

Telefónica

CHILE S.A. AND SUBSIDIARIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2016 (not audited), December 31, 2015 and March 31, 2015

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

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ThCh\$: Thousands of Chilean Pesos

MCh\$: Millions of Chilean Pesos

CONSOLIDATED CLASSIFIED STATEMENTS OF FINANCIAL POSITION

As of March 31, 2016 (not audited) and December 31, 2015

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



| | Notes | 03.31.2016 | 12.31.2015 |
|---|-------|----------------------|----------------------|
| | | ThCh\$ | ThCh\$ |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | (5) | 61,454,808 | 86,977,350 |
| Other current financial assets | (6) | 3,586,378 | 3,357,124 |
| Other current non-financial assets | (7) | 27,498,045 | 22,261,161 |
| Current trade and other accounts receivable | (8a) | 141,269,251 | 134,403,204 |
| Current receivables from related companies | (9a) | 75,694,417 | 71,651,761 |
| Inventory | (10a) | 15,031,390 | 17,904,023 |
| Current tax assets | (11b) | 10,096,057 | 6,606,309 |
| Total current assets other than assets groups of assets for disposal, classified as available for sale or as held for distribution to owners | | 334,630,346 | 343,160,932 |
| TOTAL CURRENT ASSETS | | 334,630,346 | 343,160,932 |
| NON-CURRENT ASSETS | | | |
| Other non-current financial assets | (6) | 136,819,060 | 159,888,748 |
| Other non-current non-financial assets | (7) | 5,970,391 | 5,309,107 |
| Non-current trade and other accounts receivable | (12) | 15,939,382 | 15,222,532 |
| Non-current receivables from related companies | (9b) | 1,366,521 | 1,366,521 |
| Intangible assets other than goodwill, net | (13a) | 43,608,229 | 45,425,228 |
| Goodwill | (14) | 21,660,128 | 21,660,128 |
| Property, plant and equipment, net | (15a) | 986,554,424 | 976,094,206 |
| Deferred tax assets | (11c) | 11,115,241 | 11,977,280 |
| TOTAL NON-CURRENT ASSETS | | 1,223,033,376 | 1,236,943,750 |
| TOTAL ASSETS | | 1,557,663,722 | 1,580,104,682 |

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

CONSOLIDATED CLASSIFIED STATEMENTS OF FINANCIAL POSITION

As of March 31, 2016 (not audited) and December 31, 2015

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



| | Notes | 03.31.2016 | 12.31.2015 |
|--|-------|----------------------|----------------------|
| | | ThCh\$ | ThCh\$ |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Other current financial liabilities | (16) | 14,926,798 | 8,108,095 |
| Trade and other payables | (17a) | 141,838,689 | 176,752,011 |
| Current payables to related companies | (9c) | 96,780,490 | 81,567,128 |
| Other current provisions | (19) | 526,928 | 591,254 |
| Current tax liabilities | (11f) | 6,678,085 | 4,829,667 |
| Current employee benefits accrual | (20a) | 3,603,517 | 3,416,667 |
| Other current non-financial liabilities | (21) | 24,377,059 | 17,610,179 |
| TOTAL CURRENT LIABILITIES | | 288,731,566 | 292,875,001 |
| NON-CURRENT LIABILITIES | | | |
| Other non-current financial liabilities | (16) | 444,199,012 | 475,614,657 |
| Non-current Current payables to related companies | (9d) | 21,428,586 | 21,181,406 |
| Other non-current provisions | | 1,005,200 | 974,745 |
| Deferred tax liabilities | (11c) | 73,594,295 | 74,836,919 |
| Non-current employee benefits accrual | (20a) | 27,402,491 | 27,061,311 |
| Other non-current non-financial liabilities | (21) | 5,304,052 | 5,478,452 |
| TOTAL NON-CURRENT LIABILITIES | | 572,933,636 | 605,147,490 |
| TOTAL LIABILITIES | | 861,665,202 | 898,022,491 |
| NET SHAREHOLDERS' EQUITY | | | |
| Issued capital | (22a) | 578,078,382 | 578,078,382 |
| Retained earnings | | 102,733,406 | 91,464,194 |
| Other reserves | (22d) | 451,942 | (1,644,107) |
| Shareholders' equity attributable to owners of the parent | | 681,263,730 | 667,898,469 |
| Non-controlling interest | (22e) | 14,734,790 | 14,183,722 |
| TOTAL NET SHAREHOLDERS' EQUITY | | 695,998,520 | 682,082,191 |
| TOTAL NET LIABILITIES & SHAREHOLDERS' EQUITY | | 1,557,663,722 | 1,580,104,682 |

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

As of March 31, 2016 (not audited) and December 31, 2015

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



| | | For the three-month period ended March 31, | |
|---|------------|---|------------------|
| | Notes | 2016 ThCh\$ | 2015 ThCh\$ |
| STATEMENTS OF COMPREHENSIVE INCOME | | | |
| Income from ordinary operations | (24a) | 179,175,659 | 169,205,643 |
| Other income, by segment | (24b) | 715,148 | 31,976 |
| Employee benefits expenses | (20d) | (19,082,050) | (19,518,340) |
| Depreciation and amortization expense | (13b)(15b) | (45,972,768) | (46,484,265) |
| Other expenses, by nature | (24c) | (98,974,970) | (94,245,520) |
| Profit from operating activities | | 15,861,019 | 8,989,494 |
| Interest income | (24d) | 664,146 | 1,247,449 |
| Interest expense | (24d) | (5,281,549) | (5,498,523) |
| Foreign exchange differences | (25e) | 212,332 | (115,418) |
| Income from indexation units | (25e) | (23,198) | 1,624 |
| Profits before tax from continuing operations | | 11,432,750 | 4,624,626 |
| Income tax expense | (11e) | 319,118 | (1,380,218) |
| PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS | | 11,751,868 | 3,244,408 |
| Profit attributable to holders of equity instruments of the controller and minority interest: | | | |
| Profit attributable to owners of the parent | | 11,269,212 | 2,927,873 |
| Profit attributable to non-controlling interest | (22e) | 482,656 | 316,535 |
| PROFIT FOR THE PERIOD | | 11,751,868 | 3,244,408 |
| EARNINGS PER SHARE | | Ch\$ | Ch\$ |
| Earnings per basic share | | | |
| Earnings per basic share for continuing operations | (23) | 11.77 | 3.06 |
| Earnings per basic share for discontinuing operations | | - | - |
| Earnings per basic share | | 11.77 | 3.06 |
| Diluted earnings per share | | | |
| Diluted earnings per share from continuing operations | | 11.77 | 3.06 |
| Diluted earnings per share from discontinuing operations | | - | - |
| Diluted earnings per share | | 11.77 | 3.06 |

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

As of March 31, 2016 (not audited) and December 31, 2015

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



| | For the three-month period ended March 31, | |
|---|---|------------------|
| | 2016 | 2015 |
| | M\$ | M\$ |
| STATEMENTS OF COMPREHENSIVE INCOME | | |
| PROFIT FOR THE PERIOD | 11,751,868 | 3,244,408 |
| OTHER COMPREHENSIVE INCOME | | |
| Components of other comprehensive income that will not be reclassified to income for the period | | |
| Other comprehensive income, before taxes, profits (losses) on new measurements of defined benefits plans | 131,818 | - |
| Total other comprehensive income that will not be reclassified to income for the period | 131,818 | - |
| 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 | 1,053,515 | (799,865) |
| Profit (loss) on cash flow hedges | 2,400,004 | 210,691 |
| Total Components of other comprehensive income that will be reclassified to income for the period | 3,453,519 | (589,174) |
| Total other components of other comprehensive income, before taxes | 3,585,337 | (589,174) |
| 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 | 37,459 | - |
| 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 | (1,447,263) | (44,634) |
| Total income taxes associated to components of other comprehensive income | (1,409,804) | (44,634) |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD | 2,175,533 | (633,808) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 13,927,401 | 2,610,600 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | |
| Comprehensive income attributable to owners of the parent | 13,365,261 | 2,294,065 |
| Comprehensive income attributable to non-controlling interest | 562,140 | 316,535 |
| TOTAL COMPREHENSIVE INCOME | 13,927,401 | 2,610,600 |

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

As of March 31, 2016 (not audited) and December 31, 2015



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

| | 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 | Benefit plan gain and loss reserve | Accrual of profits or losses on remeasurement of financial assets available for sale | Other miscellaneous reserves | Total other reserves | | | | |
| | | | | | | | | | | |
| 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 | - | - | - | - | - | - | 11,269,212 | 11,269,212 | 482,656 | 11,751,868 |
| Other comprehensive income | - | 952,741 | 89,793 | 1,053,515 | - | 2,096,049 | - | 2,096,049 | 79,484 | 2,175,533 |
| Comprehensive income | - | 952,741 | 89,793 | 1,053,515 | - | 2,096,049 | 11,269,212 | 13,365,261 | 562,140 | 13,927,401 |
| Dividends | - | - | - | - | - | - | - | - | - | - |
| Other increase (decrease) from transfers and other changes | - | - | - | - | - | - | - | - | (11,072) | (11,072) |
| Total changes in shareholders' equity | - | 952,741 | 89,793 | 1,053,515 | - | 2,096,049 | 11,269,212 | 13,365,261 | 551,068 | 13,916,329 |
| Ending balance as of 03.31.2016 | 578,078,382 | 9,881,748 | (3,113,105) | 1,058,447 | (7,375,148) | 451,942 | 102,733,406 | 681,263,730 | 14,734,790 | 695,998,520 |
| 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 | 79,323,405 | 659,508,952 | 9,707,411 | 669,216,363 |
| Changes in equity | | | | | | | | | | |
| Comprehensive income | | | | | | | | | | |
| Profit | - | - | - | - | - | - | 2,927,873 | 2,927,873 | 316,535 | 3,244,408 |
| Other comprehensive income | - | 166,377 | - | (799,865) | - | (633,488) | - | (633,488) | - | (633,488) |
| Resultado integral | - | 166,377 | - | (799,865) | - | (633,488) | 2,927,873 | 2,294,385 | 316,535 | 2,610,920 |
| Dividends | - | - | - | - | - | - | - | - | - | - |
| Other increase (decrease) from transfers and other changes | - | - | - | - | - | - | - | - | (35,581) | (35,581) |
| Total changes in shareholders' equity | - | 166,377 | - | (799,865) | - | (633,488) | 2,927,873 | 2,294,385 | 280,954 | 2,575,339 |
| Ending balance as of 03.31.2015 | 578,078,382 | 14,716,321 | (3,279,142) | 1,841,979 | (11,805,481) | 1,473,677 | 82,251,278 | 661,803,337 | 9,988,365 | 671,791,702 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS DIRECT

