.2012
	ThCh\$	ThCh\$
Salaries	6,273,392	6,168,187
Post employment benefits	2,332,397	532,469
<b>Total</b>	<b>8,605,789</b>	<b>6,700,656</b>

**10. Inventory**

- a) The detail of inventory is as follows:

Concepts	06.30.2013			12.31.2012		
	Gross value	Allowance for obsolescence	Net value	Gross value	Allowance for obsolescence	Net value
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
<b>Merchandise</b>						
Modems and Router	3,212,857	(1,696,006)	1,516,851	3,591,983	(1,595,750)	1,996,233
Basic telephony, public telephony and switchboard ("centralitas") components	4,111,480	(1,250,957)	2,860,523	3,685,260	(1,098,845)	2,586,415
Decoders and antennas	800,591	(258,117)	542,474	685,692	(175,735)	509,957
IP Solutions Projects	1,208,706	-	1,208,706	673,920	-	673,920
Other	234,874	(88,550)	146,324	494,496	(113,626)	380,870
<b>Total</b>	<b>9,568,508</b>	<b>(3,293,630)</b>	<b>6,274,878</b>	<b>9,131,351</b>	<b>(2,983,956)</b>	<b>6,147,395</b>

As of June 30, 2013 and December 31, 2012 there have been no inventory write-offs, there is no inventory in guarantee or reversal of obsolescence accruals.

- b) The movement of inventory is as follows:

Movements	06.30.2013	12.31.2012
	ThCh\$	ThCh\$
<b>Beginning balance</b>	<b>6,147,395</b>	<b>7,840,571</b>
Purchases	11,590,835	12,912,414
Sales	(11,144,555)	(13,798,264)
Allowance for obsolescence	(309,674)	(805,862)
Transfer to materials allocated to the investment (note 15b)	(9,123)	(1,464)
<b>Movement, subtotal</b>	<b>127,483</b>	<b>(1,693,176)</b>
<b>Ending balance</b>	<b>6,274,878</b>	<b>6,147,395</b>

**11. Income Taxes****a) Income Taxes:**

As of June 30, 2013 and 2012, a consolidated first category income tax accrual has been established, therefore a positive tax base was determined in the amount of ThCh\$47,189,762 and ThCh\$80,593,664, respectively for each year.

As of June 30, 2013 the parent company has recorded a positive Taxable Retained Earnings Registry (FUT) in the amount of ThCh\$431,962,755. Subsidiary Instituto Telefónica Chile S.A. has negative FUT, and a first category tax loss of ThCh\$(1,340,556).

During the course of its normal operations, the Company is subject to the regulations and supervision of the Chilean Internal Revenue Service, which could cause differences to arise in the application of tax determination criteria.

Law No. 20,630 which establishes the first category tax rate at 20% as of the 2013 tax year was published on September 27, 2012. Due to the above, we have gathered the effects of that reform to determine the respective current and deferred taxes.

The Companies of the group with a positive balance in the Retained Taxable Earnings Registry and their associated credits are as follows:

Subsidiaries	Taxable net	Taxable net	Taxable net	Taxable net	Taxable net	Taxable net	Amount of credit
	income with 15% credit	income with 16% credit	income with 16.5% credit	income with 17% credit	income with 20% credit	income without credit	
	M\$	M\$	M\$	M\$	M\$	M\$	M\$
Telefónica Chile S.A.	2,719,677	1,030,403	737,651	343,226,957	78,275,036	5,973,031	90,690,132
Telefónica Larga Distancia S.A.	-	-	-	44,246	87,071,447	4,153,871	21,776,924
Telefónica Chile Servicios Corporativos Ltda.	-	-	-	-	19,522,421	7,042	4,880,605
Telefónica Empresas Chile S.A.	-	-	-	7,332,113	22,590,862	1,856,404	7,149,472
Telefónica Gestión de Servicios Compartidos Chile S.A.	-	-	-	3,135,877	2,565,592	178,145	1,283,685
<b>Total</b>	<b>2,719,677</b>	<b>1,030,403</b>	<b>737,651</b>	<b>353,739,193</b>	<b>210,025,358</b>	<b>12,168,493</b>	<b>125,780,818</b>

**b) Current income tax assets**

As of June 30, 2013 and December 31, 2012, current income tax assets are detailed as follows:

Concepts	06.30.2013	12.31.2012
	ThCh\$	ThCh\$
Prepaid tax installments on absorbed earnings for the period	1,700,765	-
Monthly prepaid tax installments	3,100,580	1,175,818
Sence Credit	424,169	395,000
<b>Total</b>	<b>5,225,514</b>	<b>1,570,818</b>

(1) Includes mainly PPUA by ThCh\$1,057,694 of Telefónica Chile Servicios Corporativos Ltda.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

11. Income Taxes, continued

c) Deferred taxes

As of June 30, 2013 and December 31, 2012, the cumulative balances of temporary differences resulted in net deferred tax liabilities of ThCh\$44,745,155 and ThCh\$44,859,783, respectively, detailed as follows:

Concepts	06.30.2013		12.31.2012		06.30.2013		06.30.2012	
	Assets ThCh\$	Liabilities ThCh\$	Assets ThCh\$	Liabilities ThCh\$	Profit (loss) ThCh\$	Equity ThCh\$	Profit (loss) ThCh\$	Equity ThCh\$
Allowance for doubtful accounts	31,732,395	-	29,870,885	-	(1,861,510)	-	(1,339,494)	-
Vacation provision	1,056,927	-	1,390,255	-	333,328	-	169,212	-
Staff severance indemnities	6,437,337	8,683,325	6,396,093	8,877,432	(235,351)	-	(51,269)	-
Amortization and depreciation of assets	2,937,044	82,170,872	2,460,091	82,916,017	(1,222,098)	-	(5,421,169)	-
Tax loss carry forward	268,111	-	271,714	-	3,603	-	70,847	-
Deferred income	1,016,554	-	1,080,637	6,921	57,162	-	(320,765)	-
Equity adjustment	1,082,617	393,613	1,464,033	(614,420)	-	1,385,780	-	(328,599)
Incentive bonus	1,732,123	-	3,191,202	-	1,459,079	-	-	-
Other events (1)	2,210,393	1,970,846	1,927,230	1,725,973	(34,621)	-	1,443,341	-
<b>Sub total</b>	<b>48,473,501</b>	<b>93,218,656</b>	<b>48,052,140</b>	<b>92,911,923</b>	<b>(1,500,408)</b>	<b>1,385,780</b>	<b>(5,449,297)</b>	<b>(328,599)</b>
<b>Reclassification</b>	<b>(42,682,042)</b>	<b>(42,682,042)</b>	<b>(41,016,715)</b>	<b>(41,016,715)</b>	-	-	-	-
<b>Total</b>	<b>5,791,459</b>	<b>50,536,614</b>	<b>7,035,425</b>	<b>51,895,208</b>	<b>(1,500,408)</b>	<b>1,385,780</b>	<b>(5,449,297)</b>	<b>(328,599)</b>

(1) This item considers provisions for vacation, enjoyment, personnel and termination benefits at real value and current value; and capitalization of bond placement expenses, among others.

**11. Income Taxes, continued****d) Taxable Income**

As of June 30, 2013 and 2012, taxable income are detailed as follows:

Concepts	Taxable Net Income			
	04.01.13 al 06.30.13	06.30.2013	04.01.12 al 06.30.12	06.30.2012
	M\$	M\$	M\$	M\$
Finance income	12,113,683	26,311,689	21,046,410	40,294,230
Recorded tax expense	3,912,575	7,699,714	7,340,480	9,515,768
Additions	5,347,905	43,435,909	32,394,862	75,493,145
Deductions	4,947,147	(30,257,550)	(7,916,049)	(44,709,479)
Taxable net income	26,321,310	47,189,762	52,865,703	80,593,664
<b>First category tax rate 20% and 18.5%</b>	<b>5,264,262</b>	<b>9,437,952</b>	<b>9,780,155</b>	<b>14,909,828</b>
Art. 21 rejected expenses tax base	839,697	1,377,570	21,976	22,029
<b>Art. 21 non-deductible expenses (35% rate)</b>	<b>293,894</b>	<b>482,149</b>	<b>7,692</b>	<b>7,710</b>
<b>Total tax provision</b>	<b>5,558,156</b>	<b>9,920,101</b>	<b>9,787,847</b>	<b>14,917,538</b>
Contingencies provision	670,000	970,000	-	-
Previous year deficit (surplus)	(632,285)	(632,285)	282,322	282,322
Third party absorbed net income provisional payment	1,214,346	(1,057,694)	(234,798)	(234,798)
<b>Total first category taxes</b>	<b>6,810,217</b>	<b>9,200,122</b>	<b>9,835,371</b>	<b>14,965,062</b>

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

11. Income Taxes, continued

e) Income tax reconciliation

The income tax expense reconciliation for the period ended June 30, 2013 and 2012 are detailed as follows:

Concepts	04.01.13 al 06.30.13		06.30.2013		04.01.12 al 06.30.12		06.30.2012	
	Taxable base ThCh\$	20% Tax Rate ThCh\$	Taxable base ThCh\$	20% Tax Rate ThCh\$	Taxable base ThCh\$	18.5% Tax Rate ThCh\$	Taxable base ThCh\$	18.5% Tax Rate ThCh\$
<b>Based on accounting income before taxes:</b>								
Finance income	12,113,683		26,311,689		21,551,130		40,294,230	
Recorded tax expense	3,912,575		7,699,714		6,947,909		9,515,765	
<b>Income before taxes</b>	<b>16,026,258</b>	<b>3,205,252</b>	<b>34,011,403</b>	<b>6,802,281</b>	<b>28,499,039</b>	<b>5,272,322</b>	<b>49,809,995</b>	<b>9,214,849</b>
<b>Permanent differences</b>								
Price-level restatement of taxable equity	665,410	133,082	(1,331,021)	(266,204)	(1,670,533)	(309,048)	(8,196,219)	(1,516,300)
Price-level restatement of investments	1,304,144	260,829	1,690,562	338,112	1,491,148	275,862	2,287,510	423,189
Income from investments in related companies	(1)	-	(1)	-	(230,354)	(42,615)	(538,128)	(99,554)
Adjustment on deferred tax beginning balances (1)	30,783	6,157	30,783	6,157	3,033	561	(234,250)	(43,336)
Difference due to legal change in rates (2)	-	-	-	-	6,490,742	1,200,787	5,091,944	942,010
Prior year income tax deficit (surplus)	(3,161,291)	(632,258)	(3,161,291)	(632,258)	1,526,063	282,322	1,526,063	282,322
Provisional payment on absorbed net income	-	-	-	-	(95,188)	(17,610)	(95,188)	(17,610)
Other (3)	4,697,572	939,513	7,258,133	1,451,626	1,542,316	285,328	1,784,838	330,195
<b>Total corporate tax expense</b>	<b>19,562,875</b>	<b>3,912,575</b>	<b>38,498,568</b>	<b>7,699,714</b>	<b>37,556,266</b>	<b>6,947,909</b>	<b>51,436,565</b>	<b>9,515,765</b>
<b>Based on taxable net income and deferred taxes calculated on the basis of temporary differences</b>								
20% y 18.5% income tax		5,264,262		9,437,952		9,780,155		14,909,828
35% income tax		293,894		482,149		7,692		7,710
Provisional payment on net income absorbed by third parties		1,214,346		(1,057,694)		(234,798)		(234,798)
Previous year deficit (surplus)		(632,285)		(632,285)		282,322		282,322
Contingencies provision tax		670,000		970,000		-		-
<b>Income tax expense</b>		<b>6,810,217</b>		<b>9,200,122</b>		<b>9,835,371</b>		<b>14,965,062</b>
<b>Deferred tax expense (income)</b>		<b>(2,897,642)</b>		<b>(1,500,408)</b>		<b>(2,887,462)</b>		<b>(5,449,297)</b>
<b>Total corporate tax expense</b>		<b>3,912,575</b>		<b>7,699,714</b>		<b>6,947,909</b>		<b>9,515,765</b>
<b>Effective income tax rate</b>		<b>24.41%</b>		<b>22.64%</b>		<b>24.38%</b>		<b>19.10%</b>

(1) Adjustments for differences between the values used for the purpose of estimating deferred taxes and values according to final balance sheets.

(2) Law No. 20,630, which establishes the first category tax rate as of the 2013 tax year was published on September 27, 2012. Therefore, for the purpose of this closing date, we have included the effects of that reform in our determination of the respective current and deferred income taxes.

(3) Other includes fines and sanctions, tax loss price-level restatement 2011, among others.



Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

11. Income Taxes, continued

f) Current income tax liabilities

As of June 30, 2013 and December 31, 2012, current income tax liabilities are detailed as follows:

Concepts	06.30.2013 ThCh\$	12.31.2012 ThCh\$
Income tax accrual (1)	3,123,318	7,588,500
<b>Total</b>	<b>3,123,318</b>	<b>7,588,500</b>

(1) First Category income tax is presented net of prepaid monthly tax installments.

