Telefónica

CHILE S.A. AND SUBSIDIARIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended as of
December 31, 2016 and 2015

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

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Notes to the Consolidated Financial Statements

ThCh$: Thousands of Chilean Pesos
MCh$: Millions of Chilean Pesos

	Notes	12.31.2016	12.31.2015
		ThCh$	ThCh$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	(5)	127,307,052	86,977,350
Other current financial assets	(6)	19,673,744	3,357,124
Other current non-financial assets	(7)	23,262,569	22,261,161
Current trade and other accounts receivable	(8a)	144,725,272	134,403,204
Current receivables from related companies	(9a)	83,554,655	71,651,761
Inventory	(10a)	14,103,938	17,904,023
Current tax assets	(11b)	3,713,546	6,606,309
Total current asset other than assets or disposal groups classifield as help for sale or held for distribution to the owners		**416,340,776**	**343,160,932**
TOTAL CURRENT ASSETS		**416,340,776**	**343,160,932**
NON-CURRENT ASSETS			
Other non-current financial assets	(6)	119,397,268	159,888,748
Other non-current non-financial assets	(7)	6,829,458	5,309,107
Non-current trade and other accounts receivable	(12)	19,185,750	15,222,532
Non-current receivables from related companies	(9b)	1,366,521	1,366,521
Intangible assets other than goodwill, net	(13a)	43,823,361	45,425,228
Goodwill	(14)	21,660,128	21,660,128
Property, plant and equipment, net	(15a)	963,438,461	976,094,206
Deferred tax assets	(11c)	7,444,019	11,977,280
TOTAL NON-CURRENT ASSETS		**1,183,144,966**	**1,236,943,750**
TOTAL ASSETS		**1,599,485,742**	**1,580,104,682**

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements

	Notes	12.31.2016 ThCh$	12.31.2015 ThCh$
LIABILITIES			
CURRENT LIABILITIES			
Other current financial liabilities	(16)	73,562,377	8,108,095
Trade and other payables	(17a)	195,083,237	175,030,138
Current payables to related companies	(9c)	85,904,101	81,567,128
Other current provisions	(19)	218,680	591,254
Current tax liabilities	(11f)	3,896,630	4,829,667
Current employee benefits accrual	(20a)	5,989,507	3,416,667
Other current non-financial liabilities	(21)	24,190,074	19,332,052
TOTAL CURRENT LIABILITIES		**388,844,606**	**292,875,001**
NON-CURRENT LIABILITIES			
Other non-current financial liabilities	(16)	386,554,946	475,614,657
Non-current Current payables to related companies	(9d)	22,174,222	21,181,406
Other non-current provisions		1,058,938	974,745
Deferred tax liabilities	(11c)	78,021,916	74,836,919
Non-current employee benefits accrual	(20a)	30,664,822	27,061,311
Other non-current non-financial liabilities	(21)	4,335,852	5,478,452
TOTAL NON-CURRENT LIABILITIES		**522,810,696**	**605,147,490**
TOTAL LIABILITIES		**911,655,302**	**898,022,491**
NET SHAREHOLDERS' EQUITY			
Issued capital	(22a)	578,098,782	578,078,382
Retained earnings		97,805,807	91,464,194
Other reserves	(22d)	(5,065,225)	(1,644,107)
Shareholders' equity attributable to owners of the parent		670,839,364	667,898,469
Non-controlling interest	(22e)	16,991,076	14,183,722
TOTAL NET SHAREHOLDERS' EQUITY		**687,830,440**	**682,082,191**
TOTAL NET LIABILITIES & SHAREHOLDERS' EQUITY		**1,599,485,742**	**1,580,104,682**

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements

		For years ended December 31,	
STATEMENTS OF COMPREHENSIVE INCOME	Notes	2016 ThCh$	2015 ThCh$
Income from ordinary operations	(24a)	744,487,223	719,062,946
Other income	(24b)	2,516,594	7,946,239
Employee benefits expenses	(20d)	(73,046,562)	(80,846,525)
Depreciation and amortization expense	(13b)(15b)	(190,380,404)	(192,214,083)
Other expenses, by nature	(24c)	(420,367,554)	(401,240,547)
Profit from operating activities		**63,209,297**	**52,708,030**
Interest income	(24d)	3,093,031	4,455,089
Interest expense	(24d)	(25,867,844)	(23,283,828)
Foreign exchange differences	(24e)	(552,176)	(218,895)
Income from indexation units	(24e)	251,447	856,683
Profits before tax from continuing operations		**40,133,755**	**34,517,079**
Income tax expense	(11e)	(15,900,561)	(5,457,838)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**24,233,194**	**29,059,241**
Profit attributable to holders of equity instruments of the controller and minority interest:			
Profit attributable to owners of the parent		19,570,736	24,583,831
Profit attributable to non-controlling interest	(22e)	4,662,458	4,475,410
PROFIT (LOSS) FOR THE PERIOD		**24,233,194**	**29,059,241**
EARNINGS PER SHARE		**Ch$**	**Ch$**
Earnings per basic share			
Earnings per basic share for continuing operations	(23)	20.45	25.68
Earnings per basic share for discontinuing operations		-	-
Earnings per basic share		20.45	25.68
Diluted earnings per share			
Diluted earnings per share from continuing operations		20.45	25.68
Diluted earnings per share from discontinuing operations		-	-
Diluted earnings per share		20.45	25.68

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements

STATEMENTS OF COMPREHENSIVE INCOME	For years ended December 31, 2016 ThCh$	2015 ThCh$
PROFIT (LOSS) FOR THE PERIOD	**24,233,194**	**29,059,241**
OTHER COMPREHENSIVE INCOME		
Components of other comprehensive income that will not be reclassified to incom		
Other comprehensive income, before taxes, profits (losses) on new measurements of defined benefits plans	(5,279,894)	95,951
Total other comprehensive income that will not be reclassified to income	**(5,279,894)**	**95,951**
Components of other comprehensive income that will be reclassified to income for the period		
Profit (loss) on new measurement of financial assets available for sale	1,360,058	(2,636,912)
Profit (loss) on cash flow hedges	(3,091,604)	(7,046,002)
Total Components of other comprehensive income that will be reclassified to income for the period	**(1,731,546)**	**(9,682,914)**
Total other components of other comprehensive income, before taxes	**(7,011,440)**	**(9,586,963)**
Income taxes associated to components of other comprehensive income which will not be reclassified to income for the period		
Income taxes associated to new measurements of defined benefits plans of other comprehensive income	1,530,899	23,423
Income taxes associated to components of other comprehensive income which will be reclassified to income for the period	**1,530,899**	**23,423**
Income taxes associated to components of other comprehensive income which will be reclassified to income for the period		
Income tax related to hedging cash flows from other comprehensive income	441,240	1,425,065
Total income taxes associated to components of other comprehensive income	**1,972,138**	**1,448,488**
TOTAL OTRO RESULTADO INTEGRAL	**(5,039,301)**	**(8,138,475)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**19,193,893**	**20,920,766**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Comprehensive income attributable to owners of the parent	14,451,951	16,445,356
Comprehensive income attributable to non-controlling interest	4,741,942	4,475,410
TOTAL COMPREHENSIVE INCOME	**19,193,893**	**20,920,766**

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements

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	Changes in capital (Note 22a)	Changes in the other reserves (Note 22d)					Retained earnings	Equity attributable to owners of the parent	Non controlling interests (Note 22e)	Total equity
	Issued capital	Cash flow hedge reserves	Reserves of actuarial gains or losses on defined benefit plans	Accrual of profits or losses on remeasurement of financial assets available for sale	Other miscellaneous reserves	Total other reserves				
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Beginning balance as of 01.01.2016	**578,078,382**	**8,929,007**	**(3,202,898)**	**4,932**	**(7,375,148)**	**(1,644,107)**	**91,464,194**	**667,898,469**	**14,183,722**	**682,082,191**
Changes in equity										
Comprehensive income										
Profit	-	-	-	-	-	-	19,570,736	19,570,736	4,662,458	24,233,194
Other comprehensive income	-	(2,650,364)	(1,942,599)	1,360,058	-	(3,232,905)	-	(3,232,905)	(1,806,396)	(5,039,301)
Comprehensive income	**-**	**(2,650,364)**	**(1,942,599)**	**1,360,058**	**-**	**(3,232,905)**	**19,570,736**	**16,337,831**	**2,856,062**	**19,193,893**
Dividends	-	-	-	-	-	-	13,246,370	13,246,370	-	13,246,370
Other increase (decrease) from transfers and other changes	20,400	-	-	-	7,375,148	7,375,148	17,247	7,412,795	(48,708)	7,364,087
Other increase (decrease) from transactions with treasury shares	-	-	-	-	(7,563,361)	(7,563,361)	-	(7,563,361)	-	(7,563,361)
Total changes in shareholders' equity	**20,400**	**(2,650,364)**	**(1,942,599)**	**1,360,058**	**(188,213)**	**(3,421,118)**	**6,341,613**	**2,940,895**	**2,807,354**	**5,748,249**
Ending balance as of 12.31.2016	**578,098,782**	**6,278,643**	**(5,145,497)**	**1,364,990**	**(7,563,361)**	**(5,065,225)**	**97,805,807**	**670,839,364**	**16,991,076**	**687,830,440**
Beginning balance as of 01.01.2015	**578,078,382**	**14,549,944**	**(3,279,142)**	**2,641,844**	**(11,805,481)**	**2,107,165**	**79,323,406**	**659,508,953**	**9,707,411**	**669,216,364**
Changes in equity										
Comprehensive income										
Profit	-	-	-	-	-	-	24,583,831	24,583,831	4,475,410	29,059,241
Other comprehensive income	-	(5,620,937)	76,244	(2,636,912)	-	(8,181,605)	-	(8,181,605)	43,130	(8,138,475)
Resultado integral	**-**	**(5,620,937)**	**76,244**	**(2,636,912)**	**-**	**(8,181,605)**	**24,583,831**	**16,402,226**	**4,518,540**	**20,920,766**
Dividends	-	-	-	-	-	-	12,443,043	12,443,043	-	12,443,043
Other increase (decrease) from transfers and other changes	-	-	-	-	4,430,333	4,430,333	-	4,430,333	(42,229)	4,388,104
Total changes in shareholders' equity	**-**	**(5,620,937)**	**76,244**	**(2,636,912)**	**4,430,333**	**(3,751,272)**	**12,140,788**	**8,389,516**	**4,476,311**	**12,865,827**
Ending balance as of 12.31.2015	**578,078,382**	**8,929,007**	**(3,202,898)**	**4,932**	**(7,375,148)**	**(1,644,107)**	**91,464,194**	**667,898,469**	**14,183,722**	**682,082,191**

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements

	Notes	2016 ThCh$	2015 ThCh$
		For years ended December 31,	
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Classes of operating activity charges			
Proceeds from sale of assets and services rendered		**1,116,681,348**	**1,075,299,455**
Proceeds from sales and services		946,284,786	911,546,046
Proceeds from related entities		170,396,562	163,753,409
Other operating activity charges		**33,560,240**	**11,183,000**
Classes of payments			
Payments to suppliers for supplying goods and services		(636,668,531)	(623,780,053)
Payments to and on account of employees		(147,774,212)	(133,377,953)
Other operating activity payments		(114,174,901)	(94,289,237)
Net cash flows provided by (used in) operating activities		**251,623,944**	**235,035,212**
Income taxes paid reimbursed classified as operating activities (less)		(3,311,264)	(8,344,701)
Cash flows provided by (used in) operating activities		**248,312,680**	**226,690,511**
CASH FLOWS PROVIDED BY (USED IN) INVESTMENT ACTIVITIES			
Other payments to acquire equity or debt instruments of other entities, classified as investment activities.		-	(1,853,128)
Amounts from sales of property, plant and equipment, classified as investment activities		1,488,456	545,348
Additions to property, plant and equipment, classified as investing activities		(169,172,962)	(176,451,320)
Dividends received, classified as investing activities	(6b)	331,860	443,541
Interest received, classified as investing activities		2,070,273	3,711,294
Other cash inputs (outputs), classified as investing activities		-	1,670,270
Net cash flows provided by (used in) investment activities		**(165,282,373)**	**(171,933,995)**
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Proceeds from loans, classified as financing activities			
Payments to acquire or redeem shares of the entity		(7,563,361)	-
Loans to related entities		-	1,560,426
Repayments loans, classified as financing activities	(17b)	(1,036,105)	(1,789,476)
Payments of financial lease liabilities, classified as financing activities		(122,100)	(502,881)
Dividens paid, classified as financing activities	(22c)	(7,375,148)	(12,443,043)
Payments of loans to related entities		(6,750,188)	(55,000,000)
Interest paid, classified as financing activities		(17,372,780)	(16,727,076)
Other cash inputs (outputs), classified as financing activities		(2,480,923)	(3,515,829)
Net cash flows provided by (used in) financing activities		**(42,700,605)**	**(88,417,879)**
Increase (decrease) in cash and cash equivalents, before the effects of changes in the exchange rate		**40,329,702**	**(33,661,363)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**40,329,702**	**(33,661,363)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**86,977,350**	**120,638,713**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	(5)	**127,307,052**	**86,977,350**

The accompanying notes 1 to 30 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 Móviles Holding S.A., 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) 12.31.2016 %	12.31.2015 %
Telefónica Larga Distancia S.A.	96.672.160-K	1061	-	99.93

(1) On April 30, 2016 Telefónica Chile S.A. absorbed subsidiary Telefónica Larga Distancia S.A., acquiring all its assets and liabilities, and will succeed it in all its rights and obligations as the legal continuer, incorporating all equity in it.

2. Significant accounting principles:

a) Accounting period

These consolidated financial statements (hereinafter, "financial statements") cover the years ended December 31, 2016 and 2015.

b) Basis of presentation

The financial statements for December 31, 2015 and their corresponding notes are shown in a comparative manner in accordance with Note 2a).

c) Basis of preparation

The Financial statements as of December 31, 2016 have been prepared in accordance with, incorporated in International Financial Reporting Standards (IFRS).

2. Significant accounting principles, continued

c) Basis of preparation, continued

The financial statements as of December 31, 2015 were originally prepared in accordance with instructions and standards for preparation and presentation of financial information issued by the Superintendency of Securities and Insurance ("SVS"), which are composed of International Financial Reporting Standards ("IFRS") and Circular 856 dated October 17, 2014 which instructs the entities that the SVS oversees to record differences in deferred tax assets and liabilities produced as a direct effect of the increase in the first category (corporate) tax rate introduced by Law 20,780 plus specific standards set forth by the SVS.

In the re-adoption of IFRS as of January 1, 2016, the Company has applied IFRS as if it had never stopped applying IFRS in its financial statements. Consequently, the Company has not opted for any of the alternatives contemplated in IFRS 1 “First-time Adoption of International Financial Reporting Standards”.

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

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

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries, including assets, liabilities, income, expenses and cash flows after making adjustments and eliminations related to transactions between the companies that are part of the consolidation. Minority investments have been recognized under "Non-controlling Interests” (note 22e).

Control is achieved when the Company is exposed to or has rights to variable returns from its interest in the investee and has the capacity to influence these returns through its power over it. In order to comply with the definition of control the following points must be fulfilled:

-Power over the investee (i.e. existing rights that give it the capacity to direct the relevant activities of the investee).

-Exposure, or right to variable returns from its interest in the investee; and

-Capacity to use its power over the investee to influence the amount of the returns of the investor.

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.

2. Significant accounting principles, continued

d) Basis of consolidation, continued

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 12.31.2016			12.31.2015
				Direct	Indirect	Total	Total
78.703.410-1	Telefónica Empresas Chile S.A.	Chile	CLP	99.99	-	99.99	99.99
96.672.160-k	Telefónica Larga Distancia S.A. (1)	Chile	CLP	-	-	-	99.93
76.086.148-0	Telefónica Chile Servicios Corporativos Ltda.	Chile	CLP	49.30	1.70	51.00	51.00

(1) On April 30, 2016 Telefónica Chile S.A. absorbed subsidiary Telefónica Larga Distancia S.A., acquiring all its assets and liabilities, and will succeed it in all its rights and obligations as the legal continuer, incorporating all equity in it.

2. Significant accounting principles, continued

d) Basis of consolidation, continued

The summarized financial information at December 31, 2016 of the companies included in the consolidation is as follows:

Taxpayer No.	Company Name	% Participation	Currents assets ThCh$	Non-currents assets ThCh$	Total assets ThCh$	Currents liabilities ThCh$	Non-currents liabilities ThCh$	Total liabilities ThCh$	Equity ThCh$	Revenues from ordinary operations ThCh$	Profit (loss), Net ThCh$
78.703.410-1	Telefónica Empresas Chile S.A.	99,9999973	147,802,580	96,185,133	243,987,713	138,474,636	1,830,967	140,305,603	103,682,110	312,789,879	(22,477,298)
76.086.148-0	Telefónica Chile Servicios Corporativos Ltda.	51,0000000	98,739,864	45,228,006	143,967,870	72,238,364	37,053,841	109,292,205	34,675,665	186,725,320	9,515,223

The summarized financial information at December 31, 2015 of the companies included in the consolidation is as follows:

Taxpayer No.	Company Name	% Participation	Currents assets ThCh$	Non-currents assets ThCh$	Total assets ThCh$	Currents liabilities ThCh$	Non-currents liabilities ThCh$	Total liabilities ThCh$	Equity ThCh$	Revenues from ordinary operations ThCh$	Profit (loss), Net ThCh$
78.703.410-1	Telefónica Empresas Chile S.A.	99.9999973	142,751,578	101,038,889	243,790,467	114,453,618	1,928,235	116,381,853	127,408,614	291,435,829	(13,721,407)
96.672.160-k	Telefónica Larga Distancia S.A.	99.9297221	36,498,966	62,023,420	98,522,386	25,713,238	3,501,636	29,214,874	69,307,512	60,478,685	17,480,653
76.086.148-0	Telefónica Chile Servicios Corporativos Ltda.	51.0000000	97,525,861	44,424,075	141,949,936	79,524,546	33,578,423	113,102,969	28,846,967	185,636,242	9,108,420

2. Significant accounting principles, continued

e) Foreign exchange differences

Balances of monetary assets and liabilities denominated in foreign currency are presented valued at the closing exchange rate for each year. Foreign currency translation resulting from the application of this standard is recognized in income for the year under "foreign currency translation" and differences resulting from the valuation of the UF are recognized in income for the year under "income from indexation units".

Non-monetary items in foreign currency measured at historical cost are converted using the exchange rate on the date of the transaction and non-monetary items that are measured at fair value are converted using the exchange rate on the date on which this fair value is measured.

When a gain or loss derived from a non-monetary item is recognized in other comprehensive income, any foreign currency translation included in this gain or loss will also be recognized in other comprehensive income. On the contrary, when the gain or loss, derived from a non-monetary item is recognized in income for the period, any foreign currency translation included in this gain or loss is also recognized in income for the period.

Assets and liabilities in US$ (United States dollars), Euros, Brazilian Real and UF (Unidades de Fomento), have been converted to Chilean pesos at the observed exchange rate as of each year-end as follows:

Date	USD	EURO	REAL	UF
31-dic-2016	669,47	705,60	205,82	26,347,98
31-dic-2015	710,16	774,61	178,31	25,629,09

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.

2. Significant accounting principles, continued

f) Financial assets and liabilities, continued

1. Financial assets other than derivatives, continued

i) Loans and accounts receivable, continued

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 and wholesale 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 trade and other accounts receivable.

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

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.

2. Significant accounting principles, continued

f) Financial assets and liabilities, continued

1. Financial assets other than derivatives, continued

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.

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. Significant accounting principles, continued

f) Financial assets and liabilities, continued

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 18).

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

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.

2. Significant accounting principles, continued

f) Financial assets and liabilities, continued

3. Financial liabilities, continued

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.

4. Derivative financial instruments

The Company holds hedge derivatives to manage its exposure to interest and/or exchange rate risks (see Note 18.2). 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.

2. Significant accounting principles, continued

f) Financial assets and liabilities, continued

4. Derivative financial instruments, continued

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.

g) Inventory

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

The net realizable value is the estimated sales value during the normal course of business, less costs related to the sale and costs related to finishing the product.

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.

Obsolescence is determined on the basis of the commercial turnover of equipment and accessories. According to the Company's policies, marketable materials with a turnover in excess of 360 days have been defined as having slow turnover. Likewise, stored scrapped products or accessories are considered to be a total loss.

h) Current assets destined for sale

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.

2. Significant accounting principles, continued

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.

The discount rate used to discount future cash flows as of December 31, 2016 and 2015 was 7.05% and 7.30%, rspectly.

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 25.

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. At the end of the year 2016 and 2015 were not identified leasing implicit.

k) Income taxes

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

Tax assets and liabilities for the current and prior periods are measured at the amount the Company estimates it will recover or pay to tax authorities. Tax rates and government regulations used to calculate these amounts are those in force as of each years 24% and 22.5% at December 31, 2016 and 2015 respectively.

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.

2. Significant accounting principles, continued

k) Income taxes, continued

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

Represent the difference between acquisition cost and fair value, of the assets acquired, liabilities assumed and identifiable contingent liabilities acquired from an associate. 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.

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. Also includes intangible assets being developed which correspond to commercial systems applications, mainly billing, collecting and collections, to be used by the Company in the normal course of its operations in relation to its customer. These intangible assets being developed are recorded at acquisition cost plus all costs associated to their implementation and are amortized over the period in which their use is expected to generate income.

Software licenses and rights to use underwater cable have finite useful lives and are amortized over their estimated useful lives. As of the close of each period 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 20 years.

2. Significant accounting principles, continued

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 Company recognizes an obligation for assets that will be dismantled, corresponding to future disbursements that the company must make for removal of certain installations. These future disbursements are incorporated in the restated value of the asset, recognizing the corresponding dismantling provision.

Changes in the valuation of existing dismantling liabilities, derived from changes in the amount or temporary structure of outflow of resources that incorporate economic benefits required to settle the obligation, or a change in the discount rate, shall be added to or deducted from the cost of the corresponding asset in the current period. The amount deducted from the cost of the asset must not exceed its carrying amount. If the decrease in the liability should exceed the carrying amount of the asset, the excess is immediately recognized in income for the year.

An asset's dismantling cost is recognized in the income statement through depreciation over its useful life, under depreciation and amortization expense. The provision discount process is recognized in income for the period as finance cost.

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 year-end of 2016 and 2015 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. Projects classified under building in progress, for which their estimated termination date as of each period closing has expired, but are in usable condition are also included.

The average annual financial depreciation rate of the Company is approximately 10.12% and 10.33% to December 31, 2016 and 2015, respectively.