As of March 31, 2016 (not audited) and December 31, 2015

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



| | For the three-month period ended March 31, | |
|--|---|---------------------|
| Notes | 2016 | 2015 |
| | ThCh\$ | ThCh\$ |
| CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| Classes of operating activity charges | | |
| Proceeds from sale of assets and services rendered | 291,474,129 | 267,203,404 |
| Proceeds from sales and services | 250,139,621 | 229,569,478 |
| Proceeds from related entities | 41,334,508 | 37,633,926 |
| Classes of payments | | |
| Payments to suppliers for supplying goods and services | (195,407,887) | (149,640,097) |
| Payments to and on account of employees | (46,317,350) | (48,952,532) |
| Other operating activity payments | (29,847,316) | (22,849,609) |
| Net cash flows provided by (used in) operating activities | 19,901,576 | 45,761,166 |
| Income taxes paid reimbursed classified as operating activities (less) | (3,056,292) | (4,215,535) |
| Cash flows provided by (used in) operating activities | <u>16,845,284</u> | <u>41,545,631</u> |
| CASH FLOWS PROVIDED BY (USED IN) INVESTMENT ACTIVITIES | | |
| Additions to property, plant and equipment, classified as investing activities | (62,344,921) | (56,519,018) |
| Interest received, classified as investing activities | 603,455 | 914,354 |
| Net cash flows provided by (used in) investment activities | <u>(61,741,466)</u> | <u>(55,604,664)</u> |
| CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES | | |
| Proceeds from loans, classified as financing activities | | |
| Loans to related entities | 21,319,000 | 28,564,426 |
| Payments of financial lease liabilities, classified as financing activities | (122,100) | (135,827) |
| Interest paid, classified as financing activities | (1,732,899) | (1,543,726) |
| Other cash inputs (outputs), classified as financing activities | (90,361) | (472,245) |
| Net cash flows provided by (used in) financing activities | <u>19,373,640</u> | <u>26,412,628</u> |
| | | |
| Increase (decrease) in cash and cash equivalents, before the effects of changes in the exchange rate | (25,522,542) | 12,353,595 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (25,522,542) | 12,353,595 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 86,977,350 | 120,638,713 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u>(5) 61,454,808</u> | <u>132,992,308</u> |

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) | |
|---------------------------------|-----------------|---------------------|--|--------------|
| | | | 03.31.2015 % | 12.31.2015 % |
| Telefónica Larga Distancia S.A. | 96.672.160-K | 1061 | 99.93 | 99.93 |

2. Significant accounting principles:

a) Accounting period

These consolidated financial statements (hereinafter, "financial statements") cover the following periods: Statements of Financial Position are presented as of March 31, 2016 and December 31, 2015; Statement of Changes in Equity, Statements of Comprehensive Income and Statement of Cash Flows for the three-month periods ended as of March 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, 2015, and the comprehensive income statements, statements of changes in equity and statements of cash flows for the 3-month periods ended as of March 31, 2016 and 2015 have been prepared in accordance with International Accounting Standard 34 (IAS 34) "Interim Financial Reporting", 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 and the comprehensive income statement, statement of changes in equity and statement of cash flows for the 3-month period ended as of March 31, 2015, were originally prepared in accordance with the 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 what is established in Circular 856 issued on October 17, 2014 which instructs the entities it oversees to record in 2014 the differences in assets and liabilities for the concept of deferred taxes produced as a direct effect of the increase in the first category tax rate introduced by Law 20,780 plus the 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 information contained in these financial statements is the responsibility of the Company's Board of Directors, which expressly manifests its responsibility for the consistent and reliable nature of the application of IFRS.

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 | | | |
|--------------|---|-------------------|---------------------|--------------------------|----------|-------|------------|
| | | | | 03.31.2016 | | | 03.31.2015 |
| | | | | 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. | Chile | CLP | 99.93 | - | 99.93 | 99.93 |
| 76.086.148-0 | Telefónica Chile Servicios Corporativos Ltda. | Chile | CLP | 49.30 | 1.70 | 51.00 | 51.00 |

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



2. Significant accounting principles, continued

d) Basis of consolidation, continued

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

| Taxpayer No. | Company Name | % Participation | Currents assets | Non-currents assets | Total assets | Currents liabilities | Non-currents liabilities | Total liabilities | Equity | Revenues from ordinary operations | Profit (loss), Net |
|--------------|---|-----------------|-----------------|---------------------|--------------|----------------------|--------------------------|-------------------|-------------|-----------------------------------|--------------------|
| | | | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| 78.703.410-1 | Telefónica Empresas Chile S.A. | 99.9999973 | 171,823,829 | 114,513,882 | 286,337,711 | 160,316,429 | 1,916,482 | 162,232,911 | 124,104,800 | 71,154,047 | 289,839 |
| 96.672.160-k | Telefónica Larga Distancia S.A. | 99.9297221 | 21,910,638 | 61,192,384 | 83,103,022 | 21,792,191 | 3,406,113 | 25,198,304 | 57,904,718 | 15,409,111 | 4,349,546 |
| 76.086.148-0 | Telefónica Chile Servicios Corporativos Ltda. | 51.0000000 | 106,613,531 | 41,469,405 | 148,082,936 | 84,183,598 | 33,911,387 | 118,094,985 | 29,987,951 | 45,115,190 | 978,773 |

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 | Non-currents assets | Total assets | Currents liabilities | Non-currents liabilities | Total liabilities | Equity | Revenues from ordinary operations | Profit (loss), Net |
|--------------|---|-----------------|-----------------|---------------------|--------------|----------------------|--------------------------|-------------------|-------------|-----------------------------------|--------------------|
| | | | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| 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 using the observed exchange rates as of each period-end, detailed as follows:

| DATE | USD | EURO | REAL | UF |
|-------------|--------|--------|--------|-----------|
| Mar.31.2016 | 669.80 | 762.26 | 187.33 | 25,812.05 |
| Dec.31.2015 | 710.16 | 774.61 | 178.31 | 25,629.09 |
| Mar.31.2015 | 626.58 | 672.73 | 195.77 | 24,622.78 |

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, 2015 was 7.30%. For the period ended as of March 31, 2016 there have been no indications of possible impairment of assets.

j) Leases

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

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 periods 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 period 24% and 22.5% at March 31, 2016 and December 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 15 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 period-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 10.10% and 10.12% to March 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 March 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 |
| 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

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 these 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 and IFRS 16 which is at the evaluation stage.

| | Improvements and amendments | Mandatory application date |
|---------|--|----------------------------|
| IAS 7 | Statements of cash flows | January 1, 2017 |
| IAS 12 | Income tax | January 1, 2017 |
| IAS 28 | Investments in Associates and Joint Ventures | Determined |
| IFRS 10 | Consolidated Financial Statements | Determined |

IAS 7 “Statement of Cash Flows”

Amendments to IAS 7 Statement of Cash Flows, issued in January 2016 as part of the Disclosure Initiative, require that an entity disclose information that allows users of the financial statements to assess the changes in obligations derived from financing activities, including changes derived from cash flows and changes that do not involve cash. Application of the amendments will be mandatory for annual periods commencing as of January 1, 2017. Early application is allowed.

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.

2. Significant accounting principles, continued

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

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.

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 period 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

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

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

b) Television Services

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

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

c) Long Distance

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

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

d) Corporate Communications and Data

The corporate communications service includes sale and rental of telecommunications equipment and sale of networks to corporate customers, rental of networks associated with 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.

4. Financial information by segment, continued

e) Other

“Other” includes logistics, personnel and management services.

5. 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 March 31, 2016, December 31, 2015 and March 31, 2015 is detailed as follows:

| For the period ended as of March 31, 2016 | Fixed Telecommunications | Long Distance | Corporate Communication and Data | Television Services | Other | Eliminations | Total |
|--|--------------------------|---------------|----------------------------------|---------------------|--------------|---------------|---------------|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Income from external customers | 100,883,177 | 7,871,328 | 28,084,299 | 42,336,855 | - | - | 179,175,659 |
| Income from ordinary activities arising from transactions with other operating segments of the same entity | 18,993,102 | 7,537,569 | 732,893 | - | 45,115,190 | (72,378,754) | - |
| Total income from operating activities from external customers and transactions with other operating segments of the same entity | 119,876,279 | 15,408,897 | 28,817,192 | 42,336,855 | 45,115,190 | (72,378,754) | 179,175,659 |
| Cost of sales | 15,439,911 | 6,111,040 | 17,456,136 | 26,320,343 | - | (16,389,700) | 48,937,730 |
| Administrative expenses | 59,559,509 | 1,388,075 | 10,466,073 | 10,663,951 | 6,600,278 | (38,640,646) | 50,037,240 |
| Employee benefits expenses | - | - | - | - | 36,488,898 | (17,406,848) | 19,082,050 |
| Income from ordinary activities arising from interest | | | | | | | |
| Interest expense | 5,006,444 | 86,425 | 156,243 | 120,898 | 244,493 | (332,954) | 5,281,549 |
| Interest income | 771,727 | 109,871 | 43,122 | 73,280 | - | (332,954) | 664,146 |
| Depreciation and amortization | 33,136,505 | 2,255,524 | 3,223,790 | 7,356,949 | - | - | 45,972,768 |
| Participation in profit of associated companies accounted for using the equity method | 5,118,863 | 3,915 | 12,724 | - | - | (5,135,502) | - |
| Income tax expense | 845,902 | 1,046,790 | (3,768,567) | 652,125 | 904,632 | - | (319,118) |
| Other significant non-cash items | (509,386) | (285,283) | 198,607 | 1,456,900 | 101,884 | (58,440) | 904,282 |
| Profits(loss) before tax | 12,115,114 | 5,396,336 | (2,230,597) | (596,006) | 1,883,405 | (5,135,502) | 11,432,750 |
| Profit (loss) for the period from continuing operations | 11,269,212 | 4,349,546 | 1,537,970 | (1,248,131) | 978,773 | (5,135,502) | 11,751,868 |
| Profit (loss) for the period from discontinuing operations | - | - | - | - | - | - | - |
| Profit (loss) for the period | 11,269,212 | 4,349,546 | 1,537,970 | (1,248,131) | 978,773 | (5,135,502) | 11,751,868 |
| Assets | 1,492,042,422 | 83,103,022 | 173,642,211 | 112,735,109 | 148,082,936 | (451,941,978) | 1,557,663,722 |
| Investments in associates accounted for using the equity method | 196,752,881 | 119,952 | 389,843 | - | - | (197,262,676) | - |
| Increases in non-current assets | 32,693,572 | 1,429,764 | 16,867,454 | 3,678,320 | - | - | 54,669,110 |
| Liabilities | 810,778,692 | 25,198,304 | 108,047,487 | 54,225,033 | 118,094,985 | (254,679,299) | 861,665,202 |
| Shareholders' equity | 681,263,730 | 57,904,718 | 65,594,724 | 58,510,076 | 29,987,951 | (197,262,679) | 695,998,520 |
| Liabilities & Shareholders' equity | 1,492,042,422 | 83,103,022 | 173,642,211 | 112,735,109 | 148,082,936 | (451,941,978) | 1,557,663,722 |
| Cash flows provided by (used in) operating activities | 54,606,886 | 6,596,611 | (14,532,038) | (17,726,071) | (11,354,595) | (745,509) | 16,845,284 |
| Cash flows provided by (used in) investment activities | (15,649,927) | (2,059,723) | (17,983,344) | (3,979,366) | - | (22,069,106) | (61,741,466) |
| Cash flows provided by (used in) from in financing activities | (63,029,431) | (5,104,260) | 30,688,013 | 22,233,740 | 11,770,963 | 22,814,615 | 19,373,640 |