12. Non-current receivables

a) Non-current receivables are detailed as follows:

Concepts	06.30.2013			12.31.2012		
	Gross value ThCh\$	Allowance for doubtful accounts ThCh\$	Net value ThCh\$	Gross value ThCh\$	Allowance for doubtful accounts ThCh\$	Net value ThCh\$
Trade receivables	5,011,894	(1,056,903)	3,954,991	5,570,800	(1,082,197)	4,488,603
Miscellaneous receivables (1)	12,709,008	-	12,709,008	13,559,510	-	13,559,510
<b>Total</b>	<b>17,720,902</b>	<b>(1,056,903)</b>	<b>16,663,999</b>	<b>19,130,310</b>	<b>(1,082,197)</b>	<b>18,048,113</b>

(1) Mainly includes loans related to employees.

b) As of June 30, 2013 non-current accounts receivable by due date are detailed as follows:

Concepts	As of June 30, 2013								Net Total
	Gross Portfolio value in ThCh\$				Allowance for doubtful accounts ThCh\$				
	1 to 3 years	3 to 5 years	Greater than 5 years	Gross Total ThCh\$	1 to 3 years	3 to 5 years	Greater than 5 years	Gross Total ThCh\$	
Trade receivables	3,215,090	1,796,804	-	5,011,894	(905,709)	(110,163)	(41,031)	(1,056,903)	3,954,991
Miscellaneous receivables	2,172,522	914,715	9,621,771	12,709,008	-	-	-	-	12,709,008
<b>Total</b>	<b>5,387,612</b>	<b>2,711,519</b>	<b>9,621,771</b>	<b>17,720,902</b>	<b>(905,709)</b>	<b>(110,163)</b>	<b>(41,031)</b>	<b>(1,056,903)</b>	<b>16,663,999</b>

Concepts	As of December 31, 2012								Net Total
	Gross Portfolio value in ThCh\$				Allowance for doubtful accounts ThCh\$				
	1 to 3 years	3 to 5 years	Greater than 5 years	Gross Total ThCh\$	1 to 3 years	3 to 5 years	Greater than 5 years	Gross Total ThCh\$	
Trade receivables	2,941,889	2,628,911	-	5,570,800	(1,081,387)	(810)	-	(1,082,197)	4,488,603
Miscellaneous receivables	3,083,263	919,144	9,557,103	13,559,510	-	-	-	-	13,559,510
<b>Total</b>	<b>6,025,152</b>	<b>3,548,055</b>	<b>9,557,103</b>	<b>19,130,310</b>	<b>(1,081,387)</b>	<b>(810)</b>	<b>-</b>	<b>(1,082,197)</b>	<b>18,048,113</b>

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

13. Intangible Assets other than goodwill

a) Intangible assets other than goodwill as of June 30, 2013 and December 31, 2012 are detailed as follows:

Concepts	06.30.2013		12.31.2012			
	Intangible, gross ThCh\$	Accumulated amortization ThCh\$	Intangible, net ThCh\$	Intangible, gross ThCh\$	Accumulated amortization ThCh\$	Intangible, net ThCh\$
Intangible assets in development (1)	773,740	-	773,740	3,449,912	-	3,449,912
Licenses and franchises	161,335,515	(137,873,600)	23,461,915	156,006,228	(128,791,614)	27,214,614
Other intangible assets (2)	21,832,500	(15,116,555)	6,715,945	21,832,500	(14,391,496)	7,441,004
<b>Total</b>	<b>183,941,755</b>	<b>(152,990,155)</b>	<b>30,951,600</b>	<b>181,288,640</b>	<b>(143,183,110)</b>	<b>38,105,530</b>

(1) Corresponds to work in progress in development of licenses and software.

(2) Corresponds to rights to use underwater cable.

b) Movements of intangible assets other than goodwill for 2013 are detailed as follows:

Movements	Intangible assets in development, net ThCh\$	Licenses and franchises, net ThCh\$	Other intangible assets, net ThCh\$	Intangible, net ThCh\$
<b>Beginning balance as of 01.01.2013</b>	<b>3,449,912</b>	<b>27,214,614</b>	<b>7,441,004</b>	<b>38,105,530</b>
Additions	272	-	-	272
Transfer to service development costs	(2,676,444)	2,676,444	-	-
Amortization	-	(9,081,986)	(725,059)	(9,807,045)
Transfer from work in progress (Note 15b)	-	2,652,843	-	2,652,843
<b>Movement, subtotal</b>	<b>(2,676,172)</b>	<b>(3,752,699)</b>	<b>(725,059)</b>	<b>(7,153,930)</b>
<b>Ending balance as of 06.30.2013</b>	<b>773,740</b>	<b>23,461,915</b>	<b>6,715,945</b>	<b>30,951,600</b>
<b>Remaining average useful life</b>	-	<b>1.4 years</b>	<b>4.6 years</b>	-

Movements of intangible assets other than goodwill for 2012 are detailed as follows:

Movements	Intangible assets in development, net ThCh\$	Licenses and franchises, net ThCh\$	Other intangible assets, net ThCh\$	Intangible, net ThCh\$
<b>Beginning balance as of 01.01.2012</b>	<b>10,349,651</b>	<b>22,288,258</b>	<b>8,891,124</b>	<b>41,529,033</b>
Additions	2,744,704	-	-	2,744,704
Transfer to service development costs	(9,664,685)	9,664,685	-	-
Amortization	-	(14,773,608)	(1,450,120)	(16,223,728)
Transfer of amortization	-	(785)	-	(785)
Transfer from work in progress (Note 15b)	20,242	10,036,064	-	10,056,306
<b>Movement, subtotal</b>	<b>(6,899,739)</b>	<b>4,926,356</b>	<b>(1,450,120)</b>	<b>(3,423,503)</b>
<b>Ending balance as of 12.31.2012</b>	<b>3,449,912</b>	<b>27,214,614</b>	<b>7,441,004</b>	<b>38,105,530</b>
<b>Remaining average useful life</b>	-	<b>2 years</b>	<b>5.4 years</b>	-

Licenses correspond to software licenses, which are obtained through non-renewable contracts therefore the Company has defined that they have definite useful lives of 3 years.

**13. Intangible Assets other than goodwill, continued**

Intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization for each period is recognized in the statement of comprehensive income within "Depreciation and Amortization".

Intangible assets are tested for impairment whenever there is an indication of a potential loss in value, and in any case at each year-end. As of December 31, 2012 impairment testing is determined taking into consideration the following estimated variables:

- i. Projected income: The projection performed in respect to growth in the volume of future services rendered is 0.6%, growth rate that is consistent with historical behavior.
- ii. Discount: The rate used to discount future cash flows is 9.20%, rate that represents the market value of the specific business and industry risk, taking into consideration the time value of money and individual risks of the assets being analyzed.
- iii. Market assumptions: The future cash flows projection takes into account market assumptions on industry growth, country growth and projected inflation.
- iv. Sensibility analysis: A sensibility analysis was performed in respect to the market recoverable value, modifying the discount rate and growth rate values. The sensitivity contemplated increasing the discount rate by 14%, and dropping the growth rate from 12% to 10.67%. No impairment whatsoever was identified in the values recorded in the Company's financial statements.

In the financial statements as of December 31, 2012 there was no effect on income due to impairment testing of these assets. As of June 30, 2013 no impairment tests have been performed, since these are performed once a year, at year-end.

The main additions to intangible assets other than goodwill in 2013 and 2012 are investments in information applications.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

14. Goodwill

Goodwill movement for the periods 2013 and 2012 is as follows:

Taxpayer No.	Company	01.01.2013 ThCh\$	Additions ThCh\$	Eliminations ThCh\$	06.30.2013 ThCh\$
96.672.160-k	Telefónica Larga Distancia S.A.	21,039,896	-	-	21,039,896
96.834.320-3	Telefónica Internet Empresas S.A.	620,232	-	-	620,232
<b>Total</b>		<b>21,660,128</b>	<b>-</b>	<b>-</b>	<b>21,660,128</b>

Taxpayer No.	Company	01.01.2012 ThCh\$	Additions ThCh\$	Eliminations ThCh\$	12.31.2012 ThCh\$
96.672.160-k	Telefónica Larga Distancia S.A.	21,039,896	-	-	21,039,896
96.811.570-7	Instituto Telefónica Chile S.A.	38,923	-	(38,923)	-
96.834.320-3	Telefónica Internet Empresas S.A.	620,232	-	-	620,232
<b>Total</b>		<b>21,699,051</b>	<b>-</b>	<b>(38,923)</b>	<b>21,660,128</b>

Assets indicated in goodwill are tested for impairment whenever there is an indication of a potential loss in value, and in any case at each year-end. As of December 31, 2012 impairment testing is determined taking into consideration the following estimated variables:

- i. Projected income: The projection performed in respect to growth in the volume of future services rendered is 0.6%, growth rate that is consistent with historical behavior.
- ii. Discount: The rate used to discount future cash flows is 9.20%, rate that represents the market value of the specific business and industry risk, taking into consideration the time value of money and individual risks of the assets being analyzed.
- iii. Market assumptions: The future cash flows projection takes into account market assumptions on industry growth, country growth and projected inflation.
- iv. Sensibility analysis: A sensibility analysis was performed in respect to the market recoverable value, modifying the discount rate and growth rate values. The sensitivity contemplated increasing the discount rate by 14%, and dropping the growth rate from 12% to 10.67%. No impairment whatsoever was identified in the values recorded in the Company's financial statements.

According to the impairment calculations performed by management, as of 2012 year-end there has been no need detected to make significant adjustments since the recoverable value is greater than the book value in all cases. As of June 30, 2013 no impairment tests have been performed, since these are performed once a year, at year-end.

## Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

## 15. Property, plant and equipment

- a) The detail of Property, plant and equipment items for the periods 2013 and 2012 and their corresponding accumulated depreciation is as follows:

Concepts	06.30.2013		Property, plant & equipment, Net ThCh\$	Property, plant & equipment, Gross ThCh\$	12.31.2012		Property, plant & equipment, Net ThCh\$
	Property, plant & equipment, Gross ThCh\$	Accumulated depreciation ThCh\$			Accumulated depreciation ThCh\$	Property, plant & equipment, Gross ThCh\$	
Land	21,259,925	-	21,259,925	21,490,644	-	21,490,644	
Buildings	720,675,751	(437,380,355)	283,295,396	716,968,498	(428,659,342)	288,309,156	
Transport equipments	577,765	(513,852)	63,913	590,958	(510,651)	80,307	
Supplies and accessories	21,859,830	(19,621,163)	2,238,667	21,800,462	(19,365,538)	2,434,924	
Office equipments	1,583,242	(577,152)	1,006,090	1,582,632	(502,606)	1,080,026	
Construction in progress	203,811,401	-	203,811,401	179,424,467	-	179,424,467	
Other property, plant & equipment (1)	2,481,227,892	(2,033,645,094)	447,582,798	2,457,075,742	(2,000,561,329)	456,514,413	
<b>Total</b>	<b>3,450,995,806</b>	<b>(2,491,737,616)</b>	<b>959,258,190</b>	<b>3,398,933,403</b>	<b>(2,449,599,466)</b>	<b>949,333,937</b>	

- (1) Other property, plant and equipment is detailed as follows:

Concepts	06.30.2013		Property, plant & equipment, Net ThCh\$	Property, plant & equipment, Gross ThCh\$	12.31.2012		Property, plant & equipment, Gross ThCh\$
	Property, plant & equipment, Gross ThCh\$	Accumulated depreciation ThCh\$			Accumulated depreciation ThCh\$	Property, plant & equipment, Gross ThCh\$	
General equipment	28,048,729	(27,563,611)	485,118	27,992,539	(27,356,702)	635,837	
Subscriber equipment	217,247,097	(152,417,753)	64,829,344	195,996,728	(141,634,205)	54,362,523	
Information processes equipment	36,402,588	(30,640,011)	5,762,577	36,402,588	(28,433,886)	7,968,702	
Central offices (*)	1,293,599,169	(1,110,131,376)	183,467,793	1,291,930,166	(1,101,909,030)	190,021,136	
External plant	905,930,309	(712,892,343)	193,037,966	904,753,721	(701,227,506)	203,526,215	
<b>Total</b>	<b>2,481,227,892</b>	<b>(2,033,645,094)</b>	<b>447,582,798</b>	<b>2,457,075,742</b>	<b>(2,000,561,329)</b>	<b>456,514,413</b>	

- (\*) This item includes a provision in the amount of ThCh\$543,244 for the estimated cost of dismantling microwave antennas, from telecommunications infrastructure, presented under Other non-current provisions.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

15. Property, plant and equipment, continued

b) Movements of property, plant and equipment items for the period 2013 are as follows:

Movements	Land	Buildings, net	Transport equipments, net	Supplies and accessories, net	Office equipment, net	Construction in progress, net	Other property, plant & equipment, net	Property, plant and equipment, net
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
<b>Beginning balance as of 01.01.2013</b>	<b>21,490,644</b>	<b>288,309,156</b>	<b>80,307</b>	<b>2,434,924</b>	<b>1,080,026</b>	<b>179,424,467</b>	<b>456,514,413</b>	<b>949,333,937</b>
Additions	-	-	-	-	-	84,743,741	-	84,743,741
Retirements	(230,719)	(147,992)	(13,193)	(60)	-	-	(29,645,654)	(30,037,618)
Acc. Dep. retirements	-	117,225	13,193	60	-	-	26,998,270	27,128,748
Depreciation expense	-	(8,838,238)	(16,394)	(255,685)	(74,546)	-	(58,137,327)	(67,322,190)
Transfer of depreciation	-	-	-	-	-	-	(1,944,708)	(1,944,708)
Other Increase (decrease) (1)	-	3,855,245	-	59,428	610	(60,356,807)	53,797,804	(2,643,720)
<b>Movements, subtotal</b>	<b>(230,719)</b>	<b>(5,013,760)</b>	<b>(16,394)</b>	<b>(196,257)</b>	<b>(73,936)</b>	<b>24,386,934</b>	<b>(8,931,615)</b>	<b>9,924,253</b>
<b>Ending balance as of 06.30.2013</b>	<b>21,259,925</b>	<b>283,295,396</b>	<b>63,913</b>	<b>2,238,667</b>	<b>1,006,090</b>	<b>203,811,401</b>	<b>447,582,798</b>	<b>959,258,190</b>

(1) Includes net movement of transfers from construction in progress to intangible assets in the amount of ThCh\$(2,652,843) (note 13b) and transfers from inventory to investment projects in the amount of ThCh\$9,123(note 10b).

b) Movements of property, plant and equipment items for the year 2012 are as follows:

Movements	Land	Buildings, net	Transport equipments, net	Supplies and accessories, net	Office equipment, net	Construction in progress, net	Other property, plant & equipment, net	Property, plant and equipment, net
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
<b>Beginning balance as of 01.01.2012</b>	<b>21,600,479</b>	<b>312,593,823</b>	<b>114,044</b>	<b>2,128,455</b>	<b>857,204</b>	<b>139,827,437</b>	<b>456,764,687</b>	<b>933,886,129</b>
Additions	-	-	-	-	-	166,154,554	-	166,154,554
Retirements	(150,595)	(8,227,743)	-	(212,285)	(396)	-	(42,644,296)	(51,235,315)
Acc. Dep. retirements	-	6,656,569	-	104,332	73	-	38,382,120	45,143,094
Depreciation expense	-	(32,053,040)	(33,737)	(484,945)	(144,709)	-	(114,946,993)	(147,663,424)
Transfer of depreciation	-	(52)	-	-	-	-	2,026,114	2,026,062
Other Increase (decrease) (1) (2)	40,760	9,339,599	-	899,367	367,854	(126,557,524)	116,932,781	1,022,837
<b>Movements, subtotal</b>	<b>(109,835)</b>	<b>(24,284,667)</b>	<b>(33,737)</b>	<b>306,469</b>	<b>222,822</b>	<b>39,597,030</b>	<b>(250,274)</b>	<b>15,447,808</b>
<b>Ending balance as of 12.31.2012</b>	<b>21,490,644</b>	<b>288,309,156</b>	<b>80,307</b>	<b>2,434,924</b>	<b>1,080,026</b>	<b>179,424,467</b>	<b>456,514,413</b>	<b>949,333,937</b>

(1) Includes net movement of transfers from construction in progress to service assets, transfers to intangible assets in the amount of ThCh\$(10,056,306) (note 13b), transfers of inventory in the amount of ThCh\$1,464 and assets re-injected from goods destined for sale in the amount of ThCh\$181,678.