Estimated useful lives are summarized in the following detail:

Assets	Useful lives in years	
	Minimum	Maximum
Buildings	5	40
Transportation equipment	7	10
Supplies and accessories	7	10
Office equipment	10	10
Information equipment	4	4
Network and communications equipment	7	20
Property, plant and equipment under financial leases	4	40
Other property, plant and equipment	2	7

Estimated residual values, amortization methods and periods are reviewed as of each year-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 4.51% at December 31, 2016 and 2015 respectively, 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.

2. Significant accounting principles, continued

o) Provisions, continued

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.

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, 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 top-up 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.

2. Significant accounting principles, continued

p) Income and expenses, continued

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).

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 accounts receivable” 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.

The Company has a customer loyalty program customer fidelity program called “Puntos Club Movistar” that provides multiple benefits to our customers, which can be provided or delivered by third parties or by the Company. Income destined to the points program is composed of a percentage of billing and is treated as unearned income at fair value in accordance with the value of the goods or services that customers consume in the future.

The Company applies for government projects associated to the Telecommunications Development Fund in order to receive resources for the installation of assets for public service operation and exploitation. These resources, which are called government subsidies, are initially recorded as deferred income, under other non-financial liabilities and are charged to the income statement over the useful lives of the assets associated to such subsidies.

2. Significant accounting principles, continued

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.

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.

2. Significant accounting principles, continued

q) Use estimates, continued

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 once a year. 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 actuarial hypotheses used in Note 20a).

vi) Financial assets and liabilities

Where the fair value of financial assets and financial liabilities recorded in the balance sheet and disclosed in the notes 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.

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.

2. Significant accounting principles, continued

r) Methods of consolidation, continued

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**
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Income from Customer Contracts	January 1, 2018
IFRIC 22	Transaction in foreign currency and advance consideration	January 1, 2018
IFRS 16	Leases	January 1, 2019

IFRS 9 "Financial instruments"

The final version of IFRS 9 Financial Instruments, was issued in July 2014, gathering all the phases of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement. This standard includes new requirements based on principles for the classification and measurement, it introduces a "more prospective" model of expected credit losses for impairment accounting and a substantially reformed focus for hedge accounting. Entities will also have the option for early application of accounting for profits and losses due to changes in fair value related to "inherent credit risk" for financial liabilities designated at fair value through profit or loss, without applying the other requirements of IFRS 9. Application of the standard shall be mandatory for annual periods commencing as of January 1, 2018. Early application is allowed.

IFRS 15 "Income from Customer Contracts"

IFRS 15 Revenue from Contracts with Customers, issued in May 2014, is a new standard which is applicable to all contracts with customers, except for leases, financial instruments and insurance contracts. This a joint project with the FASB to eliminate differences in recognition of income existing between IFRS and US GAAP. This new standard is intended to improve the inconsistencies and weaknesses of IAS 18 and provide a model that will facilitate the comparison of companies in different industries and regions. The standard provides a new model for recognition of income and more detailed requirements for contracts with multiple elements, and requires more detailed disclosures. Application of the standard shall be mandatory for annual periods commencing as of January 1, 2018. Early application is allowed.

2. Significant accounting principles, continued

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

IFRIC 22 "Transactions in Foreign Currency and Advance Consideration"

The interpretation addresses the way to determine the transaction date in order to establish the exchange rate to be used in the initial recognition of the related asset, expense or income (or their applicable part), in the derecognition in accounts of a non-monetary asset or non-monetary liability that arises from the payment or collection of the advance consideration in foreign currency. For this purpose the transaction date corresponds to the moment at which an entity initially recognizes the non-monetary asset or non-monetary liability that arises from the payment or collection of the advance consideration. If there are multiple advance payments or collection, the entity will determine a transaction date for each payment or collection of the advance consideration.

This Interpretation will be applied for annual periods commencing as of January 1, 2018. Early application is allowed. If an entity applies this Interpretation to prior periods, it must disclose this fact.

IFRS 16 "Lease"

In January 2016, the IASB issued IFRS 16 Leases. IFRS 16 establishes the definition of a lease contract and specifies the accounting treatment of assets and liabilities originated by thee contracts from the point of view of the lessor and the lessee. The new standard does not differ significantly from the standard that precedes it, IAS 17 Leases, in relation to the accounting treatment from the point of view of the lessor. However, from the point of view of the lessee, the new standard requires the recognition of assets and liabilities for most lease contracts. The application of IFRS 16 is mandatory for annual periods commencing as of January 1, 2019. Early application is allowed if it is adopted in conjunction with IFRS 15 Revenue from Contracts with Customers.

The Company has evaluated the impact that the application of IFRS 9 on the date of its coming into effect and has determined that it will have no significant impact on the consolidated financial statements, with the exception of IFRS 15, IFRIC 22 and IFRS 16 which is at the evaluation stage.

	Improvements and amendments	**Mandatory application date**
IFRS 12	Disclosure of interests in other Entities	January 1, 2017
IAS 7	Statements of cash flows	January 1, 2017
IAS 12	Income tax	January 1, 2017
IFRS 2	Share-based payments	January 1, 2018
IFRS 4	Insuranse contracts	January 1, 2018
IAS 28	Investments in Associates and Joint Ventures	January 1, 2018
IAS 40	Investment properties	January 1, 2018
IFRS 10	Consolidated Financial Statements	Determined

IFRS 12 "Disclosure of Interests in Other Entities"

The modifications clarify the disclosure requirements of IFRS 12, applicable to the participation of an entity in a subsidiary, a joint venture or an associate that is classified as held for sale. The amendments will be effective as of January 1, 2017 and will be applied retrospectively.

2. Significant accounting principles, continued

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

IAS 7 "Statement of Cash Flows"

The amendments to IAS 7 Statement of Cash Flows, issued in January 2016 as part of the Disclosures Initiative, require that an entity disclose information that allows the users of the Financial Statements to assess changes in the obligations derived from financing activities.

IAS 12 "Income Taxes"

These amendments, issued by the IASB in January 2016, clarify how to record deferred tax assets corresponding to debt instruments measured at fair value. Application of the amendments will be mandatory for annual periods commencing as of January 1, 2017. Early application is allowed.

IFRS 2 "Share-based payments"

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payments, which address the following areas:

- Conditions for compliance when share-based payments are settled in cash.
- Classification of share-based payment transactions, net of income tax withholding.
- Accounting for amendments to contract terms that modify the classification of payments settled in cash or settled in treasury shares.

The restructuring of the financial statements for previous periods is not mandatory as of the effective date of application, but retrospective adoption is allowed. Early adoption is allowed.

IFRS 4 "Insurance Contracts"

The amendments address concerns derived from the application of new pronouncements included in IFRS 9, before implementing new insurance contracts. The amendments introduce the following two options for entities that issue insurance contracts:

- The temporary and optional exemption from the application of IFRS 9, which will be available for entities whose activities are predominantly connected with insurance. The exemption will allow entities to continue applying IAS 39 Financial Instruments, Recognition and Valuation until January 1, 2021.
- The overlay approach is an option that is available for entities that adopt IFRS 9 and issue insurance contracts, to adjust profits or losses for certain financial assets; the adjustment eliminates the volatility in the valuation of financial instruments that might arise from the application of IFRS 9, allowing reclassification of these effects from income for the year to other comprehensive income.

2. Significant accounting principles, continued

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

IAS 28 "Investments in Associates and Joint Ventures"

The amendment clarifies that an entity that is a risk capital organization, or other qualifying entity, can choose, upon initial recognition, to evaluate its investments in associates and joint ventures at fair value through profit and loss. If an entity that is not in itself an investment entity has an interest in an associate or joint venture that is an investment entity, it can opt to maintain the fair value measurement applied by its associate. The amendments must be applied retrospectively and are effective as of January 1, 2018. Early application is allowed.

IAS 40 "Investment Properties"

The amendments clarify when an entity must reclassify assets, including assets under construction or development of investment assets, indicating that the reclassification must be performed when the property complies or stops complying with the definition of investment property and there is evidence of the change in the use of the asset. A change in management's intentions for the use of a property does not provide evidence of a change in use. Amendments must be applied prospectively, are effective as of January 1, 2018 and early application is allowed.

IAS 28 "Investments in Associates and Joint Ventures", IFRS 10 "Consolidated Financial Statements"

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) address a recognized inconsistency between the requirements of IFRS 10 and those of IAS 28 (2011) in the treatment of the sale or contribution of assets between an investor and its associate or joint venture. The amendments, issued in September 2014, establish that when the transaction involves a business (whether in a subsidiary or not) the full profit or loss is recognized. A partial profit or loss is recognized when the transaction involves assets that do not constitute a business, even when the assets are located in a subsidiary. The date of mandatory application of these amendments is to be determined since the IASB plans a detailed investigation that could result in simplification of the accounting for associates and joint ventures. Immediate adoption 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.

2. Significant accounting principles, continued

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

t) Statement of cash flows

The statement of cash flows includes movements of cash performed during the period, determined using the direct method. Cash flows are understood to be cash inflows and outflows or inflows and outflows of other equivalent means, such as highly liquid time deposits maturing in less than three months with low risk of change in value. The following expressions are used in the following sense:

i. Operating activities: are activities that constitute the main source of the Company's ordinary income, as well as other activities that cannot be qualified as from investing or financing activities.

ii. Investing activities: are activities such as acquisition, alienation or disposal of non-current assets by other means and other investments not included in cash and cash equivalents.

iii. Financing activities: are activities that produce changes in the size and composition of total shareholders' equity and in liabilities of a financial nature.

3. Changes in Accounting Policy and Disclosures

IFRS have been consistently applied during the year end covered by these financial statements.

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

Landline telephone services include primary services, connections and line installations, value added services, marketing of handsets, broadband, dedicated lines, international long distance services and circuit and other media rentals. Income in the financial statements is recognized as the services are provided or the equipment is sold.

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

4. Financial information by segment, continued

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) 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 public and private projects, and data transmission services. Income is recognized as the services are provided.

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

d) Other

"Other" includes logistics, personnel and management services.

4. Financial information by segment, continued

Relevant information regarding Telefónica Chile S.A. and its main subsidiaries, which represent different segments, together with information regarding other subsidiaries, corresponding to December 31, 2016 and 2015 is detailed as follows:

For the period ended as of December 31, 2016	Fixed Telecommunications ThCh$	Corporate Communication and Data ThCh$	Television Services ThCh$	Other ThCh$	Eliminations ThCh$	Total ThCh$
Income from external customers	436,333,287	134,229,774	173,924,162	-	-	744,487,223
Income from ordinary activities arising from transactions with other operating segments of the same entity	84,767,325	4,635,943	-	186,725,320	(276,128,588)	-
Total income from operating activities from external customers and transactions with other operating segments of the same entity	**521,100,612**	**138,865,717**	**173,924,162**	**186,725,320**	**(276,128,588)**	**744,487,223**
Cost of sales	57,350,605	90,076,322	107,908,195	-	(44,930,290)	210,404,832
Administrative expenses	248,040,387	42,571,582	51,215,829	27,220,754	(159,085,830)	209,962,722
Employee benefits expenses	-	-	-	145,028,174	(71,981,612)	73,046,562
Income from ordinary activities arising from interest						
Interest expense	22,921,519	902,776	728,901	2,611,157	(1,296,509)	25,867,844
Interest income	3,735,700	455,443	178,079	32,515	(1,308,706)	3,093,031
Depreciation and amortization	150,079,885	14,394,987	25,905,532	-	-	190,380,404
Participation in profit of associated companies accounted for using the equity method	(17,748,231)	123,698	-	-	17,624,533	-
Income tax expense	9,694,016	(2,426,584)	6,156,385	2,476,744	-	15,900,561
Other significant non-cash items	569,067	762,879	646,649	94,217	143,053	2,215,865
Profits(loss) before tax	**29,264,752**	**(7,737,930)**	**(11,009,567)**	**11,991,967**	**17,624,533**	**40,133,755**
Profit (loss) for the period from continuing operations	**19,570,736**	**(5,311,346)**	**(17,165,952)**	**9,515,223**	**17,624,533**	**24,233,194**
Profit (loss) for the period from discontinuing operations	**-**	**-**	**-**	**-**	**-**	**-**
Profit (loss) for the period	**19,570,736**	**(5,311,346)**	**(17,165,952)**	**9,515,223**	**17,624,533**	**24,233,194**
Assets	1,513,680,744	109,134,338	134,853,375	143,967,870	(302,150,585)	1,599,485,742
Investments in associates accounted for using the equity method	120,915,916	-	-	-	(120,915,916)	-
Increases in non-current assets	143,413,966	34,140,972	-	-	-	177,554,938
Liabilities	842,841,380	61,981,636	78,323,967	109,292,205	(180,783,886)	911,655,302
Shareholders' equity	670,839,364	47,152,702	56,529,408	34,675,665	(121,366,699)	687,830,440
Liabilities & Shareholders' equity	1,513,680,744	109,134,338	134,853,375	143,967,870	(302,150,585)	1,599,485,742
Cash flows provided by (used in) operating activities	239,113,761	2,454,220	2,957,103	4,542,843	(755,247)	248,312,680
Cash flows provided by (used in) investment activities	(132,753,121)	(11,710,692)	(20,818,560)	-	-	(165,282,373)
Cash flows provided by (used in) from in financing activities	(64,654,711)	11,845,987	14,493,119	(4,385,000)	-	(42,700,605)

4. Financial information by segment, continued

For the year ended as of December 31, 2015	Fixed Telecommunications ThCh$	Corporate Communication and Data ThCh$	Television Services ThCh$	Other ThCh$	Eliminations ThCh$	Total ThCh$
Income from external customers	430,559,087	118,270,146	170,233,713	-	-	719,062,946
Income from ordinary activities arising from transactions with other operating segments of the same entity	82,960,176	2,931,970	-	185,636,242	(271,528,388)	-
Total income from operating activities from external customers and transactions with other operating segments of the same entity	**513,519,263**	**121,202,116**	**170,233,713**	**185,636,242**	**(271,528,388)**	**719,062,946**
Cost of sales	64,295,806	80,242,870	90,228,417	-	(45,048,258)	189,718,835
Administrative expenses	253,328,309	41,371,766	49,815,320	25,557,096	(158,550,779)	211,521,712
Employee benefits expenses	-	-	-	148,832,801	(67,986,276)	80,846,525
Income from ordinary activities arising from interest						
Interest expense	22,768,939	681,014	700,772	424,619	(1,291,516)	23,283,828
Interest income	5,399,182	184,513	26,780	87,953	(1,243,339)	4,455,089
Depreciation and amortization	146,748,793	9,083,716	36,381,574	-	-	192,214,083
Participation in profit of associated companies accounted for using the equity method	(9,076,112)	118,409	-	-	8,957,703	-
Income tax expense	8,521,912	(4,274,640)	(1,214,746)	2,425,312	-	5,457,838
Other significant non-cash items	10,405,257	(2,222,915)	(247,960)	624,053	25,592	8,584,027
Profits(loss) before tax	**33,105,743**	**(12,097,243)**	**(7,113,550)**	**11,533,732**	**9,088,397**	**34,517,079**
Profit (loss) for the year from continuing operations	**24,583,831**	**(7,822,603)**	**(5,898,804)**	**9,108,420**	**9,088,397**	**29,059,241**
Profit (loss) for the year from discontinuing operations	**-**	**-**	**-**	**-**	**-**	**-**
Profit (loss) for the year	**24,583,831**	**(7,822,603)**	**(5,898,804)**	**9,108,420**	**9,088,397**	**29,059,241**
Assets	1,500,505,094	131,294,591	112,735,109	141,949,936	(306,380,048)	1,580,104,682
Investments in associates accounted for using the equity method	141,745,555	375,011	-	-	(142,120,566)	-
Increases in non-current assets	155,737,190	10,270,248	8,445,890	-	-	174,453,328
Liabilities	832,310,592	62,396,053	54,225,033	113,102,969	(164,012,156)	898,022,491
Shareholders' equity	668,194,502	68,898,538	58,510,076	28,846,967	(142,367,892)	682,082,191
Liabilities & Shareholders' equity	1,500,505,094	131,294,591	112,735,109	141,949,936	(306,380,048)	1,580,104,682
Cash flows provided by (used in) operating activities	221,800,556	26,852,013	38,904,284	(468,014)	(60,398,328)	226,690,511
Cash flows provided by (used in) investment activities	(151,203,230)	(6,711,399)	(14,019,366)	-	-	(171,933,995)
Cash flows provided by (used in) from in financing activities	(105,278,983)	(19,082,264)	(24,934,960)	480,000	60,398,328	(88,417,879)

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	12.31.2016 ThCh$	12.31.2015 ThCh$
Cash (a)		**-**	**67,704**
	CLP	-	32,023
	USD	-	16,787
	EUR	-	18,894
Banks (b)		**12,227,118**	**10,513,315**
	CLP	12,080,481	9,839,204
	USD	99,979	647,940
	EUR	46,658	26,171
Time deposits (c)		**110,959,606**	**76,396,331**
	CLP	110,814,994	76,082,331
	USD	144,612	314,000
Repurchase agreement (d)		**4,120,328**	**-**
	CLP	4,120,328	-
Total cash and cash equivalents		**127,307,052**	**86,977,350**
Sub-total by currency	**CLP**	**127,015,803**	**85,953,558**
	USD	**244,591**	**978,727**
	EUR	**46,658**	**45,065**

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.

c) Time deposits

Time deposits maturing in less than 90 days are recorded at fair value and as of December 31, 2016 and 2015 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$	12.31.2016 ThCh$
Time deposits	CLP	110,666,000	3,88%	25	110,666,000	148,994	110,814,994
Time deposits	USD	144,606	0,80%	6	144,606	6	144,612
Total					**110,810,606**	**149,000**	**110,959,606**

5. Cash and cash equivalents, continued

c) Time deposits, continued

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$	12.31.2015 ThCh$
Time deposits	CLP	76,006,479	3.47%	23	76,006,479	75,852	76,082,331
Time deposits	USD	314,000	0.0%	1	314,000	-	314,000
Total					**76,320,479**	**75,852**	**76,396,331**

d) Repurchase agreement

The Repurchase agreement at December 31, 2016 are as follows:

Code	Date		counterparty	Currency Origin	Subscription value of currency origin (ThCh$)	Annual rate	Total Value ThCh$	accounting value ThCh$
	Start	Term				%		12.31.2016
CRV	30-dic-16	04-ene-17	BCI	CLP	500,000	2,76%	500,192	500,038
CRV	30-dic-16	04-ene-17	BBVA	CLP	3,620,000	2,88%	3,621,448	3,620,290
	Total				**4,120,000**		**4,121,640**	**4,120,328**

6. Other current and non-current financial assets

Other current and non-current financial assets are detailed as follows:

Concepts		12.31.2016		12.31.2015	
		Current ThCh$	Non-Current ThCh$	Current ThCh$	Non-Current ThCh$
Guarantees established	(a)	56,680	50,468	237,912	50,468
Other investments	(b)	-	7,044,800	-	5,684,742
Exchange rate hedge	(See Note 18.2)	19,617,064	112,302,000	3,119,212	154,153,538
Total		**19,673,744**	**119,397,268**	**3,357,124**	**159,888,748**

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

b) Other investments are detailed as follows:

Participation	Country	Investment currency	12.31.2016 ThCh$	12.31.2015 ThCh$
Telefónica Brasil (1) (2)	Brazil	REAL	7,040,946	5,680,888
Other participation	Chile	CLP	3,854	3,854
Total			**7,044,800**	**5,684,742**

(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) As of December 31, 2016 and 2015 dividends in the amount of ThCh$340,721 and ThCh$561,345 respectively, were accrued on the 0.06% share in the equity of Telefónica Brasil. As of December 31,2016 and 2015, have been received dividends for ThCh$331,860 y ThCh$443,541, respectively.

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

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

Concepts	12.31.2016 Current ThCh$	12.31.2016 Non-current ThCh$	12.31.2015 Current ThCh$	12.31.2015 Non-current ThCh$
Support and repair services	626,255	-	694,781	-
Insurance	949,781	-	967,158	-
Leases	54,812	-	54,200	-
Franchised commissions	5,456,521	-	7,483,585	-
Other amortizable expenses (1)	13,337,663	6,829,458	10,363,551	5,309,107
Other taxes (2)	2,837,537	-	2,697,886	-
Total	**23,262,569**	**6,829,458**	**22,261,161**	**5,309,107**

(1) This item includes ThCh$11,424,090 current and ThCh$6,812,369 non-current, for depreciable expenses due to the new commercial model for television services.

(2) This item includes: Sence credit, remaining VAT credit and provisional payment on net income consumed by loss (PPUA).