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



4. Financial information by segment, continued

| For the year ended as of December 31, 2015 | Fixed Telecommunications | Long Distance | Corporate Communication and Data | Television Services | Other | Eliminations | Total |
|---|-----------------------------|------------------|--|------------------------|-------------|---------------|---------------|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Income from external customers | 400,944,502 | 29,614,585 | 118,270,146 | 170,233,713 | - | - | 719,062,946 |
| Income from ordinary activities arising from transactions with other operating segments of the same entity | 80,262,812 | 30,871,652 | 2,931,970 | - | 185,636,242 | (299,702,676) | - |
| Total income from operating activities from external customers and transactions with other operating segments of the same entity | 481,207,314 | 60,486,237 | 121,202,116 | 170,233,713 | 185,636,242 | (299,702,676) | 719,062,946 |
| Cost of sales | 67,417,749 | 23,506,722 | 77,848,246 | 92,623,041 | - | (71,676,923) | 189,718,835 |
| Administrative expenses | 248,486,603 | 6,417,014 | 48,228,932 | 42,958,154 | 25,557,096 | (160,126,087) | 211,521,712 |
| Employee benefits expenses | - | - | - | - | 148,832,801 | (67,986,276) | 80,846,525 |
| Income from ordinary activities arising from interest | | | | | | | |
| Interest expense | 22,782,074 | 380,355 | 929,014 | 452,772 | 424,619 | (1,685,006) | 23,283,828 |
| Interest income | 5,449,897 | 390,952 | 184,513 | 26,780 | 87,953 | (1,685,006) | 4,455,089 |
| Depreciation and amortization | 137,524,790 | 9,224,003 | 9,083,716 | 36,381,574 | - | - | 192,214,083 |
| Participation in profit of associated companies accounted for using the equity method | 8,237,413 | 36,434 | 118,409 | - | - | (8,392,256) | - |
| Income tax expense | 4,313,861 | 4,208,051 | (4,274,640) | (1,214,746) | 2,425,312 | - | 5,457,838 |
| Other significant non-cash items | 10,214,284 | 303,175 | (2,222,915) | (247,960) | 624,053 | (86,610) | 8,584,027 |
| Profits(loss) before tax | 28,897,692 | 21,688,704 | (16,807,785) | (2,403,008) | 11,533,732 | (8,392,256) | 34,517,079 |
| Profit (loss) for the year from continuing operations | 24,583,831 | 17,480,653 | (12,533,145) | (1,188,262) | 9,108,420 | (8,392,256) | 29,059,241 |
| Profit (loss) for the year from discontinuing operations | - | - | - | - | - | - | - |
| Profit (loss) for the year | 24,583,831 | 17,480,653 | (12,533,145) | (1,188,262) | 9,108,420 | (8,392,256) | 29,059,241 |
| Assets | 1,496,931,608 | 98,522,386 | 131,055,358 | 112,735,109 | 141,949,936 | (401,089,715) | 1,580,104,682 |
| Investments in associates accounted for using the equity method | 210,888,971 | 115,388 | 375,011 | - | - | (211,379,370) | - |
| Increases in non-current assets | 147,854,786 | 7,882,404 | 10,270,248 | 8,445,890 | - | - | 174,453,328 |
| Liabilities | 829,033,139 | 29,214,874 | 62,156,820 | 54,225,033 | 113,102,969 | (189,710,344) | 898,022,491 |
| Shareholders' equity | 667,898,469 | 69,307,512 | 68,898,538 | 58,510,076 | 28,846,967 | (211,379,371) | 682,082,191 |
| Liabilities & Shareholders' equity | 1,496,931,608 | 98,522,386 | 131,055,358 | 112,735,109 | 141,949,936 | (401,089,715) | 1,580,104,682 |
| Cash flows provided by (used in) operating activities | 193,876,993 | 27,923,563 | 26,852,013 | 38,904,284 | (468,014) | (60,398,328) | 226,690,511 |
| Cash flows provided by (used in) investment activities | (146,972,927) | (4,230,303) | (6,711,399) | (14,019,366) | - | - | (171,933,995) |
| Cash flows provided by (used in) from in financing activities | (79,739,846) | (25,539,137) | (19,082,264) | (24,934,960) | 480,000 | 60,398,328 | (88,417,879) |

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



4. Financial information by segment, continued

| For the period ended as of March 31, 2015 | Fixed Telecommunications | Long Distance | Corporate Communication and Data | Television Services | Other | Eliminations | Total |
|---|-----------------------------|------------------|--|------------------------|--------------|---------------|---------------|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Income from external customers | 97,043,674 | 7,607,831 | 24,708,011 | 39,846,127 | - | - | 169,205,643 |
| Income from ordinary activities arising from transactions with other operating segments of the same entity | 19,536,899 | 7,552,515 | 745,923 | - | 43,440,305 | (71,275,642) | - |
| Total income from operating activities from external customers and transactions with other operating segments of the same entity | 116,580,573 | 15,160,346 | 25,453,934 | 39,846,127 | 43,440,305 | (71,275,642) | 169,205,643 |
| Cost of sales | 15,301,640 | 6,042,525 | 15,690,990 | 21,332,371 | 4,546,876 | (22,490,361) | 40,424,041 |
| Administrative expenses | 60,603,228 | 1,954,451 | 11,253,979 | 10,194,928 | 1,252,710 | (31,437,817) | 53,821,479 |
| Employee benefits expenses | 185,913 | - | - | - | 36,589,294 | (17,256,867) | 19,518,340 |
| Income from ordinary activities arising from interest | | | | | | | |
| Interest expense | 5,617,006 | 1,096 | 297,465 | 432,122 | 184,313 | (1,033,479) | 5,498,523 |
| Interest income | 1,922,857 | 322,314 | 31,845 | 3,912 | - | (1,033,479) | 1,247,449 |
| Depreciation and amortization | 33,458,518 | 2,403,320 | 2,296,916 | 8,325,511 | - | - | 46,484,265 |
| Participation in profit of associated companies accounted for using the equity method | 812,171 | 2,561 | 8,322 | - | - | (823,054) | - |
| Income tax expense | 954,259 | 1,115,009 | (1,374,628) | 487,517 | 198,061 | - | 1,380,218 |
| Other significant non-cash items | (267,164) | 120,990 | 130,697 | (128,013) | (28,925) | 90,597 | (81,818) |
| Profits(loss) before tax | 3,882,132 | 5,204,819 | (3,914,552) | (562,906) | 838,187 | (823,054) | 4,624,626 |
| Profit (loss) for the period from continuing operations | 2,927,873 | 4,089,810 | (2,539,924) | (1,050,423) | 640,126 | (823,054) | 3,244,408 |
| Profit (loss) for the period from discontinuing operations | - | - | - | - | - | - | - |
| Profit (loss) for the period | 2,927,873 | 4,089,810 | (2,539,924) | (1,050,423) | 640,126 | (823,054) | 3,244,408 |
| Assets | 1,546,264,300 | 102,234,928 | 176,631,224 | 112,735,109 | 143,557,780 | (515,448,309) | 1,565,975,032 |
| Investments in associates accounted for using the equity method | 209,570,609 | 81,187 | 263,857 | - | 81,187 | (209,996,840) | - |
| Increases in non-current assets | 35,969,101 | 3,240,095 | 4,092,501 | 6,677,236 | - | - | 49,978,933 |
| Liabilities | 884,460,963 | 41,087,465 | 96,681,462 | 54,225,033 | 123,261,064 | (305,532,657) | 894,183,330 |
| Shareholders' equity | 661,803,337 | 61,147,463 | 79,949,762 | 58,510,076 | 20,296,716 | (209,915,652) | 671,791,702 |
| Liabilities & Shareholders' equity | 1,546,264,300 | 102,234,928 | 176,631,224 | 112,735,109 | 143,557,780 | (515,448,309) | 1,565,975,032 |
| Cash flows provided by (used in) operating activities | 61,591,711 | 6,322,889 | 145,880 | (169,312) | (27,513,393) | - | 40,377,775 |
| Cash flows provided by (used in) investment activities | 20,897,460 | (2,306,728) | (6,586,552) | (5,579,761) | - | (61,917,400) | (55,492,981) |
| Cash flows provided by (used in) from in financing activities | (67,933,977) | (6,445,804) | 5,261,771 | 7,299,411 | 27,370,000 | 61,917,400 | 27,468,801 |

4. Financial information by segment, continued

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 | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|--|----------|----------------------|----------------------|
| Cash (a) | | 66,674 | 67,704 |
| | CLP | 33,092 | 32,023 |
| | USD | 17,609 | 16,787 |
| | EUR | 15,973 | 18,894 |
| Banks (b) | | 6,212,387 | 10,513,315 |
| | CLP | 6,052,151 | 9,839,204 |
| | USD | 155,159 | 647,940 |
| | EUR | 5,077 | 26,171 |
| Time deposits (c) | | 55,175,747 | 76,396,331 |
| | CLP | 45,561,836 | 76,082,331 |
| | USD | 9,613,911 | 314,000 |
| Total cash and cash equivalents | | 61,454,808 | 86,977,350 |
| Sub-total by currency | CLP | 51,647,079 | 85,953,558 |
| | USD | 9,786,679 | 978,727 |
| | EUR | 21,050 | 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.

5. Cash and cash equivalents, continued

c) Time deposits

Time deposits maturing in less than 90 days are recorded at fair value and as of March 31, 2016 and December 31, 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\$ | 03.31.2016 ThCh\$ |
|--------------------|----------|--|---------------------|--------------------------|------------------------------------|---|-------------------|
| Time deposits | CLP | 45,520,000 | 3.47% | 12 | 45,520,000 | 41,836 | 45,561,836 |
| Time deposits | USD | 9,612,128 | 0.0% | 6 | 9,612,128 | 1,783 | 9,613,911 |
| Total | | | | | 55,132,128 | 43,619 | 55,175,747 |

| 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\$ | 12.31.2014 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 |

6. Other current and non-current financial assets

Other current financial assets are detailed as follows:

| Concepts | | 03.31.2016 | | 12.31.2015 | |
|------------------------|-----------------|----------------|--------------------|----------------|--------------------|
| | | Current ThCh\$ | Non-Current ThCh\$ | Current ThCh\$ | Non-Current ThCh\$ |
| Guarantees established | (a) | 237,912 | 50,468 | 237,912 | 50,468 |
| Other investments | (b) | - | 6,738,258 | - | 5,684,742 |
| Exchange rate hedge | (See Note 18.2) | 3,348,466 | 130,030,334 | 3,119,212 | 154,153,538 |
| Total | | 3,586,378 | 136,819,060 | 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 | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|---------------------------|---------|---------------------|-------------------|-------------------|
| Telefónica Brasil (1) (2) | Brazil | REAL | 6,734,404 | 5,680,888 |
| Other participation | Chile | CLP | 3,854 | 3,854 |
| Total | | | 6,738,258 | 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, 2015 dividends in the amount of ThCh\$561,345, were accrued on the 0.06% share in the equity of Telefónica Brasil. As of December 31, 2015, ThCh\$443,541 have been received for this concept. For the period 2016 have not been recognized dividends.