(2) The decrease in construction in progress includes an amount of ThCh\$38,510,662 which corresponds to assets in the homes of customers that are already in operation. Within the balance of the item work in progress the total value of assets that are waiting to be installed in customer homes is ThCh\$17,737,360.

**15. Property, plant and equipment, continued**

Additions for the period 2013 fundamentally show the effect of incorporation of customer residential equipment (fixed telephone, broadband and television), long-distance transmission and voice and data equipment.

Property, plant and equipment items originating from net financial lease operations amount to ThCh\$1,261,464 for the period 2013 in the categories of buildings and the other property, plant and equipment. For year 2012, the amount for this concept was ThCh\$1,870,381 corresponding to the buildings category and equipment of information technology.

In the normal course of business, the Company monitors both new and existing assets and their depreciation rates, adjusting for technological evolution and development of markets in which we compete.

No significant obligations were identified after reviewing financial lease agreements for the real estate that the Company has with private entities and government organization involving the location of certain of the Company's assets in those installations, such as switchboard equipment, radio stations, antennas and other equipment in relation to possible obligations at the end of the contract, considering their term and renewal conditions. In cases where the lease contracts were not renewed no significant withdrawal costs were incurred. Considering the above and the nature of the real estate lease agreements, the Company has established a provision for dismantling costs presented in Other non-current provisions.

**16. Non-current assets and surrendered units available for sale or held for distribution to the owners**

Non-current assets and surrendered units available for sale correspond to land and buildings that have been destined for sale in accordance with the Company's rationalization program carried out in 2012.

The detail of which for the period 2013 and 2012 is as follows:

Concepts	06.30.2013	12.31.2012
	ThCh\$	ThCh\$
Land	34,327	34,327
Buildings	31,300	31,300
<b>Total</b>	<b>65,627</b>	<b>65,627</b>

**17. Other current and other non-current financial liabilities**

The composition of Other current and other non-current financial liabilities that accrue interest is as follows:

Concepts		06.30.2013		12.31.2012	
		Current ThCh\$	Non-current ThCh\$	Current ThCh\$	Non-current ThCh\$
Bank loans	(a)	85,492	90,945,750	72,081,274	85,947,989
Unguaranteed obligations (Bonds)	(b)	139,829,300	234,348,324	5,113,610	376,167,965
Financial leases	(c)	2,274,374	1,126,572	1,935,034	1,989,944
Hedge instruments	(see note 19.2)	5,849,703	20,295,587	5,971,407	4,783,719
<b>Total</b>		<b>148,038,869</b>	<b>346,716,233</b>	<b>85,101,325</b>	<b>468,889,617</b>



Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

17. Other current and other non-current financial liabilities, continued

a) The detail of bank loans for 2013 is as follows:

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													Up to 90 days	90 days to 1 years	To Maturity 1 to 3 years	3 to 5 years	5 years and over	
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	Sovereign Bank N.A.	USA	USD	At expiry	2.51%	2.15%	USD 97.5 mm	2017	-	-	-	97,500	-	97,500
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	Banco Scotiabank & Trust	Cayman Islands	USD	At expiry	2.15%	1.60%	USD 25 mm	2015	-	-	25,000	-	-	25,000
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	USD	At expiry	1.42%	1.28%	USD 58.25 mm	2015	-	-	58,250	-	-	58,250

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current		Total current as of 06.30.2013 ThCh\$	Non-current			Total Non current as of 06.30.2013 ThCh\$
								To Maturity Up to 90 days ThCh\$	90 days to 1 years ThCh\$		To Maturity 1 to 3 years ThCh\$	3 to 5 years ThCh\$	5 years and over ThCh\$	
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	Sovereign Bank N.A.	USA	USD	73,698	-	73,698	-	48,905,228	-	48,905,228
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	Banco Scotiabank & Trust	Cayman Islands	USD	5,569	-	5,569	12,564,297	-	-	12,564,297
Bilateral Loan	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	USD	-	6,225	6,225	29,476,225	-	-	29,476,225
<b>Total bank loans</b>								<b>79,267</b>	<b>6,225</b>	<b>85,492</b>	<b>42,040,522</b>	<b>48,905,228</b>	<b>-</b>	<b>90,945,750</b>

- i. On April 3, 2012 an international 5-year bullet loan agreement was signed with Sovereign Bank N.A. subsidiary of Santander in the USA, in the amount of USD 97.5 million with an interest rate of libor + 1.95% annually.
- ii. On April 18, 2012 a 3-year bullet loan agreement was signed with Scotiabank & Trust (Cayman) Ltd. in the amount of USD 25 million at an interest rate of libor + 1.40% annually.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

17. Other current and other non-current financial liabilities, continued

a) The detail of bank loans for 2012 is as follows:

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	
Syndicated Loan (*)	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	BBVA Bancomer and other Sovereign Bank	Mexico	USD	At expiry	0.99%	0.85%	USD 150 mm	2013	-	150,000	-	-	-	150,000
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	N.A.	USA	USD	At expiry	2.53%	2.17%	USD 97.5 mm	2017	-	-	-	97,500	-	97,500
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	Banco Scotiabank & Trust	Cayman Islands	USD	At expiry	2.17%	1.61%	USD 25 mm	2015	-	-	25,000	-	-	25,000
Bilateral Loan	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	USD	At expiry	1.46%	1.31%	USD 58.25 mm	2015	-	-	58,250	-	-	58,250

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current			Non-current			
								To Maturity Up to 90 days ThCh\$	90 days to 1 years ThCh\$	Total current as of 12.31.2012 ThCh\$	To Maturity 1 to 3 years ThCh\$	3 to 5 years ThCh\$	5 years and over ThCh\$	Total Non current as of 12.31.2012 ThCh\$
Syndicated Loan (*)	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	BBVA Bancomer and other Sovereign Bank	Mexico	USD	34,077	71,961,000	71,995,077	-	-	-	-
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	N.A.	USA	USD	73,171	-	73,171	-	46,209,119	-	46,209,119
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	Banco Scotiabank & Trust	Cayman Islands	USD	5,905	-	5,905	11,860,768	-	-	11,860,768
Bilateral Loan	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	USD	7,121	-	7,121	27,878,102	-	-	27,878,102
<b>Total bank loans</b>								<b>120,274</b>	<b>71,961,000</b>	<b>72,081,274</b>	<b>39,738,870</b>	<b>46,209,119</b>	<b>-</b>	<b>85,947,989</b>

- i. On April 3, 2012 an international 5-year bullet loan agreement was signed with Sovereign Bank N.A. subsidiary of Santander in the USA, in the amount of USD 97.5 million with an interest rate of libor + 1.95% annually.
- ii. On April 18, 2012 a 3-year bullet loan agreement was signed with Scotiabank & Trust (Cayman) Ltd. in the amount of USD 25 million at an interest rate of libor + 1.40% annually.

(\*) On May 13, 2013 the loan held with BBVA Bancomer for US\$ 150 million was paid.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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



17. Other current and other non-current financial liabilities, continued

b) The detail of unguaranteed obligations (Bonds) for 2013 is as follows:

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	
Series F Bond	90.635.000-9	Telefónica Chile S.A.	Chile	97.080.000-K	Banco Bice The Bank of New	Chile	UF	Biannual	6.43%	6.00%	UF 1,500,000	2016	36	36	143	-	-	215
Series 144A Bond (2)	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	York Mellon	USA	USD	At expiry	4.07%	3.88%	MMUSD 500	2022	-	-	-	-	500,000	500,000
Series M Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	CLP	At expiry	5.93%	6.05%	MM\$ 20,500	2014	-	20,500,000	-	-	-	20,500,000
Series N Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	UF	At expiry	3.21%	3.50%	UF 5,000,000	2014	-	5,000	-	-	-	5,000

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current			Non-current				
								To Maturity Up to 90 days ThCh\$	90 days to 1 years ThCh\$	Total current as of 06.30.2013 ThCh	To Maturity 1 to 3 years ThCh\$	3 to 5 years ThCh\$	5 years and over ThCh\$	Total Non current as of 06.30.2013 ThCh\$	
Series F Bond	90.635.000-9	Telefónica Chile S.A.	Chile	97.080.000-K	Banco Bice The Bank of New	Chile	UF	-	1,676,847	1,676,847	3,251,393	-	-	-	3,251,393
Series 144A Bond (2)	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	York Mellon	USA	USD	-	1,856,451	1,856,451	-	-	231,096,931	-	231,096,931
Series M Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	CLP	-	20,818,038	20,818,038	-	-	-	-	-
Series N Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	UF	-	115,477,964	115,477,964	-	-	-	-	-
<b>Total unguaranteed obligations</b>								-	<b>139,829,300</b>	<b>139,829,300</b>	<b>3,251,393</b>	-	<b>231,096,931</b>	<b>234,348,324</b>	

- (1) The classification of both series is "AA-" and "AA" by Fitch Ratings and ICR, respectively. Both operations were led by BBVA.
- (2) On October 12, 2012, Telefónica Chile S.A. issued Reg S 144A Bonds in the American capitals market in the amount of US\$500,000,000 (equivalent to ThCh\$236,400,000 historical), at an effective annual interest rate in US dollars of 3.887% and a 10-year bullet maturing on October 12, 2022. Placement banks were Banco Bilbao Vizcaya Argentaria, S.A. Citigroup Global Markets Inc. and J.P. Morgan Securities LLC. Funds resulting from the issuance shall be destined to refinancing of liabilities and others corporate purposes.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

17. Other current and other non-current financial liabilities, continued

b) The detail of unguaranteed obligations (Bonds) for 2012 is as follows:

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													To Maturity					
													Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	
Series F Bond	90.635.000-9	Telefónica Chile S.A.	Chile	97.080.000-K	Banco Bice The Bank of New York Mellon	Chile	UF	Biannual	6.43%	6.00%	UF 1,500,000	2016	-	71	143	71	-	285
Series 144A Bond (2)	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	The Bank of New York Mellon	USA	USD	At expiry	4.07%	3.88%	MMUSD 500	2022	-	-	-	-	500,000	500,000
Series M Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	CLP	At expiry	5.93%	6.05%	MCh\$ 20,500	2014	-	-	20,500,000	-	-	20,500,000
Series N Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	UF	At expiry	3.21%	3.50%	UF 5,000,000	2014	-	-	5,000	-	-	5,000

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current			Non-current			
								To Maturity		Total current as of 12.31.2012 ThCh	To Maturity		Total Non current as of 12.31.2012 ThCh\$	
								Up to 90 days ThCh\$	90 days to 1 years ThCh\$		1 to 3 years ThCh\$	3 to 5 years ThCh\$		5 years and over ThCh\$
Series F Bond	90.635.000-9	Telefónica Chile S.A.	Chile	97.080.000-K	Banco Bice The Bank of New York Mellon	Chile	UF	-	1,684,529	1,684,529	3,262,963	795,444	-	4,058,407
Series 144A Bond (2)	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	The Bank of New York Mellon	USA	USD	-	1,795,718	1,795,718	-	-	237,320,098	237,320,098
Series M Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	CLP	-	328,327	328,327	20,505,869	-	-	20,505,869
Series N Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	UF	-	1,305,036	1,305,036	114,283,591	-	-	114,283,591
<b>Total unguaranteed obligations</b>								-	<b>5,113,610</b>	<b>5,113,610</b>	<b>138,052,423</b>	<b>795,444</b>	<b>237,320,098</b>	<b>376,167,965</b>

- (1) The classification of both series is "AA-" and "AA" by Fitch Ratings and ICR, respectively. Both operations were led by BBVA.
- (2) On October 12, 2012, Telefónica Chile S.A. issued Reg S 144A Bonds in the American capitals market in the amount of US\$500,000,000 (equivalent to ThCh\$236,400,000 historical), at an effective annual interest rate in US dollars of 3.887% and a 10-year bullet maturing on October 12, 2022. Placement banks were Banco Bilbao Vizcaya Argentaria, S.A. Citigroup Global Markets Inc. and J.P. Morgan Securities LLC. Funds resulting from the issuance shall be destined to refinancing of liabilities and others corporate purposes.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

17. Other current and other non-current financial liabilities, continued

c) The detail of financial leases for 2013 as follows:

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													To Maturity					
													Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	UF	Monthly	-	8.10%	-	2016	-	2	2	2	-	6
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	92.040.000-0	IBM	Chile	USD	Monthly	-	-	-	2014	87	1,301	667	-	-	2,055
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.36%	-	2015	9	9	19	-	-	37
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.99%	-	2015	8	4	7	-	-	19
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.99%	-	2015	6	2	5	-	-	13

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current		Total current as of 06.30.2013 ThCh	Non-current			Total Non current as of 06.30.2013 ThCh
								To Maturity			1 to 3 years ThCh\$	3 to 5 years ThCh\$	5 years and over ThCh\$	
								Up to 90 days ThCh\$	90 days to 1 years ThCh\$					
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	UF	8,747	28,147	36,894	31,835	46,496	-	78,331
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	92.040.000-0	IBM	Chile	USD	159,710	1,176,238	1,335,948	333,030	-	-	333,030
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	213,529	207,942	421,471	427,067	-	-	427,067
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	201,047	82,188	283,235	170,005	-	-	170,005
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	139,712	57,114	196,826	118,139	-	-	118,139
<b>Total financial leases</b>								<b>722,745</b>	<b>1,551,629</b>	<b>2,274,374</b>	<b>1,080,076</b>	<b>46,496</b>	<b>-</b>	<b>1,126,572</b>

As June 30, 2013 the present value of minimum current and non-current financial lease net payments is ThCh\$3,400,945 and the total imputable interest is ThCh\$114,753.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

17. Other current and other non-current financial liabilities, continued

c) The detail of financial leases for 2012 as follows:

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													To Maturity					
													Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	UF	Monthly	-	8.10%	-	2016	1	2	3	2	-	8
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	92.040.000-0	IBM	Chile	USD	Monthly	-	-	-	2014	232	2,549	2,002	-	-	4,783
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.36%	-	2015	3	9	25	-	-	37
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.99%	-	2015	5	4	10	-	-	19
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.99%	-	2015	4	2	7	-	-	13

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current			Non-current			
								To Maturity		Total current as of 12.31.2012 ThCh	To Maturity		Total Non current as of 12.31.2012 ThCh	
								Up to 90 days ThCh\$	90 days to 1 years ThCh\$		1 to 3 years ThCh\$	3 to 5 years ThCh\$		5 years and over ThCh\$
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	UF	8,178	26,304	34,482	50,971	46,498	-	97,469
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	92.040.000-0	IBM	Chile	USD	318,408	952,368	1,270,776	945,510	-	-	945,510
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	67,664	205,400	273,064	565,808	-	-	565,808
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	129,534	80,928	210,462	224,884	-	-	224,884
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	90,014	56,236	146,250	156,273	-	-	156,273
<b>Total financial leases</b>								<b>613,798</b>	<b>1,321,236</b>	<b>1,935,034</b>	<b>1,943,446</b>	<b>46,498</b>	<b>-</b>	<b>1,989,944</b>

As December 31, 2012 the present value of minimum current and non-current financial lease net payments is ThCh\$3,924,978 and the total imputable interest is ThCh\$191,981.