8. Current trade and other accounts receivable

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

Concepts	12.31.2016 Gross value ThCh$	12.31.2016 Allowance for doubtful accounts ThCh$	12.31.2016 Net value ThCh$	12.31.2015 Gross value ThCh$	12.31.2015 Allowance for doubtful accounts ThCh$	12.31.2015 Net value ThCh$
Receivables on current loan transactions	**246,187,096**	**(117,301,087)**	**128,886,009**	**237,234,877**	**(116,909,971)**	**120,324,906**
Invoiced services	198,704,265	(117,301,087)	81,403,178	197,791,646	(116,909,971)	80,881,675
Services provided and not invoiced	47,482,831	-	47,482,831	39,443,231	-	39,443,231
Miscellaneous receivables	**15,839,263**	**-**	**15,839,263**	**14,078,298**	**-**	**14,078,298**
Total	**262,026,359**	**(117,301,087)**	**144,725,272**	**251,313,175**	**(116,909,971)**	**134,403,204**

b) The composition of current trade and other accounts receivable with overdue balances that have not been collected and have not been provisioned based on due dates is detailed as follows:

Concepts	12.31.2016 Less than 3 months	12.31.2016 3 to 6 months	12.31.2016 6 to 12 months	12.31.2016 Greater than 12 months	12.31.2016 Total	12.31.2015 Less than 3 months	12.31.2015 3 to 6 months	12.31.2015 6 to 12 months	12.31.2015 Greater than 12 months	12.31.2015 Total
Miscellaneous receivables	25.275.840	5,019,672	-	-	30,295,512	29,054,287	1,998,174	-	-	31,052,461
Total	**25.275.840**	**5,019,672**	**-**	**-**	**30,295,512**	**29,054,287**	**1,998,174**	**-**	**-**	**31,052,461**

8. Current trade and other accounts receivable, continued

c) The movement of allowance for doubtful accounts, which includes "Current trade and other accounts receivable" and "Non-current trade and other accounts receivable" found in Note 12, is detailed as follows:

Movements	12.31.2016 ThCh$	12.31.2015 ThCh$
Beginning balance	**118,004,381**	**114,513,557**
Increases	18,666,633	15,980,595
Eliminations/ Additions	(18,003,994)	(12,489,771)
Movements, subtotal	**662,639**	**3,490,824**
Ending balance	**118,667,020**	**118,004,381**

d) Allowance for doubtful account movements according to the composition of the portfolio as of December 31, 2016 and 2015 are detailed as follows:

Provisions and write-offs	12.31.2016 ThCh$	12.31.2015 ThCh$
Accrual for portfolio that has not been renegotiated	18,942,491	15,832,620
Accrual for renegotiated portfolio	(275,858)	147,975
Write-offs for the period	(18,003,994)	(12,489,771)
Recoveries for the period	-	-
Total	**662,639**	**3,490,824**

e) As of December 31, 2016 and 2015 the portfolio of returned documents and those in judicial collection is detailed as follows:

Portfolio of returned documents and judicial collection as of 12.31.2016	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	5,475	-	-	-
Portfolio of returned documents or those in judicial collection (ThCh$)	2,615,766	-	-	-

Portfolio of returned documents and judicial collection as of 12.31.2015	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	5,477	-	-	-
Portfolio of returned documents or those in judicial collection (ThCh$)	2,615,766	-	-	-

8. Current trade and other accounts receivable, continued

The composition of the portfolio stratified by segment for the year 2016 is detailed as follows:

Aging of portfolio by segment for the period-ended December 31, 2016	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$
Fixed Telecommunications											
Number of clients w/o renegotiation (1)	207,424	230,699	75,258	68,469	35,952	20,657	9,364	1,282	954	1,832,581	2,482,640
Net portfolio w/o renegotiation	35,561,395	5,482,418	1,865,042	2,532,866	1,984,977	424,241	278,753	-	-	-	48,129,692
Debt	35,561,395	5,495,036	1,867,280	2,534,833	3,727,943	1,232,385	1,134,872	1,138,842	1,142,790	95,483,090	149,318,466
Accrual	-	(12,618)	(2,238)	(1,967)	(1,742,966)	(808,144)	(856,119)	(1,138,842)	(1,142,790)	(95,483,090)	(101,188,774)
Number of clients w/renegotiation	63,845	809	530	478	434	350	271	188	213	75,564	142,682
Net renegotiated portfolio	413,227	-	-	-	-	-	-	-	-	-	413,227
Debt	752,787	9,440	5,823	5,424	4,859	3,957	3,010	1,878	2,056	665,767	1,455,001
Accrual	(339,560)	(9,440)	(5,823)	(5,424)	(4,859)	(3,957)	(3,010)	(1,878)	(2,056)	(665,767)	(1,041,774)
Total number of clients	**271,269**	**231,508**	**75,788**	**68,947**	**36,386**	**21,007**	**9,635**	**1,470**	**1,167**	**1,908,145**	**2,625,322**
Total Fixed Telephone Portfolio	**35,974,622**	**5,482,418**	**1,865,042**	**2,532,866**	**1,984,977**	**424,241**	**278,753**	**-**	**-**	**-**	**48,542,919**
Debt	**36,314,182**	**5,504,476**	**1,873,103**	**2,540,257**	**3,732,802**	**1,236,342**	**1,137,882**	**1,140,720**	**1,144,846**	**96,148,857**	**150,773,467**
Accrual	**(339,560)**	**(22,058)**	**(8,061)**	**(7,391)**	**(1,747,825)**	**(812,101)**	**(859,129)**	**(1,140,720)**	**(1,144,846)**	**(96,148,857)**	**(102,230,548)**
Corporate Communication and Data											
Number of clients w/o renegotiation (1)	2,558	1,391	981	469	355	324	266	195	282	1,655	8,476
Net portfolio w/o renegotiation	37,319,980	8,092,546	1,786,086	1,019,991	600,981	390,375	271,609	-	-	-	49,481,568
Debt	37,606,376	8,133,126	1,826,680	1,060,585	665,407	450,421	325,059	143,963	276,033	2,524,460	53,012,110
Accrual	(286,396)	(40,580)	(40,594)	(40,594)	(64,426)	(60,046)	(53,450)	(143,963)	(276,033)	(2,524,460)	(3,530,542)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Net renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	**2,558**	**1,391**	**981**	**469**	**355**	**324**	**266**	**195**	**282**	**1,655**	**8,476**
Total Corporate Communication and Data Portfolio	**37,319,980**	**8,092,546**	**1,786,086**	**1,019,991**	**600,981**	**390,375**	**271,609**	**-**	**-**	**-**	**49,481,568**
Debt	**37,606,376**	**8,133,126**	**1,826,680**	**1,060,585**	**665,407**	**450,421**	**325,059**	**143,963**	**276,033**	**2,524,460**	**53,012,110**
Accrual	**(286,396)**	**(40,580)**	**(40,594)**	**(40,594)**	**(64,426)**	**(60,046)**	**(53,450)**	**(143,963)**	**(276,033)**	**(2,524,460)**	**(3,530,542)**
Television											
Number of clients w/o renegotiation (1)	275,578	119,571	34,711	19,569	29,241	33,268	24,115	21,534	24,356	185,599	767,542
Net portfolio w/o renegotiation	25,295,896	3,174,939	936,422	385,529	464,940	275,772	328,024	-	-	-	30,861,522
Debt	25,295,896	3,174,939	936,422	385,529	534,835	605,755	407,613	600,739	770,347	9,689,444	42,401,519
Accrual	-	-	-	-	(69,895)	(329,983)	(79,589)	(600,739)	(770,347)	(9,689,444)	(11,539,997)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Net renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	**275,578**	**119,571**	**34,711**	**19,569**	**29,241**	**33,268**	**24,115**	**21,534**	**24,356**	**185,599**	**767,542**
Total Television Portfolio	**25,295,896**	**3,174,939**	**936,422**	**385,529**	**464,940**	**275,772**	**328,024**	**-**	**-**	**-**	**30,861,522**
Debt	**25,295,896**	**3,174,939**	**936,422**	**385,529**	**534,835**	**605,755**	**407,613**	**600,739**	**770,347**	**9,689,444**	**42,401,519**
Accrual	**-**	**-**	**-**	**-**	**(69,895)**	**(329,983)**	**(79,589)**	**(600,739)**	**(770,347)**	**(9,689,444)**	**(11,539,997)**

(1) The information mentioned in this line represents the number of current clients and to those that have been commercially eliminated and which are still in collections management

8. Current trade and other accounts receivable, continued

Aging of portfolio by segment for the year-ended December 31, 2016	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$
Other											
Number of clients w/o renegotiation (1)	-	-	-	-	-	-	-	-	-	-	-
Net portfolio w/o renegotiation	15,839,263	-	-	-	-	-	-	-	-	-	15,839,263
Debt	15,839,263	-	-	-	-	-	-	-	-	-	15,839,263
Accrual	-	-	-	-	-	-	-	-	-	-	-
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Net renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Other Portfolio	**15,839,263**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,839,263**
Debt	**15,839,263**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,839,263**
Accrual	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Consolidated Portfolio											
Number of clients w/o renegotiation (1)	485,560	351,661	110,950	88,507	65,548	54,249	33,745	23,011	25,592	2,019,835	3,258,658
Net portfolio w/o renegotiation	114,016,534	16,749,903	4,587,550	3,938,386	3,050,898	1,090,388	878,386	-	-	-	144,312,045
Debt	114,302,930	16,803,101	4,630,382	3,980,947	4,928,185	2,288,561	1,867,544	1,883,544	2,189,170	107,696,994	260,571,358
Accrual	(286,396)	(53,198)	(42,832)	(42,561)	(1,877,287)	(1,198,173)	(989,158)	(1,883,544)	(2,189,170)	(107,696,994)	(116,259,313)
Number of clients w/renegotiation	63,845	809	530	478	434	350	271	188	213	75,564	142,682
Net renegotiated portfolio	413,227	-	-	-	-	-	-	-	-	-	413,227
Debt	752,787	9,440	5,823	5,424	4,859	3,957	3,010	1,878	2,056	665,767	1,455,001
Accrual	(339,560)	(9,440)	(5,823)	(5,424)	(4,859)	(3,957)	(3,010)	(1,878)	(2,056)	(665,767)	(1,041,774)
Total number of clients	**549,405**	**352,470**	**111,480**	**88,985**	**65,982**	**54,599**	**34,016**	**23,199**	**25,805**	**2,095,399**	**3,401,340**
Total Consolidated Portfolio	**114,429,761**	**16,749,903**	**4,587,550**	**3,938,386**	**3,050,898**	**1,090,388**	**878,386**	**-**	**-**	**-**	**144,725,272**
Debt	**115,055,717**	**16,812,541**	**4,636,205**	**3,986,371**	**4,933,044**	**2,292,518**	**1,870,554**	**1,885,422**	**2,191,226**	**108,362,761**	**262,026,359**
Accrual	**(625,956)**	**(62,638)**	**(48,655)**	**(47,985)**	**(1,882,146)**	**(1,202,130)**	**(992,168)**	**(1,885,422)**	**(2,191,226)**	**(108,362,761)**	**(117,301,087)**

(1) The information mentioned in this line represents the number of current clients and to those that have been commercially eliminated and which are still in collections management.

8. Current trade and other accounts receivable, continued

The composition of the portfolio stratified by segment for the year 2015 is detailed as follows:

Aging of portfolio by segment for the year-ended December 31, 2015	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$
Fixed Telecommunications											
Number of clients w/o renegotiation (1)	225,883	249,221	84,327	73,314	41,113	26,112	15,132	5,465	6,940	3,117,284	3,844,791
Netportfolio w/o renegotiation	31,757,535	8,536,665	4,247,128	1,544,876	436,045	199,218	248,335	-	-	-	46,969,802
Debt	31,757,535	8,536,665	4,247,128	1,544,876	1,581,459	1,506,215	1,299,920	853,042	847,930	96,147,756	148,322,526
Accrual	-	-	-	-	(1,145,414)	(1,306,997)	(1,051,585)	(853,042)	(847,930)	(96,147,756)	(101,352,724)
Number of clients w/renegotiation	404	918	476	396	404	355	378	366	419	71,606	75,722
Net renegotiated portfolio	633,780	-	-	-	-	-	-	-	-	-	633,780
Debt	1,264,957	10,525	5,489	4,244	4,137	3,453	3,751	3,442	4,466	626,262	1,930,726
Accrual	(631,177)	(10,525)	(5,489)	(4,244)	(4,137)	(3,453)	(3,751)	(3,442)	(4,466)	(626,262)	(1,296,946)
Total number of clients	**226,287**	**250,139**	**84,803**	**73,710**	**41,517**	**26,467**	**15,510**	**5,831**	**7,359**	**3,188,890**	**3,920,513**
Total Fixed Telephone Portfolio	**32,391,315**	**8,536,665**	**4,247,128**	**1,544,876**	**436,045**	**199,218**	**248,335**	**-**	**-**	**-**	**47,603,582**
Debt	**33,022,492**	**8,547,190**	**4,252,617**	**1,549,120**	**1,585,596**	**1,509,668**	**1,303,671**	**856,484**	**852,396**	**96,774,018**	**150,253,252**
Accrual	**(631,177)**	**(10,525)**	**(5,489)**	**(4,244)**	**(1,149,551)**	**(1,310,450)**	**(1,055,336)**	**(856,484)**	**(852,396)**	**(96,774,018)**	**(102,649,670)**
Corporate Communication and Data											
Number of clients w/o renegotiation (1)	2,249	1,310	1,039	413	352	306	271	228	286	2,178	8,632
Net portfolio w/o renegotiation	34,030,305	6,218,947	2,640,768	928,182	594,569	347,168	110,322	-	-	-	44,870,261
Debt	34,030,305	6,218,947	2,640,768	928,182	594,569	347,168	158,846	162,661	182,383	2,592,629	47,856,458
Accrual	-	-	-	-	-	-	(48,524)	(162,661)	(182,383)	(2,592,629)	(2,986,197)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Net renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	**2,249**	**1,310**	**1,039**	**413**	**352**	**306**	**271**	**228**	**286**	**2,178**	**8,632**
Total Corporate Communication and Data Portfolio	**34,030,305**	**6,218,947**	**2,640,768**	**928,182**	**594,569**	**347,168**	**110,322**	**-**	**-**	**-**	**44,870,261**
Debt	**34,030,305**	**6,218,947**	**2,640,768**	**928,182**	**594,569**	**347,168**	**158,846**	**162,661**	**182,383**	**2,592,629**	**47,856,458**
Accrual	**-**	**-**	**-**	**-**	**-**	**-**	**(48,524)**	**(162,661)**	**(182,383)**	**(2,592,629)**	**(2,986,197)**
Television											
Number of clients w/o renegotiation (1)	278,002	122,145	34,382	29,363	29,583	26,920	24,205	15,112	14,876	170,263	744,851
Net portfolio w/o renegotiation	22,899,350	3,254,957	915,228	767,538	4,669	4,801	4,520	-	-	-	27,851,063
Debt	22,899,350	3,254,957	915,228	767,538	770,824	698,986	619,209	396,019	419,053	8,384,003	39,125,167
Accrual	-	-	-	-	(766,155)	(694,185)	(614,689)	(396,019)	(419,053)	(8,384,003)	(11,274,104)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Net renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	**278,002**	**122,145**	**34,382**	**29,363**	**29,583**	**26,920**	**24,205**	**15,112**	**14,876**	**170,263**	**744,851**
Total Television Portfolio	**22,899,350**	**3,254,957**	**915,228**	**767,538**	**4,669**	**4,801**	**4,520**	**-**	**-**	**-**	**27,851,063**
Debt	**22,899,350**	**3,254,957**	**915,228**	**767,538**	**770,824**	**698,986**	**619,209**	**396,019**	**419,053**	**8,384,003**	**39,125,167**
Accrual	**-**	**-**	**-**	**-**	**(766,155)**	**(694,185)**	**(614,689)**	**(396,019)**	**(419,053)**	**(8,384,003)**	**(11,274,104)**

(1) The information mentioned in this line represents the number of current clients and to those that have been commercially eliminated and which are still in collections management.

8. Current trade and other accounts receivable, continued

Aging of portfolio by segment for the year-ended December 31, 2015	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$
Other											
Number of clients w/o renegotiation (1)	-	-	-	-	-	-	-	-	-	-	-
Net portfolio w/o renegotiation	14,078,298	-	-	-	-	-	-	-	-	-	14,078,298
Debt	14,078,298	-	-	-	-	-	-	-	-	-	14,078,298
Accrual	-	-	-	-	-	-	-	-	-	-	-
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Net renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	-	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Other Portfolio	**14,078,298**	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,078,298**
Debt	**14,078,298**	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,078,298**
Accrual	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Consolidated Portfolio											
Number of clients w/o renegotiation (1)	506,134	372,676	119,748	103,090	71,048	53,338	39,608	20,805	22,102	3,289,725	4,598,274
Net portfolio w/o renegotiation	102,765,488	18,010,569	7,803,124	3,240,596	1,035,283	551,187	363,177	-	-	-	133,769,424
Debt	102,765,488	18,010,569	7,803,124	3,240,596	2,946,852	2,552,369	2,077,975	1,411,722	1,449,366	107,124,388	249,382,449
Accrual	-	-	-	-	(1,911,569)	(2,001,182)	(1,714,798)	(1,411,722)	(1,449,366)	(107,124,388)	(115,613,025)
Number of clients w/renegotiation	404	918	476	396	404	355	378	366	419	71,606	75,722
Net renegotiated portfolio	633,780	-	-	-	-	-	-	-	-	-	633,780
Debt	1,264,957	10,525	5,489	4,244	4,137	3,453	3,751	3,442	4,466	626,262	1,930,726
Accrual	(631,177)	(10,525)	(5,489)	(4,244)	(4,137)	(3,453)	(3,751)	(3,442)	(4,466)	(626,262)	(1,296,946)
Total number of clients	**506,538**	**373,594**	**120,224**	**103,486**	**71,452**	**53,693**	**39,986**	**21,171**	**22,521**	**3,361,331**	**4,673,996**
Total Consolidated Portfolio	**103,399,268**	**18,010,569**	**7,803,124**	**3,240,596**	**1,035,283**	**551,187**	**363,177**	**-**	**-**	**-**	**134,403,204**
Debt	**104,030,445**	**18,021,094**	**7,808,613**	**3,244,840**	**2,950,989**	**2,555,822**	**2,081,726**	**1,415,164**	**1,453,832**	**107,750,650**	**251,313,175**
Accrual	**(631,177)**	**(10,525)**	**(5,489)**	**(4,244)**	**(1,915,706)**	**(2,004,635)**	**(1,718,549)**	**(1,415,164)**	**(1,453,832)**	**(107,750,650)**	**(116,909,971)**

(1) The information mentioned in this line represents the number of current clients and to those that have been commercially eliminated and which are still in collections management.

9. Receivables from and payable to related companies

a) Currents receivables from related companies:

Company	Taxpayer No,	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	12.31.2016 ThCh$	12.31.2015 ThCh$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Common parent Co.	**Total**			**74,957,644**	**62,155,497**
				Professional Serv.	CLP	60 days	39,170,768	38,482,395
				Access Charge and Links	CLP	60 days	24,536,993	19,711,413
				Spaces and Energy	CLP	60 days	8,978,030	2,031,269
				Others	CLP	60 days	2,271,853	1,930,420
Telefónica International Wholesale Services España	Foreign	Spain	Common end controller	Serv. Provided	EUR	90 days	4,528,364	1,685,218
Telefónica Argentina S.A.	Foreign	Argentina	Common end controller	Serv. Provided	USD	180 days	891,844	1,815,738
Telxius Cable Chile	96.910.730-9	Chile	Common end controller	Serv. Provided	CLP	60 days	934,473	1,966,033
Telefónica Digital España	Foreign	Spain	Common end controller	Serv. Provided	EUR	60 days	644,372	1,175,069
Telefónica Global Tecnology S.A.U.	Foreign	Spain	Common end controller	Serv. Provided	EUR	90 days	247,010	95,962
Telefónica Brasil	Foreign	Brazil	Common end controller	Serv. Provided	USD	90 days	197,995	171,999
Telefónica Investigación y Desarrollo Chile Spa	76.378.279-4	Chile	Common end controller	Serv. Provided	CLP	60 days	162,910	53,957
Telefónica S.A.	Foreign	Spain	End controller	Serv. Provided	EUR	90 days	129,893	427,906
Telefónica Global Tecnology Chile	59.165.120-K	Chile	Common end controller	Serv. Provided	CLP	60 days	153,791	88,482
Wayra Chile Tecnología e Innovación Ltda.	96.672.150-2	Chile	Common end controller	Serv. Provided	CLP	60 days	116,660	85,954
Telcel Venezuela	Foreign	Venezuela	Common end controller	Serv. Provided	USD	180 days	112,607	117,597
Inversiones Telefónica Internacional Holding L S.A.	77.363.730-K	Chile	Common end controller	Serv. Provided	CLP	60 days	90,382	-
Fundación Telefónica Chile S.A.	74.944.200-k	Chile	Associated	Serv. Provided	CLP	60 days	83,590	83,590
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Common end controller	Serv. Provided	CLP	60 days	75,384	199,672
Media Networks Perú	Foreign	Perú	Common end controller	Serv. Provided	USD	90 days	53,221	41,788
Telxius Torres Chile S.A.	76.558.575-9	Chile	Common end controller	Space rental	CLP	60 days	50,006	-
Terra Networks Chile S.A.	96.834.230-4	Chile	Common end controller	Serv. Provided	CLP	60 days	38,218	26,255
Telefónica On The Spot Soluciones Digitales de Chile Spa	76.338.291-5	Chile	Common end controller	Serv. Provided	CLP	60 days	24,106	14,674
Colombia Telecomunicaciones S.A.E.S.P	Foreign	Colombia	Common end controller	Serv. Provided	USD	60 days	20,338	35,910
Telefónica Learning Services Chile Capacitación Ltda.	76.131.334-7	Chile	Common end controller	Serv. Provided	CLP	60 days	18,384	15,603
Media Networks Chile	76.243.733-3	Chile	Common end controller	Serv. Provided	CLP	60 days	16,520	14,760
Telefónica Learning Services Chile Spa	76.318.959-7	Chile	Common end controller	Serv. Provided	CLP	60 days	4,111	6,274
Telefónica Factoring Chile S.A.	76.096.189-2	Chile	Common end controller	Serv. Provided	CLP	60 days	1,619	1,619
Telefónica USA Inc.	Foreign	USA	Common end controller	Serv. Provided	USD	60 days	1,213	1,213
Telefónica De Costa Rica S.A.	Foreign	Costa Rica	Common end controller	Serv. Provided	USD	90 days	-	693,052
Telefónica Latam Holding.	Foreign	Spain	Common end controller	Serv. Provided	EUR	90 days	-	436,744
Telefónica Gestión de Servicios Compartidos España	Foreign	Spain	Common end controller	Serv. Provided	EUR	60 days	-	230,983
Telefónica Móviles Guatemala	Foreign	Guatemala	Common end controller	Serv. Provided	USD	90 days	-	10,212
Total							**83,554,655**	**71,651,761**

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.