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

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

| Concepts | 03.31.2016 | | 12.31.2015 | |
|---------------------------------|-------------------|-----------------------|-------------------|-----------------------|
| | Current ThCh\$ | Non-current ThCh\$ | Current ThCh\$ | Non-current ThCh\$ |
| Support and repair services (1) | 3,900,295 | - | 694,781 | - |
| Insurance | 536,896 | - | 967,158 | - |
| Leases | 415,817 | - | 54,200 | - |
| Franchised commissions | 6,632,028 | - | 7,483,585 | - |
| Other amortizable expenses (2) | 12,989,082 | 5,970,391 | 10,363,551 | 5,309,107 |
| Other taxes (3) | 3,023,927 | - | 2,697,886 | - |
| Total | 27,498,045 | 5,970,391 | 22,261,161 | 5,309,107 |

(1) This item includes early services support SAP of MCh\$ 1,350 and license of MCh\$ 1,855.

(2) This item includes early payment of bonuses in the amount of ThCh\$832,179 current that the Company negotiated with some of its employees from different unions, as a product of collective agreements. In addition this item includes ThCh\$8,996,794 current and ThCh\$5,951,946 non-current, for depreciable expenses due to the new commercial model for television services.

(3) This item includes: Sence credit, remaining VAT credit and other recoverable taxes.

8. Current trade and other accounts receivable

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

| Concepts | 03.31.2016 | | | 12.31.2015 | | |
|--|--------------------|---------------------------------------|--------------------|--------------------|---------------------------------------|--------------------|
| | Gross value | Allowance for doubtful accounts | Net value | Gross value | Allowance for doubtful accounts | Net value |
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Receivables on current loan transactions | 250,795,273 | (122,259,429) | 128,535,844 | 237,234,877 | (116,909,971) | 120,324,906 |
| Invoiced services | 210,323,913 | (122,259,429) | 88,064,484 | 197,791,646 | (116,909,971) | 80,881,675 |
| Services provided and not invoiced | 40,471,360 | - | 40,471,360 | 39,443,231 | - | 39,443,231 |
| Miscellaneous receivables | 12,733,407 | - | 12,733,407 | 14,078,298 | - | 14,078,298 |
| Total | 263,528,680 | (122,259,429) | 141,269,251 | 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 | 03.31.2016 | | | | | 12.31.2015 | | | | |
|---------------------------|-----------------------|------------------|-------------------|------------------------------|-------------------|-----------------------|------------------|-------------------|------------------------------|-------------------|
| | Less than 3 months | 3 to 6 months | 6 to 12 months | Greater than 12 months | Total | Less than 3 months | 3 to 6 months | 6 to 12 months | Greater than 12 months | Total |
| Miscellaneous receivables | 35,001,886 | 2,489,430 | - | - | 37,491,316 | 29,054,287 | 1,998,174 | - | - | 31,052,461 |
| Total | 35,001,886 | 2,489,430 | - | - | 37,491,316 | 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 | 03.31.2016 | 12.31.2015 |
|-------------------------|-------------|--------------|
| | ThCh\$ | ThCh\$ |
| Beginning balance | 118,004,381 | 114,513,557 |
| Increases | 5,416,864 | 15,980,595 |
| Eliminations/ Additions | - | (12,489,771) |
| Movements, subtotal | 5,416,864 | 3,490,824 |
| Ending balance | 123,421,245 | 118,004,381 |

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

| Provisions and write-offs | 03.31.2016 | 03.31.2015 |
|--|------------|------------|
| | ThCh\$ | ThCh\$ |
| Accrual for portfolio that has not been renegotiated | 5,416,864 | 4,521,129 |
| Accrual for renegotiated portfolio | - | - |
| Write-offs for the period | - | (68,973) |
| Recoveries for the period | - | - |
| Total | 5,416,864 | 4,452,156 |

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

| Portfolio of returned documents and judicial collection as of 03.31.2016 | 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 | 9,954 | - | - |
| Portfolio of returned documents or those in judicial collection (ThCh\$) | 2,089,749 | - | - | - |

| 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 | 9,954 | - | - |
| Portfolio of returned documents or those in judicial collection (ThCh\$) | 2,089,749 | - | - | - |

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



8. Current trade and other accounts receivable, continued

The composition of the portfolio stratified by segment as of March 31, 2016 is detailed as follows:

| Aging of portfolio by segment for the period-ended March 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) | 204,621 | 227,581 | 74,241 | 67,544 | 35,466 | 20,378 | 9,237 | 1,265 | 942 | 1,807,817 | 2,449,092 |
| Net portfolio w/o renegotiation | 34,534,354 | 9,000,871 | 2,055,672 | 1,402,712 | 227,640 | 355,168 | 355,718 | - | - | - | 47,932,135 |
| Debt | 34,534,354 | 9,000,871 | 2,055,672 | 1,402,712 | 1,573,426 | 1,271,821 | 1,200,039 | 1,162,474 | 1,414,203 | 75,988,426 | 129,603,998 |
| Accrual | - | - | - | - | (1,345,786) | (916,653) | (844,321) | (1,162,474) | (1,414,203) | (75,988,426) | (81,671,863) |
| Number of clients w/renegotiation | 96,040 | 402 | 410 | 376 | 389 | 344 | 374 | 363 | 417 | 71,553 | 170,668 |
| Net renegotiated portfolio | 485,523 | 4,534 | 4,764 | 4,001 | - | - | - | - | - | - | 498,822 |
| Debt | 1,113,024 | 4,534 | 4,764 | 4,001 | 3,966 | 3,341 | 3,713 | 3,417 | 4,443 | 625,747 | 1,770,950 |
| Accrual | (627,501) | - | - | - | (3,966) | (3,341) | (3,713) | (3,417) | (4,443) | (625,747) | (1,272,128) |
| Total number of clients | 300,661 | 227,983 | 74,651 | 67,920 | 35,855 | 20,722 | 9,611 | 1,628 | 1,359 | 1,879,370 | 2,619,760 |
| Total Fixed Telephone Portfolio | 35,019,877 | 9,005,405 | 2,060,436 | 1,406,713 | 227,640 | 355,168 | 355,718 | - | - | - | 48,430,957 |
| Debt | 35,647,378 | 9,005,405 | 2,060,436 | 1,406,713 | 1,577,392 | 1,275,162 | 1,203,752 | 1,165,891 | 1,418,646 | 76,614,173 | 131,374,948 |
| Accrual | (627,501) | - | - | - | (1,349,752) | (919,994) | (848,034) | (1,165,891) | (1,418,646) | (76,614,173) | (82,943,991) |
| Long Distance | | | | | | | | | | | |
| Number of clients w/o renegotiation (1) | 16,267 | 18,586 | 10,424 | 3,589 | 6,025 | 5,118 | 5,562 | 5,544 | 5,624 | 1,315,840 | 1,392,579 |
| Net portfolio w/o renegotiation | 3,350,322 | 3,261,063 | 1,387,212 | 153,383 | 53,404 | 130,377 | 54,086 | - | - | - | 8,389,847 |
| Debt | 3,350,322 | 3,261,063 | 1,387,212 | 153,383 | 136,077 | 309,014 | 285,819 | 140,025 | 163,956 | 21,350,801 | 30,537,672 |
| Accrual | - | - | - | - | (82,673) | (178,637) | (231,733) | (140,025) | (163,956) | (21,350,801) | (22,147,825) |
| Number of clients w/renegotiation | - | - | - | - | - | - | - | - | - | - | - |
| Net renegotiated portfolio | - | - | - | - | - | - | - | - | - | - | - |
| Debt | - | - | - | - | - | - | - | - | - | - | - |
| Accrual | - | - | - | - | - | - | - | - | - | - | - |
| Total number of clients | 16,267 | 18,586 | 10,424 | 3,589 | 6,025 | 5,118 | 5,562 | 5,544 | 5,624 | 1,315,840 | 1,392,579 |
| Total Long Distance Portfolio | 3,350,322 | 3,261,063 | 1,387,212 | 153,383 | 53,404 | 130,377 | 54,086 | - | - | - | 8,389,847 |
| Debt | 3,350,322 | 3,261,063 | 1,387,212 | 153,383 | 136,077 | 309,014 | 285,819 | 140,025 | 163,956 | 21,350,801 | 30,537,672 |
| Accrual | - | - | - | - | (82,673) | (178,637) | (231,733) | (140,025) | (163,956) | (21,350,801) | (22,147,825) |
| Corporate Communication and Data | | | | | | | | | | | |
| Number of clients w/o renegotiation (1) | 2,458 | 1,362 | 29 | 592 | 366 | 566 | 228 | 237 | 308 | 2,152 | 8,298 |
| Net portfolio w/o renegotiation | 28,509,249 | 10,190,087 | 167,482 | 2,314,019 | 638,658 | 476,046 | 184,844 | - | - | - | 42,480,385 |
| Debt | 28,775,264 | 10,205,130 | 174,006 | 2,325,152 | 658,952 | 513,692 | 234,453 | 210,972 | 208,420 | 2,733,171 | 46,039,212 |
| Accrual | (266,015) | (15,043) | (6,524) | (11,133) | (20,294) | (37,646) | (49,609) | (210,972) | (208,420) | (2,733,171) | (3,558,827) |
| Number of clients w/renegotiation | - | - | - | - | - | - | - | - | - | - | - |
| Net renegotiated portfolio | - | - | - | - | - | - | - | - | - | - | - |
| Debt | - | - | - | - | - | - | - | - | - | - | - |
| Accrual | - | - | - | - | - | - | - | - | - | - | - |
| Total number of clients | 2,458 | 1,362 | 29 | 592 | 366 | 566 | 228 | 237 | 308 | 2,152 | 8,298 |
| Total Corporate Communication and Data Portfolio | 28,509,249 | 10,190,087 | 167,482 | 2,314,019 | 638,658 | 476,046 | 184,844 | - | - | - | 42,480,385 |
| Debt | 28,775,264 | 10,205,130 | 174,006 | 2,325,152 | 658,952 | 513,692 | 234,453 | 210,972 | 208,420 | 2,733,171 | 46,039,212 |
| Accrual | (266,015) | (15,043) | (6,524) | (11,133) | (20,294) | (37,646) | (49,609) | (210,972) | (208,420) | (2,733,171) | (3,558,827) |