**18. Trade and other payables**

The composition of Trade and other payables is as follows:

Concepts	06.30.2013	12.31.2012
	ThCh\$	ThCh\$
Debts due to purchases or services provided (1)	108,215,043	122,902,244
Real property providers	18,721,613	34,667,478
Payables to employees	14,991,920	24,419,202
Dividends pending payment	531,439	539,490
Other	3,668,724	4,970,255
<b>Total current</b>	<b>146,128,739</b>	<b>187,498,669</b>

(1) The “Debts due to purchases or services provided” corresponding to foreign and domestic suppliers for the periods ended June 30, 2013 and December 31, 2012 according to the following detail:

Debts due to purchases or services provided	06.30.2013	12.31.2012
	ThCh\$	ThCh\$
Domestic	92,948,013	107,806,879
Foreign	15,267,030	15,095,365
<b>Total</b>	<b>108,215,043</b>	<b>122,902,244</b>

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

19. Financial instruments

1. Classification of financial instruments by nature and category

a) Details of financial instruments of assets classified by nature and category as of June 30, 2013 is as follows:

Description of financial assets	Financial instrument expiry	ASSETS RECORDED AT FAIR VALUE							ASSETS RECORDED AT AMORTIZED COST			TOTAL	
		Other financial assets at FV through P&L	Financial assets available for sale	Asset hedge derivatives	Subtotal of assets at fair value	Valuation hierarchy			Balance of financial assets at amortized cost	Investments held to maturity	Subtotal of assets at amortized cost	Total Carrying amount	Total fair value
						Level 1	Level 2	Level 3					
ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	Market prices	Estimates based on other observable market data	Estimates not based on observable market data	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	
<b>Other participations (net)</b>		<b>11,330</b>	<b>7,259,399</b>	-	<b>7,270,729</b>	<b>7,259,399</b>	<b>11,330</b>	-	-	-	-	<b>7,270,729</b>	<b>7,270,729</b>
Other participations	See note 6c	11,330	7,259,399	-	7,270,729	7,259,399	11,330	-	-	-	-	7,270,729	7,270,729
<b>Derivative instrument assets</b>		-	-	<b>17,718,557</b>	<b>17,718,557</b>	-	<b>17,718,557</b>	-	-	-	-	<b>17,718,557</b>	<b>17,718,557</b>
Derivative instrument assets	See note 19-2	-	-	17,718,557	17,718,557	-	17,718,557	-	-	-	-	17,718,557	17,718,557
<b>Non-current deposits and pledges</b>		<b>138,284</b>	-	-	<b>138,284</b>	-	<b>138,284</b>	-	-	-	-	<b>138,284</b>	<b>138,284</b>
Non-current deposits and pledges	See note 6a	138,284	-	-	138,284	-	138,284	-	-	-	-	138,284	138,284
<b>Non-current trade accounts receivable</b>		-	-	-	-	-	-	-	<b>18,030,520</b>	-	<b>18,030,520</b>	<b>18,030,520</b>	<b>18,030,520</b>
Trade receivable	See note 12	-	-	-	-	-	-	-	16,663,999	-	16,663,999	16,663,999	16,663,999
Account receivable from relate entities	See note 9b	-	-	-	-	-	-	-	1,366,521	-	1,366,521	1,366,521	1,366,521
<b>Non-current financial assets</b>		<b>149,614</b>	<b>7,259,399</b>	<b>17,718,557</b>	<b>25,127,570</b>	<b>7,259,399</b>	<b>17,868,171</b>	-	<b>18,030,520</b>	-	<b>18,030,520</b>	<b>43,158,090</b>	<b>43,158,090</b>
<b>Current trade accounts receivable</b>		-	-	-	-	-	-	-	<b>197,564,262</b>	-	<b>197,564,262</b>	<b>197,564,262</b>	<b>197,564,262</b>
Trade and other accounts receivable	See note 8	-	-	-	-	-	-	-	142,662,092	-	142,662,092	142,662,092	142,662,092
Account receivable from relate entities	See note 9a	-	-	-	-	-	-	-	54,902,170	-	54,902,170	54,902,170	54,902,170
<b>Current pledges and deposits</b>		<b>478,482</b>	-	-	<b>478,482</b>	-	<b>478,482</b>	-	-	-	-	<b>478,482</b>	<b>478,482</b>
Current pledges and deposits	See note 6a	478,482	-	-	478,482	-	478,482	-	-	-	-	478,482	478,482
<b>Derivative instrument of assets</b>		-	-	<b>10,859,456</b>	<b>10,859,456</b>	-	<b>10,859,456</b>	-	-	-	-	<b>10,859,456</b>	<b>10,859,456</b>
Derivative instrument of assets	See note 19-2	-	-	10,859,456	10,859,456	-	10,859,456	-	-	-	-	10,859,456	10,859,456
<b>Cash and cash equivalents</b>		-	-	-	-	-	-	-	<b>150,001,449</b>	-	<b>150,001,449</b>	<b>150,001,449</b>	<b>150,001,449</b>
Cash and cash equivalents	See note 5	-	-	-	-	-	-	-	150,001,449	-	150,001,449	150,001,449	150,001,449
<b>Current financial assets</b>		<b>478,482</b>	-	<b>10,859,456</b>	<b>11,337,938</b>	-	<b>11,337,938</b>	-	<b>347,565,711</b>	-	<b>347,565,711</b>	<b>358,903,649</b>	<b>358,903,649</b>
<b>Total financial assets</b>		<b>628,096</b>	<b>7,259,399</b>	<b>28,578,013</b>	<b>36,465,508</b>	<b>7,259,399</b>	<b>29,206,109</b>	-	<b>365,596,231</b>	-	<b>365,596,231</b>	<b>402,061,739</b>	<b>402,061,739</b>



Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

19. Financial instruments, continued

1. Classification of financial instruments by nature and category, continued

a) Details of financial instruments of assets classified by nature and category as of December 31, 2012 is as follows

Description of financial assets	Financial instrument expiry	ASSETS RECORDED AT FAIR VALUE							ASSETS RECORDED AT AMORTIZED COST			TOTAL	
		Other financial assets at FV through P&L	Financial assets available for sale	Asset hedge derivatives	Subtotal of assets at fair value	Valuation hierarchy			Balance of financial assets at amortized cost	Investments held to maturity	Subtotal of assets at amortized cost	Total Carrying amount	Total fair value
						Level 1	Level 2	Level 3					
						Market prices	Estimates based on other observable market data	Estimates not based on observable market data					
ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$		
<b>Other participations (net)</b>		<b>11,330</b>	<b>7,275,688</b>	-	<b>7,287,018</b>	<b>7,275,688</b>	<b>11,330</b>	-	-	-	<b>7,287,018</b>	<b>7,287,018</b>	
Other participations	See note 6c	11,330	7,275,688	-	7,287,018	7,275,688	11,330	-	-	-	7,287,018	7,287,018	
<b>Derivative instrument assets</b>		-	-	<b>9,221,669</b>	<b>9,221,669</b>	-	<b>9,221,669</b>	-	-	-	<b>9,221,669</b>	<b>9,221,669</b>	
Derivative instrument assets	See note 19-2	-	-	9,221,669	9,221,669	-	9,221,669	-	-	-	9,221,669	9,221,669	
<b>Non-current deposits and pledges</b>		<b>200,959</b>	-	-	<b>200,959</b>	-	<b>200,959</b>	-	-	-	<b>200,959</b>	<b>200,959</b>	
Non-current deposits and pledges	See note 6a	200,959	-	-	200,959	-	200,959	-	-	-	200,959	200,959	
<b>Non-current trade accounts receivable</b>		-	-	-	-	-	-	<b>19,414,634</b>	-	<b>19,414,634</b>	<b>19,414,634</b>	<b>19,414,634</b>	
Trade receivable	See note 12	-	-	-	-	-	-	18,048,113	-	18,048,113	18,048,113	18,048,113	
Account receivable from relate entities	See note 9b	-	-	-	-	-	-	1,366,521	-	1,366,521	1,366,521	1,366,521	
<b>Non-current financial assets</b>		<b>212,289</b>	<b>7,275,688</b>	<b>9,221,669</b>	<b>16,709,646</b>	<b>7,275,688</b>	<b>9,433,958</b>	<b>19,414,634</b>	-	<b>19,414,634</b>	<b>36,124,280</b>	<b>36,124,280</b>	
<b>Current trade accounts receivable</b>		-	-	-	-	-	-	<b>204,262,154</b>	-	<b>204,262,154</b>	<b>204,262,154</b>	<b>204,262,154</b>	
Trade and other accounts receivable	See note 8	-	-	-	-	-	-	140,799,919	-	140,799,919	140,799,919	140,799,919	
Account receivable from relate entities	See note 9a	-	-	-	-	-	-	63,462,235	-	63,462,235	63,462,235	63,462,235	
<b>Current pledges and deposits</b>		<b>478,482</b>	-	-	<b>478,482</b>	-	<b>478,482</b>	-	-	-	<b>478,482</b>	<b>478,482</b>	
Current pledges and deposits	See note 6a	478,482	-	-	478,482	-	478,482	-	-	-	478,482	478,482	
<b>Derivative instrument of assets</b>		-	-	<b>4,519,653</b>	<b>4,519,653</b>	-	<b>4,519,653</b>	-	-	-	<b>4,519,653</b>	<b>4,519,653</b>	
Derivative instrument of assets	See note 19-2	-	-	4,519,653	4,519,653	-	4,519,653	-	-	-	4,519,653	4,519,653	
<b>Cash and cash equivalents</b>		-	-	-	-	-	-	<b>246,567,966</b>	-	<b>246,567,966</b>	<b>246,567,966</b>	<b>246,567,966</b>	
Cash and cash equivalents	See note 5	-	-	-	-	-	-	246,567,966	-	246,567,966	246,567,966	246,567,966	
<b>Current financial assets</b>		<b>478,482</b>	-	<b>4,519,653</b>	<b>4,998,135</b>	-	<b>4,998,135</b>	<b>450,830,120</b>	<b>25,780,780</b>	<b>450,830,120</b>	<b>455,828,255</b>	<b>455,828,255</b>	
<b>Total financial assets</b>		<b>690,771</b>	<b>7,275,688</b>	<b>13,741,322</b>	<b>21,707,781</b>	<b>7,275,688</b>	<b>14,432,093</b>	<b>470,244,754</b>	<b>25,780,780</b>	<b>470,244,754</b>	<b>491,952,535</b>	<b>491,952,535</b>	

**19. Financial instruments, continued**

**1. Classification of financial instruments by nature and category, continued**

The fair value of financial assets such as cash and cash equivalents and the current portion of accounts receivable from related entities approximates their fair values, due to the short-term nature of their expiries.

Instruments recorded under other current and non-current financial assets classified as financial assets at fair value through profit or loss and hedge derivatives are presented at their fair value in the Statement of Financial Position.

Financial instruments recorded under other non-current financial assets and classified as financial assets available for sale, mainly include the investment in Telefonica Brasil which is recorded at fair value (see note 6c).

Instruments recorded under other current financial assets classified as held to maturity mainly include time deposits maturing in more than 90 days.