9. Receivables from and payable to related companies, continued

b) Non-currents receivables from related companies:

Company	Taxpayer No,	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	12.31.2016 ThCh$	12.31.2015 ThCh$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Common parent Co.	H.R. obligation	CLP	-	1,366,521	1,366,521
Total							**1,366,521**	**1,366,521**

c) Currents payables to related companies:

Company	Taxpayer No,	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	12.31.2016 ThCh$	12.31.2015 ThCh$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Common parent Co.	**Total**			**37,082,162**	**26,556,856**
				Commercial mandate	CLP	60 days	11,022,372	14,256,211
				Collection	CLP	60 days	18,655,256	7,080,114
				Costs access charges	CLP	60 days	2,831,517	2,037,325
				Professional Serv.	CLP	60 days	1,014,038	1,245,381
				Fixed Costs – Mobile	CLP	60 days	3,558,979	1,937,825
Telxius Cable Chile	96.910.730-9	Chile	Common end controller	**Total**			**12,972,896**	**20,781,346**
				Commercial mandate	CLP	60 days	7,885,715	9,670,744
				IP Voice Traffic	CLP	60 days	3,166,605	5,094,079
				Data and Links	CLP	60 days	1,168,325	5,125,204
				Others	CLP	60 days	752,251	891,319
Inversiones Telefónica Móviles Holding S.A.	76.124.890-1	Chile	Parent Co.	**Total**			**5,814,220**	**7,223,283**
				Dividends	CLP	60 days	5,814,162	7,221,755
				Others	CLP	60 days	58	1,528
Telefónica Argentina S.A.	Foreign	Argentina	Common end controller	Serv. Provided	USD	180 days	4,869,899	1,991,525
Telefónica Digital España	Foreign	Spain	Common end controller	Serv. Provided	EUR	60 days	4,392,947	1,464,235
Telefónica Global Technology Chile	59.165.120-k	Chile	Common end controller	Services computer	CLP	60 days	4,302,261	2,415,927
Telefónica S.A.	Foreign	España	Common end controller	**Total**			**4,290,135**	**5,235,704**
				Brand Fee	EUR	90 days	2,916,853	4,174,644
				Others	EUR	90 days	1,373,282	1,061,060
Telefónica International Wholesale Services España	Foreign	Spain	Common end controller	Serv. Provided	EUR	90 days	3,867,949	1,457,379
Media Networks Perú	Foreign	Perú	Common end controller	Satellite Space	USD	90 days	2,058,227	5,074,696
Telefónica USA Inc.	Foreign	USA	Common end controller	Serv. Provided	USD	60 days	1,600,230	985,688
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Common end controller	Serv. Provided	CLP	60 days	1,181,383	629,211
Telefónica Latam Holding	Foreign	Spain	Common end controller	**Total**			**631,976**	**4,717,943**
				Cost Sharing Agreement	EUR	90 days	1,799	2,797,862
				Management Fee	EUR	90 days	630,177	1,920,081
Telefónica Compras Electrónicas	Foreign	Spain	Common end controller	Serv. Provided	EUR	90 days	625,430	959,366
Telefónica Global Technology	Foreign	Spain	Common end controller	Serv. Provided	EUR	90 days	561,086	701,778
Fundación Telefónica Chile	74.944.200-k	Chile	Common end controller	Serv. Provided	CLP	60 days	428,667	501,422
Telefónica del Perú S.A.	Foreign	Perú	Common end controller	Serv. Provided	USD	180 days	418,099	402,049
Telefónica Learning Services Chile Spa	76.318.959-7	Chile	Common end controller	Serv. Provided	CLP	60 days	305,948	468
Telefónica Brasil	Foreign	Brazil	Common end controller	Serv. Provided	USD	90 days	138,968	152,267
Telefónica Global Services, GmbH	Foreign	Germany	Common end controller	Serv. Provided	USD	90 days	103,891	740
Telefónica Investigación y Desarrollo Chile Spa	76.378.279-4	Chile	Common end controller	Serv. Provided	CLP	60 days	87,050	73,481
Telefónica On The Spot Soluciones Digitales de Chile Spa	76.338.291-5	Chile	Common end controller	Serv. Provided	CLP	60 days	57,898	5,908
Telefónica de España S.A.U	Foreign	Spain	Common end controller	Serv. Provided	EUR	180 days	45,035	348
Inversiones Telefónica Internacional Holding L S.A.	77.363.730-K	Chile	Common end controller	Serv. Provided	CLP	60 days	25,771	2,206
Telefónica Servicios Audiovisuales	Foreign	Spain	Common end controller	Serv. Provided	EUR	60 days	11,902	6,462
Telxius Torres Chile S.A.	76.558.575-9	Chile	Common end controller	Serv. Provided	CLP	60 days	10,441	-
Televisión Federal Telefé – Argentina	Foreign	Argentina	Common end controller	Serv. Provided	USD	90 days	9,105	9,596
Colombia Telecomunicaciones S.A.E.S.P. (Telecom.)	Foreign	Colombia	Common end controller	Serv. Provided	USD	60 days	5,639	62,954
Telefónica On The Spot Services S.A.U.	Foreign	Spain	Common end controller	Serv. Provided	EUR	90 days	3,347	3,551
Telefónica Factoring - España	Foreign	Spain	Common end controller	Serv. Provided	USD	60 days	1,539	1,623
Telefónica Gestión de Servicios Compartidos - España	Foreign	Spain	Common end controller	Serv. Provided	EUR	60 days	-	120,240
Telefónica O2 Germany Gmbh & Co Ohg	Foreign	Germany	Common end controller	Serv. Provided	USD	90 days	-	14,262
Telefónica Learning	Foreign	Spain	Common end controller	Serv. Provided	EUR	60 days	-	10,236
Terra Networks Chile S.A.	96.834.230-4	Chile	Common end controller	Serv. Provided	CLP	60 days	-	4,378
Total							**85,904,101**	**81,567,128**

9. Receivables from and payable to related companies, continued

c) Current payables to related companies, continued:

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.

d) Accounts payable to related entities noncurrent

Company	Taxpayer No,	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	12.31.2016 ThCh$	12.31.2015 ThCh$
Telefónica Móviles Chile S,A,	87.845.500-2	Chile	Common parent Co.	Mercantile Current	CLP	-	22,174,222	21,181,406
Total							**22,174,222**	**21,181,406**

e) Transactions:

Sociedad	RUT	País origen	Naturaleza de la relación	Descripción de la transacción	Moneda	31.12.2016 Monto M$	31.12.2016 Efecto en resultados (Cargo)/Abono M$	31.12.2015 Monto M$	31.12.2015 Efecto en resultados (Cargo)/Abono M$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Common parent Co.	Professional Serv.	CLP	97,169,587	97,169,587	93,406,169	93,406,169
				Access Charge and Links (income)	CLP	42,218,699	42,218,699	32,088,525	32,088,525
				Others	CLP	-	-	15,553,433	15,553,433
				Financial income	CLP	-	-	15,868	15,868
				Others	CLP	6,520,278	(6,520,278)	12,610,610	(12,610,610)
				Financial expenses	CLP	2,143,975	(2,143,975)	3,533,811	(3,533,811)
Telxius Cable Chile	96.910.730-9	Chile	Common end controller	Sales	CLP	3,155,986	3,155,986	2,916,275	2,916,275
				Access to International Internet - IP Traffic	CLP	15,103,391	(15,103,391)	17,447,812	(17,447,812)
				Others	CLP	489,736	(489,736)	268,946	(268,946)
				Financial expenses	CLP	462,213	(462,213)	239,868	(239,868)
Telefónica S.A.	Foreign	Spain	End controller	Sales	EUR	3,943	3,943	301,734	301,734
				Brand Fee	EUR	9,150,722	(9,150,722)	10,986,723	(10,986,723)
				Others	EUR	771,601	(771,601)	789,924	(789,924)

9. Receivables from and payable to related companies, continued

e) Transaction, continued

Company	Taxpayer No,	Country of origin	Nature of the relationship	Transaction origin	Currency	12.31.2016 Amount ThCh$	12.31.2016 Effect on income (Charge)/Credit ThCh$	12.31..2015 Amount ThCh$	12.31..2015 Effect on income (Charge)/Credit ThCh$
Media Networks Perú	Foreign	Perú	Common end controller	Sales	USD	254,198	254,198	132,223	132,223
				Space rental	USD	8,996,324	(8,996,324)	8,906,923	(8,906,923)
				Others	USD	598,206	(598,206)	1,882,967	(1,882,967)
Telefónica Argentina S.A.	Foreign	Argentina	Common end controller	Sales	USD	282,220	282,220	21,059	21,059
				Media rentals	USD	7,715,612	(7,715,612)	7,417,235	(7,417,235)
Telefónica Global Technology Chile	56.165.120-K	Chile	Common end controller	Sales	CLP	130,083	130,083	174,494	174,494
				Services computer	CLP	7,328,298	(7,328,298)	7,453,409	(7,453,409)
Telefónica Global Technology S.A.U.	Foreign	Spain	Common end controller	Costs	EUR	4,766,377	(4,766,377)	4,079,046	(4,079,046)
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Common end controller	Sales	CLP	24,525	24,525	121,302	121,302
				Costs	CLP	2,344,682	(2,344,682)	2,217,720	(2,217,720)
Telefónica Digital España	Foreign	Spain	Common end controller	Sales	EUR	609,004	609,004	1,097,227	1,097,227
				Costs	EUR	3,681,897	(3,681,897)	3,023,769	(3,023,769)
Telefónica Compras Electrónica S.A.	Foreign	Spain	Common end controller	Costs	EUR	1,622,238	(1,622,238)	1,718,381	(1,718,381)
Telefónica USA Inc.	Foreign	USA	Common end controller	Costs	USD	688,619	(688,619)	930,959	(930,959)
Telefónica International Wholesale Services América	Foreign	Uruguay	Common end controller	Costs	USD	1,053,416	(1,053,416)	714,298	(714,298)
Telefónica Latam Holding	Foreign	Spain	Common end controller	Sales	EUR	566,366	(566,366)	575,841	575,841
				Costs	EUR	70,062	(70,062)	438,752	(438,752)
Telefónica International Wholesale Services España	Foreign	Spain	Common end controller	Sales	EUR	2,960,352	2,960,352	3,129,250	3,129,250
				Costs	EUR	2,814,674	(2,814,674)	3,641,137	(3,641,137)
Telefónica Soluciones Inf. Com. España	Foreign	Spain	Common end controller	Costs	EUR	84,763	84,763	347,502	(347,502)
Telefónica del Perú S.A.	Foreign	Perú	Common end controller	Sales	USD	902	902	242,495	(242,495)
				Costs	USD	88,493	(88,493)	-	-
Telefónica Brasil	Foreign	Brazil	Common end controller	Costs	USD	54,712	54,712	152,267	(152,267)
Telefónica On The Spot Soluciones Digitales de Chile Spa	76.338.291-5	Chile	Common end controller	Sales	CLP	7,926	7,926	12,331	12,331
				Costs	CLP	130,639	(130,639)	84,071	(84,071)
Telefónica Servicios Audiovisuales	Foreign	Spain	Common end controller	Costs	EUR	62,330	(62,330)	69,979	(69,979)
Telefónica Gestión de Servicios Compartidos - España	Foreign	Spain	Common end controller	Sales	EUR	12,828	12,828	194,104	194,104
				Costs	EUR	351,266	(351,266)	517,681	(517,681)
Wayra Chile Tecnología e Innovación Ltda.	96.672.150-2	Chile	Common end controller	Sales	CLP	48,021	48,021	55,545	55,545
Televisión Federal Telefé – Argentina	Foreign	Argentina	Common end controller	Costs	USD	54,755	(54,755)	52,752	(52,752)
Fundación Telefónica Chile S.A.	74.944.200-k	Chile	Associated	Sales	CLP	535	535	16,710	16,710
				Financial expenses	CLP	16,752	(16,752)	-	-
Telefónica Learning Services Chile Spa	76.318.959-7	Chile	Common end controller	Sales	CLP	13,113	13,113	4,405	4,405
				Costs	CLP	-	-	21,253	(21,253)

9. Receivables from and payable to related companies, continued

e) Transaction, continued

Company	Taxpayer No,	Country of origin	Nature of the relationship	Transaction origin	Currency	12.31.2016 Amount ThCh$	12.31.2016 Effect on income (Charge)/Credit ThCh$	12.31.2015 Amount ThCh$	12.31.2015 Effect on income (Charge)/Credit ThCh$
Telefónica Investigación y Desarrollo Chile Spa	76.378.279-4	Chile	Common end controller	Sales	CLP	137,271	137,271	45,342	45,342
Telefónica Learning	Foreign	Spain	Common end controller	Costs	EUR	314	314	20,799	(20,799)
Colombia Telecomunicaciones S.A.E.S.P. (Telecom.)	Foreign	Colombia	Common end controller	Sales	USD	51,873	51,873	33,592	33,592
				Costs	USD	22,420	22,420	14,941	(14,941)
Media Network Chile	76.243.733-3	Chile	Common end controller	Sales	CLP	348,812	(348,812)	17,935	17,935
Telcel Venezuela	Foreign	Venezuela	Common end controller	Sales	USD	21,549	21,549	15,188	15,188
Inversiones Telefónica Internacional Holding S.A.	77.363.730-K	Chile	Common end controller	Sales	CLP	29,766	29,766	14,346	14,346
T. Learning Services Chile Capacitación Limitada	76.131.334-7	Chile	Common end controller	Sales	CLP	37,264	37,264	10,955	10,955
Terra Networks Chile S.A.	96.834.230-4	Chile	Common end controller	Sales	CLP	12,883	12,883	29,274	29,274
				Costs	CLP	1,795	(1,795)	23,020	(23,020)
Telefónica de España S.A.U.	Foreign	Spain	Common end controller	Costs	EUR	178,157	(178,157)	1,390	(1,390)
Telefónica Factoring Chile S.A.	76.096.189-2	Chile	Common end controller	Sales	CLP	-	-	1,361	1,361
Telefónica On The Spot Services SAU	Foreign	Spain	Common end controller	Costs	EUR	874	874	-	-
Telecom Italia Sparkle S.P.A.	Foreign	Italy	Associated	Sales	EUR	84,231	84,231	-	-
Telecom Italia S.P.A.	Foreign	Italy	Associated	Costs	EUR	57,305	(57,305)	-	-
Telxius Torres Chile S.A.	76.558.575-9	Chile	Common end controller	Sales	CLP	27,204	27,204	-	-
Telefónica Germany Gmbh & Co Ohg	Foreign	Germany	Common end controller	Costs	EUR	214	(214)	-	-
Telefónica Global Services Gmbh	Foreign	Germani	Common end controller	Costs	EUR	111,079	(111,079)	-	-
Telefónica Gestión Integral De Edificios y Servicios, S.L.U.	Foreign	Spain	Common end controller	Costs	EUR	207	(207)	-	-
Telefónica de Contenidos SAU	Foreign	Spain	Common end controller	Costs	EUR	27,204	(27,204)	-	-

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 currents, 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

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

The Company is managed by a Board of Directors composed of 13 members and its key employees are 65 and 69 executives for December 31, 2016 and 2015, respectively.

Concepts	12.31.2016 ThCh$	12.31.2015 ThCh$
Salaries	13,188,037	12,303,359
Post employment benefits	2,841,750	1,051,009
Total	**16,029,787**	**13,354,368**

10. Inventory

a) The detail of inventory is as follows:

Concepts	12.31.2016 Gross value ThCh$	12.31.2016 Allowance for obsolescence ThCh$	12.31.2016 Net value ThCh$	12.31.2015 Gross value ThCh$	12.31.2015 Allowance for obsolescence ThCh$	12.31.2015 Net value ThCh$
Modems and Router	6,642,585	(682,071)	5,960,514	8,987,203	(573,181)	8,414,022
Basic telephony, public telephony and switchboard ("centralitas") components	2,894,235	(775,358)	2,118,877	3,008,823	(1,375,891)	1,632,932
Decoders and antennas (1)	5,775,945	(514,106)	5,261,839	7,893,044	(669,511)	7,223,533
IP Solutions Projects	251,440	-	251,440	294,164	-	294,164
Other	599,455	(88,187)	511,268	537,339	(197,967)	339,372
Total	**16,163,660**	**(2,059,722)**	**14,103,938**	**20,720,573**	**(2,816,550)**	**17,904,023**

(1) As of February 1, 2015, the Company implemented a new commercial model for television services, whereby associated decoders qualify as inventory and are classified as such.

As of December 31,2016 and 2015 there have been no inventory write-offs, there is no inventory in guarantee.

b) The movement of inventory is as follows:

Movements	12.31.2015 ThCh$	12.31.2015 ThCh$
Beginning balance	**17,904,023**	**5,036,459**
Purchases	47,144,054	51,373,975
Sales	(51,701,987)	(38,342,202)
Allowance for obsolescence	756,828	64,016
Transfer to materials allocated to the investment (note 15b)	1,020	(228,225)
Movement, subtotal	**(3,800,085)**	**12,867,564**
Ending balance	**14,103,938**	**17,904,023**

11. Income Taxes

a) Income Taxes:

As of December 31, 2016 and 2015, a first category income tax accrual has been established, therefore a positive tax base was determined in the amount of ThCh$ 23,900,567 and ThCh$ 58,255,106, respectively for each year.

The previous figures, correspond to a positive base for the parent company in the amount of ThCh$ 15,893,339 and to income from subsidiaries in the amount of ThCh$ 8,007,228 for December 2016, and a positive base for the parent company in the amount of ThCh$27,242,883 and ThCh$ 31,012,223 for subsidiaries for December 2015.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.

As of December 31, 2016, the parent company has a positive Retained Taxable Earnings Registry in the amount of ThCh$ 756,357,637.

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 income with 15% credit ThCh$	Taxable net income with 16% credit ThCh$	Taxable net income with 16.5% credit ThCh$	Taxable net income with 17% credit ThCh$	Taxable net income with 20% credit ThCh$	Taxable net income with 21% credit ThCh$	Taxable net income with 22.5% credit ThCh$	Taxable net income with 24% credit ThCh$	Taxable net Income without credit ThCh$	Tax Loss ThCh$	Amount of credit ThCh$
Telefónica Chile S.A.	3,101,523	1,175,073	841,218	367,854,498	227,534,047	42,332,063	31,077,071	16,585,776	16,223,032	-	158,677,236
Telefónica Chile Servicios Corporativos Ltda.	-	-	-	-	33,745,162	10,805,810	9,769,914	1,644,480	658,390	-	14,664,441
Telefónica Empresas Chile S.A.	-	-	-	-	-	-	-	-	-	(6,990,420)	-
Total	**3,101,523**	**1,175,073**	**841,218**	**367,854,498**	**261,279,209**	**53,137,873**	**40,846,985**	**18,230,256**	**16,881,422**	**(6,990,420)**	**173,341,677**

b) Current tax assets

As of December 31, 2016 and 2015, current income tax assets are detailed as follows:

Concepts	12.31.2016 ThCh$	12.31.2015 ThCh$
Monthly prepaid tax installments	2,331,038	1,050,582
Net income consumed by loss own (1)	364,356	4,586,338
Other	1,018,152	969,389
Total	**3,713,546**	**6,606,309**

(1) Corresponds to absorption of the tax loss as of December 2016 and 2015 with the retained earnings of subsidiary Telefónica Empresas Chile S.A. This generated a cumulative provisional payment on net income consumed by loss (PPUA) of ThCh$364,356 as of December 2016.

11. Income Taxes, continued

c) Deferred taxesx

As of December 31, 2016 and 2015, the cumulative balances of temporary differences resulted in net deferred tax liabilities of ThCh$ 70,577,897 and ThCh$ 62,,859,639, respectively, detailed as follows:

Disclosure of temporary differences, losses and unused tax credits December 31, 2016	Other temporary differences	Allowance for doubtful accounts	Vacation provision	Staff severance indemnities	Property, plant and equipment and IRUS amortization	Effect of assets and liabilities from Decos	Deferred income	Personnel provisions	Equity adjustment due to termination benefits and hedging insurance	Reclassification (1)	Temporary differences	Temporary differences, losses and unused tax credits
Deferred tax assets and liabilities												
Deferred tax assets	1,989,233	30,519,164	1,866,552	8,615,530	8,878,247	-	1,090,163	6,586,325	4,248,343	(56,349,538)	**7,444,019**	**7,959,751**
Pasivo por impuestos diferidos	1,430,977	-	-	14,732,544	115,324,375	2,812,225	-	(341,896)	413,229	(56,349,538)	**79,786,110**	**78,021,916**
Pasivo (activo) por impuestos diferidos	**(558,256)**	**(30,519,164)**	**(1,866,552)**	**6,117,014**	**106,446,128**	**2,812,225**	**(1,090,163)**	**(6,928,221)**	**(3,835,114)**	**-**	**71,826,359**	**70,577,897**
Activos y pasivos por impuestos diferidos netos												
Activos por impuestos diferidos netos	(558,256)	(30,519,164)	(1,866,552)	-	-	-	(1,090,163)	(6,928,221)	(3,835,114)	-	**(42,619,540)**	**(44,797,470)**
Pasivos por impuestos diferidos netos	780,851	-	-	6,117,014	106,446,128	2,812,225	-	-	-	-	**114,445,899**	**115,375,367**
Gasto (ingreso) por impuestos diferidos												
Gasto (ingreso) por impuestos diferidos	816,121	(1,819,975)	(252,559)	3,309,972	5,038,123	4,157,578	(358,729)	(1,640,139)	(1,235)	-	**9,171,776**	**9,249,157**
Gasto (ingreso) por impuestos diferidos reconocidos como resultados	816,121	(1,819,975)	(252,559)	3,309,972	5,038,123	4,157,578	(358,729)	(1,640,139)	(1,235)	-	**9,171,776**	**9,249,157**
Pasivo (activo) por impuestos diferidos - Saldo Inicial Diciembre 2015	(1,374,377)	(28,699,189)	(1,613,993)	2,807,042	101,408,005	(1,345,353)	(731,434)	(5,288,082)	(2,302,980)	-	**62,859,639**	**62,859,639**
Cambios en pasivos (activos) por impuestos diferidos												
Gasto (ingreso) por impuestos diferidos reconocidos como resultados	816,121	(1,819,975)	(252,559)	3,309,972	5,038,123	4,157,578	(358,729)	(1,640,139)	(1,235)	-	**9,171,776**	**9,249,157**
Impuestos diferidos relacionados con partidas acreditadas (cargadas) directamente a patrimonio	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Impuesto a las ganancias relacionado con componentes de otro resultado integral	-	-	-	-	-	-	-	-	(1,530,899)	(55,783,633)	**(205,056)**	**(1,530,899)**
Incrementos (disminuciones) por combinaciones de negocios, pasivos (activos) por impuestos diferidos	-	-	-	-	-	-	-	-	-	-	-	-
Incrementos (disminuciones) por pérdidas de control de subsidiaria, pasivos (activos) por impuestos diferidos	-	-	-	-	-	-	-	-	-	-	-	-
Incrementos (disminuciones) por diferencias de cambio netas, pasivos (activos) por impuestos diferidos	-	-	-	-	-	-	-	-	-	-	-	-
Incrementos (disminuciones) de pasivos (activos) por impuestos diferidos	**816,121**	**(1,819,975)**	**(252,559)**	**3,309,972**	**5,038,123**	**4,157,578**	**(358,729)**	**(1,640,139)**	**(1,532,134)**	(55,783,633)	**8,966,720**	**7,718,258**
Pasivo (activo) por impuestos diferidos	(558,256)	(30,519,164)	(1,866,552)	6,117,014	106,446,128	2,812,225	(1,090,163)	(6,928,221)	(3,835,114)	(55,783,633)	**71,826,359**	**70,577,897**
	-	**-**	**-**	**-**	**-**		**-**	**-**	**-**	-	**-**	**-**

(1) Corresponds to netting of deferred tax assets and liabilities.