(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

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



8. Current trade and other accounts receivable, continued

| Aging of portfolio by segment for the year-ended March 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\$ |
|---|----------------------|--------------------------------|---------------------------------|--------------------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------------|--|
| Television | | | | | | | | | | | |
| Number of clients w/o renegotiation (1) | 278,084 | 129,704 | 31,421 | 23,515 | 33,220 | 29,532 | 27,417 | 28,717 | 30,392 | 198,939 | 810,941 |
| Net portfolio w/o renegotiation | 24,165,081 | 3,604,608 | 825,881 | 625,595 | 5,651 | 4,053 | 3,786 | 0 | 0 | 0 | 29,234,655 |
| Debt | 24,165,081 | 3,604,608 | 825,881 | 625,595 | 894,615 | 785,848 | 716,213 | 737,629 | 865,968 | 9,622,003 | 42,843,441 |
| Accrual | - | - | - | - | (888,964) | (781,795) | (712,427) | (737,629) | (865,968) | (9,622,003) | (13,608,786) |
| Number of clients w/renegotiation | - | - | - | - | - | - | - | - | - | - | - |
| Net renegotiated portfolio | - | - | - | - | - | - | - | - | - | - | - |
| Debt | - | - | - | - | - | - | - | - | - | - | - |
| Accrual | - | - | - | - | - | - | - | - | - | - | - |
| Total number of clients | 278,084 | 129,704 | 31,421 | 23,515 | 33,220 | 29,532 | 27,417 | 28,717 | 30,392 | 198,939 | 810,941 |
| Total Television Portfolio | 24,165,081 | 3,604,608 | 825,881 | 625,595 | 5,651 | 4,053 | 3,786 | - | - | - | 29,234,655 |
| Debt | 24,165,081 | 3,604,608 | 825,881 | 625,595 | 894,615 | 785,848 | 716,213 | 737,629 | 865,968 | 9,622,003 | 42,843,441 |
| Accrual | - | - | - | - | (888,964) | (781,795) | (712,427) | (737,629) | (865,968) | (9,622,003) | (13,608,786) |
| Other | | | | | | | | | | | |
| Number of clients w/o renegotiation (1) | - | - | - | - | - | - | - | - | - | - | - |
| Net portfolio w/o renegotiation | 12,733,407 | - | - | - | - | - | - | - | - | - | 12,733,407 |
| Debt | 12,733,407 | - | - | - | - | - | - | - | - | - | 12,733,407 |
| Accrual | - | - | - | - | - | - | - | - | - | - | - |
| Number of clients w/renegotiation | - | - | - | - | - | - | - | - | - | - | - |
| Net renegotiated portfolio | - | - | - | - | - | - | - | - | - | - | - |
| Debt | - | - | - | - | - | - | - | - | - | - | - |
| Accrual | - | - | - | - | - | - | - | - | - | - | - |
| Total number of clients | - | - | - | - | - | - | - | - | - | - | - |
| Total Other Portfolio | 12,733,407 | - | - | - | - | - | - | - | - | - | 12,733,407 |
| Debt | 12,733,407 | - | - | - | - | - | - | - | - | - | 12,733,407 |
| Accrual | - | - | - | - | - | - | - | - | - | - | - |
| Consolidated Portfolio | | | | | | | | | | | |
| Number of clients w/o renegotiation (1) | 501,430 | 377,233 | 116,115 | 95,240 | 75,077 | 55,594 | 42,444 | 35,763 | 37,266 | 3,324,748 | 4,660,910 |
| Net portfolio w/o renegotiation | 103,292,413 | 26,056,629 | 4,436,247 | 4,495,709 | 925,353 | 965,644 | 598,434 | - | - | - | 140,770,429 |
| Debt | 103,558,428 | 26,071,672 | 4,442,771 | 4,506,842 | 3,263,070 | 2,880,375 | 2,436,524 | 2,251,100 | 2,652,547 | 109,694,401 | 261,757,730 |
| Accrual | (266,015) | (15,043) | (6,524) | (11,133) | (2,337,717) | (1,914,731) | (1,838,090) | (2,251,100) | (2,652,547) | (109,694,401) | (120,987,301) |
| Number of clients w/renegotiation | 96,040 | 402 | 410 | 376 | 389 | 344 | 374 | 363 | 417 | 71,553 | 170,668 |
| Net renegotiated portfolio | 485,523 | 4,534 | 4,764 | 4,001 | - | - | - | - | - | - | 498,822 |
| Debt | 1,113,024 | 4,534 | 4,764 | 4,001 | 3,966 | 3,341 | 3,713 | 3,417 | 4,443 | 625,747 | 1,770,950 |
| Accrual | (627,501) | - | - | - | (3,966) | (3,341) | (3,713) | (3,417) | (4,443) | (625,747) | (1,272,128) |
| Total number of clients | 597,470 | 377,635 | 116,525 | 95,616 | 75,466 | 55,938 | 42,818 | 36,126 | 37,683 | 3,396,301 | 4,831,578 |
| Total Consolidated Portfolio | 103,777,936 | 26,061,163 | 4,441,011 | 4,499,710 | 925,353 | 965,644 | 598,434 | - | - | - | 141,269,251 |
| Debt | 104,671,452 | 26,076,206 | 4,447,535 | 4,510,843 | 3,267,036 | 2,883,716 | 2,440,237 | 2,254,517 | 2,656,990 | 110,320,148 | 263,528,680 |
| Accrual | (893,516) | (15,043) | (6,524) | (11,133) | (2,341,683) | (1,918,072) | (1,841,803) | (2,254,517) | (2,656,990) | (110,320,148) | (122,259,429) |

(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.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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) | 205,094 | 228,108 | 74,413 | 67,700 | 35,548 | 20,425 | 9,259 | 1,268 | 944 | 1,812,000 | 2,454,758 |
| Netportfolio w/o renegotiation | 27,920,523 | 6,312,804 | 2,044,108 | 1,134,558 | 320,292 | 120,651 | 182,320 | - | - | - | 38,035,256 |
| Debt | 27,920,523 | 6,312,804 | 2,044,108 | 1,134,558 | 1,332,500 | 1,300,687 | 1,114,726 | 715,094 | 679,893 | 74,950,409 | 117,505,302 |
| Accrual | - | - | - | - | (1,012,208) | (1,180,036) | (932,406) | (715,094) | (679,893) | (74,950,409) | (79,470,046) |
| 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 | 205,498 | 229,026 | 74,889 | 68,096 | 35,952 | 20,780 | 9,637 | 1,634 | 1,363 | 1,883,606 | 2,530,480 |
| Total Fixed Telephone Portfolio | 28,554,303 | 6,312,804 | 2,044,108 | 1,134,558 | 320,292 | 120,651 | 182,320 | - | - | - | 38,669,036 |
| Debt | 29,185,480 | 6,323,329 | 2,049,597 | 1,138,802 | 1,336,637 | 1,304,140 | 1,118,477 | 718,536 | 684,359 | 75,576,671 | 119,436,028 |
| Accrual | (631,177) | (10,525) | (5,489) | (4,244) | (1,016,345) | (1,183,489) | (936,157) | (718,536) | (684,359) | (75,576,671) | (80,766,992) |
| Long Distance | | | | | | | | | | | |
| Number of clients w/o renegotiation (1) | 20,789 | 21,113 | 9,914 | 5,614 | 5,565 | 5,687 | 5,873 | 4,197 | 5,996 | 1,305,284 | 1,390,032 |
| Gross portfolio w/o renegotiation | 3,837,012 | 2,223,861 | 2,203,020 | 410,318 | 115,753 | 78,567 | 66,015 | - | - | - | 8,934,546 |
| Debt | 3,837,012 | 2,223,861 | 2,203,020 | 410,318 | 248,959 | 205,528 | 185,194 | 137,948 | 168,037 | 21,197,347 | 30,817,224 |
| Accrual | - | - | - | - | (133,206) | (126,961) | (119,179) | (137,948) | (168,037) | (21,197,347) | (21,882,678) |
| Number of clients w/renegotiation | - | - | - | - | - | - | - | - | - | - | - |
| Net renegotiated portfolio | - | - | - | - | - | - | - | - | - | - | - |
| Debt | - | - | - | - | - | - | - | - | - | - | - |
| Accrual | - | - | - | - | - | - | - | - | - | - | - |
| Total number of clients | 20,789 | 21,113 | 9,914 | 5,614 | 5,565 | 5,687 | 5,873 | 4,197 | 5,996 | 1,305,284 | 1,390,032 |
| Total Long Distance Portfolio | 3,837,012 | 2,223,861 | 2,203,020 | 410,318 | 115,753 | 78,567 | 66,015 | - | - | - | 8,934,546 |
| Debt | 3,837,012 | 2,223,861 | 2,203,020 | 410,318 | 248,959 | 205,528 | 185,194 | 137,948 | 168,037 | 21,197,347 | 30,817,224 |
| Accrual | - | - | - | - | (133,206) | (126,961) | (119,179) | (137,948) | (168,037) | (21,197,347) | (21,882,678) |
| 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) |