The book value of the current portion of trade accounts receivable approximates their fair values, due to the short-term nature of their expiries.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

19. Financial instruments, continued

1. Classification of financial instruments by nature and category, continued

b) Details of financial instruments of liabilities classified by nature and category as of June 30, 2013 is as follows:

Description of financial liabilities	Financial instrument expiry	LIABILITES RECORDED AT FAIR VALUE					LIABILITIES RECORDED AT AMORTIZED COST		TOTAL	
		Hedge derivative liabilities	Subtotal of liabilities at fair value	Valuation hierarchy			Debits and items payable	Total Carrying amount	Total Carrying amount	
				Level 1	Level 2	Level 3				
				Market prices	Estimates based on other observable market data	Estimates not based on observable market data				
ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$			
Issuance of obligations and other non-current marketable securities	See note 17 b	-	-	-	-	-	234,348,324	234,348,324	234,348,324	
Non-current debts with loan entities	See note 17 a	-	-	-	-	-	92,072,322	92,072,322	92,072,322	
Long-term hedge derivative instrument of liabilities	See note 19-2	20,295,587	20,295,587	-	20,295,587	-	-	20,295,587	20,295,587	
Trade and other accounts payable		-	-	-	-	-	-	-	-	
Accounts payable to related entities		-	-	-	-	-	-	-	-	
<b>Non-current financial liabilities</b>		<b>20,295,587</b>	<b>20,295,587</b>	<b>-</b>	<b>20,295,587</b>	<b>-</b>	<b>326,420,646</b>	<b>346,716,233</b>	<b>346,716,233</b>	
Issuance of short-term obligations and other marketable securities	See note 17 b	-	-	-	-	-	139,829,300	139,829,300	139,829,300	
Short-term debts with credit entities	See note 17 a	-	-	-	-	-	2,359,866	2,359,866	2,359,866	
Short-term derivative instrument of liabilities	See note 19-2	5,849,703	5,849,703	-	5,849,703	-	-	5,849,703	5,849,703	
Trade and other accounts payable	See note 18	-	-	-	-	-	146,128,739	146,128,739	146,128,739	
Accounts payable to related entities	See note 9 c	-	-	-	-	-	74,234,372	74,234,372	74,234,372	
<b>Current financial liabilities</b>		<b>5,849,703</b>	<b>5,849,703</b>	<b>-</b>	<b>5,849,703</b>	<b>-</b>	<b>362,552,277</b>	<b>368,401,980</b>	<b>368,401,980</b>	
<b>Total financial liabilities</b>		<b>26,145,290</b>	<b>26,145,290</b>	<b>-</b>	<b>26,145,290</b>	<b>-</b>	<b>688,972,923</b>	<b>715,118,213</b>	<b>715,118,213</b>	

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

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

Telefónica

19. Financial instruments, continued

1. Classification of financial instruments by nature and category, continued

b) Details of financial instruments of liabilities classified by nature and category as of December 31, 2012 is as follows:

Description of financial liabilities	Financial instrument expiry	LIABILITES RECORDED AT FAIR VALUE					LIABILITIES RECORDED AT AMORTIZED COST		TOTAL	
		Hedge derivative liabilities	Subtotal of liabilities at fair value	Valuation hierarchy			Debits and items payable	Total Carrying amount	Total Carrying amount	
				Level 1	Level 2	Level 3				
				Market prices	Estimates based on other observable market data	Estimates not based on observable market data				
		ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	
Issuance of obligations and other non-current marketable securities	See note 17 b	-	-	-	-	-	376,167,965	376,167,965	376,167,965	
Non-current debts with loan entities	See note 17 a	-	-	-	-	-	87,937,933	87,937,933	87,937,933	
Long-term hedge derivative instrument of liabilities	See note 19-2	4,783,719	4,783,719	4,783,719	-	-	-	4,783,719	4,783,719	
Trade and other accounts payable		-	-	-	-	-	-	-	-	
Accounts payable to related entities		-	-	-	-	-	-	-	-	
<b>Non-current financial liabilities</b>		<b>4,783,719</b>	<b>4,783,719</b>	<b>4,783,719</b>	-	-	<b>464,105,898</b>	<b>468,889,617</b>	<b>468,889,617</b>	
Issuance of short-term obligations and other marketable securities	See note 17 b	-	-	-	-	-	5,113,610	5,113,610	5,113,610	
Short-term debts with credit entities	See note 17 a	-	-	-	-	-	74,016,308	74,016,308	74,016,308	
Short-term derivative instrument of liabilities	See note 19-2	5,971,407	5,971,407	5,971,407	-	-	-	5,971,407	5,971,407	
Trade and other accounts payable	See note 18	-	-	-	-	-	187,498,669	187,498,669	187,498,669	
Accounts payable to related entities	See note 9 c	-	-	-	-	-	81,725,309	81,725,309	81,725,309	
<b>Current financial liabilities</b>		<b>5,971,407</b>	<b>5,971,407</b>	<b>5,971,407</b>	-	-	<b>348,353,896</b>	<b>354,325,303</b>	<b>354,325,303</b>	
<b>Total financial liabilities</b>		<b>10,755,126</b>	<b>10,755,126</b>	<b>10,755,126</b>	-	-	<b>812,459,794</b>	<b>823,214,920</b>	<b>823,214,920</b>	

**19. Financial instruments, continued**

**1. Classification of financial instruments by nature and category, continued**

The book value of the current portion of accounts payable to related entities and trade accounts receivable approximates their fair values, due to the short-term nature of their due dates.

Instruments recorded under other current and non-current financial liabilities classified as financial liabilities at fair value through profit or loss and hedge derivatives are presented at their fair value in the statement of financial position.

Financial instruments recorded under other current and non-current financial liabilities which correspond to interest bearing loans, are generally recorded for the cash received, net of costs incurred in the transaction. These obligations are valued at amortized cost, using the effective interest rate method, and mainly include bank loans and unguaranteed obligations (bonds), among other things, (see note 17).

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

19. Financial instruments, continued

2. Hedging instruments

As of June 30, 2013, hedge instruments are detailed as follows:

Type of hedge	Underlying	Net total as 06.30.2013	Up to 90 days	90 days to 1 year	To Maturity					
					Total current		1 to 3 years	3 to 5 years	Total non-current	
					Assets	Liabilities (note 17)			Assets	Liabilities (note 17)
ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	
Exchange rate – cash flow hedge (1)	Supplier Debt	305,509	305,509	-	654,416	(348,907)	-	-	-	-
Exchange rate – fair value hedge (2)	Supplier Debt	(1,766,781)	(1,893,479)	126,698	457,109	(2,223,890)	-	-	-	-
Interest rate – fair value hedge (3)	Financial Debt	(38,680)	-	(38,680)	-	(38,680)	-	-	-	-
Interest rate – cash flows hedge (4)	Financial Debt	135,693	655,293	(519,600)	97,013	38,680	-	-	-	-
Exchange rate and interest rate – fair value hedge (5)	Financial Debt	3,796,982	(2,627,569)	9,001,581	9,650,918	(3,276,906)	137,841	(2,714,871)	17,718,557	(20,295,587)
<b>Total</b>		<b>2,432,723</b>	<b>(3,560,246)</b>	<b>8,569,999</b>	<b>10,859,456</b>	<b>(5,849,703)</b>	<b>137,841</b>	<b>(2,714,871)</b>	<b>17,718,557</b>	<b>(20,295,587)</b>

Hedge instruments have generated an effect on income of ThCh\$6,959,832 and ThCh\$(14,044,538) in equity as of June 30, 2013.

As of December 31, 2012, hedge instruments are detailed as follows:

Type of hedge	Underlying	Net total as 12.31.2012	Up to 90 days	90 days to 1 year	To Maturity					
					Total current		1 to 3 years	3 to 5 years	Total non-current	
					Assets	Liabilities (note 17)			Assets	Liabilities (note 17)
ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	
Exchange rate – cash flow hedge (1)	Supplier Debt	(3,352)	(13,890)	10,538	57,911	(61,263)	-	-	-	-
Exchange rate – fair value hedge (2)	Supplier Debt	640,766	657,145	(16,379)	859,922	(219,156)	-	-	-	-
Interest rate – fair value hedge (3)	Financial Debt	(251,333)	(251,333)	-	-	(251,333)	-	-	-	-
Interest rate – cash flows hedge (4)	Financial Debt	(1,847,222)	(1,847,222)	-	450,897	(2,298,119)	-	-	-	-
Exchange rate and interest rate – fair value hedge (5)	Financial Debt	4,447,337	(2,916,425)	2,925,812	3,150,923	(3,141,536)	7,041,757	(2,603,807)	9,221,669	(4,783,719)
<b>Total</b>		<b>2,986,196</b>	<b>(4,371,725)</b>	<b>2,919,971</b>	<b>4,519,653</b>	<b>(5,971,407)</b>	<b>7,041,757</b>	<b>(2,603,807)</b>	<b>9,221,669</b>	<b>(4,783,719)</b>

Hedge instruments have generated an effect on income of ThCh\$(6,331,436) and ThCh\$(3,716,944) in equity during 2012.

Description of hedge instruments:

1. Exchange rate – cash flow hedge: This category includes derivative instruments used to hedge highly probable trade debt future cash flows.
2. Exchange rate – fair value hedge: This category includes derivative instruments entered into to hedge existing commercial debt.
3. Interest rate – fair value hedge: This category includes derivative instruments entered into to hedge the risk of valuation of variable interest debt instrument.
4. Interest rate – cash flows hedge: This category includes, derivative instruments entered into to hedge debt instrument interest rate risk, whose interest cash flows payable are denominated at a variable interest rate.
5. Exchange rate and interest rate – fair value hedge: This category includes derivative instruments entered into to hedge foreign currency risk on debt instrument capital.

## 19. Financial instruments, continued

### 3. Valuation of hedging instruments

The Company has financial derivative valuation models that use local and international financial market interest rate curves, to determine cash flows associated to each derivative and to discount those cash flows to present value. Once this valuation is obtained, it is compared to the valuation certificates provided to us by the banks. Should there be material differences, a review of the internal model is carried out and it is verified if the bank is making a correct valuation".

The main assumptions used in the valuation models of derivative instruments are as follows:

a) Market assumptions such as spot prices and other price projections, credit risk (own and counterparty) and rates, using observable market information and through techniques commonly used among its participants.

b) Discount rates like risk free rates and counterparty rates (based on risk profiles and information available in the market)

c) In addition variables are incorporated to the model such as: volatility, correlation, regression formulas and market spread.

The methodologies and assumptions used to determine the fair value of financial derivative instruments are applied consistently from one period to another. The Company considers that what has been previously described is used in a fair manner, since it is in line with those used by the market and result in a measurement of fair value that is appropriate for the purposes of measuring the financial statements and disclosures. It should be noted that these disclosures are complete and adequate.

### 4. Fair value hierarchy of financial instruments

Financial instruments recognized at fair value in the statement of financial position are classified according to the following hierarchies (see note 19.1):

Level 1: Corresponds to methodologies of fair value measurement using market rates (without adjustments) in an active market considering the same assets and liabilities valued.

Level 2: Corresponds to methodologies of fair value measurement using data on market rates, not included in Level 1, that are observable for assets and liabilities valued, whether directly (i.e. as a price) or indirectly (i.e. derived from a price).

Level 3: Corresponds to methodologies of fair value measurement using valuation techniques that include information on assets and liabilities valued, which are not based on observable market information.

**20. Other short-term provisions**

The balance of short-term provisions is detailed as follows:

Concepts	06.30.2013 ThCh\$	12.31.2012 ThCh\$
Civil and regulatory	1,386,922	1,549,209
<b>Total</b>	<b>1,386,922</b>	<b>1,549,209</b>

Civil and regulatory provisions are mainly composed of the complaint filed by the Chilean Telecommunications Undersecretary (Subtel) due to miscellaneous fines for an amount of ThCh\$582,253 for 2013 and ThCh\$597,335 for 2012, and civil lawsuit in the amount of ThCh\$804,669 and ThCh\$918,874 for 2013 and 2012, respectively.

Based on the progress of the proceedings, the Company's management considers that the provisions recorded in the consolidated financial statements adequately cover the litigation risks described in Note 28, therefore they do not foresee that they will result in liabilities other than those recorded.

Due to the characteristics of the risks that cover these provisions, it is impossible to determine a reasonable payment date schedule.

Movements in provisions for the period 2013 and 2012 as follows:

Movements	03.31.2013 ThCh\$	12.31.2012 ThCh\$
<b>Beginning balance</b>	<b>1,549,209</b>	<b>1,376,579</b>
Increase in existing provisions	748,750	1,012,725
Provision used	(911,038)	(840,095)
<b>Movement subtotal</b>	<b>(162,288)</b>	<b>172,630</b>
<b>Ending balance</b>	<b>1,386,921</b>	<b>1,549,209</b>



**21. Employee benefits accrual****a) Post employment benefits**

Current and non-current employee benefits accrual for the period 2013 and 2012 are as follows:

Concepts	06.30.2013 ThCh\$	12.31.2012 ThCh\$
Current amount of liability recognized for termination benefits	4,502,969	4,426,045
Non-current amount of liability recognized for termination benefits	24,742,577	25,888,804
<b>Total</b>	<b>29,245,546</b>	<b>30,314,849</b>

Movements for current employee benefits provisions for the periods 2013 and 2012 are detailed as follows:

Movements	06.30.2013 ThCh\$	12.31.2012 ThCh\$
<b>Beginning balance</b>	<b>30,314,849</b>	<b>30,440,710</b>
Service costs	537,635	1,535,227
Interest costs	866,740	1,763,458
Actuarial (profits)/losses, net due to experience and change in hypothesis (1)	(360,186)	(2,617,326)
Benefits paid	(2,113,492)	(1,213,568)
Intercompany transfers (2)	-	406,348
<b>Movement subtotal</b>	<b>(1,069,303)</b>	<b>(125,861)</b>
<b>Ending balance</b>	<b>29,245,546</b>	<b>30,314,849</b>

- (1) In December 2012 there was a review of actuarial variables used to calculate the provision resulting in an increase in the discount rate, from 4.81% for 2011 to 5.80% for 2012, an increase in the salary increase rate of 1.5% for 2011 at 3% for 2012, and finally the RV 2004 mortality rate was changed for RV 2009. These changes meant recording a decrease in the provision in the amount of ThCh\$1,596,249, with a charge to equity
- (2) Corresponds to values transferred from Telefónica Móviles Chile S.A. to subsidiary Telefónica Chile Servicios Corporativos Ltda. for the concept of termination benefits for employees transferred in the integration process.

Actuarial assumptions used for the period 2013 and 2012 are as follows:

Actuarial hypotheses used	06.31.2013	12.31.2012
Discount rate (nominal)	5.80%	5.80%
Expected salary increase rate	3.00%	3.00%
Mortality table	RV-2009	RV-2009
Turnover rate	5.46%	5.46%

"Post employment benefits" are calculated by an external qualified actuary, using market variables and estimations in accordance with actuarial calculation methodology.

Actuarial gains and losses of employee benefits plans are recorded immediately in net equity.

**21. Employee benefits accrual, continued****b) Discount rate sensitivity**

As of June 30, 2013, the sensitivity of the value of defined benefits actuarial liabilities in case of a 1% change in the discount rate generates the following effects.