11. Income Taxes, continued

c) Deferred taxes, continued

Disclosure of temporary differences, losses and unused tax credits December 31, 2015	Other temporary differences	Allowance for doubtful accounts	Vacation provision	Staff severance indemnities	Property, plant and equipment and IRUS amortization	Effect of assets and liabilities from Decos	Deferred income	Personnel provisions	Equity adjustment due to termination benefits and hedging insurance	Reclassification (1)	Temporary differences	Temporary differences, losses and unused tax credits
Deferred tax assets and liabilities												
Deferred tax assets	1,772,776	28,699,189	1,613,993	9,416,637	2,802,012	3,292,784	731,434	5,335,165	2,714,512	(44,401,222)	**11,977,280**	**11,977,280**
Deferred tax liabilities	398,399	-	-	12,223,679	104,210,017	1,947,431	-	47,083	411,532	(44,401,222)	**74,836,919**	**74,836,919**
Deferred tax liabilities (assets)	**(1,374,377)**	**(28,699,189)**	**(1,613,993)**	**2,807,042**	**101,408,005**	**(1,345,353)**	**(731,434)**	**(5,288,082)**	**(2,302,980)**	**-**	**62,859,639**	**62,859,639**
Deferred tax assets and liabilities, net												
Deferred tax assets, net	(1,374,377)	(28,699,189)	(1,613,993)	-	-	(1,345,353)	(731,434)	(5,288,082)	(2,302,980)	-	**(41,355,408)**	**(41,355,408)**
Deferred tax liabilities, net	-	-	-	2,807,042	101,408,005	-	-	-	-	-	**104,215,047**	**104,215,047**
Deferred tax expense (benefit)												
Deferred tax expense (benefit)	175,484	(2,549,274)	(339,109)	(828,639)	2,182,657	(1,345,353)	311,616	(913,539)	269,076	-	**(3,037,081)**	**(3,037,081)**
Deferred tax expense (benefit) recognized in income	175,484	(2,549,274)	(339,109)	(828,639)	2,182,657	(1,345,353)	311,616	(913,539)	269,076	-	**(3,037,081)**	**(3,037,081)**
Reconciliation of changes in deferred tax liabilities (assets)												
Deferred tax liabilities (assets) - Beginning balance Dec, 2014	(1,549,861)	(26,149,915)	(1,274,884)	3,635,681	99,225,348	-	(1,043,050)	(4,374,543)	(2,548,634)	-	**65,920,142**	**65,920,142**
Changes in deferred tax liabilities (assets)												
Deferred tax expense (benefit) recognized in income	175,484	(2,549,274)	(339,109)	(828,639)	2,182,657	(1,345,353)	311,616	(913,539)	269,076	-	(3,037,081)	(3,037,081)
Deferred taxes related to items credited (charged) directly to equity	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Income taxes related to components of other comprehensive income	-	-	-	-	-	-	-	-	(23,423)	-	**(23,423)**	**(23,423)**
Increase (decrease) from business combinations, deferred tax liabilities (assets)	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to loss of control of subsidiary, deferred tax liabilities (assets)	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to net foreign currency translation, deferred tax liabilities (assets)	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in deferred tax liabilities (assets)	**175,484**	**(2,549,274)**	**(339,109)**	**(828,639)**	**2,182,657**	**(1,345,353)**	**311,616**	**(913,539)**	**245,654**	-	**(3,060,503)**	**(3,060,503)**
Deferred tax liabilities (assets)	(1,374,377)	(28,699,189)	(1,613,993)	2,807,042	101,408,005	(1,345,353)	(731,434)	(5,288,082)	(2,302,980)	-	**62,859,639**	**62,859,639**
	-	**-**	**-**	**-**	**-**		**-**	**-**	**-**	-	**-**	**-**

(1) Corresponds to netting of deferred tax assets and liabilities.

11. Income Taxes, continued

d) Taxable Income

As of December 31, 2016 and 2015 a first category income tax provision has been established, therefore a taxable positive base was determined in the amount of ThCh$ 23,900,567 and ThCh$ 58,255,106 respectively for period, detailed as follows:

Concepts	Taxable Net Income	
	12.31.2016	12.31.2015
	ThCh$	ThCh$
Finance income	24,233,194	29,059,241
Recorded tax expense	15,900,561	5,457,838
Additions	124,788,577	126,729,390
Deductions	(141,021,765)	(102,991,363)
Taxable net income	23,900,567	58,255,106
First category tax rate 24% and 22.5%	**5,736,136**	**13,107,399**
Art, 21 rejected expenses tax base	388,221	1,503,020
Art, 21 non-deductible expenses (35% rate)	**135,877**	**526,057**
Total tax provision	**5,872,013**	**13,633,456**
Derivatives tax provision (1)	-	275,528
Hedging instrument income tax provision (2)	291,057	(341,500)
Deficit / (Excess) previous year	852,690	(486,227)
Third party absorbed net income provisional payment	(364,356)	(4,586,338)
Total first category taxes (3)	**6,651,404**	**8,494,919**

(1) On August 29, 2014 through Notification No. 383-14/G4, the Chilean Internal Revenue Service (SII) notified Tax Assessment No. 42, though which it determined first category income tax differences for the 2011 tax year, resulting from the rejection of items in the amount of MCh$18,967, as a product of the review of the Company's tax loss carry forward (see Note 27 ai).

(2) Corresponds to the deficit in the tax provision calculated on 2014 and 2015 hedging instruments (liquidated). This tax provision deficit is presented as higher expense for the year.

(3) First category tax has been accounted for considering the increase in the rate from 22.5% to 24%, due to the tax reform of Law 20.780. The effect of the change in the first category tax rate as of December 2016, amounts to ThCh$770,308.

11. Income Taxes, continued

e) Income tax reconciliation

The income tax expense reconciliation for December 31, 2016 and 2015 are detailed as follows

Concepts	12.31.2016 Taxable base ThCh$	12.31.2016 24% Tax Rate ThCh$	12.31.2015 Taxable base ThCh$	12.31.2015 22.5% Tax Rate ThCh$
Based on accounting income before taxes:				
Finance income	24,233,194		29,059,241	
Recorded tax expense	15,900,561		5,457,838	
Income before taxes	**40,133,755**	**9,632,101**	**34,517,079**	**7,766,343**
Permanent differences	**26,118,581**	**6,268,460**	**(10,260,022)**	**(2,308,505)**
Price-level restatement of taxable equity	(20,441,480)	(4,905,955)	(27,109,367)	(6,099,608)
Price-level restatement of investments	1,963,509	471,242	11,421,635	2,569,868
Tax loss of T Empresas	16,056,947	3,853,667	23,730,360	5,339,331
Fines and provision fines	12,907	3,098	72,214	16,248
Effect of rate change in the result	(3,209,615)	(770,308)	(2,446,800)	(550,530)
Adjustment on deferred tax balances	(2,504,747)	(601,139)	1,930,199	434,295
Deficit / (Excess) of income tax previous year	3,552,875	852,690	(3,029,605)	(681,661)
Othe	30,688,185	7,365,165	(14,828,658)	(3,336,448)
Total corporate tax expense	**66,252,336**	**15,900,561**	**24,257,057**	**5,457,838**
Based on taxable net income and deferred taxes calculated on the basis of temporary differences				
24% and 22.5% income tax		5,736,136		13,107,399
35% income tax		135,877		526,057
Derivatives adjustment		291,057		(146,066)
Provisional payment on net income absorbed by third parties		(364,356)		(4,586,338)
Deficit / (Excess) previous year		852,690		(681,661)
Contingencies tax provision		-		275,528
Income tax expense		**6,651,404**		**8,494,919**
Deferred tax expense (income)		**9,249,157**		**(3,037,081)**
Total corporate tax expense		**15,900,561**		**5,457,838**
Effective income tax rate		**39,62%**		**15,81%**

11. Income Taxes, continued

f) Current income tax liabilities

As of September 30, 2016 and December 31, 2015, current income tax liabilities are detailed as follows:

Concepts	12.31.2016 ThCh$	12.31.2015 ThCh$
Income tax accrual (1)	3,896,630	4,829,667
Total	**3,896,630**	**4,829,667**

(1) First Category income tax is presented net of prepaid monthly tax installments for ThCh$ 6,690,459 and ThCh$13,384,284 as of September 30 2016 and December 31, 2015, respectively. This item considers inspection contingency provision (see note 27).

g) Tax reform

Law No. 20.780 which contains the Tax Reform which introduces amendments to the tax system of companies that pay first category tax, among other things, was published on September 29, 2014. In this context the income tax rate increases gradually, in this year to 24%, reaching a rate of 27% in 2018, in the partially integrated tax system. In the attributed income system incorporated with this same legal amendment, the maximum rate will be 25%.

For the purpose of preparing these financial statements, the Company has incorporated the maximum rate of 27% in the determination of deferred taxes, due to the incorporation of the Company in the partially integrated tax system established in article 14, letter B of the Income Tax Law

Tax rates are detailed as follows:

Commercial year	Rate%
2014	21.0
2015	22.5
2016	24.0
2017	25.5
2018	27.0

12. Non-current trade and other accounts receivable

a) Non-current trade and other accounts receivable are detailed as follows:

Concepts	12.31.2016 Gross value ThCh$	12.31.2016 Allowance for doubtful accounts ThCh$	12.31.2016 Net value ThCh$	12.31.2015 Gross value ThCh$	12.31.2015 Allowance for doubtful accounts ThCh$	12.31.2015 Net value ThCh$
Trade receivables	9,272,719	(1,365,933)	7,906,786	6,216,658	(1,094,410)	5,122,248
Miscellaneous receivables (1)	11,278,964	-	11,278,964	10,100,284	-	10,100,284
Total	**20,551,683**	**(1,365,933)**	**19,185,750**	**16,316,942**	**(1,094,410)**	**15,222,532**

(1) Mainly includes loans related to employees.

b) As of December 31, 2016 and 2015 Non-current trade and other accounts receivable by due date are detailed as follows:

As of December 31, 2016

Concepts	Gross Portfolio value in ThCh$				Allowance for doubtful accounts ThCh$				Net Total
	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	363,073	6,096,520	2,813,126	**9,272,719**	(1,215,647)	(53,327)	(96,959)	**(1,365,933)**	**7,906,786**
Miscellaneous receivables	1,976,202	832,057	8,470,705	**11,278,964**	-	-	-	**-**	**11,278,964**
Total	**2,339,275**	**6,928,577**	**11,283,831**	**20,551,683**	**(1,215,647)**	**(53,327)**	**(96,959)**	**(1,365,933)**	**19,185,750**

As of December 31, 2015

Concepts	Gross Portfolio value in ThCh$				Allowance for doubtful accounts ThCh$				Net Total
	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	1,209,803	2,153,036	2,853,819	**6,216,658**	(816,041)	(221,995)	(56,374)	**(1,094,410)**	**5,122,248**
Miscellaneous receivables	1,769,684	745,105	7,585,495	**10,100,284**	-	-	-	**-**	**10,100,284**
Total	**2,979,487**	**2,898,141**	**10,439,314**	**16,316,942**	**(816,041)**	**(221,995)**	**(56,374)**	**(1,094,410)**	**15,222,532**

13. Intangible Assets other than goodwill

a) Intangible assets other than goodwill as of December 31, 2016 and 2015 are detailed as follows:

Concepts	12.31.2016 Intangible, gross ThCh$	12.31.2016 Accumulated amortization ThCh$	12.31.2016 Intangible, net ThCh$	12.31.2015 Intangible, gross ThCh$	12.31.2015 Accumulated amortization ThCh$	12.31.2015 Intangible, net ThCh$
Intangible assets in development (1)	5,838,045	-	5,838,045	4,023,551	-	4,023,551
Licenses and franchises	254,972,379	(219,476,451)	35,495,928	232,232,322	(193,943,527)	38,288,795
Other intangible assets (2)	21,832,500	(19,343,112)	2,489,388	21,832,500	(18,719,618)	3,112,882
Total	**282,642,924**	**(238,819,563)**	**43,823,361**	**258,088,373**	**(212,663,145)**	**45,425,228**

(1) Corresponds mainly to the evolutionary development of commercial systems (billing, receipts, and collections) in the amount of ThCh$ 2,531,223 and of SAP's materials module in the amount of ThCh$ 1,450,255.

(2) Corresponds to rights to use underwater cable.

b) As of December 31, 2016 the movements of intangible assets other than goodwill are detailed as follows:

Movements	Intangible assets in development, net ThCh$	Licenses and franchises, net ThCh$	Other intangible assets, net ThCh$	Intangible, net ThCh$
Beginning balance as of 01.01.2016	**4,023,551**	**38,288,795**	**3,112,882**	**45,425,228**
Additions	7,430,128	35	-	7,430,163
Transfer from costs of developing to service	(8,386,525)	8,386,525	-	-
Amortization	-	(25,532,924)	(623,494)	(26,156,418)
Transfer from work in progress (Note 15b)	2,770,891	14,353,497	-	17,124,388
Movement, subtotal	**1,814,494**	**(2,792,867)**	**(623,494)**	**(1,601,867)**
Ending balance as of 12.31.2016	**5,838,045**	**35,495,928**	**2,489,388**	**43,823,361**
Remaining average useful life	**-**	**2,7 años**	**4 años**	

As of December 31, 2015 the movements of intangible assets other than goodwill are detailed as follows:

Movements	Intangible assets in development, net ThCh$	Licenses and franchises, net ThCh$	Other intangible assets, net ThCh$	Intangible, net ThCh$
Beginning balance as of 01.01.2015	**5,097**	**39,243,299**	**4,547,663**	**43,796,059**
Additions	457,494	-	-	457,494
Eliminations	-	(505,687)	-	(505,687)
Amortization of eliminations	-	505,687	-	505,687
Amortization	-	(25,685,084)	(1,434,781)	(27,119,865)
Transfer from work in progress (Note 15b)	3,560,960	24,730,580	-	28,291,540
Movement, subtotal	**4,018,454**	**(954,504)**	**(1,434,781)**	**1,629,169**
Ending balance as of 12.31.2015	**4,023,551**	**38,288,795**	**3,112,882**	**45,425,228**
Remaining average useful life	**-**	**1.7 years**	**2.2 years**	**-**

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 with defined useful lives are amortized on a straight-line basis over their estimated useful lives, Amortization for each year 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, 2016 no indications of impairment have been detected for those assets, therefore no impairment testing has been performed.

The main additions to intangible assets other than goodwill as of December 31, 2016 and 2015 are investments in information applications.

14. Goodwill

Goodwill movement as of December 31, 2016 and 2015 is as follows:

Taxpayer No,	Company	01.01.2016 ThCh$	Additions ThCh$	Eliminations ThCh$	12.31.2016 ThCh$
90.635.000-9	Telefónica Chile S.A. (Ex Telefónica Larga Distancia S.A.)(1)	21,039,896	-	-	21,039,896
96.834.320-3	Telefónica Internet Empresas S.A.	620,232	-	-	620,232
	Total	**21.660.128**	**-**	**-**	**21,660,128**

(1) On April 30, 2016, the merger by incorporation of subsidiary Telefónica Larga Distancia S.A. in Telefónica Chile S.A. took place, with the latter absorbing the former, acquiring all its assets and liabilities and succeeding it in all it rights and obligations

Taxpayer No,	Company	01.01.2015 ThCh$	Additions ThCh$	Eliminations ThCh$	12.31.2015 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
	Total	**21,660,128**	**-**	**-**	**21,660,128**

Assets indicated in goodwill are tested for impairment once a year, at each year-end. As of December 31, 2016 impairment testing was determined taking into consideration the following estimated variables:

i. Projected operating income and costs are based on the 2017 budget and on the Strategic Plan for 2018 and 2019, projecting a fourth and fifth year as a terminal value. These projections have been made taking into consideration the Company's best estimate, using sector projections, historical behavior of the business and future expectations.

ii. Cash flow projections are calculated at terminal value, covering a 5-year period, with the last period being the terminal value.

iii. Discount: The rate used to discount future cash flows is 7.05% (WACC), 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.

   The growth rate for perpetual future cash flows is a conservative rate of 1%

iv. The valuation is determined using the Value in Use (VU) mechanism, that requires that the VU be determined through the net present value of the cash flows that the Company expects to receive from the use of the asset or Cash Generating Unit (CGUs).

According to the impairment calculations performed by management, as of 2016 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.

15. Property, plant and equipment

a) The detail of Property, plant and equipment items for the periods December 31, 2016 and 2015, and their corresponding accumulated depreciation is as follows:

Concepts	12.31.2016 Property, plant & equipment, Gross ThCh$	12.31.2016 Accumulated depreciation ThCh$	12.31.2016 Property, plant & equipment, Net ThCh$	12.31.2015 Property, plant & equipment, Gross ThCh$	12.31.2015 Accumulated depreciation ThCh$	12.31.2015 Property, plant & equipment, Net ThCh$
Land	21,336,653	-	21,336,653	21,043,750	-	21,043,750
Buildings	767,707,983	(495,207,299)	272,500,684	748,096,057	(477,766,550)	270,329,507
Transport equipments	517,639	(511,152)	6,487	517,639	(507,412)	10,227
Supplies and accessories	22,983,831	(21,484,290)	1,499,541	22,410,960	(20,899,686)	1,511,274
Office equipments	2,317,727	(1,292,042)	1,025,685	2,299,948	(1,077,663)	1,222,285
Construction in progress	97,676,629	-	97,676,629	119,377,115	-	119,377,115
Information equipment	55,927,903	(40,161,281)	15,766,622	46,782,640	(34,661,717)	12,120,923
Network and communications equipment (1)	2,536,732,496	(2,042,177,914)	494,554,582	2,440,074,562	(1,967,651,277)	472,423,285
Property, plant and equipment under financial leases	5,304,293	(4,976,869)	327,424	5,304,293	(4,969,765)	334,528
Other property, plant & equipment (2)	285,409,492	(226,665,338)	58,744,154	306,058,790	(228,337,478)	77,721,312
Total	**3,795,914,646**	**(2,832,476,185)**	**963,438,461**	**3,711,965,754**	**(2,735,871,548)**	**976,094,206**

(1) As of December 31, 2016 and 2015 this heading includes an allowance in the amount of ThCh$ 1,058,938 and ThCh$ 974,745, respectively, corresponding to the estimated cost of dismantling telecommunications infrastructure microwave antennas. The obligation is presented under non-current liabilities, in other non-current provisions.

(2) Includes general equipment and subscriber equipment.

15. Property, plant and equipment, continued

b) As of December 31, 2016 the movements of property, plant and equipment items are as follows:

Movements	Land	Buildings, net	Transport equipments, net	Supplies and accessories, net	Office equipment, net	Construction in progress net	Information equipment, net	Network and communications equipment, net	Property, plant and equipment under financial leases, net	Other property, plant & equipment, net	Property, plant and equipment, net
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Beginning balance as of 01.01.2016	**21,043,750**	**270,329,507**	**10,227**	**1,511,274**	**1,222,285**	**119,377,115**	**12,120,923**	**472,423,285**	**334,528**	**77,721,312**	**976,094,206**
Additions	-	-	-	-	-	170,124,775	-	-	-	-	170,124,775
Retirements	(426,282)	(1,456,036)	-	-	-	-	(222,779)	(6,447,147)	-	(60,498,231)	(69,050,475)
Acc, Dep, retirements	-	1,193,892	-	-	-	-	222,779	5,973,569	-	60,229,109	67,619,349
Depreciation expense	-	(18,634,641)	(3,740)	(584,604)	(214,379)	-	(5,722,343)	(80,500,206)	(7,104)	(58,556,969)	(164,223,986)
Other Increase (decrease) (1)	719,185	21,067,962	-	572,871	17,779	(191,825,261)	9,368,042	103,105,081	-	39,848,933	(17,125,408)
Movements, subtotal	**292,903**	**2,171,177**	**(3,740)**	**(11,733)**	**(196,600)**	**(21,700,486)**	**3,645,699**	**22,131,297**	**(7,104)**	**(18,977,158)**	**(12,655,745)**
Ending balance as of 12.31.2016	**21,336,653**	**272,500,684**	**6,487**	**1,499,541**	**1,025,685**	**97,676,629**	**15,766,622**	**494,554,582**	**327,424**	**58,744,154**	**963,438,461**

(1) Includes movement of transfers from construction in progress to intangible assets in the amount of ThCh$ (17,124,388) (Note 13b) and transfers made from investment projects to inventory in the amount of ThCh$(1,020) (Note 10b).

As of December 31, 2016, the property, plant and equipment items that are fully depreciated and still in use are detailed as follows:

Fully depreciated assets still in use	Land	Buildings, gross	Transport equipments, gross	Supplies and accessories, gross	Office equipment, gross	Construction in progress gross	Information equipment, gross	Network and communications equipment, gross	Property, plant and equipment under financial leases, gross	Other property, plant & equipment, gross	Property, plant and equipment, gross
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Total	**-**	**185,765,360**	**496,012**	**19,168,623**	**148,731**	**-**	**33,691,446**	**1,612,944,619**	**-**	**146,881,874**	**1,999,096,665**

15. Property, plant and equipment, continued

c) As of December 31, 2015 the movements of property, plant and equipment items are as follows:

Movements	Land	Buildings, net	Transport equipments, net	Supplies and accessories, net	Office equipment, net	Construction in progress net	Information equipment, net	Network and communications equipment, net	Property, plant and equipment under financial leases, net	Other property, plant & equipment, net	Property, plant and equipment, net
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Beginning balance as of 01.01.2015	**21,139,808**	**277,089,290**	**23,759**	**1,757,071**	**1,431,518**	**145,675,062**	**11,558,490**	**445,034,617**	**342,277**	**92,006,772**	**996,058,664**
Additions	-	-	-	-	-	173,995,834	-	-	-	-	173,995,834
Retirements	(178,423)	(805,031)	-	-	-	-	(1,024,201)	(17,338,136)	-	(23,363,399)	(42,709,190)
Acc, Dep, retirements	-	686,174	-	-	-	-	965,597	16,928,146	-	23,326,514	41,906,431
Depreciation expense	-	(17,951,529)	(13,532)	(517,144)	(213,330)	-	(5,039,943)	(77,395,517)	(7,749)	(63,955,474)	(165,094,218)
Transfer of depreciation	-	-	-	-	-	-	-	344,864	-	(344,864)	-
Other Increase (decrease) (1)	82,365	11,310,603	-	271,347	4,097	(200,293,781)	5,660,980	104,849,311	-	50,051,763	(28,063,315)
Movements, subtotal	**(96,058)**	**(6,759,783)**	**(13,532)**	**(245,797)**	**(209,233)**	**(26,297,947)**	**562,433**	**27,388,668**	**(7,749)**	**(14,285,460)**	**(19,964,458)**
Ending balance as of 12.31.2015	**21,043,750**	**270,329,507**	**10,227**	**1,511,274**	**1,222,285**	**119,377,115**	**12,120,923**	**472,423,285**	**334,528**	**77,721,312**	**976,094,206**

(1) Includes net movement of transfers from construction in progress to intangible assets in the amount of ThCh$(28,291,540) (note 13b) and transfers from inventory to investment projects in the amount of ThCh$228,225 (note 10b).

As of December 31, 2015 the property, plant and equipment items that are fully depreciated and still in use are detailed as follows:

Fully depreciated assets still in use	Land	Buildings, gross	Transport equipments, gross	Supplies and accessories, gross	Office equipment, gross	Construction in progress gross	Information equipment, gross	Network and communications equipment, gross	Property, plant and equipment under financial leases, gross	Other property, plant & equipment, gross	Property, plant and equipment, gross
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Total	**-**	**180,490,547**	**458,156**	**19,067,347**	**465,544**	**-**	**29,591,171**	**1,621,248,771**	**-**	**151,834,500**	**2,003,156,036**

15. Property, plant and equipment, continued

Additions for the year 2016 fundamentally show the effect of incorporation of customer residential equipment (fixed telephone and broadband), long-distance transmission and voice and data equipment.