(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.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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\$ |
|--|----------------------|--------------------------------|---------------------------------|--------------------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------------|--|
| 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) |
| 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 | 4,598,273 |
| 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 | 4,673,995 |
| 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.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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 | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|--|--------------|-------------------|----------------------------|---|----------|----------|----------------------|----------------------|
| Telefónica Móviles Chile S.A. | 87.845.500-2 | Chile | Parent Co. | Total | | | 67,613,962 | 62,155,497 |
| | | | | Professional Serv, Access & interc, charges | CLP | 60 days | 37,675,061 | 38,416,772 |
| | | | | Media rental | CLP | 60 days | 26,277,826 | 19,744,137 |
| | | | | Other | CLP | 60 days | 3,265,909 | 3,853,153 |
| Telefónica International Wholesale Services Spain | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 90 days | 395,166 | 141,435 |
| Telefónica Argentina S.A. | Foreign | Argentina | Common end controller | Serv, Provided, | USD | 180 days | 2,316,715 | 1,685,218 |
| Telefónica Digital Spain | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 60 days | 1,713,760 | 1,815,738 |
| Telefónica International Wholesale Services Chile S.A. | 96.910.730-9 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 1,052,157 | 1,175,069 |
| Telefónica Internacional S.A.U. | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 90 days | 981,862 | 1,966,033 |
| Telefónica S.A. | Foreign | Spain | End controller | Serv, Provided, | EUR | 90 days | 536,744 | 1,129,796 |
| Telefónica Brasil | Foreign | Brasil | Common end controller | Serv, Provided, | USD | 90 days | 424,201 | 427,906 |
| Telefónica Ingeniería de Seguridad S.A. | 59.083.900-0 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 180,700 | 171,999 |
| Wayra Chile Tecnología e Innovación Ltda. | 96.672.150-2 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 150,400 | 199,672 |
| Telefónica Global Tecnología Chile | 59.165.120-K | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 108,229 | 85,954 |
| Telefónica Global Tecnología S.A.U. | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 90 days | 96,665 | 88,482 |
| Telcel Venezuela | Foreign | Venezuela | Common end controller | Serv, Provided, | USD | 180 days | 95,962 | 95,962 |
| Fundación Telefónica Chile S.A. | 74.944.200-k | Chile | Associated | Serv, Provided, | CLP | 60 days | 90,669 | 117,597 |
| Telefónica Investigación y Desarrollo Chile Spa | 76.378.279-4 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 83,590 | 83,590 |
| Media Networks Perú | Foreign | Perú | Common end controller | Serv, Provided, | USD | 90 days | 77,784 | 53,957 |
| Terra Networks Chile S.A. | 96.834.230-4 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 41,757 | 41,788 |
| Telefónica Learning Services Chile Capacitación Ltda. | 76.131.334-7 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 29,636 | 26,255 |
| Media Networks Chile | 76.243.733-3 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 23,516 | 15,603 |
| Telefónica On The Spot Soluciones Digitales de Chile Spa | 76.338.291-5 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 20,198 | 14,760 |
| Colombia Telecomunicaciones S.A.E.S.P | Foreign | Colombia | Common end controller | Serv, Provided, | USD | 60 days | 17,001 | 14,674 |
| Telefónica Móviles Guatemala | Foreign | Guatemala | Common end controller | Serv, Provided, | USD | 90 days | 16,992 | 35,910 |
| Telefónica Learning Services Chile Spa | 76.318.959-7 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 9,631 | 10,212 |
| Telefónica Factoring Chile S.A. | 76.096.189-2 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 9,454 | 6,274 |
| Telefónica USA Inc. | Foreign | USA | Common end controller | Serv, Provided, | USD | 60 days | 1,619 | 1,619 |
| Telefónica Gestión de Servicios Compartidos Spain | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 60 days | 1,213 | 1,213 |
| Total | | | | | | | - | 230,983 |
| Total | | | | | | | 75,694,417 | 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.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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 | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|-------------------------------|--------------|-------------------|----------------------------|--------------------|----------|------|----------------------|----------------------|
| Telefónica Móviles Chile S.A. | 87.845.500-2 | Chile | 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 | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|--|--------------|-------------------|----------------------------|----------------------|----------|----------|----------------------|----------------------|
| Telefónica Móviles Chile S.A. | 87.845.500-2 | Chile | Parent Co. | Total | | | 36,119,977 | 26,556,856 |
| | | | | Mercantile mandate | CLP | 60 days | 26,380,704 | 14,256,211 |
| | | | | Collection payable | CLP | 60 days | 4,069,754 | 7,072,474 |
| | | | | Access charges | CLP | 60 days | 2,616,588 | 2,210,709 |
| | | | | Professional Serv. | CLP | 60 days | 1,014,038 | 1,935,301 |
| | | | | Fixed – Mobile cost | CLP | 60 days | 694,306 | 420,842 |
| | | | | Other | CLP | 60 days | 708,346 | 333,294 |
| | | | | Leases | CLP | 60 days | 636,241 | 328,025 |
| Telefónica International Wholesale Services Chile S.A. | 96.910.730-9 | Chile | Common end controller | Total | | | 23,161,660 | 20,781,346 |
| | | | | Mercantile mandate | CLP | 60 days | 18,762,623 | 9,670,744 |
| | | | | IP Voice Traffic | CLP | 60 days | 3,398,330 | 5,094,079 |
| | | | | Data and Links | CLP | 60 days | 957,429 | 5,125,204 |
| | | | | Other | CLP | 60 days | 43,278 | 891,319 |
| Inversiones Telefónica Móviles Holding S.A. | 76.124.890-1 | Chile | Parent Co. | Total | | | 7,223,283 | 7,223,283 |
| | | | | Dividend | CLP | 60 days | 7,221,755 | 7,221,755 |
| | | | | Other | CLP | 60 days | 1,528 | 1,528 |
| Telefónica S.A. | Foreign | Spain | End controller | Total | | | 6,396,140 | 5,235,704 |
| | | | | Brand Fee | EUR | 90 days | 5,527,590 | 4,174,644 |
| | | | | Other | EUR | 90 days | 868,550 | 1,061,060 |
| Telefónica Global Technology | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 90 days | 3,484,230 | 701,778 |
| Telefónica Internacional S.A.U. - Spain | Foreign | Spain | Common end controller | Total | | | 3,444,680 | 4,717,943 |
| | | | | Cost Sharing | | | | |
| | | | | Agreement | EUR | 90 days | 2,238,843 | 2,797,862 |
| | | | | Management Fee | EUR | 90 days | 1,200,129 | 1,920,081 |
| | | | | Other | EUR | 90 days | 5,708 | - |
| Telefónica Argentina S.A. | Foreign | Argentina | Common end controller | Serv, Provided, | USD | 180 days | 2,810,316 | 1,991,525 |
| Telefónica Global Technology Chile | 59.165.120-k | Chile | Common end controller | Information services | CLP | 60 days | 2,809,456 | 2,415,927 |
| Media Networks Perú | Foreign | Perú | Common end controller | Space satellite | USD | 90 days | 2,283,954 | 5,074,696 |
| Telefónica Digital España | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 60 days | 2,133,336 | 1,464,235 |
| Telefónica International Wholesale Services España | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 90 days | 2,119,255 | 1,457,379 |
| Telefónica USA Inc. | Foreign | USA | Common end controller | Serv, Provided, | USD | 60 days | 1,203,863 | 985,688 |
| Telefónica Ingeniería de Seguridad S.A. | 59.083.900-0 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 1,010,817 | 629,211 |
| Telefónica Compras Electrónicas | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 90 days | 983,101 | 959,366 |
| Fundación Telefónica Chile | 74.944.200-k | Chile | Associated | Serv, Provided, | CLP | 60 days | 880,439 | 501,422 |
| Telefónica del Perú S.A. | Foreign | Perú | Common end controller | Serv, Provided, | USD | 180 days | 348,165 | 402,049 |
| Telefónica Brasil | Foreign | Brasil | Common end controller | Serv, Provided, | USD | 90 days | 151,684 | 152,267 |
| Telefónica Investigación y Desarrollo Chile Spa | 76.378.279-4 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 87,050 | 73,481 |
| Colombia Telecomunicaciones S.A.E.S.P. (Telecom.) | Foreign | Colombia | Common end controller | Serv, Provided, | USD | 60 days | 53,132 | 62,954 |
| Telefónica On The Spot Soluciones Digitales de Chile Spa | 76.338.291-5 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 19,975 | 5,908 |
| Televisión Federal Telefó – Argentina | Foreign | Argentina | Common end controller | Serv, Provided, | USD | 90 days | 13,874 | 9,596 |
| Telefónica Servicios Audiovisuales | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 60 days | 11,069 | 6,462 |
| Telefónica Learning | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 60 days | 10,236 | 10,236 |
| Terra Networks Chile S.A. | 96.834.230-4 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 8,527 | 4,378 |
| Inversiones Telefónica Internacional Holding L.S.A. | 77.363.730-K | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 5,486 | 2,206 |
| Telefónica On The Spot Services S.A.U. | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 90 days | 3,349 | 3,551 |
| Telefónica Factoring - España | Foreign | Spain | Common end controller | Serv, Provided, | USD | 60 days | 1,539 | 1,623 |
| Telefónica Global Services, GmbH | Foreign | Alemania | Common end controller | Serv, Provided, | USD | 90 days | 730 | 740 |
| Telefónica de España S.A.U | Foreign | Spain | Common end controller | Serv, Provided, | EUR | 180 days | 699 | 348 |
| Telefónica Learning Services Chile Spa | 76.318.959-7 | Chile | Common end controller | Serv, Provided, | CLP | 60 days | 468 | 468 |
| 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 | Alemania | Common end controller | Serv, Provided, | USD | 90 days | - | 14,262 |
| Total | | | | | | | 96,780,490 | 81,567,128 |

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



9. Receivables from and payable to related companies, continued

c) Current payables to related companies, continued:

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 | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|-------------------------------|--------------|-------------------|----------------------------|--------------------|----------|------|----------------------|----------------------|
| Telefónica Móviles Chile S.A. | 87.845.500-2 | Chile | Parent Co. | Mercantile Current | CLP | - | 21,428,586 | 21,181,406 |
| Total | | | | | | | 21,428,586 | 21,181,406 |

e) Transactions:

| Company | Taxpayer No. | Country of origin | Nature of the relationship | Transaction origin | Currency | 03.31.2016 | | 03.31.2015 | |
|--|--------------|-------------------|----------------------------|-------------------------------------|----------|------------------|---|------------------|---|
| | | | | | | Amount ThCh\$ | Effect on income (Charge)/Credit ThCh\$ | Amount ThCh\$ | Effect on income (Charge)/Credit ThCh\$ |
| Telefónica Móviles Chile S.A. | 87.845.500-2 | Chile | Parent Co | Professional Serv. | CLP | 24,274,379 | 24,274,379 | 22,147,595 | 22,147,595 |
| | | | | Access charges and Interconnections | CLP | 10,040,124 | 10,040,124 | 8,934,426 | 8,934,426 |
| | | | | Fixed – Mobile | CLP | 2,430,423 | 2,430,423 | 1,881,579 | 1,881,579 |
| | | | | Other | CLP | 864,899 | 864,899 | 721,895 | 721,895 |
| | | | | Fixed – Mobile cost | CLP | 1,770,956 | (1,770,956) | 2,753,807 | (2,753,807) |
| | | | | Other | CLP | 885,093 | (885,093) | 778,089 | (778,089) |
| | | | | Interest expense | CLP | 491,673 | (491,673) | 1,019,367 | (1,019,367) |
| Telefónica International Wholesale Services Chile S.A. | 96.910.730-9 | Chile | Common end controller | Sale | CLP | 748,879 | 748,879 | 761,719 | 761,719 |
| | | | | Access internet - IP Traffic | CLP | 3,643,898 | (3,643,898) | 3,603,591 | (3,603,591) |
| | | | | Other | CLP | 784,772 | (784,772) | 354,292 | (3,54,292) |
| | | | | Interest expense | CLP | - | - | 37,868 | (37,868) |
| Telefónica S.A. | Extranjera | Spain | End controller | Sale | EUR | - | - | 24,647 | 24,647 |
| | | | | Brand Fee | EUR | 2,576,153 | (2,576,153) | 2,417,730 | (2,417,730) |
| | | | | Plan of shares | EUR | 650,929 | (650,929) | - | - |
| | | | | Other | EUR | 46,202 | 46,202 | 46,707 | (46,707) |