Discount rate sensitivity	4.80% rate ThCh\$	6.80% rate ThCh\$
Effect on defined benefits obligations	2,046,345	(1,831,490)

**c) Employee expenses**

Employee expenses recognized in the Comprehensive Income Statement are detailed as follows:

Concepts	04.01.13 al 06.30.13 M\$	06.30.2013 M\$	04.01.12 al 06.30.12 M\$	06.30.2012 M\$
Wages and salaries	18,822,815	41,954,129	20,434,001	41,124,041
Post employment benefit obligations expense	513,346	1,018,975	571,645	1,912,081
<b>Total</b>	<b>19,336,161</b>	<b>42,973,104</b>	<b>21,005,646</b>	<b>43,036,122</b>

**22. Other current and non-current non-financial liabilities**

Other non-financial liabilities are detailed as follows:

Concepts	06.30.2013		12.31.2012	
	Current ThCh\$	Non-current ThCh\$	Current ThCh\$	Non-current ThCh\$
<b>Deferred income</b>	<b>7,798,689</b>	<b>5,569,572</b>	<b>6,609,253</b>	<b>5,606,229</b>
Connection installments	1,288,079	116,216	1,281,644	101,887
Subsidies	143,003	1,674,393	143,003	1,745,895
Deferred income	6,367,607	3,778,963	5,184,606	3,758,447
<b>Other taxes (1)</b>	<b>10,357,481</b>	<b>-</b>	<b>10,276,802</b>	<b>-</b>
<b>Total</b>	<b>18,156,170</b>	<b>5,569,572</b>	<b>16,886,055</b>	<b>5,606,229</b>

(1) Includes tax withholdings, value added tax, pension and health insurance institutions and others.

Movements of the deferred income are as follows:

Movements	06.30.2013		12.31.2012	
	Current ThCh\$	Non-current ThCh\$	Current ThCh\$	Non-current ThCh\$
<b>Beginning balance</b>	<b>6,609,253</b>	<b>5,606,229</b>	<b>6,960,084</b>	<b>5,712,471</b>
Endowments	4,964,985	887,600	8,128,543	1,776,539
Reduction/applications	(3,775,549)	(924,257)	(8,479,374)	(1,882,781)
<b>Movement subtotal</b>	<b>1,189,436</b>	<b>(36,657)</b>	<b>(350,831)</b>	<b>(106,242)</b>
<b>Ending balance</b>	<b>7,798,689</b>	<b>5,569,572</b>	<b>6,609,253</b>	<b>5,606,229</b>

**23. Equity****a) Capital**

As of June 30, 2013 and 2012, the Company's paid-in capital is composed as follows:

## Number of shares

Series	N° of shares subscribed	06.30.2013		N° of shares subscribed	06.30.2012	
		N° of shares paid	N° of shares with voting rights		N° of shares paid	N° of shares with voting rights
A	873,995,447	873,995,447	873,995,447	873,995,447	873,995,447	873,995,447
B	83,161,638	83,161,638	83,161,638	83,161,638	83,161,638	83,161,638
<b>Total</b>	<b>957,157,085</b>	<b>957,157,085</b>	<b>957,157,085</b>	<b>957,157,085</b>	<b>957,157,085</b>	<b>957,157,085</b>

## Capital

Series	06.30.2013		06.30.2012	
	Subscribed capital ThCh\$	Paid-in capital ThCh\$	Subscribed capital ThCh\$	Paid-in capital ThCh\$
A	527,852,620	527,852,620	527,852,620	527,852,620
B	50,225,762	50,225,762	50,225,762	50,225,762
<b>Total</b>	<b>578,078,382</b>	<b>578,078,382</b>	<b>578,078,382</b>	<b>578,078,382</b>

Series A and B shares are registered and each series is correlatively numbered. Series A and B shares have the same dividend distribution rights.

Series A shares can elect 13 of the 14 Directors. The shareholders of Series B elect one regular Director and one deputy Director.

**b) Distribution of shareholders**

As established in Circular No. 792 issued by the Superintendency of Securities and Insurance ("SVS") of Chile, the distribution of shareholders based on their participation in the Company as of June 30, 2013 is as follows:

Type of Shareholder	Participation percentage %	Number of shareholders
Participation of 10% or more	97.903	2
Less than 10% participation:		
Investment equal to or exceeding UF 200	1.492	267
Investment under UF 200	0.605	8,566
<b>Total</b>	<b>100</b>	<b>8,835</b>
Company's parent	97.89	2

As of June 30, 2013 and 2012, the indirect participation of Telefónica S.A. (Spain) in the equity of Telefónica Chile S.A. reached 97.89% through Inversiones Telefónica Internacional Holding Ltda. with 52.99% and Telefónica Internacional Chile S.A. with 44.9%.

## 23. Equity, continued

## c) Dividends:

## i) Dividends policy:

In accordance with Law No. 18,046, unless a different agreement is adopted unanimously at the Shareholders' Meeting, when there is net income, at least 30% of it must be distributed as dividends.

At the Ordinary Shareholders' Meeting held on April 19, 2011, the Company agreed to distribute as of 2011 and following years, at least 30% of distributable net income generated during the respective year, through an interim dividend paid during the fourth quarter of each year and a final dividend paid during the year following year-end which will be proposed at the corresponding Ordinary Shareholders' Meeting.

## ii) Capital decrease and dividends distributed:

The Company has distributed the following dividends during these reporting periods:

Date	Number dividend	Dividend	Amount distributed ThCh\$	Value per share Ch\$	Charge to net income	Payment date
Nov-15-2012	183	Final	34,906,581	36.46902	Fiscal year 2012	December - 2012
Nov-15-2012	184	Eventual	57,937,656	60.53098	Withheld 2011	December - 2012

## d) Other reserves:

The balances, nature and purpose of other reserves are detailed as:

Concepts	Balance of 12.31.2012 ThCh\$	Net movement ThCh\$	Balance of 06.30.2013 ThCh\$
Cash flows hedge reserve	(3,716,944)	5,543,238	1,826,294
Employee benefits reserve, net tax	(2,415,709)	-	(2,415,709)
Reserve for financial assets available for sale	3,452,862	(16,289)	3,436,573
<b>Total</b>	<b>(2,679,791)</b>	<b>5,526,949</b>	<b>2,847,158</b>

**23. Equity, continued****d) Other reserves, continued****i) Cash flows hedge reserve**

Transactions designated as expected transaction cash flow hedges are probable, and where the Company can execute the transaction, the Company has a positive intention and ability to consummate the expected transaction. Expected transactions designated in our cash flow hedges are maintained as probably occurring on the same date and amount as originally designated, otherwise the ineffectiveness shall be measured and recorded when appropriate.

**ii) Employee benefits reserve**

Corresponds to amounts recorded in equity originated by the change in actuarial hypotheses, of the employee benefits reserve.

**iii) Reserves for financial assets available for sale**

Corresponds to the effect of fair value valuation of financial assets available for sale.

**e) Non-controlling interest**

Non-controlling interest corresponds to recognition of the portion of shareholders' equity and income of subsidiaries belonging to third parties. The detail for the periods ended as of June 30, 2013 and 2012, respectively, is as follows:

Subsidiaries	Non-controlling Interest percentage		Shareholders' equity Non-controlling interest		Participation in profit income (loss)	
	2013 %	2012 %	2013 ThCh\$	2012 ThCh\$	2013 ThCh\$	2012 ThCh\$
Telefónica Larga Distancia S.A.	0.070000	0.070000	109,541	147,215	10,978	14,323
Telefónica Gestión de Servicios Compartidos Chile S.A.	0.001000	0.001000	56	41	11	5
Telefónica de Chile Servicios Corporativos Ltda.	49.000000	49.000000	4,307,222	434,577	1,771,261	2,006,677
Instituto Telefónica Chile S.A.	0.000047	0.000047	(1)	(1)	-	-
<b>Total</b>			<b>4,416,818</b>	<b>581,832</b>	<b>1,782,250</b>	<b>2,021,005</b>

**24. Earnings per Share**

The details of Earnings per share are as follows:

Basic earnings per share	04.01.13 al 06.30.13 ThCh\$	06.30.2013 ThCh\$	04.01.12 al 06.30.12 ThCh\$	06.30.2012 ThCh\$
Earnings attributable to owners of the parent	11,230,000	24,529,439	20,848,919	38,273,225
<b>Profit available for shareholders</b>	<b>11,230,000</b>	<b>24,529,439</b>	<b>20,848,919</b>	<b>38,275,225</b>
Weighted average number of shares	957,157,085	957,157,085	957,157,085	957,157,085
<b>Basic earnings per share in Ch\$</b>	<b>11.73</b>	<b>25.63</b>	<b>21.78</b>	<b>39.99</b>

Earnings per share have been calculated by dividing profit for the period attributable to the parent company by the weighted average number of common shares outstanding during the period. The Company has not issued any convertible debt or other equity securities. Consequently, there are no potential negative effects on the Company's earnings per share.

**25. Income and Expenses**

a) The details of income from ordinary operations for the periods 2013 and 2012 are as follows:

Ordinary income	04.01.13 al 06.30.13 ThCh\$	06.30.2013 ThCh\$	04.01.12 al 06.30.12 ThCh\$	06.30.2012 ThCh\$
Sale of goods	3,950,753	7,906,902	4,953,705	9,443,230
Services rendered	165,277,486	324,491,791	168,291,908	336,149,682
<b>Total</b>	<b>169,228,239</b>	<b>332,398,693</b>	<b>173,245,613</b>	<b>345,592,912</b>

b) The detail of other operating income for the periods 2013 and 2012 are as follows:

Other income	04.01.13 al 06.30.13 ThCh\$	06.30.2013 ThCh\$	04.01.12 al 06.30.12 ThCh\$	06.30.2012 ThCh\$
Other current management income	95,192	113,177	9,747	21,434
Income from indemnities, complaints and others	671,241	689,491	563,935	727,357
Income from disposal of real property	576,812	581,590	2,182,915	2,282,055
<b>Total</b>	<b>1,343,245</b>	<b>1,384,258</b>	<b>2,756,597</b>	<b>3,030,846</b>

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

25. Income and Expenses, continued

c) The detail of other expenses by nature of the operation for the periods 2013 and 2012 are as follows:

Other expenses	04.01.13 al	06.30.2013	04.01.12 al	06.30.2012
	06.30.13	ThCh\$	06.30.12	ThCh\$
Interconnections	15,726,386	32,027,811	17,543,511	36,382,285
Media rental	14,400,545	27,915,048	9,720,345	21,893,006
Cost of sale of inventory	2,661,077	4,311,278	4,848,398	8,991,291
Other exterior services	12,426,382	19,419,777	8,663,787	15,580,216
Sales commissions	8,555,637	16,270,596	6,920,517	14,350,839
Customer service	6,323,621	11,269,086	5,900,959	11,590,688
Plant maintenance	9,789,208	17,989,860	10,305,038	19,156,551
Allowance for doubtful accounts	5,572,841	10,829,680	5,729,516	12,011,479
Advertising	3,276,627	6,474,072	3,561,034	7,085,488
Expenses related to real estate	3,463,734	7,389,789	3,330,630	8,210,546
Information services	4,468,390	9,243,264	4,356,375	10,151,692
Other	2,594,084	4,583,344	4,318,194	4,608,618
<b>Total</b>	<b>89,258,532</b>	<b>167,723,605</b>	<b>85,198,304</b>	<b>170,012,699</b>

d) The detail of financial expenses, net, for the periods 2013 and 2012 is as follows:

Financial expenses, net	04.01.13 al	06.30.2013	04.01.12 al	06.30.2012
	06.30.13	ThCh\$	06.30.12	ThCh\$
<b>Interest income</b>				
Interest earned on deposits	777,434	2,813,129	1,034,403	1,519,863
Interest on financial instruments	76,579	114,662	19,610	37,108
Other interest income	479,529	914,230	826,741	894,286
<b>Total interest income</b>	<b>1,333,542</b>	<b>3,842,021</b>	<b>1,880,754</b>	<b>2,451,257</b>
<b>Interest expense</b>				
Interest on loans from bank institutions	541,062	1,163,472	661,601	992,158
Interest on obligations and bonds	3,707,639	7,297,927	2,032,006	4,107,182
Finance leases	31,350	82,062	34,236	66,066
Interest on mercantile mandate	597,319	1,053,586	522,868	1,096,142
Interest rate hedges (Cross Currency Swap)	2,723,108	6,123,460	2,012,465	4,353,287
Other financial expenses	(14,292)	196,506	130,897	499,148
<b>Total interest expense</b>	<b>7,586,186</b>	<b>15,917,013</b>	<b>5,394,073</b>	<b>11,113,983</b>
<b>Total finance income and costs, net</b>	<b>(6,252,644)</b>	<b>(12,074,992)</b>	<b>(3,513,319)</b>	<b>(8,662,726)</b>

## 25. Income and Expenses, continued

e) Foreign currency translation and indexation units for the periods 2013 and 2012 are detailed as follows:

Currency translation	04.01.13 al 06.30.13 ThCh\$	06.30.2013 ThCh\$	04.01.12 al 06.30.12 ThCh\$	06.30.2012 ThCh\$
Other financial transactions	141,914	106,578	753,884	489,497
Current accounts receivable from related entities	498,755	431,046	(297,340)	(999,953)
Current accounts payable to related entities	(1,065,970)	(759,552)	(539,554)	501,818
Current trade and other accounts receivable	168,093	118,887	480,176	373,849
Trade and other accounts payable	(728,779)	(597,205)	(351,797)	437,895
Cash and cash equivalents	(44,048)	(61,049)	(24,216)	341,639
Financial investments	8,294,307	5,812,503	(11,641)	(63,753)
Financial debt	(23,983,276)	(17,455,320)	(5,067,028)	1,530,457
Leasing financial debt	(122,048)	(86,268)	(90,043)	132,907
Hedge instruments	16,874,385	11,984,298	5,142,065	(2,661,751)
<b>Total</b>	<b>33,333</b>	<b>(506,082)</b>	<b>(5,494)</b>	<b>82,605</b>

Indexation units	04.01.13 al 06.30.13 ThCh\$	06.30.2013 ThCh\$	04.01.12 al 06.30.12 ThCh\$	06.30.2012 ThCh\$
Current trade and other accounts receivable	(2,582)	(640)	-	(4,633)
Trade and other accounts payable	(60)	(210)	18,984	1,215
Current tax liabilities	(18,870)	(25,133)	(35,015)	(18,628)
Financial investments	100,719	86,702	60,936	129,224
Financial debt	86,461	(64,389)	(779,811)	(2,775,223)
Leasing financial debt	3,444	1,243	(631)	(1,212)
Hedge instruments	(31,405)	637,897	716,977	2,640,271
<b>Total</b>	<b>137,707</b>	<b>635,470</b>	<b>(18,560)</b>	<b>(28,986)</b>

f) The share in associates as of June 30, 2012, in the amount of ThCh\$ 538,145 corresponded to the share in Atento Chile S.A., belonging to the Atento Group (subsidiary of the Telefónica Group call center). In December 2012 the Telefónica Group closed the sale of the Atento Group to a group of companies controlled by the Bain Capital (USA) a risk capital fund, time at which it stopped forming part of the group of related entities.