As of December 31, 2016 Property, plant and equipment items originating from net financial lease operations amount to ThCh$327,424 in the categories of buildings and the other property, plant and equipment, As of December 31, 2015, the amount for this concept was ThCh$334,528.

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. 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		12.31.2016		12.31.2015	
		Current ThCh$	Non-current ThCh$	Current ThCh$	Non-current ThCh$
Bank loans	(a)	65,333,218	-	101,607	68,972,097
Unguaranteed obligations (Bonds)	(b)	3,645,762	378,796,391	4,155,334	398,986,215
Financial leases	(c)	-	-	122,871	-
Hedge instruments	(see note 18.2)	4,583,397	7,758,555	3,427,938	7,656,345
Other Financial Debt (1)		-	-	300,345	-
Total		**73,562,377**	**386,554,946**	**8,108,095**	**475,614,657**

(1) Corresponds to supplier Huawei Chile S.A. with which an extension of the payment period has been negotiated for a total of ThCh$300,345 and includes interest of ThCh$1,147 December 31, 2015. Calculated on an interest rate (Libor 6m+3%) + 0.2% commission.

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

a) As of December 31, 2016 the detail of bank loans 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
Syndicated Loan	90.635.000-9	Telefónica Chile S,A,	Chile	Foreign	Sovereing Bank N,A,	USA	USD	At expiry	2.52%	2.14%	USD 97,5 mm	2017

Classes	Debtor taxpayer No	Debtor	Debtor country	Creditor	Nominal amounts (capital in thousands) To Maturity									Total nominal amounts in local currency
					Up to 90 days	90 days to 1 years	1 to 2 years	2 to 3 years	Total 1 to 3 years	3 to 4 years	4 to 5 years	Total 3 to 5 years	5 years and over	
Syndicated Loan(1)	90.635.000-9	Telefónica Chile S,A,	Chile	Sovereing Bank N,A,	-	47,775,000	-	-	-	-	-	-	-	**47,775,000**
	Total				**-**	47,775,000	-	**-**	**-**	**-**	**-**	**-**	**-**	**47,775,000**

Classes	Debtor taxpayer No	Debtor	Debtor country	Creditor	Current To Maturity		Total current as of 12.31.2016	Non-current To Maturity							Total Non-current as of 12.31.2016
					Up to 90 days ThCh$	90 days to 1 years ThCh$	ThCh$	1 to 2 years	2 to 3 years	Total 1 to 3 years	3 to 4 years	4 to 5 years	Total 3 to 5 years	5 years and over	ThCh$
Syndicated Loan(1)	90.635.000-9	Telefónica Chile S,A,	Chile	Sovereing Bank N,A,	-	65,333,218	**65.333.218**	-	-	-	-	-	-	-	-
	Total				**-**	**65.333.218**	**65.333.218**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(1) On April 3, 2012 an international 5-year bullet loan agreement was signed with Sovereing 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.

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

a) As of December 31, 2015 the detail of bank loans 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
Syndicated Loan	90.635.000-9	Telefónica Chile S,A,	Chile	Foreign	Sovereing Bank N,A,	USA	USD	At expiry	2.52%	2.14%	MMUSD 97,5	2017

Classes	Debtor taxpayer No	Debtor	Debtor country	Creditor	Nominal amounts (capital in thousands) To Maturity									Total nominal amounts in local currency
					Up to 90 days	90 days to 1 years	1 to 2 years	2 to 3 years	Total 1 to 3 years	3 to 4 years	4 to 5 years	Total 3 to 5 years	5 years and over	
Syndicated Loan(1)	90.635.000-9	Telefónica Chile S,A,	Chile	Sovereing Bank N,A,	-	-	47,775,000	-	47,775,000	-	-	-	-	**47,775,000**
	Total				**-**	**-**	**47,775,000**	**-**	**47,775,000**	-	-	**-**	**-**	**47,775,000**

Classes	Debtor taxpayer No	Debtor	Debtor country	Creditor	Current To Maturity		Total current as of 12.31.2015	Non-current To Maturity							Total Non-current as of 12.31.2015
					Up to 90 days ThCh$	90 days to 1 years ThCh$	ThCh$	1 to 2 years	2 to 3 years	Total 1 to 3 years	3 to 4 years	4 to 5 years	Total 3 to 5 years	5 years and over	ThCh$
Syndicated Loan(1)	90.635.000-9	Telefónica Chile S,A,	Chile	Sovereing Bank N,A,	101,607	-	**101,607**	68,972,097	-	68,972,097	-	-	-	-	**68,972,097**
	Total				**101,607**	**-**	**101,607**	**68,972,097**	**-**	**68,972,097**	**-**	**-**	**-**	**-**	**68,972,097**

(1) On April 3, 2012 an international 5-year bullet loan agreement was signed with Sovereing 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.

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

b) As of December 31, 2016 the detail of unguaranteed obligations (Bonds) 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
Series 144A Bond (1)	90.635.000-9	Telefónica Chile S,A,	Chile	Foreign	The Bank of New York Mellon	USA	USD	At expiry	4.06%	3.88%	MMUSD 500	2022
Series Q Bond (2)	90.635.000-9	Telefónica Chile S,A,	Chile	97.004.000-5	Banco Chile	Chile	CLP	At expiry	6.17%	5.75%	MCh$47,000	2019

Classes	Debtor taxpayer No,	Debtor	Debtor country	Creditor	Nominal amounts (capital in thousands) To Maturity									Total nominal amounts in local currency
					Up to 90 days	90 days to 1 years	1 to 2 years	2 to 3 years	Total 1 to 3 years	3 to 4 years	4 to 5 years	Total 3 to 5 years	5 years and over	
Series 144A Bond (1)	90.635.000-9	Telefónica Chile S,A,	Chile	The Bank of New York Mellon	-	-	-	-	-	-	236,400,000	236,400,000	-	**236,400,000**
Series Q Bond (2)	90.635.000-9	Telefónica Chile S,A,	Chile	Banco Chile	-	-	-	47,000,000	**47,000,000**	-	-	-	-	**47,000,000**
Total					**--**	**-**	**-**	**47,000,000**	**47,000,000**	**-**	**236,400,000**	**236,400,000**	**-**	**283,400,000**

Classes	Debtor taxpayer No,	Debtor	Debtor country	Creditor	Current To Maturity		Total current as of 12.31.2016	Non-current To Maturity							Total Non-current as of 12.31.2016
					Up to 90 days ThCh$	90 days to 1 years ThCh$	ThCh$$	1 to 2 years	2 to 3 years	Total 1 to 3 years	3 to 4 years	4 to 5 years	Total 3 to 5 years	5 years and over	ThCh$
Series 144A Bond (1)	90.635.000-9	Telefónica Chile S,A,	Chile	The Bank of New York Mellon	-	2,850,765	**2,850,765**	-	-	-	-	-	-	332.181.886	**332.181.886**
Series Q Bond (2)	90.635.000-9	Telefónica Chile S,A,	Chile	Banco Chile	794,997	-	**794,997**	-	46,614,505	46,614,505	-	-	-	-	**46.614.505**
Total					**794.997**	**2.850.765**	**3,645,762**	**-**	**46,614,505**	**46,614,505**	**-**	**-**	**-**	**332,181,886**	**378,796,391**

(1) 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.

(2) On March 26, 2014, Telefónica Chile S.A. placed series Q 5-year bullet Bonds in the local market in the amount of MCh$ 47,000 at a nominal annual rate of 5.75%, maturing on March 14, 2019, The amount collected by this operation amounted to MCh$46,406.

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

b) As of December 31, 2015 the detail of unguaranteed obligations (Bonds) 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
Series F Bond	90.635.000-9	Telefónica Chile S,A,	Chile	97.080.000-K	Banco Bice	Chile	UF	Biannual	6.43%	6.00%	UF 1,500,000	2016
Series 144A Bond (1)	90.635.000-9	Telefónica Chile S,A,	Chile	Foreign	The Bank of New York Mellon	USA	USD	At expiry	4.06%	3.88%	MMUSD 500	2022
Series Q Bond (2)	90.635.000-9	Telefónica Chile S,A,	Chile	97.004.000-5	Banco Chile	Chile	CLP	At expiry	6.17%	5.75%	MCh$47,000	2019

Classes	Debtor taxpayer No,	Debtor	Debtor country	Creditor	Nominal amounts (capital in thousands) To Maturity									Total nominal amounts in local currency
					Up to 90 days	90 days to 1 years	1 to 2 years	2 to 3 years	Total 1 to 3 years	3 to 4 years	4 to 5 years	Total 3 to 5 years	5 years and over	
Series F Bond	90.635.000-9	Telefónica Chile S,A,	Chile	Banco Bice	-	700,809	-	-	-	-	-	-	-	**700,809**
Series 144A Bond (1)	90.635.000-9	Telefónica Chile S,A,	Chile	The Bank of New York Mellon	-	-	-	-	-	-	-	-	236,400,000	**236,400,000**
Series Q Bond (2)	90.635.000-9	Telefónica Chile S,A,	Chile	Banco Chile	-	-	-	-	-	47,000,000	-	47,000,000	-	**47,000,000**
Total					**-**	**700,809**	**-**	**-**	**-**	**47,000,000**	**-**	**47,000,000**	**236,400,000**	**284,100,809**

Classes	Debtor taxpayer No,	Debtor	Debtor country	Creditor	Current To Maturity		Total current as of 12.31.2015	Non-current To Maturity							Total Non-current as of 12.31.2015 ThCh$
					Up to 90 days ThCh$	90 days to 1 years ThCh$	ThCh$$	1 to 2 years	2 to 3 years	Total 1 to 3 years	3 to 4 years	4 to 5 years	Total 3 to 5 years	5 years and over	
Series F Bond	90.635.000-9	Telefónica Chile S,A,	Chile	Banco Bice	-	925,647	**925,647**	-	-	-	-	-	-	-	**-**
Series 144A Bond (1)	90.635.000-9	Telefónica Chile S,A,	Chile	The Bank of New York Mellon	-	2,598,459	**2,598,459**	-	-	-	-	-	-	352,371,709	**352,371,709**
Series Q Bond (2)	90.635.000-9	Telefónica Chile S,A,	Chile	Banco Chile	631,228	-	**631,228**	-	-	-	46,614,506	-	46,614,506	-	**46,614,506**
Total					**631,228**	**3,524,106**	**4,155,334**	**-**	**-**	**-**	**46,614,506**	**-**	**46,614,506**	**352,371,709**	**398,986,215**

(1) 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.

(2) On March 26, 2014, Telefónica Chile S.A. placed series Q 5-year bullet Bonds in the local market in the amount of MCh$ 47,000 at a nominal annual rate of 5.75%, maturing on March 14, 2019, The amount collected by this operation amounted to MCh$46,406.

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

c) As of December 31, 2015 the detail of financial leases 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
Financial Lease	90.635.000-9	Telefónica Chile S,A,	Chile	97.036.000-K	Banco Santander	Chile	UF	Monthly	-	8.10%	-	2016
Financial Lease	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

Classes	Debtor taxpayer No,	Debtor	Debtor country	Creditor	Nominal amounts (capital in thousands) To Maturity									Total nominal amounts in local currency
					Up to 90 days	90 days to 1 years	1 to 2 years	2 to 3 years	Total 1 to 3 years	3 to 4 years	4 to 5 years	Total 3 to 5 years	5 years and over	
Financial Lease	90.635.000-9	Telefónica Chile S,A,	Chile	Banco Santander	3,448	9,194	-	-	-	-	-	-	-	**12,641**
Financial Lease	78.703.410-1	Telefónica Empresas Chile S,A,	Chile	CSI Renting Chile S,A,	103,695	-	-	-	-	-	-	-	-	**103,695**
	Total				**107,143**	**9,194**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**116,336**

Classes	Debtor taxpayer No,	Debtor	Debtor country	Creditor	Current To Maturity		Total current as of 12.31.2015	Non-current To Maturity							Total Non-current as of 12.31.2015
					Up to 90 days ThCh$	90 days to 1 years ThCh$	ThCh$$	1 to 2 years	2 to 3 years	Total 1 to 3 years	3 to 4 years	4 to 5 years	Total 3 to 5 years	5 years and over	ThCh
Financial Lease	90.635.000-9	Telefónica Chile S,A,	Chile	Banco Santander	4,135	10,304	**14,439**	-	-	-	-	-	-	-	**-**
Financial Lease	78.703.410-1	Telefónica Empresas Chile S,A,	Chile	CSI Renting Chile S,A,	108,432	-	**108,432**	-	-	-	-	-	-	-	**-**
	Total				**112,567**	**10,304**	**122,871**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

As of December 31, 2015 the present value of minimum current and non-current financial lease net payments is ThCh$122,871 and the total imputable interest is ThCh$1,253.

17. Trade and other payables

a) The composition of Trade and other payables is as follows:

Concepts	12.31.2016 ThCh$	12.31.2015 ThCh$
Debts due to purchases or services provided, invoiced (1)	60,037,630	47,352,775
Debts due to purchases or services provided, provisioned (1)	40,037,370	43,326,721
Real property providers, invoiced	42,386,182	38,074,653
Real property providers, provisioned	19,014,535	9,565,819
Payables to employees	33,200,522	36,143,126
Dividends pending payment	406,998	567,044
Total	**195,083,237**	**175,030,138**

(1) "Debts from purchases or services rendered" corresponding to foreign and domestic suppliers, for the years ended as of December 31, 2016 and 2015 are detailed as follows:

Debts due to purchases or services provided	12.31.2016 ThCh$	12.31.2015 ThCh$
Domestic	85,438,837	80,145,931
Foreign	14,636,163	10,533,565
Total	**100,075,000**	**90,679,496**

b) Accounts payable payment terms

The Company has a policy of paying its suppliers in an average period of 60 days as of the date of reception of the respective invoice. There are cases in which due to specific circumstances, other than general policy, the established period is not complied with, for example, contracts that have specific agreed-upon deadlines, or delay on the part of the supplier in the issuance of invoices, or the closing of agreements with suppliers for delivery of goods or providing of the service, etc.

The Company does not present interest associated to debts in this heading,

As of December 31, 2016 the main suppliers, considering a minimum margin of 4% of total are the Ministry of Public Works 7.29%, Coasin Instalaciones Ltda. 6.50%, Cobra Chile Servicios S.A. 6.44%, Atento Chile S.A. 6.70% and Ezentis S.A. 7.19% and for December 31, 2015 the main supplier is Inversiones y Asesorías en Telecomunicaciones 8.57%; Coasin Instalaciones Ltda. 5.35%; Ezentis Chile S.A. 5.33%; Cobra Chile Servicios S.A 4.67%; Huawei Chile S.A. 4.65% and Nokia Solutions and Networks Chile 4.04%.

The terms of accounts payable to suppliers with up to date payments as of December 31, 2016 and 2015 are detailed as follows:

Suppliers with up to date payments As of 12.31.2016	Goods ThCh$	Services ThCh$	Other ThCh$	Total ThCh$
Trade accounts to date				
Up to 30 days	49,697,506	38,905,186	-	88,602,692
From 31 to 60 days	-	380,262	-	380,262
From 61 to 90 days	-	-	-	-
Total	**49,697,506**	**39,285,448**	**-**	**88,982,954**
Average period of payment of up to date accounts	**30**	**32**	**-**	

17. Trade and other payables, continued

b) Accounts payable payment terms, continued

Suppliers with up to date payments As of 12.31.2015	Goods ThCh$	Services ThCh$	Other ThCh$	Total ThCh$
Trade accounts to date				
Up to 30 days	36,972,766	37,743,144	-	74,715,910
From 31 to 60 days	-	2,935,578	-	2,935,578
From 61 to 90 days	-	1,258,105	-	1,258,105
Total	**36,972,766**	**41,936,827**	**-**	**78,909,593**
Average period of payment of up to date accounts	**28**	**33**	**-**	

The terms of accounts payable to suppliers with overdue payments as of December 31, 2016 and 2015 are detailed as follows:

Overdue trade accounts payable by term As of 12.31.2016	Goods ThCh$	Services ThCh$	Other ThCh$	Total ThCh$
Overdue trade accounts payable by term				
Up to 30 days	2,255,738	5,676,271	-	7,932,009
From 31 to 60 days	514,351	2,632,969	-	3,147,320
From 61 to 90 days	-	35,619	-	35,619
From 91 to 120 days	-	318,681	-	318,681
From 121 to 180 days	710,907	1,296,321	-	2,007,228
Total	**3,480,996**	**9,959,861**	**-**	**13,440,857**
Average payment period of overdue accounts	**92**	**98**	**-**	

Overdue trade accounts payable by term As of 12.31.2015	Goods ThCh$	Services ThCh$	Other ThCh$	Total ThCh$
Overdue trade accounts payable by term				
Up to 30 days	-	130,120	-	130,120
From 31 to 60 days	816,237	-	-	816,237
From 61 to 90 days	11,638	1,132,388	-	1,144,026
From 91 to 120 days	96,952	1,006,290	-	1,103,242
From 121 to 180 days	1,297,942	2,026,268	-	3,324,210
Total	**2,222,769**	**4,295,066**	**-**	**6,517,835**
Average payment period of overdue accounts	**113**	**91**	**-**	

18. 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 December 31, 2016 is as follows:

Description of financial assets	Financial instrument expiry	ASSETS RECORDED AT FAIR VALUE: Other financial assets at FV through P&L	Financial assets available for sale	Asset hedge derivatives	Subtotal of assets at fair value	Valuation hierarchy: Level 1 Market prices	Level 2 Estimates based on other observable market data	Level 3 Estimates not based on observable market data	ASSETS RECORDED AT AMORTIZED COST: Balance of financial assets at amortized cost	Investments held to maturity	Subtotal of assets at amortized cost	TOTAL: Total Carrying amount	Total fair value
		ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Other participations (net)		**3,854**	**7,419,955**	**-**	**7,423,809**	**7,419,955**	**3,854**	**-**	**-**	**-**	**-**	**7,423,809**	**7,423,809**
Other participations	See note 6b	3,854	7,419,955	-	7,423,809	7,419,955	3,854	-	-	-	-	7,423,809	7,423,809
Derivative instrument assets		**-**	**-**	**109,153,678**	**109,153,678**	**-**	**109,153,678**	**-**	**-**	**-**	**-**	**109,153,678**	**109,153,678**
Derivative instrument assets	See note 18-2	-	-	109,153,678	109,153,678	-	109,153,678	-	-	-	-	109,153,678	109,153,678
Non-current deposits and pledges		**50,468**	**-**	**-**	**50,468**	**-**	**50,468**	**-**	**-**	**-**	**-**	**50,468**	**50,468**
Non-current deposits and pledges	See note 6a	50,468	-	-	50,468	-	50,468	-	-	-	-	50,468	50,468
Non-current trade accounts receivable		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**20,481,912**	**-**	**20,481,912**	**20,481,912**	**20,481,912**
Non-current trade and other accounts receivable	See note 12	-	-	-	-	-	-	-	19,115,391	-	19,115,391	19,115,391	19,115,391
Account receivable from relate entities	See note 9b	-	-	-	-	-	-	-	1,366,521	-	1,366,521	1,366,521	1,366,521
Non-current financial assets		**54,322**	**7,419,955**	**109,153,678**	**116,627,955**	**7,419,955**	**109,208,000**	**-**	**20,481,912**	**-**	**20,481,912**	**137,109,867**	**137,109,867**
Current trade accounts receivable		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**228,279,927**	**-**	**228,279,927**	**228,279,927**	**228.279.927**
Current trade and other accounts receivable	See note 8a	-	-	-	-	-	-	-	144,725,272	-	144,725,272	144,725,272	144.725.272
Account receivable from relate entities	See note 9a	-	-	-	-	-	-	-	83,554,655	-	83,554,655	83,554,655	83.554.655
Current pledges and deposits		**56,680**	**-**	**-**	**56,680**	**-**	**56,680**	**-**	**-**	**-**	**-**	**56,680**	**56.680**
Current pledges and deposits	See note 6a	56,680	-	-	56,680	-	56,680	-	-	-	-	56,680	56.680
Derivative instrument of assets		**-**	**-**	**19,617,064**	**19,617,064**	**-**	**19,617,064**	**-**	**-**	**-**	**-**	**19,617,064**	**19.617.064**
Derivative instrument of assets	See note 18-2	-	-	19,617,064	19,617,064	-	19,617,064	-	-	-	-	19,617,064	19.617.064
Cash and cash equivalents		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**127,307,052**	**-**	**127,307,052**	**127,307,052**	**127.307.052**
Cash and cash equivalents	See note 5	-	-	-	-	-	-	-	127,307,052	-	127,307,052	127,307,052	127.307.052
Current financial assets		**56,680**	**-**	**19,617,064**	**19,673,744**	**-**	**19,673,744**	**-**	**355,586,979**	**-**	**355,586,979**	**375,260,723**	**375.260.723**
Total financial assets		**111.002**	**7,419,955**	**131,919,064**	**139,450,021**	**7,419,955**	**132,030,066**	**-**	**376,139,250**	**-**	**376,139,250**	**515,589,271**	**515,589,271**

18. 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, 2015 is as follows:

Description of financial assets	Financial instrument expiry	ASSETS RECORDED AT FAIR VALUE: Other financial assets at FV through P&L	Financial assets available for sale	Asset hedge derivatives	Subtotal of assets at fair value	Valuation hierarchy: Level 1 Market prices	Level 2 Estimates based on other observable market data	Level 3 Estimates not based on observable market data	ASSETS RECORDED AT AMORTIZED COST: Balance of financial assets at amortized cost	Investments held to maturity	Subtotal of assets at amortized cost	TOTAL: Total Carrying amount	Total fair value
		ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Other participations (net)		**3,854**	**5,680,888**	**-**	**5,684,742**	**5,680,888**	**3,854**	**-**	**-**	**-**	**-**	**5,684,742**	**5,684,742**
Other participations	See note 6b	3,854	5,680,888	-	5,684,742	5,680,888	3,854	-	-	-	-	5,684,742	5,684,742
Derivative instrument assets		**-**	**-**	**154,153,538**	**154,153,538**	**-**	**154,153,538**	**-**	**-**	**-**	**-**	**154,153,538**	**154,153,538**
Derivative instrument assets	See note 18-2	-	-	154,153,538	154,153,538	-	154,153,538	-	-	-	-	154,153,538	154,153,538
Non-current deposits and pledges		**50,468**	**-**	**-**	**50,468**	**-**	**50,468**	**-**	**-**	**-**	**-**	**50,468**	**50,468**
Non-current deposits and pledges	See note 6a	50,468	-	-	50,468	-	50,468	-	-	-	-	50,468	50,468
Non-current trade accounts receivable		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,589,053**	**-**	**16,589,053**	**16,589,053**	**16,589,053**
Non-current trade and other accounts receivable	See note 12	-	-	-	-	-	-	-	15,222,532	-	15,222,532	15,222,532	15,222,532
Account receivable from relate entities	See note 9b	-	-	-	-	-	-	-	1,366,521	-	1,366,521	1,366,521	1,366,521
Non-current financial assets		**54,322**	**5,680,888**	**154,153,538**	**159,888,748**	**5,680,888**	**154,207,860**	**-**	**16,589,053**	**-**	**16,589,053**	**176,477,801**	**176,477,801**
Current trade accounts receivable		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**206,054,965**	**-**	**206,054,965**	**206,054,965**	**206,054,965**
Current trade and other accounts receivable	See note 8a	-	-	-	-	-	-	-	134,403,204	-	134,403,204	134,403,204	134,403,204
Account receivable from relate entities	See note 9a	-	-	-	-	-	-	-	71,651,761	-	71,651,761	71,651,761	71,651,761
Current pledges and deposits		**237,912**	**-**	**-**	**237,912**	**-**	**237,912**	**-**	**-**	**-**	**-**	**237,912**	**237,912**
Current pledges and deposits	See note 6a	237,912	-	-	237,912	-	237,912	-	-	-	-	237,912	237,912
Derivative instrument of assets		**-**	**-**	**3,119,212**	**3,119,212**	**-**	**3,119,212**	**-**	**-**	**-**	**-**	**3,119,212**	**3,119,212**
Derivative instrument of assets	See note 18-2	-	-	3,119,212	3,119,212	-	3,119,212	-	-	-	-	3,119,212	3,119,212
Cash and cash equivalents		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**86,977,350**	**-**	**86,977,350**	**86,977,350**	**86,977,350**
Cash and cash equivalents	See note 5	-	-	-	-	-	-	-	86,977,350	-	86,977,350	86,977,350	86,977,350
Current financial assets		**237,912**	**-**	**3,119,212**	**3,357,124**	**-**	**3,357,124**	**-**	**293,032,315**	**-**	**293,032,315**	**296,389,439**	**296,389,439**
Total financial assets		**292,234**	**5,680,888**	**157,272,750**	**163,245,872**	**5,680,888**	**157,564,984**	**-**	**309,621,368**	**-**	**309,621,368**	**472,867,240**	**472,867,240**

18. Financial instruments, continued

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

The book 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.