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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 | 03.31.2016 | | 03.31.2015 | |
|--|--------------|-------------------|----------------------------|----------------------|----------|---------------|---|---------------|---|
| | | | | | | Amount ThCh\$ | Effect on income (Charge)/Credit ThCh\$ | Amount ThCh\$ | Effect on income (Charge)/Credit ThCh\$ |
| Media Networks Perú | Foreign | Perú | Common end controller | Sale | USD | 35,090 | 35,090 | 31,370 | 31,370 |
| | | | | Site rental | USD | 1,417,924 | (1,417,924) | 1,701,700 | (1,701,700) |
| | | | | Other | USD | 745,115 | (745,115) | 768,642 | (768,642) |
| Telefónica Argentina S.A. | Foreign | Argentina | Common end controller | Sale | USD | - | - | 5,501 | 5,501 |
| | | | | Media rental | USD | 1,791,499 | (1,791,499) | 1,757,813 | (1,757,813) |
| Telefónica Global Technology Chile | 56.165.120-K | Chile | Common end controller | Sale | CLP | 35,909 | 35,909 | 56,813 | 56,813 |
| | | | | Information services | CLP | 1,913,819 | (1,913,819) | 2,309,770 | (2,309,770) |
| Telefónica Global Technology S.A.U. | Foreign | Spain | Common end controller | Costs | EUR | 1,578,477 | (1,578,477) | 1,519,769 | (1,519,769) |
| Telefónica Ingeniería de Seguridad S.A. | 59.083.900-0 | Chile | Common end controller | Sale | CLP | 6,114 | 6,114 | 84,398 | 84,398 |
| | | | | Costs | CLP | 407,846 | (407,846) | 316,562 | (316,562) |
| Telefónica Digital Spain | Foreign | Spain | Common end controller | Sale | EUR | 153,187 | 153,187 | 186,089 | 186,089 |
| | | | | Costs | EUR | 711,664 | (711,664) | 641,049 | (641,049) |
| Telefónica Compras Electrónica S.A. | Foreign | España | Common end controller | Costs | EUR | 261,626 | (261,626) | 347,044 | (347,044) |
| Telefónica USA Inc. | Foreign | USA | Common end controller | Costs | USD | 218,174 | (218,174) | 24,714 | (24,714) |
| Telefónica De Costa Rica S.A. | Foreign | Costa Rica | Common end controller | Sale | USD | 593,052 | (593,052) | 138,000 | 138,000 |
| Telefónica International Wholesale Services América | Foreign | Uruguay | Common end controller | Costs | USD | 353,744 | (353,744) | 238,099 | (238,099) |
| | | | | Sale | EUR | - | - | 175,126 | 175,126 |
| Telefónica Internacional S.A.U | Foreign | Spain | Common end controller | Costs | EUR | 906,534 | 906,534 | - | - |
| | | | | Sale | EUR | 718,168 | 718,168 | 762,657 | 762,657 |
| Telefónica International Wholesale Services Spain | Foreign | Spain | Common end controller | Costs | EUR | 698,021 | (698,021) | 1,360,502 | (1,360,502) |
| | | | | Sale | EUR | - | - | 144,249 | 144,249 |
| Telefónica Gestión de Servicios Compartidos - Spain | Foreign | Spain | Common end controller | Costs | EUR | 83,889 | (83,889) | 74,692 | (74,692) |
| | | | | Sale | EUR | - | - | 144,249 | 144,249 |
| Telefónica del Perú S.A. | Foreign | Perú | Common end controller | Costs | USD | 16,665 | (16,665) | 100,032 | (100,032) |
| Telefónica Brasil | Foreign | Brasil | Common end controller | Sale | USD | 583 | 583 | - | - |
| Telefónica On The Spot Soluciones Digitales de Chile Spa | 76.338.291-5 | Chile | Common end controller | Sale | CLP | 1,956 | 1,956 | 5,962 | 5,962 |
| | | | | Costs | CLP | 13,616 | (13,616) | - | - |
| Telefónica Servicios Audiovisuales | Foreign | Spain | Common end controller | Costs | EUR | 9,873 | (9,873) | - | - |
| Wayra Chile Tecnología e Innovación Ltda. | 96.672.150-2 | Chile | Common end controller | Sale | CLP | 20,513 | 20,513 | 18,848 | 18,848 |
| Televisión Federal Telefó – Argentina | Foreign | Argentina | Common end controller | Costs | USD | 14,069 | (14,069) | 12,759 | (12,759) |

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



9. Receivables from and payable to related companies, continued

| Company | Taxpayer No. | Country of origin | Nature of the relationship | Transaction origin | Currency | 31.03.2016 | | 31.03.2015 | |
|---|--------------|-------------------|----------------------------|--------------------|----------|---------------|---|---------------|---|
| | | | | | | Amount ThCh\$ | Effect on income (Charge)/Credit ThCh\$ | Amount ThCh\$ | Effect on income (Charge)/Credit ThCh\$ |
| Telefónica Investigación y Desarrollo Chile Spa | 76.378.279-4 | Chile | Common end controller | Sale | CLP | 30,614 | 30,614 | 9,951 | 9,951 |
| Colombia Telecomunicaciones S.A.E.S.P. (Telecom.) | Extranjera | Colombia | Common end controller | Sale | USD | 10,439 | 10,439 | - | - |
| | | | | Costs | USD | 7,931 | 7,931 | 3,979 | (3,979) |
| Media Network Chile | 76.243.733-3 | Chile | Common end controller | Sale | CLP | 4,606 | 4,606 | 4,406 | 4,406 |
| | | | | Costs | CLP | 195,938 | (195,938) | - | - |
| Telefónica Learning Services Chile Spa | 76.318.959-7 | Chile | Common end controller | Sale | CLP | 2,673 | 2,673 | - | - |
| Fundación Telefónica Chile S.A. | 74.944.200-k | Chile | Associated | Sale | CLP | - | - | 1,315 | 1,315 |
| | | | | Financial expenses | CLP | 3,524 | (3,524) | 1,597 | (1,597) |
| Inversiones Telefónica Internacional Holding S.A. | 77.363.730-K | Chile | Common end controller | Sale | CLP | 1,822 | 1,822 | 1,279 | 1,279 |
| T. Learning Services Chile Capacitación Limitada | 76.131.334-7 | Chile | Common end controller | Sale | CLP | 6,649 | 6,649 | - | - |
| Terra Networks Chile S.A. | 93.834.230-4 | Chile | Common end controller | Sale | CLP | 2,902 | 2,902 | 7,397 | 7,397 |
| | | | | Costs | CLP | - | - | 8,485 | (8,485) |
| Telefónica de España S.A.U. | Extranjera | Spain | Common end controller | Sale | EUR | 350 | (350) | - | - |
| | | | | Costs | EUR | - | - | 13 | (13) |
| Telefónica Factoring Chile S.A. | 76.096.189-2 | Chile | Common end controller | Sale | CLP | - | - | 1,361 | 1,361 |
| Telefónica On The Spot Services SAU | Extranjera | Spain | Common end controller | Costs | EUR | - | - | 2,695 | 2,695 |
| Telefónica Soluciones Inf. Com. Spain | Extranjera | Spain | Common end controller | Costs | EUR | - | - | 347,502 | (347,502) |
| Telefónica Learning | Extranjera | Spain | Common end controller | Costs | EUR | - | - | 10,563 | (10,563) |
| Telcel Venezuela | Extranjera | Venezuela | Common end controller | Sale | USD | - | - | 19,765 | 19,765 |

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

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

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

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

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

9. Receivables from and payable to related companies, continued

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

The Company is managed by a Board of Directors composed of 14 members and its key employees are 69 and 72 executives for March 31, 2016 and 2015, respectively.

| Concepts | 03.31.2016 | 03.31.2015 |
|--------------------------|------------------|------------------|
| | ThCh\$ | ThCh\$ |
| Salaries | 5,176,314 | 5,214,684 |
| Post employment benefits | 462,237 | 202,080 |
| Total | 5,638,551 | 5,416,764 |

10. Inventory

a) The detail of inventory is as follows:

| Concepts | 03.31.2016 | | | 12.31.2015 | | |
|--|-------------------|-------------------------------|-------------------|-------------------|-------------------------------|-------------------|
| | Gross value | Allowance for obsolescence | Net value | Gross value | Allowance for obsolescence | Net value |
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Modems and Router | 7,381,577 | (1,099,982) | 6,281,595 | 8,987,203 | (573,181) | 8,414,022 |
| Basic telephony, public telephony and switchboard ("centralitas") components | 3,220,392 | (1,473,889) | 1,746,503 | 3,008,823 | (1,375,891) | 1,632,932 |
| Decoders and antennas (1) | 6,391,472 | (448,716) | 5,942,756 | 7,893,044 | (669,511) | 7,223,533 |
| IP Solutions Projects | 811,754 | - | 811,754 | 294,164 | - | 294,164 |
| Other | 396,358 | (147,576) | 248,782 | 537,339 | (197,967) | 339,372 |
| Total | 18,201,553 | (3,170,163) | 15,031,390 | 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 March 31, 2016 and December 31, 2015 there have been no inventory write-offs, there is no inventory in guarantee.

b) The movement of inventory is as follows:

| Movements | 03.31.2015 | 12.31.2015 |
|--|--------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Beginning balance | 17,904,023 | 5,036,459 |
| Purchases | 7,781,717 | 51,373,975 |
| Sales | (10,288,808) | (38,342,202) |
| Allowance for obsolescence | (353,613) | 64,016 |
| Transfer to materials allocated to the investment (note 15b) | (11,929) | (228,225) |
| Movement, subtotal | (2,872,633) | 12,867,564 |
| Ending balance | 15,031,390 | 17,904,023 |

11. Income Taxes

a) Income Taxes:

As of March 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\$ 12,673,020 and ThCh\$ 9,055,258, respectively for each periods.

The previous figures correspond to the income of the parent company and subsidiaries with a positive base of ThCh\$ 8,352,390 and ThCh\$ 4,320,630 for March 2016, respectively and ThCh\$ 4,052,720 and ThCh\$ 5,002,538 for March 2015, respectively.

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 March 31, 2016, the parent company has a positive Retained Taxable Earnings Registry in the amount of ThCh\$ 754,927,297.