**26. Operating leases**

The Company has operating lease contracts for concepts associated directly to the line of business, such as leases for commercial office real estate and telecommunications technical facilities space.

Based on the values indicated in these contracts, future obligations are detailed as follows:

Description	06.30.2013	06.30.2012
	Minimum payments ThCh\$	Minimum payments ThCh\$
Expenses for the period	2,891,297	3,207,442
Up to 1 year	4,495,036	4,836,391
From 1 to 5 years	14,988,064	16,847,504
More than 5 years	1,981,740	4,656,540
<b>Total</b>	<b>24,356,137</b>	<b>29,547,877</b>

**27. Local and Foreign Currency**

The detail for currency of current assets and non-currents assets are the following:

Currents assets	06.30.2013	12.31.2012
	ThCh\$	ThCh\$
<b>Cash and cash equivalents</b>	<b>150,001,448</b>	<b>246,567,966</b>
US Dollars	133,737,185	144,262,284
Euros	200,978	216,392
Chilean Pesos	16,063,285	39,875,659
U.F.	-	62,213,631
<b>Other current financial assets</b>	<b>11,337,938</b>	<b>4,998,135</b>
US Dollars	931,762	3,228,327
Euros	-	11,856
Chilean Pesos	755,257	1,757,952
U.F.	9,650,919	-
<b>Trade and other receivables, current</b>	<b>142,662,092</b>	<b>140,799,919</b>
US Dollars	3,211,510	8,959,583
Chilean Pesos	139,450,582	131,840,336
<b>Receivables from related companies</b>	<b>54,902,170</b>	<b>63,462,235</b>
US Dollars	8,071,870	6,802,366
Chilean Pesos	46,830,300	56,659,869
<b>Other current assets (1)</b>	<b>35,679,379</b>	<b>29,015,272</b>
Chilean Pesos	35,679,379	29,015,272
<b>Non-currents assets or groups of assets for disposal classified as held for sale</b>	<b>65,627</b>	<b>65,627</b>
Chilean Pesos	65,627	65,627
<b>Total current assets</b>	<b>394,648,654</b>	<b>484,909,154</b>
US Dollars	145,952,327	163,252,560
Euros	200,978	228,248
Chilean Pesos	238,844,430	259,214,715
U.F.	9,650,919	62,213,631

(1) Includes: Other current non-financial assets, inventory and current tax assets.

Non-currents assets	06.30.2013	12.31.2012
	ThCh\$	ThCh\$
<b>Other non-current financial assets</b>	<b>25,127,570</b>	<b>16,709,646</b>
US Dollars	17,718,557	-
Chilean Pesos	7,409,013	7,487,977
U.F.	-	9,221,669
<b>Non-current receivables</b>	<b>16,663,999</b>	<b>18,048,113</b>
Chilean Pesos	16,663,999	18,048,113
<b>Non-current receivables from related companies</b>	<b>1,366,521</b>	<b>1,366,521</b>
Chilean Pesos	1,366,521	1,366,521
<b>Other non-current assets (2)</b>	<b>1,019,943,525</b>	<b>1,018,797,197</b>
Chilean Pesos	1,019,943,525	1,018,797,197
<b>Total non-current assets</b>	<b>1,063,101,615</b>	<b>1,054,921,477</b>
US Dollars	17,718,557	-
Chilean Pesos	1,045,383,058	1,045,699,808
U.F.	-	9,221,669

(1) Includes: Other non-current non-financial assets, intangible assets other than goodwill, goodwill, property, plant and equipment and deferred tax assets.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

27. Local and Foreign Currency, continued

The detail for currency of current liabilities is as follows:

Currents liabilities	06.30.2013	12.31.2012	06.30.2013	12.31.2012
	Up to 90 days ThCh\$		91 days to 1 year ThCh\$	
<b>Other current financial liabilities</b>	<b>2,109,737</b>	<b>986,100</b>	<b>145,929,132</b>	<b>84,115,225</b>
US Dollars	238,977	449,219	5,579,217	74,828,160
Chilean Pesos	1,307,725	241,491	22,819,713	5,928,632
U.F.	563,035	295,390	117,530,202	3,358,433
<b>Trade and other payables</b>	<b>146,079,054</b>	<b>187,446,551</b>	<b>49,685</b>	<b>52,118</b>
US Dollars	21,429,807	25,429,216	-	-
Euros	137,676	519,821	-	-
Other currency	59	59	-	-
Chilean Pesos	114,397,204	153,865,813	49,685	52,118
U.F.	10,114,308	7,631,642	-	-
<b>Payables to related companies, current</b>	<b>74,234,372</b>	<b>81,725,309</b>	-	-
US Dollars	13,502,786	15,614,695	-	-
Euros	5,134,348	3,920,352	-	-
Chilean Pesos	55,597,238	62,190,262	-	-
<b>Other current liabilities (1)</b>	<b>3,123,318</b>	<b>17,865,302</b>	<b>24,046,061</b>	<b>12,584,507</b>
Chilean Pesos	3,123,318	17,865,302	24,046,061	12,584,507
<b>Total current liabilities</b>	<b>225,546,481</b>	<b>288,023,262</b>	<b>170,024,878</b>	<b>96,751,850</b>
US Dollars	35,171,570	41,493,130	5,579,217	74,828,160
Euros	5,272,024	4,440,173	-	-
Other currency	59	59	-	-
Chilean Pesos	174,425,485	234,162,868	46,915,459	18,565,257
U.F.	10,677,343	7,927,032	117,530,202	3,358,433

(1) Includes: Other current provisions, current income tax liabilities, current employee benefits accrual and other current non-financial liabilities.

The detail for currency of non-current liabilities is as follows:

Non-current liabilities	06.30.2013	12.31.2012	06.30.2013	12.31.2012	06.30.2013	12.31.2012
	1 to 3 years ThCh\$		3 to 5 years ThCh\$		5 years and over ThCh\$	
<b>Other non-current financial liabilities</b>	<b>66,667,578</b>	<b>181,914,652</b>	<b>48,951,724</b>	<b>49,654,868</b>	<b>231,096,931</b>	<b>237,320,098</b>
US Dollars	42,373,552	40,684,380	48,905,228	46,209,119	231,096,931	237,320,098
Chilean Pesos	20,295,587	22,685,781	-	2,603,807	-	-
U.F.	3,998,439	118,544,491	46,496	841,942	-	-
<b>Other non-current liabilities (2)</b>	<b>2,241,513</b>	<b>2,167,141</b>	<b>830,741</b>	<b>846,594</b>	<b>78,319,753</b>	<b>80,919,749</b>
Chilean Pesos	2,241,513	2,167,141	830,741	846,594	78,319,753	80,919,749
<b>Other non-current liabilities</b>	<b>68,909,091</b>	<b>184,081,793</b>	<b>49,782,465</b>	<b>50,501,462</b>	<b>309,416,684</b>	<b>318,239,847</b>
US Dollars	42,373,552	40,684,380	48,905,228	46,209,119	231,096,931	237,320,098
Chilean Pesos	22,537,100	24,852,922	830,741	3,450,401	78,319,753	80,919,749
U.F.	3,998,439	118,544,491	46,496	841,942	-	-

(2) Includes: Deferred tax liabilities, non-current employee benefits accrual and other non-current non-financial liabilities.

## 28. Contingencies and restrictions

In the normal development of its line of business, Telefónica Chile S.A. is part of certain proceedings, involving civil, labor, special and penal matters for different concepts and amounts. In general, management and its legal counsel, both internal and external periodically monitor the evolution of those lawsuits and contingencies affecting Telefónica Chile S.A. in the normal course of its operations, analyzing in each case the possible effect on the financial statements. Taking into consideration the legal and de facto arguments exposed in those proceedings, especially those in which the Company is the defendant party, and historical results obtained by Telefónica Chile S.A. in proceedings with similar characteristics in the opinion of the legal advisors, the risk that it will be condemned to pay the amounts claimed in the mentioned lawsuits is remote.

Notwithstanding there are certain proceedings in which due to the aforementioned considerations it is believed that there is a risk of loss that is rated as probable, which has motivated the establishment of provisions for the amount of what would be the estimated loss as of June 30, 2013, which altogether amounts to ThCh\$1,356,417.

In addition to the above, the following proceedings should be especially mentioned:

### a) Miscellaneous lawsuits

#### i) Labor lawsuits

During the normal course of operations, labor lawsuits have been filed against Telefónica Chile S.A., which to date do not represent significant.

#### ii) Other complaints

From 2002 to 2008, the Undersecretary of Telecommunications began 48 proceedings with charges against Telefónica Chile S.A. for non-compliance with resolutions dictated in customer complaints processes, and 2 proceedings with charges from direct supervision. In the last quarter of 2007, sentences were dictated on 16 proceedings by the Ministry of Transportation and Telecommunications, in which fixed fines were applied due to non-compliance with previous resolutions, which altogether amounted to UTM 33,700 (consider daily fines, which as of December 31, 2007 were estimated to amount to a figure of close to UTM 1,200). In addition, from June 2009 to April 2010, sentences dictated by the same sector authority were notified, which sanctioned with fixed fines in the amount of UTM 24,450 (some of them also consider daily fines), and another two where only an admonishment was applied. Telefónica Chile S.A. filed separate appeals, twelve of which were sentenced by the Santiago Court of Appeals on December 13, 2010, confirming the appeal in respect to the fixed fines mentioned in each sentence, but revoking that related to the daily fine, whose computation must be performed as of the fifth day from the time when the respective sentences are executed. From the remaining recourses, in 2011 the Santiago Court of Appeals has dictated sentence on 10 appeals, confirming what was appealed in all of them except for one in which it reduced the fixed fine from UTM 1,200 to UTM 300 and in four it eliminated the daily fine. During 2012, the Santiago Court of Appeals has dictated sentence on 7 appeals, confirming the appeal in all of them, except in two where it reduced the fine established at UTM 500 to UTM 100 in one, and from UTM 1,100 to UTM 55 in the other and in two it eliminated the retroactive daily fine.

**28. Contingencies and restrictions, continued****b) Financial restrictions:**

In order to develop its investment plans, the Company has obtained financing both in the local market and in the external market (see Note 17).

The Company has current loan agreements signed by the parent, Telefonica Chile S.A. with financial entities:

- a) Local loan with Banco Santander Chile in the amount of US\$58.25 million, expiring in March 2015.
- b) International loan with Sovereign Bank N.A. in the amount of US\$ 97.5 million, expiring in April 2017.
- c) International loan with ScotiaBank & Trust in the amount of US\$ 25 million, expiring in April 2015.

These financial entities impose obligations of several types on the Company during the term of the loans, which are usual for this type of financing. The Company reports in a quarterly manner to that entity in accordance with agreed upon terms and dates. Compliance with that financial index is reported through a certificate of covenants issued by the external audit firm.

On the other hand, the Company has current obligations with the public derived from the placement of the following bonds:

- a) Series F Bond, dated April 15, 1991 in the amount of UF 1.5 million, placed at 25 years with biannual maturity.
- b) Series N Bond dated April 15, 2009 in the amount of UF 5 million, placed at 5 years bullet.
- c) Series M Bond dated April 22, 2009 in the amount of ThCh\$20,500 million placed, at 5 year bullet, and
- d) Series 144A Bond dated October 12, in the amount of US\$ 500 million placed at 10 year bullet.

Bond issuance contracts impose certain limits on the Company's financial debt indicator and obligations to do and not to do, usual for this type of financing. The Company reports the debt ratio in a quarterly manner to the representatives of the bondholders, in accordance with the agreed-upon dates. The clause establishes that the debt ratio cannot exceed 2.5, measured by the quotient between demand liabilities (deducting hedge assets associated to the financial debt) and consolidated equity. Compliance with that financial index is reported through the certificate of covenants issued by the external audit firm.

In summary the debt agreements contemplate the following financial restrictions:

	Financial restrictions
Local Bonds (Series F, M and N)	Debt index < = 2.5
144A Bond	There are none
Local loan with Santander Chile	There are none
International loan with Sovereign Bank N.A.	There are none
International loan with ScotiaBank & Trust	There are none

**28. Contingencies and restrictions, continued****b) Financial restrictions, continued**

The obligations arising from the financing contracts mentioned above have been fulfilled as of June 30, 2013 and December 31, 2012. The debt ratio is calculated on the consolidated financial statements, and the values determined are:

	06.30.2013	12.31.2012
	ThCh\$	ThCh\$
<b>Total debt</b>	<b>795,101,586</b>	<b>923,856,892</b>
Total Current Liabilities	395,571,359	384,775,112
Total Non-current Liabilities	428,108,240	552,823,102
Current Hedge Assets (less)*	10,859,456	4,519,653
Non-current Hedge Assets (less)*	17,718,557	9,221,669
<b>Net shareholders' equity</b>	<b>634,070,670</b>	<b>602,232,417</b>
<b>Total debt</b>	<b>795,101,586</b>	<b>923,856,892</b>
<b>Net shareholders' equity</b>	<b>634,070,670</b>	<b>602,232,417</b>
<b>Debt ratio</b>	<b>1.25</b>	<b>1.53</b>

\* Financial liabilities are deducted since they are hedges associated to financial debt.

Non-compliance with this clause implies that all obligations assumed in these financing contracts would become due and payable, however a period is provided to overcome the non-compliance.