The book value of the current portion of trade and other accounts receivable 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 6).

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

18. 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, 2016 is as follows:

Description of financial liabilities	Financial instrument expiry	LIABILITES RECORDED AT FAIR VALUE: Hedge derivative liabilities	LIABILITES RECORDED AT FAIR VALUE: Subtotal of liabilities at fair value	Valuation hierarchy: Level 1 Market prices	Valuation hierarchy: Level 2 Estimates based on other observable market data	Valuation hierarchy: Level 3 Estimates not based on observable market data	LIABILITIES RECORDED AT AMORTIZED COST: Debits and items payable	TOTAL: Total Carrying amount	TOTAL: Total Carrying amount
		ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Issuance of obligations and other non-current marketable securities	See note 16 b	-	-	-	-	-	378,796,391	378,796,391	384,355,603
Non-current debts with loan entities	See note 16 a	-	-	-	-	-	-	-	-
Long-term hedge derivative instrument of liabilities	See note 18-2	7,758,555	7,758,555	-	7,758,555	-	-	7,758,555	7,758,555
Trade and other accounts payable		-	-	-	-	-	-	-	-
Accounts payable to related entities		-	-	-	-	-	22,174,222	22,174,222	22,174,222
Non-current financial liabilities		**7,758,555**	**7,758,555**	**-**	**7,758,555**	**-**	**400,970,613**	**408,729,168**	**414,288,380**
Issuance of short-term obligations and other marketable securities	See note 16 b	-	-	-	-	-	3,645,762	3,645,762	3,699,267
Short-term debts with credit entities	See note 16 a/c	-	-	-	-	-	65,333,218	65,333,218	65,333,218
Short-term derivative instrument of liabilities	See note 18-2	4,583,397	4,583,397	-	4,583,397	-	-	4,583,397	4,583,397
Trade and other accounts payable	See note 17	-	-	-	-	-	195,083,237	195,083,237	195,083,237
Accounts payable to related entities	See note 9 c	-	-	-	-	-	85,904,101	85,904,101	85,904,101
Current Other Financial Debt		-	-	-	-	-	-	-	-
Current financial liabilities		**4,583,397**	**4,583,397**	**-**	**4,583,397**	**-**	**349,966,318**	**354,549,715**	**354,603,220**
Total financial liabilities		**12,341,952**	**12,341,952**	**-**	**12,341,952**	**-**	**750,936,931**	**763,278,883**	**768,891,600**

18. 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, 2015 is as follows:

Description of financial liabilities	Financial instrument expiry	LIABILITES RECORDED AT FAIR VALUE: Hedge derivative liabilities	Subtotal of liabilities at fair value	Valuation hierarchy: Level 1 Market prices	Level 2 Estimates based on other observable market data	Level 3 Estimates not based on observable market data	LIABILITIES RECORDED AT AMORTIZED COST: Debits and items payable	TOTAL: Total Carrying amount	Total Carrying amount
		ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Issuance of obligations and other non-current marketable securities	See note 16 b	-	-	-	-	-	398,986,215	398,986,215	400,040,285
Non-current debts with loan entities	See note 16 a	-	-	-	-	-	68,972,097	68,972,097	69,073,704
Long-term hedge derivative instrument of liabilities	See note 18-2	7,656,345	7,656,345	-	7,656,345	-	-	7,656,345	7,656,345
Trade and other accounts payable		-	-	-	-	-	-	-	-
Accounts payable to related entities		-	-	-	-	-	-	-	-
Non-current financial liabilities		**7,656,345**	**7,656,345**	**-**	**7,656,345**	**-**	**467,958,312**	**475,614,657**	**476,770,334**
Issuance of short-term obligations and other marketable securities	See note 16 b	-	-	-	-	-	4,155,334	4,155,334	4,155,334
Short-term debts with credit entities	See note 16 a/c	-	-	-	-	-	224,478	224,478	224,478
Short-term derivative instrument of liabilities	See note 18-2	3,427,938	3,427,938	-	3,427,938	-	-	3,427,938	3,427,938
Trade and other accounts payable	See note 17	-	-	-	-	-	175,030,138	175,030,138	175,030,138
Accounts payable to related entities	See note 9 c	-	-	-	-	-	81,567,128	81,567,128	81,567,128
Current Other Financial Debt							300,345	300,345	300,345
Current financial liabilities		**3,427,938**	**3,427,938**	**-**	**3,427,938**	**-**	**261,277,423**	**264,705,361**	**264,705,361**
Total financial liabilities		**11,084,283**	**11,084,283**	**-**	**11,084,283**	**-**	**729,235,735**	**740,320,018**	**741,475,695**

18. 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 16).

18. Financial instruments, continued

2. Hedging instruments

As of December 31, 2016, hedge instruments are detailed as follows:

Type of hedge	Underlying	Net total as 12.31.2016 ThCh$	Up to 90 days ThCh$	90 days to 1 year ThCh$	Total current Assets (note 6) ThCh$	Total current Liabilities (note 17) ThCh$	To Maturity 1 to 3 years ThCh$	To Maturity 3 to 5 years ThCh$	Total non-current Assets (note 6) ThCh$	Total non-current Liabilities (note 17) ThCh$
Exchange rate – cash flow hedge (1)	Supplier Debt	(92,982)	(445,188)	352,206	806,903	(899,885)	-	-	-	-
Exchange rate – fair value hedge (2)	Supplier Debt	202	202	-	8,927	(8,725)	-	-	-	-
Interest rate – cash flows hedge (4)	Financial Debt	(1,873,875)	(2,822,417)	-	852,370	(3,674,787)	-	948,542	8,707,097	(7.758.555)
Exchange rate and interest rate – fair value hedge (5)	Financial Debt	121,543,767	-	17,948,864	17,948,864	-	-	103,594,903	103,594,903	-
	Total	**121,582,710**	**(3,267,403)**	**18,301,070**	**19,617,064**	**(4,583,397)**	**-**	**104,543,445**	**112,302,000**	**(7,758,555)**

Hedge instruments have generated an effect on income of ThCh$ (26,146,302), As of December 31, 2016 the accumulated effect on equity is ThCh$ 6,278,643 (see note 22d).

As of December 31, 2015, hedge instruments are detailed as follows:

Type of hedge	Underlying	Net total as 12.31.2015 ThCh$	Up to 90 days ThCh$	90 days to 1 year ThCh$	Total current Assets (note 6) ThCh$	Total current Liabilities (note 17) ThCh$	To Maturity 1 to 3 years ThCh$	To Maturity 3 to 5 years ThCh$	Total non-current Assets (note 6) ThCh$	Total non-current Liabilities (note 17) ThCh$
Exchange rate – cash flow hedge (1)	Supplier Debt	1,516,077	1,516,077	-	1,532,382	(16,305)	-	-	-	-
Exchange rate – fair value hedge (2)	Supplier Debt	16,489	16,489	-	49,404	(32,915)	-	-	-	-
Interest rate – fair value hedge (3)	Financial Debt	375,446	-	-	-	-	-	375,446	375,446	-
Interest rate – cash flows hedge (4)	Financial Debt	4,093,151	(2,180,739)	339,447	1,537,426	(3,378,718)	-	5,934,443	13,590,788	(7.656.345)
Exchange rate and interest rate – fair value hedge (5)	Financial Debt	140,187,304	-	-	-	-	22,659,002	117,528,302	140,187,304	-
	Total	**146.188.467**	**(648,173)**	**339,447**	**3,119,212**	**(3,427,938)**	**22,659,002**	**123,838,191**	**154,153,538**	**(7,656,345)**

Hedge instruments have generated an effect on income of ThCh$ 60,723,597, As of December 31, 2015 the accumulated effect on equity is ThCh$8,929,007 (see note 22d).

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.

18. 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 year 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 18.1):

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.

19. Other currents provisions

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

Concepts	12.31.2016 ThCh$	12.31.2015 ThCh$
Civil and regulatory(1)	218,680	591,254
Total	**218,680**	**591,254**

(1) Mainly includes provisions on civil lawsuits for both periods.

Based on the progress of the proceedings, the Company's management considers that the provisions recorded in the financial statements adequately cover the litigation risks described in Note 27.a), therefore they do not foresee that they will result in liabilities other than those recorde.

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

As of December 31, 2016 and 2015 the movements in provisions is as follows:

Movements	12.31.2016 ThCh$	12.31.2015 ThCh$
Beginning balance	**591,254**	**1,754,983**
Increase in existing provisions	1,009,238	1,905,974
Provision used	(1,381,812)	(3,069,703)
Movement subtotal	**(372,574)**	**(1,163,729)**
Ending balance	**218,680**	**591,254**

20. Employee benefits accrual

a) Post employment benefits

The employee benefits provision corresponds to liabilities for future termination benefits that are estimated to be accrued for employees both in the general and private payroll, which are subject to severance pay whether through collective or individual employee contracts, and is recorded at actuarial value, determined using the projected credit unit method. Actuarial profits and losses on severance pay derived from changes in estimates in the turnover rates, mortality, salary increases or discount rate, are recorded in accordance with International Accounting Standard 19 R (IAS 19R), under other comprehensive income, affecting equity directly, procedure that the Company has applied since the beginning of the convergence application of the International Standard.

As of December 31, 2016 and 2015 current and non-current employee benefits accrual are as follows:

Concepts	12.31.2016 ThCh$	12.31.2015 ThCh$
Current amount of liability recognized for termination benefits	5,989,507	3,416,667
Non-current amount of liability recognized for termination benefits	30,664,822	27,061,311
Total	**36,654,329**	**30,477,978**

As of December 31, 2016 and 2015 the movements for current employee benefits provisions are detailed as follows:

Movements	12.31.2016 ThCh$	12.31.2015 ThCh$
Beginning balance	**30,477,978**	**30,738,412**
Service costs	2,080,586	1,751,894
Interest costs	1,496,561	1,386,302
Actuarial (profits)/losses, net due to experience	5,279,894	(95,952)
Benefits paid	(2,315,172)	(358,766)
Others	(365,518)	(2,943,912)
Movement subtotal	**6,176,351**	**(260,434)**
Ending balance	**36,654,329**	**30,477,978**

20. Employee benefits accrual, continued

a) Post employment benefits, continued

Actuarial Hypotheses

The hypotheses used for the actuarial calculation of employee benefits obligations are reviewed once a year and as of December 31, 2016 and 2015 are detailed as follows:

- Discount rate: an annual nominal rate of 4.51% is used as of December 31, 2016 and 2015 respectively. This rate must be representative of the time value of money, for which a risk-free rate is used represented by BCP (Central Bank of Chile Bonds issued in Chilean pesos) instruments, for a relevant term of close to 15 years.
- Incremental Salary Rate: An increase table is used according to the inflation projection established by the Central Bank of Chile. The rate used for the year ended December 31, 2016 and 2015 was 3%.
- Mortality: The RV 2014 mortality tables established by the Superintendency of Securities and Insurance are used to calculate social life insurance reserves in Chile.
- Turnover rate: Based on the historical Company data, turnover rate used is 5.46% for both years.
- Years of service: The Company assumes that the employees will remain until they are of legal retirement age, (women up to 60 years old and men up to 65 years old).

The model for calculating employee termination benefits has been prepared by an external qualified actuary. The model uses variables and market estimates in accordance with the methodology established by IAS 19 to determine this provision.

b) Sensitivity of assumptions

Based on the actuarial calculation as of December 31, 2016, the sensitivity of the main assumptions has been reviewed, determining the following possible effects on equity:

Description	Base	Plus 1% ThCh$	Less 1% ThCh$
Discount rate	4.51%	(2,700,671)	3,046,245

20. Employee benefits accrual, continued

c) Expected cash flows

In accordance with the employee benefits obligation, future cash flows for the following periods are detailed as follows:

Description	1st year ThCh$	2nd year ThCh$	3rd year ThCh$
Future payment cash flows	3,740,702	2,657,783	2,692,639

d) Employee benefits expenses

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

Concepts	12.31.2016 ThCh$	12.31.2015 ThCh$
Wages and salaries	70,965,976	77,630,763
Post employment benefit obligations expense	2,080,586	3,215,762
Total	**73,046,562**	**80,846,525**

21. Other current and non-current non-financial liabilities

Other non-financial liabilities are detailed as follows:

Concepts	12.31.2016		12.31.2015	
	Current ThCh$	Non-current ThCh$	Current ThCh$	Non-current ThCh$
Deferred income	**5,910,960**	**3,165,217**	**4,653,165**	**4,161,566**
Connection installments	114,467	163,057	393,983	220,726
Other Deferred income (1)	5,796,493	3,002,160	4,259,182	3,940,840
Subsidies	**143,003**	**1,170,635**	**143,003**	**1,316,886**
Puerto Natales and Cerro Castillo Fiber Optics Network	52,623	561,313	52,623	613,936
Connectivity for service networks and Community Telecommunications Centers	90,380	609,322	90,380	702,950
Other taxes (2)	**18,136,111**	**-**	**14,535,884**	**-**
Total	**24,190,074**	**4,335,852**	**19,332,052**	**5,478,452**

(1) The current portion mainly includes self-financed projects in the amount of MCh$ 3.667 and non-current portion includes entitlements for the use of underwater cables in the amount of MCh$1,863 and sold capacity in the amount of MCh$922.

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

Movements of deferred income and subsidies are detailed as follows:

Movements	12.31.2016		12.31.2015	
	Current ThCh$	Non-current ThCh$	Current ThCh$	Non-current ThCh$
Beginning balance	**4,796,168**	**5,478,452**	**5,349,300**	**6,191,689**
Endowments	25,112,036	1,238,866	12,695,304	1,641,540
Reduction/applications	(23,854,241)	(2,381,466)	(13,248,436)	(2,354,777)
Movement subtotal	**1,257,795**	**(1,142,600)**	**(553,132)**	**(713,237)**
Ending balance	**6,053,963**	**4,335,852**	**4,796,168**	**5,478,452**

22. Equity

The Company manages its capital for the purpose of safeguarding the capacity to continue as a going concern, for the purpose of generating returns to its shareholders and with the objective of maintaining a strong credit rating and prosperous capital ratio to support its businesses and guarantee ongoing and expedite access to the financial markets maximizing shareholder value. The Company manages its capital structure and adjusts it, in accordance with changes in existing economic conditions.

No changes were introduced in the objectives, policies or processes during the years ended as of December 31, 2016 and 2015.

a) Capital

As of December 31, 2016 and 2015, the Company's paid-in capital is composed as follows:

Number of shares

Series	12.31.2016 Nº of shares subscribed	Nº of shares paid	Nº of shares with voting rights	12.31.2015 Nº of shares subscribed	Nº of shares paid	Nº of shares with voting rights
A	874,049,316	864,442,610	864,442,610	873,995,447	873,995,447	873,995,447
B	83,161,638	82,004,664	82,004,664	83,161,638	83,161,638	83,161,638
Total	**957,210,954**	**946,447,274**	**946,447,274**	**957,157,085**	**957,157,085**	**957,157,085**

Capital

Series	12.31.2016 Subscribed capital ThCh$	Paid-in capital ThCh$	12.31.2015 Subscribed capital ThCh$	Paid-in capital ThCh$
A	528,009,572	528,009,572	527,852,620	527,852,620
B	50,089,210	50,089,210	50,225,762	50,225,762
Total	**578,098,782**	**578,098,782**	**578,078,382**	**578,078,382**

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.

At the Extraordinary Shareholders' Meeting held on March 30, 2016 the shareholders approved the merger by incorporation of subsidiary Telefónica Larga Distancia S.A. with Telefónica Chile S.A., whereby the latter absorbed the former, acquiring all its assets and liabilities and succeeding it in all its rights and obligations, effective as of April 30, 2016.

Due to the merger of both Companies, a total of 10,763,680 shareholders decided to withdraw from the Company, in accordance with Law No. 18,046, article 69, number 2). The Company disbursed ThCh$7,563,361 for this concept, which have been recorded in equity waiting for their resolution by the Company.

As determined in the exchange equation, performed by experts for each share of Telefónica Larga Distancia S.A. based on the financial statements as of December 31, 2015.

22. Equity, continued

a) Capital, continued

Due to the above the shareholders at the Extraordinary Shareholders' Meeting approved a capital increase for the Company in the sum of Ch$20,399,716 through the issuance of 53,951 Series A paid shares to be distributed among the shareholders of Telefónica Larga Distancia S.A., which will materialize on the same date as the merger, April 30, 2016.

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 December 31, 2016 is as follows:

Type of Shareholder	Participation percentage %	Number of shareholders
Participation of 10% or more	97.915	1
Less than 10% participation:		
Investment equal to or exceeding UF 200	1.554	184
Investment under UF 200	0.531	8,854
Total	**100**	**9,039**
Company's parent	97.915	1

As of December 31, 2016 and 2015, the indirect participation of Telefónica Chile Holding BV, in the equity of Telefónica Chile S.A. reached 96.22%.

In 2013 this percentage was distributed among Inversiones Telefónica Internacional Holding S.A. with 52.99% and Telefónica Internacional Chile S.A. with 44.9%. In September 2014, these companies merged without modifying the existing share percentage, with Inversiones Telefónica Internacional Holding S.A. being the continuer. As of September 30, 2014 the latter company concurred in the capital increase of Inversiones Telefónica Móviles Holding S.A. which was paid by transferring the investment it had in Telefónica Chile S.A., with which Inversiones Telefónica Móviles Holding S.A. became the majority shareholder of Telefónica Chile S.A..

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, This policy was ratified by the shareholders at the Ordinary Shareholders' Meeting held on April 30, 2015 and is in effect to date.

22. Equity, continued

c) Dividends, continued

ii) Capital decrease and dividends distributed:

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

Date	Number dividend	Dividend	Amount distributed ThCh$	Value per share Ch$	Charge to net income	Payment date
May-11-2015		Final	12,443,043	13,0000	Fiscal year 2014	May - 2015
May-13-2016		Final	7,375,148	7,8000	Fiscal year 2015	May - 2016

d) Other reserves:

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

Concepts	Balance of 12.31.2015 ThCh$	Net movement ThCh$	Balance of 12.31.2016 ThCh$
Cash flows hedge reserve	8,929,007	(2,650,364)	6,278,643
Employee benefits reserve, net tax	(3,202,898)	(1,942,599)	(5,145,497)
Reserve for financial assets available for sale	4,932	1,360,058	1,364,990
Proposed dividends reserve	(7,375,148)	7,375,148	-
Treasury stock reserve	-	(7,563,361)	(7,563,361)
Total	**(1,644,107)**	**(3,421,118)**	**(5,065,225)**

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.

iv) Proposed dividends reserve

In order to recognize the payment obligation of a minimum dividend equivalent to 30% of income, this reserve is established at each year-end and is used when the Ordinary Shareholders' Meeting agrees on the final distribution of dividends.

22. Equity, continued

d) Other reserves, continued

v) Treasury stock reserve

Corresponds to the disbursement for the purchase of the Company's shares from dissidents due to the merger by incorporation of Telefónica Larga Distancia S.A. in Telefónica Chile S.A.

e) Non-controlling interest

As of December 31, 2016 and 2015 recognition of the share of equity belonging to third parties is detailed as follows:

Subsidiaries	Non-controlling Interest percentage		Shareholders' equity Non-controlling interest	
	2016 %	2015 %	2016 ThCh$	2015 ThCh$
Telefónica Larga Distancia S,A,	-	0.070000	-	48,708
Telefónica de Chile Servicios Corporativos Ltda,	49.000000	49.000000	16,991,076	14,135,014
Total			**16,991,076**	**14,183,722**

As of December 31, 2016 and 2015 recognition of the share in income of subsidiaries is detailed as follows:

Filiales	Non-controlling Interest percentage		Participation in profit income (loss)	
	2016 %	2015 %	12.31.2016 ThCh	12.31.2015 ThCh$
Telefónica Larga Distancia S.A.	-	0,070000	-	12,284
Telefónica Chile Servicios Corporativos Ltda.	49.000000	49.000000	4,662,458	4,463,126
Total			**4,662,458**	**4,475,410**

23. Earnings per Share

The details of Earnings per share are as follows:

Basic earnings per share	12.31.2016 ThCh$	12.31.2015 ThCh$
Earnings attributable to owners of the parent	19,570,736	24,583,831
Profit available for shareholders	**19,570,736**	**24,583,831**
Weighted average number of shares	957,210,954	957,157,085
Basic earnings per share in Ch$	**20,45**	**25,68**

Earnings per share have been calculated dividing income for the year attributable to the parent, by the weighted average number of common shares outstanding during the year. The Company has not issued convertible debt or other equity securities. Consequently, there are no potentially diluting effects on earnings per share of the Company.

24. Income and Expenses

a) The details of income from ordinary operations as of December 31, 2016 and 2015 are as follows:

Ordinary income	12.31.2016 ThCh$	12.31.2015 ThCh$
Fixed Telecommunications	224,555,507	226,277,516
Broadband (1)	194,642,768	183,623,111
Television	173,924,162	170,233,713
Corporate Communication	126,641,200	110,300,154
Long Distance	23,612,465	27,297,335
Other Businesses	1,111,121	1,331,117
Total	**744,487,223**	**719,062,946**

(1) Includes recognized in its parent services and Subsidiaries Telefonica Empresas Chile SA and Telefonica Larga Distancia S.A.

b) The detail of other operating income as of December 31, 2016 and 2015 are as follows:

Other income	12.31.2016 ThCh$	12.31.2015 ThCh$
Income from indemnities, complaints and others	1,812,831	4,910,242
Income from disposal of real property	438,447	2,664,639
Other current management income	265,316	371,358
Total	**2,516,594**	**7,946,239**

c) The detail of other expenses by nature of the operation as of December 31, 2016 and 2015 are as follows:

Other expenses	12.31.2016 ThCh$	12.31.2015 ThCh$
Media rental	105,481,277	100,041,341
Cost of sale of inventory	51,701,987	38,342,202
Plant maintenance	39,325,208	42,905,232
Interconnections	36,120,930	42,148,162
Other exterior services	39,967,247	34,606,511
Sales commissions	30,770,769	34,667,162
Information services	25,608,553	23,685,358
Customer service	24,782,665	26,190,889
Allowance for doubtful accounts	18,666,633	15,980,595
Energy	14,455,088	11,813,106
Advertising	13,442,057	15,798,064
Other	20,045,140	15,061,925
Total	**420,367,554**	**401,240,547**

24. Income and Expenses, continued

d) The detail of financial expenses, net, as of December 31, 2016 and 2015 is as follows:

Financial expenses, net	12.31.2016 ThCh$	12.31.2015 ThCh$
Interest income		
Interest earned on deposits	1,729,092	2,828,830
Interest on financial instruments	97,710	19,575
Other interest income	1,266,229	1,606,684
Total interest income	**3,093,031**	**4,455,089**
Interest expense		
Interest on loans from bank institutions	16,154,132	16,273,085
Interest on mercantile mandate	2,601,070	3,826,057
Interest on obligations banking institutions	1,811,066	1,577,880
Interest rate hedges (Cross Currency Swap)	1,569,667	327,493
Finance lease	1,284	14,233
Other financial expenses	3,730,625	1,265,080
Total interest expense	**25,867,844**	**23,283,828**
Total finance income and costs, net	**(22,774,813)**	**(18,828,739)**

e) Foreign currency translation and indexation units as of December 31, 2016 and 2015 are detailed as follows:

Currency translation	12.31.2016 ThCh$	12.31.2015 ThCh$
Other financial transactions	-	39,843
Current accounts receivable from related entities	(2,126,844)	586,067
Current accounts payable to related entities	1,931,744	(816,692)
Current trade and other accounts receivable	(888,885)	201,051
Trade and other accounts payable	1,349,380	(2,129,382)
Cash and cash equivalents	(779,944)	617,932
Financial investments	-	1,693,039
Financial debt	24,121,573	(59,584,861)
Leasing financial debt	-	(27,052)
Hedge instruments	(24,159,200)	59,201,160
Total	**(552,176)**	**(218,895)**

Indexation units	12.31.2016 ThCh$	12.31.2015 ThCh$
Cash and cash equivalents	(292)	19,062
Current trade and other accounts receivable	(2,205)	18,257
Trade and other accounts payable	4,787	(19,849)
Current payables to related companies	(165)	(25,722)
Current tax assets	249,348	283,501
Financial investments	-	32,859
Financial debt	-	(16,659)
Leasing financial debt	(26)	(12,922)
Hedge instruments	-	578,156
Total	**251,447**	**856,683**

25. Leases

Leases which substantially transfer all risks and benefits inherent to ownership are classified as financial leases; all other leases are classified as operating leases.

Financial leases where the Company acts as lessee are recognized at the beginning of the contract, recording an asset based on its nature and a liability for the same amount, for the fair value amount of the leased asset or at the present value of minimum lease payments. Subsequently, minimum lease payments are divided between the finance cost and reduction of the debt.

The finance cost is recognized as an expense and is distributed over the years that constitute the term of the lease, in order to obtain a constant interest rate for each year on the balance of the debt pending amortization. The asset is depreciated under the same terms as the rest of similar depreciable assets, if there is reasonable certainty that the lessee will acquire ownership of the asset at the end of the lease, If such certainty does not exist, the asset is depreciated over the useful life of the asset or the term of the lease, whichever is less.

The main operating lease contracts are associated directly to the line of business, such as leases for commercial office real estate and telecommunications technical facilities space. Operating lease expenses accrued are presented under other expenses by nature, in the statement of income.

The Company has operating lease contracts that contain various clauses referred to dates and terms of renewal and readjustments, Should a decision be made for early termination of a contract, the payments stipulated in those clauses must be made.

Concepts	12.31.2016 ThCh$	12.31.2015 ThCh$
Minimum operating lease payments recognized as expenses	8,702,839	8,273,157

Financial leases corresponding to Property, plant and equipment are detailed as follows:

	12.31.2016			12.31.2015		
Concepts	Gross amount ThCh$	Accumulated depreciation ThCh$	Net value ThCh$	Gross amount ThCh$	Accumulated depreciation ThCh$	Net value ThCh$
Financial leases recognized as assets	5,304,293	(4,976,869)	327,424	5,304,293	(4,969,765)	334,528

25. Leases, continued

Future obligations on financial and operating leases as of December 31, 2016 and 2015 are detailed as follows:

Concepts	12.31.2016 Up to one year ThCh$	From one to five years ThCh$	More than 5 years ThCh$	Total ThCh$
Minimum financial lease payments payable	-	-	-	-
Future financial burden due to financial leases	-	-	-	-
Minimum operating lease payments payable	7,807,778	9,225,960	6,715,370	23,749,108

Concepts	12.31.2015 Up to one year ThCh$	From one to five years ThCh$	More than 5 years ThCh$	Total ThCh$
Minimum financial lease payments payable	124,121	-	-	124,121
Future financial burden due to financial leases	1,250	-	-	1,250
Minimum operating lease payments payable	7,786,827	12,512,873	326,741	20,626,442

26. Local and Foreign Currency

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

Currents assets	12.31.2016 ThCh$	12.31.2015 ThCh$
Cash and cash equivalents	**127,307,052**	**86,977,350**
US Dollars	244,591	978,727
Euros	46,658	45,065
Chilean Pesos	127,015,803	85,953,558
Other current financial assets	**19,673,744**	**3,357,124**
US Dollars	-	3,288,063
Chilean Pesos	19,673,744	-
U.F.	-	69,061
Current trade and other accounts receivable	**144,725,272**	**134,403,204**
Euros	26,308	11,709
Chilean Pesos	144,549,466	134,146,691
U.F	149,498	244,804
Current receivables from related companies	**83,554,655**	**71,651,761**
US Dollars	5,501,304	3,593,473
Chilean Pesos	77,981,229	68,058,288
Other currencies	72,122	-
Other current assets (1)	**41,080,053**	**46,771,493**
Chilean Pesos	41,080,053	46,771,493
Total current assets	**416,340,776**	**343,160,932**
US Dollars	**5,745,895**	**7,860,263**
Euros	**72,966**	**56,774**
Chilean Pesos	**410,300,295**	**334,930,030**
U.F.	**149,498**	**313,865**
Other currencies	**72,122**	**-**

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

Non-currents assets	12.31.2016 ThCh$	12.31.2015 ThCh$
Other non-current financial assets	**119,397,268**	**159,888,748**
US Dollars	1,853,129	140,187,305
Chilean Pesos	117,544,139	19,701,443
Non-current trade and other accounts receivable	**19,185,750**	**15,222,532**
Chilean Pesos	19,185,750	15,222,532
Non-current receivables from related companies	**1,366,521**	**1,366,521**
Chilean Pesos	1,366,521	1,366,521
Other non-current assets (2)	**1,043,195,427**	**1,060,465,949**
Chilean Pesos	1,043,195,427	1,060,465,949
Total non-current assets	**1,183,144,966**	**1,236,943,750**
US Dollars	**1,853,129**	**140,187,305**
Chilean Pesos	**1,181,291,837**	**1,096,756,445**

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

26. Local and Foreign Currency, continued

The detail for currency of current liabilities is as follows:

Currents liabilities	12.31.2016	12.31.2015	12.31.2016	12.31.2015
	to 90 days ThCh$		De 91 days a 1 years ThCh$	
Other current financial liabilities	**5,378,394**	**4,573,685**	**68.183.983**	**3,534,410**
US Dollars	863,194	101,721	68.183.983	2,598,459
Euros	45,415	-	-	-
Chilean Pesos	4,469,785	4,350,612	-	-
U.F.	-	121,352	-	935,951
Trade and other payables	**195,083,237**	**176,752,011**	**-**	**-**
US Dollars	34,383,323	31,414,721	-	-
Euros	1,091,443	659,099	-	-
Chilean Pesos	153,418,512	126,138,335	-	-
U.F.	6,189,959	18,539,856	-	-
Current receivables from related companies	**85,904,101**	**81,567,128**	**-**	**-**
US Dollars	4,281,623	3,868,571	-	-
Euros	98,789		-	
Chilean Pesos	81,523,689	77,698,557	-	-
Other current liabilities (1)	**3,896,630**	**4,829,667**	**30.398.261**	**21,618,100**
Chilean Pesos	3,896,630	4,829,667	30.398.261	21,618,100
Total current liabilities	**290,262,362**	**267,722,491**	**98.582.244**	**25,152,510**
US Dollars	**39,528,140**	**35,385,013**	**68.183.983**	**2,598,459**
Euros	**1,235,647**	**659,099**	**-**	**-**
Chilean Pesos	**243,308,616**	**213,017,171**	**30.398.261**	**21,618,100**
U.F.	**6,189,959**	**18,661,208**	**-**	**935,951**

(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	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
	1 to 3 years ThCh$		3 to 5 years ThCh$		5 years and over ThCh$	
Other non-current financial liabiliti	**46,614,505**	**68,972,097**	**7,758,555**	**54,270,851**	**332,181,886**	**352,371,709**
US Dollars	-	68,972,097	-	-	332,181,886	352,371,709
Chilean Pesos	46,614,505	-	7,758,555	54,270,851	-	-
Non-current Current payables to related companies	**-**	**-**	**22,174,222**	**21,181,406**	**-**	**-**
Chilean Pesos	-	-	22,174,222	21,181,406	-	-
Other non-current liabilities (2)	**8,507,847**	**1,063,488**	**41,117,635**	**15,033,659**	**64,456,046**	**92,254,280**
Chilean Pesos	8,507,847	1,063,488	41,117,635	15,033,659	64,456,046	92,254,280
Other non-current liabilities	**55,122,352**	**70,035,585**	**71,050,412**	**90,485,916**	**396,637,932**	**444,625,989**
US Dollars	**-**	**68,972,097**	**-**	**-**	**332,181,886**	**352,371,709**
Chilean Pesos	**55,122,352**	**1,063,488**	**71,050,412**	**90,485,916**	**64,456,046**	**92,254,280**

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

27. 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 December 31, 2016, which altogether amounts to ThCh$218,566. It is estimated that Telefónica Chile S.A. must pay the amount of ThCh$100,556 before the day, March 31, 2017 and the rest during the Second quarter of 2017.

On the other hand, there is a set of processes for which it is estimated that there is a risk of loss that is qualified as possible, for a total amount of ThCh$2,390,086.

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

a) Miscellaneous lawsuits

i) Tax contingency

On August 29, 2014 through Notification No, 383-14/G4, the Chilean Internal Revenue Service notified tax assessment No, 42, in which it determined differences in the first category (corporate) tax for the 2011 tax year, which resulted in rejection of items in the amount of MCh$18,967, which resulted from the review of the Company's tax loss carry forward. On August 22, 2014, a request was filed by the Company for review of the supervising action stating its response.

27. Contingencies and restrictions, continued

b) Financial restrictions:

As of December 31, 2016 the Company has no 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:

i) International loan with Sovereing Bank N.A, in the amount of US$ 97.5 million, expiring in April 2017.

This financial entity 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:

i) Series 144A Bond dated October 12, in the amount of US$ 500 million placed at 10 year bullet.

ii) Series Q Bond dated March 26, 2014 in the amount of MCh$47,000 placed at 5 years 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
144A Bond	There are none
Q Bond	There are none
International loan with Sovereing Bank N.A,	There are none

27. Contingencies and restrictions, continued

b) Financial restrictions, continued

Obligations arising from the aforementioned financing contracts were complied with as of April 30, 2016 and as of December 31, 2015. The indebtedness ratio calculated as of closing of the consolidated financial statements is as follows:

	12.31.2015 ThCh$
Total debt	**740,749,741**
Total Current Liabilities	292,875,001
Total Non-current Liabilities	605,147,490
Current Hedge Assets (less)*	3,119,212
Non-current Hedge Assets (less)*	154,153,538
Net shareholders' equity	**682,082,191**
Total debt	**740,749,741**
Net shareholders' equity	**682,082,191**
Debt ratio	**1.09**

* 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.

Covenant ratios have been complied with as of December 31, 2015. For December 31, 2016 this obligation does not exist since it was complied with as of April 30, 2016.

27. Contingencies and restrictions, continued

c) Guarantee deposits:

The detail of guarantee deposits is as follows:

Guarantee creditor	Debtor Name	Debtor Relationship	Type of guarantee	Current guarantee deposits ThCh$	Liberated guarantees 2017 ThCh$	Liberated guarantees 2018 ThCh$	Liberated guarantees 2019 & thereon ThCh$
Conect S.A.	TCH	Parent company	Deposit	1,039,823	-	-	1,039,823
Subsecretaría de Telecomunicaciones	TCH	Parent company	Deposit	1,030,536	-	1,030,536	-
Serviu Región Metropolitana	TCH	Parent company	Deposit	444,229	-	444,229	-
MOP- Dirección Región de Vialidad Coquimbo	TCH	Parent company	Deposit	204,624	204,624	-	-
Corporación de Fomento de la Producción	TCH	Parent company	Deposit	122,400	122,400	-	-
Others guarantees (1)	TCH	Parent company	Deposit	992,241	724,695	218,355	49,191
Gendarmería de Chile	TEM	Subsidiary	Deposit	1,448,524	1,003,352	445,172	-
Servicio Electoral	TEM	Subsidiary	Deposit	1,380,289	1,380,289	-	-
Banco del Estado de Chile	TEM	Subsidiary	Deposit	1,215,877	713,573	-	502,304
Subsecretaría de Educación	TEM	Subsidiary	Deposit	1,668,080	-	-	1,668,080
Cemento Bio Bio S.A.	TEM	Subsidiary	Deposit	542,125	-	-	542,125
Estado Mayor Conjunto	TEM	Subsidiary	Deposit	557,335	557,335	-	-
Fundación Integra	TEM	Subsidiary	Deposit	428,476	-	-	428,476
Tesorería del Estado Mayor General del Ejercito	TEM	Subsidiary	Deposit	424,998	-	-	424,998
Banca Corporativa	TEM	Subsidiary	Deposit	364,435	364,435	-	-
Asociación Chilena de Seguridad	TEM	Subsidiary	Deposit	324,293	-	324,293	-
CDEC Sing. Ltda.	TEM	Subsidiary	Deposit	281,068	-	-	281,068
Empresa Nacional de Electricidad S.A.	TEM	Subsidiary	Deposit	222,396	-	-	222,396
Comando Logístico de la Fuerza Aérea	TEM	Subsidiary	Deposit	163,030	-	-	163,030
Aguas Andinas S.A.	TEM	Subsidiary	Deposit	151,306	-	-	151,306
Coordinador Independiente del Sist. Eléctrico Nacional.	TEM	Subsidiary	Deposit	142,054	-	-	142,054
Redbanc S.A.	TEM	Subsidiary	Deposit	120,768	120,768	-	-
Org. Europea para la Investigación Astronómica en el Hemisferio Austral.	TEM	Subsidiary	Deposit	118,275	118,275	-	-
Policía de Investigaciones de Chile	TEM	Subsidiary	Deposit	111,629	111,629	-	-
Intendencia Región Antofagasta	TEM	Subsidiary	Deposit	110,544	110,544	-	-
Fundación de Beneficencia Hogar de Cristo	TEM	Subsidiary	Deposit	106,707	106,707	-	-
Minera Centinela	TEM	Subsidiary	Deposit	103,593	103,593	-	-
Others guarantees (1)	TEM	Subsidiary	Deposit	4,738,743	2,109,178	920,662	1,708,903
Total				**18,558,398**	**7,851,397**	**3,383,247**	**7,323,754**

(1) This item includes all guarantees with a value of less than ThCh$100,000, for each company.
TCH: Telefónica Chile S.A.
TEM: Telefónica Empresas Chile S.A.

28. 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 September 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 December 31, 2016 the Company's expenditures in relation to the implementation of the corresponding phases are not significant.

29. 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

The process of establishing new prices for Telefónica Chile S.A. for the 2014 - 2019 periods began at the end of 2013, in conformity with the procedure regulated by law. In this process Telefónica Chile used all instances available to defend its points of view, including those carried out before the Experts Commissions established in the procedure for establishing tariffs and contesting the Tariff Decree before the Contraloría General de la República.

Decree No. 77, issued on May 5, 2014 by the Ministries of Transportation and Telecommunications and of Economy, Development and Tourism was published in the Official Gazette on February 23, 2015, and establishes for Telefónica Chile S.A., the tariff levels for charges in the Local Tranche and other services associated to Public Telephone Services provided to the end user, the tariffs applied to the Concessionary under the ministry of Articles 24 bis and 25 of the law (mainly access charges) and tariff indexation mechanisms. The decree was published once the "Contraloría General de la República" performed its review of the mentioned decree and it came into effect as of May 8, 2014. The difference in the amount charged had to be retroactively settled. In its first year of application, approved decree No. 77 considers a reduction of 37% in access charges and 58% in the local tranche. As of December 2015 the Company has done refunding the difference to current customers.

Interconnection tariffs that will be in force for Telefónica Móviles Chile S.A., for the 2014 – 2019 periods and will affect Telefónica Chile S.A., are established in Decree No. 21, dated January 9, 2014, issued by the Ministries of Transportation and Telecommunications and of Economy, Development and Tourism. It established that as of January 25 the access charge will begin to decrease by 73% on average. The Contraloría General de la República made observations in its review process of Decree No. 21 and ultimately, on May 29 it decided to accept the technical and economic information presented by Subtel and reviewed the tariff decrees that establish access charges for mobile companies for the 2014-2019 five-year terms.

Due to the above, mobile access charges dropped by approximately 75% and replace the tariff decrees established in 2009, therefore it is established that the value of the access charge which as of December 2013 averaged Ch$59 per minute, without taxes, now has a value of Ch$14.6 on average per minute, without taxes for the first year. This tariff will continue dropping in the next years until it reaches an average value of Ch$7.6 per minute in 2019, which will imply a difference of approximately 87% in comparison to the tariff that was in force in December 2013.

On September 4, 2014, the Official Gazette published the new access charges tariffs for Telefónica Móviles Chile S.A. for the 2014-2019 five-year periods.

29. Risk management (Not audited), continued

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.

e) Financial risk management objectives and polices

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.

29. Risk management (Not audited), continued

e) Financial risk management objectives and polices, continued

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.

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 December 31, 2016 the Company had 19% 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 December 31, 2016 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 2016 of approximately ThCh$55,030, whereas a decrease in the TCPN would mean a reduction of ThCh$55,030 in the monthly financial accrual expense for 2016.

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.

29. Risk management (Not audited), continued

e) Financial risk management objectives and polices, continued

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.

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.

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 equity of the parent less unearned income reserves.

The Company's main objective related to capital management is to ensure that it has a strong credit rating and prosperous capital ratios to support its businesses and maximize shareholder value. Return on equity (income/total average equity) as of December 31, 2016 amounts to 2.86%, a 21.47% decrease in comparison to December 2015, where it reached 3.64%. The above is mainly due to an increase in tax expenses in comparison to the 2015 year.

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 years ended as of December 31, 2016 and 2015.

29. Risk management (Not audited), continued

f) Regulatory Framework

Numeric Portability

Mobile and Fixed Telephone Number Portability was enabled in conformity with the calendar established by Subtel, through Resolution No. 6,367 of 2011. Portability of Internet Voice, Rural Telephone Services and Mobile Party Pays Numbers began on March 16, 2013. Exempt Resolution No. 1022 dated March 31, 2014, issued by the Telecommunications Undersecretary, modified the beginning date of Portability of Complementary Services, which began operating as of October 13, 2014.

In relation to Geographic Portability and Intermodal Portability, through Exempt Resolution No. 4,535 dated August 4, 2015 Subtel established the timeline that establishes that Geographic Portability will be enabled as of November 2, 2015, the extension of mobile telephone numbers by one digit was implemented seamlessly as of February 6, 2016 and Intermodal Portability was successfully implemented on September 05, 2016.

On the other hand, in conformity with article 31 of Decree No. 16, dated 2011, issued by the Ministry of Transportation and Telecommunications, which establishes the tender process to designate the Numeric Portability Management Organization (OAP), the Portability Board in compliance with the regulated procedures awarded the new Portability Administration Organization (OAP) to Telcordia Technologies Chile, S.A.

30. Subsequent events

The consolidated financial statements of Telefónica Chile S.A., for the year ended as of December 31, 2016, were approved and authorized for issuance at the Board of Directors Meeting held on January 26, 2017.

- On January 1, 2017, due to the reorganization and restructuring of the information services and resources of the Telefónica Group in Chile, employees related to that TI function were transferred from Telefónica Global Tecnology to Telefónica Chile Servicios Corporativos Ltda.

- On January 18, 2017, Telefónica Chile S.A. issued a Series "T" Bond in the local market for Ch$48,000,000, at an interest rate of 4.90% compounded annually (2.4207% semi-annually) with a term of 6.5 years.

In the period from January 1 to January 26, 2017, there have been no other significant subsequent effects that affect these consolidated financial statements.

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Alejandro Gil Ibarra
Accounting Manager

Juan Parra Hidalgo
Director of Finance and Management Control

Roberto Muñoz Laporte
General Manager