Notes to the consolidated financial statements, continued

As of June 30, 2013 and December 31, 2012

Telefónica

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

28. Contingencies and restrictions, continued

c) Guarantee deposits:

The detail of guarantee deposits is as follows:

Guarantee creditor	Debtor			Current guarantee deposits ThCh\$	Liberated guarantees		2015 & thereon ThCh\$
	Name	Relationship	Type of guarantee		2013 ThCh\$	2014 ThCh\$	
Conect S.A.	TCH	Parent company	Deposit	324,218	-	-	324,218
Subsecretaría de Telecomunicaciones	TCH	Parent company	Deposit	267,331	-	-	267,331
Municipalidad de Concepción	TCH	Parent company	Deposit	201,430	201,430	-	-
Municipalidad de Chiguayante	TCH	Parent company	Deposit	200,425	200,425	-	-
Others Guarantees (1)	TCH	Parent company	Deposit	595,391	346,316	230,728	18,347
Subsecretaría de Telecomunicaciones	TLD	Subsidiary	Deposit	1,030,536	-	-	1,030,536
VTR Banda Ancha	TLD	Subsidiary	Deposit	224,574	-	224,574	-
Others Guarantees (1)	TLD	Subsidiary	Deposit	76,849	1,285	75,564	-
Subsecretaría de Salud Pública	TEM	Subsidiary	Deposit	20,306,007	20,306,007	-	-
Cámara de Diputados	TEM	Subsidiary	Deposit	17,000,000	17,000,000	-	-
Servicio Nacional de Pesca y Agricultura	TEM	Subsidiary	Deposit	12,000,000	12,000,000	-	-
Tesorería del Estado Mayor del Ejército	TEM	Subsidiary	Deposit	7,485,979	7,485,979	-	-
Serviu Región de Coquimbo	TEM	Subsidiary	Deposit	6,193,780	-	-	6,193,780
Superintendencia de Salud	TEM	Subsidiary	Deposit	5,000,000	5,000,000	-	-
Servicio Nacional de Turismo	TEM	Subsidiary	Deposit	4,200,000	4,200,000	-	-
Municipalidad de La Serena	TEM	Subsidiary	Deposit	2,471,423	2,471,423	-	-
Consejo de Defensa del Estado	TEM	Subsidiary	Deposit	2,275,745	-	2,275,745	-
Gendarmería de Chile	TEM	Subsidiary	Deposit	2,236,487	-	-	2,236,487
Gobierno Regional de Magallanes y Antártica	TEM	Subsidiary	Deposit	1,761,738	-	-	1,761,738
Servicio Electoral	TEM	Subsidiary	Deposit	1,272,527	-	1,272,527	-
Universidad de La Serena	TEM	Subsidiary	Deposit	1,263,412	-	-	1,263,412
Subsecretaría de Prevención del Delito Comisión Adm. del Sistema de Créditos para Estudios Superiores	TEM	Subsidiary	Deposit	1,000,000	1,000,000	-	-
Intendencia Región Metropolitana	TEM	Subsidiary	Deposit	552,000	552,000	-	-
Municipalidad de La Pintana	TEM	Subsidiary	Deposit	500,000	500,000	-	-
Municipalidad de Curacaví	TEM	Subsidiary	Deposit	500,000	500,000	-	-
Municipalidad de Cabrero	TEM	Subsidiary	Deposit	500,000	500,000	-	-
Administración Aduana Los Andes	TEM	Subsidiary	Deposit	400,000	-	400,000	-
Servicio de Salud Metropolitano Oriente	TEM	Subsidiary	Deposit	380,577	380,577	-	-
Tesorero Municipal de Conchalí	TEM	Subsidiary	Deposit	300,000	300,000	-	-
Fundación Inria Chile	TEM	Subsidiary	Deposit	300,000	300,000	-	-
Megasalud S.A.	TEM	Subsidiary	Deposit	280,000	280,000	-	-
Servicio de Salud Metropolitano Occidente	TEM	Subsidiary	Deposit	268,686	268,686	-	-
Servicio de Salud Viña del Mar	TEM	Subsidiary	Deposit	233,499	233,499	-	-
Servicio de Salud Metropolitano Central	TEM	Subsidiary	Deposit	232,919	232,919	-	-
Others Guarantees (1)	TEM	Subsidiary	Deposit	7,196,748	4,009,167	1,512,879	1,674,701
				<b>100,032,281</b>	<b>79,269,713</b>	<b>5,992,017</b>	<b>14,770,550</b>

(1) This item includes all guarantees with a value of less than ThCh\$200,000, for each company.

**TCH:** Telefónica Chile S.A.

**TEM:** Telefónica Empresas Chile S.A.

**TLD:** Telefónica Larga Distancia S.A.

## 29. Environment

Due to the nature of its line of business, the activities it develops and the technology associated to its management, the Company has not been affected by legal or regulatory provisions obligating it to make investments or material disbursements referring to protection of the environment during this year, whether in a direct or indirect manner.

Law No. 20,599 was published on June 11, 2012 regulating the installation of telecommunications services emitting and transmitting antennas. The approved indications include i) installation restrictions in saturated zones; more rigorous approval conditions are imposed for towers higher than 12 meters; ii) limited installation of towers close to sensitive places as determined by the Telecommunications Undersecretary (schools, hospitals, daycares, nursing homes and others); and iii) compensation is established with community improvements which must be agreed upon by the Neighborhood Councils and Municipal Council, for 30% of the total cost of the tower, should some type of camouflage be used in the structure and 50% in cases where no camouflage is used.

Restrictive measures for installation in saturated zones and close to sensitive zones are applied retroactively for facilities that are already installed. In the case of sensitive zones, retroactivity is applicable in function of stretches and all those structures will have the obligation of "co-location" with other operators.

Law No. 20,599 was amended in December 2012 to regulate the case where there is no agreement between the operators in the amount of payments for the co-location. This controversy must obligatorily be submitted to the knowledge and decision of an arbitrator that will be obligated to make a decision in favor of one of the two proposals of the parties current when the case is submitted for arbitration and the parties must fully accept the decision.

The Company is in the process of evaluating each phase contemplated by Law to identify and quantify its impact. As of June 30, 2013 the Company's expenditures in relation to the implementation of the corresponding phases are not significant.

Based on the progress made in project planning we estimate that implementation of the indicated Law will mean that the Company will have to make expenditures that can be capitalized and expenditures that cannot be capitalized in a process that should be completed during 2013.



**30. Risk management (Not audited)****a) Competition**

Telefónica Chile faces strong competition in all its business areas and believes that this high level of competitiveness will be maintained. In order to confront this situation, the Company permanently adapts its business strategies and products, seeking to satisfy the demands of its current and potential customers, innovating and developing excellence in its attention.

**b) New Tariff Decree**

As of December 31, 2012, approximately 8% of the Company's income is subject to tariff regulation. The new tariffs for the 2009 – 2014, 5-year period, are effective as of May 2009 and shall be applicable retroactively once the "Contraloría General de la República" publishes the mentioned decree in the official gazette. The Company has determined income and costs of regulated services on the basis of the decree in process, which might be modified at the time of its publication. Management expects that those changes, should there be any, will not significantly affect these financial statements.

**c) Technological changes**

The telecommunications industry is a sector that is subject to quick and important technological progress and the introduction of new products and services. It is not possible to assure what will be the effect of such technological changes on the market or on Telefónica Chile, or that the disbursement of significant financial resources will not be required to develop or implement new and competitive technologies, nor can the Company anticipate whether those technologies or services will be substitutive or complementary to the products and services it currently offers. Telefónica Chile is continually evaluating the incorporation of new technologies to the business, taking into consideration both the costs and benefits.

**d) Level of Chilean economic activity**

Since the Company's operations are located in Chile, these are sensitive to and dependent on the country's level of economic activity. In periods of low economic growth, high unemployment rates and reduced internal demand, there has been a negative impact on the local and long distance telephone traffic, as well as on the level of customer default.

**30. Risk management (Not audited), continued**

**e) Financial risk management objectives and policies**

The Company's main financial liabilities, in addition to derivatives, comprise bank loans and bond obligations, payables and other payables. The main purpose of those financial liabilities is to obtain financing for the Company's operations. The Company has trade receivables, cash and short-term deposits, which arise directly from its operations.

The Company also has investments held for sale and derivative transactions. The Company is exposed to market risk, credit risk and liquidity risk.

The Company's Management supervises that financial risks are identified, measured and managed in accordance with defined policies. All activities derived from risk management are carried out by specialist teams with adequate skills, experience and supervision. It is the Company's policy that there is no commercialization of derivatives for speculative purposes.

The policies for managing such risks, which are reviewed and ratified by the Board of Directors, are summarized below:

**Market Risk**

Market risk is the risk of fluctuation in the fair value of future cash flows of a financial instrument due to changes in market prices. Market prices comprise three types of risks: interest rate risk, exchange rate risk and other price risks, such as equity risk. Financial instruments affected by market risk include loans, deposits, investments held for sale and derivative financial instruments.

**Interest rate risk**

Interest rate risk is the risk of fluctuation in the fair value of future cash flows of a financial derivative due to changes in market interest rates. The Company's exposure to the risk of changes in market interest rates is mainly related to the Company's long-term debt obligations with variable interest rates.

The Company manages its interest rate risk maintaining a balanced portfolio of loans and debts at variable and fixed interest rates. The Company has interest rate swaps in which it agrees to interchange, at certain intervals, the difference between the amounts of fixed and variable interest rates, calculated in reference to a notional agreed upon capital amount. These swaps are designated to hedge underlying debt obligations.

**30. Risk management (Not audited), continued****e) Financial risk management objectives and polices, continued**

The Company periodically determines the efficient exposure to short and long-term debt due to changes in interest rates, considering its own expectations regarding future evolution of rates. As of the end of the first half of 2013 the Company had 38.1% of its current and non-current financial debt accruing interest at a fixed rate.

The Company believes it is reasonable to measure the risk associated to interest on the financial debt such as the sensitivity of the monthly financial accrual expense in case of a change of 25 basic points in the reference interest rate of the debt, which as of June 30, 2013 corresponds to the Nominal Average Chamber Rate (TCPN) (“Tasa Promedio de Cámara Nominal”). In this manner, an increase of 25 basic points in the monthly TCPN would mean an increase in the monthly financial accrual expense for 2013 of approximately Ch\$59.7 million, whereas a decrease in the TCPN would mean a reduction of Ch\$59.7 million in the monthly financial accrual expense for 2013.

**Foreign currency risk**

Foreign currency risk is the risk that the future fair values or cash flows of a financial instrument may fluctuate due to exchange rate. The Company's exposure to exchange variation risks is related mainly to obtaining short and long-term financial debt in foreign currency and to a lesser extent to its operating activities. The Company's policy is to negotiate derivative financial instruments to help minimize this risk.

After the hedge actions taken to manage the main foreign currency risk identified by the Company, one can establish that the sensitivity of the fair value of future cash flows of the hedged items in case of changes in the foreign exchange levels is close to zero, fundamentally because the foreign currency hedge for debt items is 100%.

**Credit risk**

Credit risk is the risk that a counterpart may not fulfill its obligations under a financial instrument or customer contract, which leads to a financial loss. The Company is exposed to credit risk from its operating activities (mainly due to receivables and credit notes) and from its financial activities, including bank deposits, transactions in foreign currency and other financial instruments.

Credit risks related to customer loans is managed in accordance with the policies, procedures and controls established by the Company to manage customer credit risk. Customer credit quality is evaluated in an ongoing manner. Outstanding customer charges are supervised. The maximum exposure to credit risk as of the report presentation date is the value of each class of financial asset.

**30. Risk management (Not audited), continued**

**e) Financial risk management objectives and policies, continued**

**Credit risk, continued**

Credit risk related to balances with banks, financial instruments and negotiable values is managed by the Finance Management Department in conformity with the Company's policies. Surplus funds are only invested with an approved counterpart and within the credit limits assigned to each entity. Counterpart limits are reviewed annually, and can be updated during the year. The limits are established to reduce counterpart risk concentration to a minimum.

**Liquidity risk**

The Company monitors its risk of lack of funds using a recurrent liquidity planning tool. The Company's objective is to maintain an investment profile that allows it to cover its obligations.

**Capital management**

Capital includes shares and equity attributable to the parent company less unrealized net income reserves.

The Company's main objective in respect to capital management is to ensure that it has a strong credit rating and prosperous capital ratios to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in response to changes in economic conditions.

There were no changes in the objectives, policies or processes during the periods ended as of June 30, 2013 and December 31, 2012.

**f) Regulatory Framework**

**Numeric Portability**

Through Resolution No. 6,367 of November 19, 2011, the Undersecretary of Telecommunications enabled Telephone Number Portability in accordance with the timeline. The main milestones began with landline portability in the primary area of Arica, on December 5, 2011, continuing with mobile portability throughout the country on January 16, 2012, followed by landline portability in Santiago, on March 12, 2012. Landline portability was enabled progressively in the rest of the country until its completion on August 27, 2012, in the cities of Valdivia, Osorno, Puerto Montt, Copiapó, La Serena and Ovalle.

**30. Risk management (Not audited), continued**

**f) Regulatory Framework, continued**

**Numeric Portability, continued**

Through Exempt Resolution No. 748, dated 2013, Subtel established the inception date of numeric portability for Complementary Services, in the sense that it will begin 60 days after the fixed telephone number extension process is complete (October 4, 2013).

The above in conformity with Law No. 20,471, published in the Official Gazette of December 10, 2010 which created the Numeric Portability Administration Organization (OAP) ("Organismo Administrador de la Portabilidad Numérica").

**Fixed telephone number extension by one digit**

Based on the schedule established by Subtel, on October 20, 2012 the new telephone number length process began with the incorporation of one more digit in the Arica and Parinacota Regions, continuing on November 24 with the same modification in the Metropolitan Region. On March 23, 2013, the process continued with the Tarapacá and Araucanía Regions, subsequently continuing with the rest of the regions in the country, ending on July 6, 2013 in Puerto Montt, X Region.

**Elimination of National Long Distance Service in certain regions**

Law No. 20,476 was published in the Official Gazette on December 10, 2010. This law eliminates National Long Distance in certain regions of the country, reducing the 24 zones which the country was divided into to 13 Primary Zones. At month 37 from its publication in the Official Gazette, (July 2014) this is reduced to a single primary zone, eliminating the national long distance service in the entire country, after a report from the Antitrust Commission.

The first stage of elimination of the long distance service was implemented in October and completed in November 2011 in accordance with the timeline defined by Subtel.

**31. Subsequent events**

The consolidated financial statements of Telefónica Chile S.A., for the period ended as of June 30, 2013 were approved and authorized for issuance at the Board of Directors Meeting held on July 25, 2013.

In the period from July 1 to 25, 2013, there have been no other significant subsequent events that affect these financial statements.

Rodolfo Escalante Fiestas  
Accounting Manager

Roberto Muñoz Laporte  
General Manager