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

| Subsidiaries | Taxable net | Taxable net | Taxable net | Taxable net | Taxable net | Taxable net | Taxable net | Taxable net | Taxable net | Taxable net | Amount of credit |
|---|------------------------|------------------------|--------------------------|------------------------|------------------------|------------------------|--------------------------|------------------------|-----------------------|--------------------|------------------|
| | income with 15% credit | income with 16% credit | income with 16.5% credit | income with 17% credit | income with 20% credit | income with 21% credit | income with 22.5% credit | income with 24% credit | Income without credit | | |
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Telefónica Chile S.A. | 3,080,133 | 1,166,969 | 835,416 | 372,641,891 | 232,312,001 | 42,050,529 | 23,102,306 | 5,185,100 | 25,512,727 | 153,218,116 | |
| Telefónica Chile Servicios Corporativos Ltda. | - | - | - | - | 19,602,341 | 10,585,284 | 9,795,728 | - | 2,974,273 | 10,558,302 | |
| Telefónica Empresas Chile S.A. | - | - | - | - | - | - | - | - | 6,082,599 | - | |
| Total | 3,080,133 | 1,166,969 | 835,416 | 372,641,891 | 251,914,342 | 52,635,813 | 32,898,034 | 5,185,100 | 34,569,599 | 163,776,418 | |

b) Current tax assets

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

| Concepts | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|-------------------------------------|----------------------|----------------------|
| Monthly prepaid tax installments | 1,278,650 | 1,050,582 |
| Net income consumed by loss own (1) | 7,728,019 | 4,586,338 |
| Other | 1,089,388 | 969,389 |
| Total | 10,096,057 | 6,606,309 |

(1) Corresponds to a provisional payment on net income consumed by loss (PPUA) made in 2016 and 2015 of subsidiary Telefónica Empresas Chile S.A. and Telefónica Chile Servicios Corporativos Ltda. in the amount of ThCh\$5,034,635 and ThCh\$2,693,384 respectively, generated by the absorption of the tax loss for 2016 and 2015 with taxable retained earnings as of March 31, 2016.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



11. Income Taxes, continued

c) Deferred taxes

As of March 31, 2016, December 31, 2015 and March 31, 2015, the cumulative balances of temporary differences resulted in net deferred tax liabilities of ThCh\$ 62,479,054, ThCh\$ 62,859,639 and ThCh\$ 69,460,132, respectively, detailed as follows:

| Disclosure of temporary differences, losses and unused tax credits | 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 |
|--|-----------------------------|---------------------------------|--------------------|-----------------------------|---|---|-----------------|----------------------|---|----------------------|-----------------------|--|
| March 31, 2016 | | | | | | | | | | | | |
| Deferred tax assets and liabilities | | | | | | | | | | | | |
| Deferred tax assets | 2,034,404 | 30,078,802 | 1,302,070 | 8,425,273 | 12,518,203 | 4,238,476 | 679,035 | 3,366,437 | 2,752,726 | (54,280,185) | 11,115,241 | 11,115,241 |
| Deferred tax liabilities | 409,458 | - | - | 12,409,386 | 111,748,213 | 2,772,559 | - | 122,576 | 412,288 | (54,280,185) | 73,594,295 | 7,594,295 |
| Deferred tax liabilities (assets) | (1,624,946) | (30,078,802) | (1,302,070) | 3,984,113 | 99,230,113 | (1,465,917) | (679,035) | (3,243,861) | (2,340,438) | - | 62,479,054 | 62,479,054 |
| Deferred tax assets and liabilities, net | | | | | | | | | | | | |
| Deferred tax assets, net | (1,624,946) | (30,078,802) | (1,302,070) | - | - | (1,465,917) | (679,035) | (3,243,861) | (2,340,438) | - | (40,735,069) | (40,735,069) |
| Deferred tax liabilities, net | - | - | - | 3,984,113 | 99,230,113 | - | - | - | - | - | 103,214,123 | 103,214,123 |
| Deferred tax expense (benefit) | | | | | | | | | | | | |
| Deferred tax expense (benefit) | (250,569) | (1,379,613) | 311,923 | 1,177,071 | (2,177,995) | (120,564) | 52,399 | 2,044,221 | - | - | (343,127) | (343,127) |
| Deferred tax expense (benefit) recognized in income | (250,569) | (1,379,613) | 311,923 | 1,177,071 | (2,177,995) | (120,564) | 52,399 | 2,044,221 | - | - | (343,127) | (343,127) |
| Reconciliation of changes in deferred tax liabilities (assets) | | | | | | | | | | | | |
| Deferred tax liabilities (assets) - Beginning balance Dec. 2015 | (1,374,377) | (28,699,189) | (1,613,993) | 2,807,042 | 101,408,005 | (1,345,353) | (731,434) | (5,288,082) | (2,302,979) | - | 62,859,640 | 62,859,640 |
| Changes in deferred tax liabilities (assets) | | | | | | | | | | | | |
| Deferred tax expense (benefit) recognized in income | (250,569) | (1,379,613) | 311,923 | 1,177,071 | (2,177,995) | (120,564) | 52,399 | 2,044,221 | - | - | (343,127) | (343,127) |
| Deferred taxes related to items credited (charged) directly to equity | - | - | - | - | - | - | - | - | - | - | - | - |
| Income taxes related to components of other comprehensive income | - | - | - | - | - | - | - | - | (37,459) | - | (37,459) | (37,459) |
| 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) | (250,569) | (1,379,613) | 311,923 | 1,177,071 | (2,177,995) | (120,564) | 52,399 | 2,044,221 | (37,459) | - | (380,586) | (380,586) |
| Deferred tax liabilities (assets) | (1,624,946) | (30,078,802) | (1,302,070) | 3,984,113 | 99,230,010 | (1,465,917) | (679,035) | (3,243,861) | (2,340,438) | - | 62,479,054 | 62,479,054 |

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

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



11. Income Taxes, continued

c) Deferred taxes, continued

| Disclosure of temporary differences, losses and unused tax credits | Other temporary differences | Allowance for doubtful accounts | Vacation provision | Staff severance indemnities | Property, plant and equipment and IRUS amortization | Deferred income | Bonus Incentive | Equity adjustment due to termination benefits and hedging insurance | Reclassification (1) | Temporary differences | Temporary differences, losses and unused tax credits |
|--|-----------------------------|---------------------------------|--------------------|-----------------------------|---|-----------------|-----------------|---|----------------------|-----------------------|--|
| March 31, 2015 | | | | | | | | | | | |
| Deferred tax assets and liabilities | | | | | | | | | | | |
| Deferred tax assets | 2,058,018 | 27,599,948 | 937,696 | 7,717,138 | 3,975,452 | 1,041,595 | 1,197,903 | 2,693,791 | (39,985,616) | 7,235,925 | 7,235,925 |
| Deferred tax liabilities | 1,367,241 | - | - | 11,025,694 | 103,893,488 | - | - | 395,250 | (39,985,616) | 76,696,057 | 76,691,852 |
| Deferred tax liabilities (assets) | (690,777) | (27,599,948) | (937,696) | 3,308,556 | 99,918,036 | (1,041,595) | (1,197,903) | (2,298,541) | - | 69,460,132 | 65,920,142 |
| Deferred tax assets and liabilities, net | | | | | | | | | | | |
| Deferred tax assets, net | (690,777) | (27,599,948) | (937,696) | - | - | (1,041,595) | (1,197,903) | (2,298,541) | - | (33,766,460) | (33,766,460) |
| Deferred tax liabilities, net | - | - | - | 3,308,556 | 99,918,036 | - | - | - | - | 103,226,592 | 103,226,592 |
| Deferred tax expense (benefit) | | | | | | | | | | | |
| Deferred tax expense (benefit) | 846,000 | (1,450,033) | 337,188 | (327,125) | 692,688 | 1,455 | 3,176,640 | - | - | 3,276,813 | 3,276,813 |
| Deferred tax expense (benefit) recognized in income | 846,000 | (1,450,033) | 337,188 | (327,125) | 692,688 | 1,455 | 3,176,640 | - | - | 3,276,813 | 3,276,813 |
| Reconciliation of changes in deferred tax liabilities (assets) | | | | | | | | | | | |
| Deferred tax liabilities (assets) - Beginning balance Dec, 2015 | (1,549,860) | (26,149,915) | (1,274,884) | 3,635,681 | 99,225,348 | (1,043,050) | (4,374,543) | (2,548,634) | - | 65,920,143 | 65,920,143 |
| Changes in deferred tax liabilities (assets) | | | | | | | | | | | |
| Deferred tax expense (benefit) recognized in income | 846,000 | (1,450,033) | 337,188 | (327,125) | 692,688 | 1,455 | 3,176,640 | - | - | 3,276,813 | 3,276,813 |
| Deferred taxes related to items credited (charged) directly to equity | - | - | - | - | - | - | - | - | - | - | - |
| Income taxes related to components of other comprehensive income | 13,083 | - | - | - | - | - | - | 250,093 | - | 263,176 | 263,176 |
| 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) | | | | | | | | | | | |
| Deferred tax liabilities (assets) | 859,083 | (1,450,033) | 337,188 | (327,125) | 692,688 | 1,455 | 3,176,640 | 250,093 | - | 3,539,989 | 3,539,989 |
| Deferred tax liabilities (assets) | (690,777) | (27,599,948) | (937,696) | 3,308,556 | 99,918,036 | (1,041,595) | (1,197,903) | (2,298,541) | - | 69,460,132 | 69,460,132 |

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

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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

11. Income Taxes, continued

d) Taxable Income

As of March 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\$ 12,673,020 and ThCh\$ 9,055,258 respectively for period, detailed as follows:

| Concepts | Taxable Net Income | |
|---|----------------------|----------------------|
| | 03.31.2016 ThCh\$ | 03.31.2015 ThCh\$ |
| Finance income | 11,751,868 | 3,244,408 |
| Recorded tax expense | (319,118) | 1,380,218 |
| Additions | 20,777,769 | 23,357,370 |
| Deductions | (19,537,499) | (18,926,738) |
| Taxable net income | 12,673,020 | 9,055,258 |
| First category tax rate 24% and 22.5% | 3,041,525 | 2,037,433 |
| Art, 21 rejected expenses tax base | 141,758 | 110,044 |
| Art, 21 non-deductible expenses (35% rate) | 49,615 | 38,516 |
| Total tax provision | 3,091,140 | 2,075,949 |
| Derivatives tax provision (1) | 74,549 | - |
| Third party absorbed net income provisional payment | (3,141,680) | (3,972,544) |
| Total first category taxes (2) | 24,009 | (1,896,595) |

(1) Corresponds to the tax deficit provision calculated on 2014 and 2015 derivatives (settled). This tax provision deficit is presented as a greater expense for the period.

(2) The first category tax has been accounted for considering the increase in the tax rate from 22.5% to 24%, due to the tax reform according to Law 20,780. The effect of the change in first category tax rate for March, 2016, amounts to ThCh\$2,851,430.

11. Income Taxes, continued

e) Income tax reconciliation

The income tax expense reconciliation for the periods ended March 31, 2016 and 2015 are detailed as follows:

| Concepts | 03.31.2016 | | 03.31.2015 | |
|---|------------------------|---------------------------|------------------------|-----------------------------|
| | Taxable base ThCh\$ | 24% Tax Rate ThCh\$ | Taxable base ThCh\$ | 22.5% Tax Rate ThCh\$ |
| Based on accounting income before taxes: | | | | |
| Finance income | 11,751,868 | | 3,244,408 | |
| Recorded tax expense | (319,118) | | 1,380,218 | |
| Income before taxes | 11,432,750 | 2,743,860 | 4,624,626 | 1,040,541 |
| Permanent differences | (12,762,405) | (3,062,978) | 1,509,676 | 339,677 |
| Price-level restatement of taxable equity | (6,428,934) | (1,542,944) | - | - |
| Price-level restatement of investments | (13,350) | (3,204) | 727,304 | 163,643 |
| Adjustment to equity derivatives | 310,622 | 74,549 | 211,008 | 47,477 |
| Fines and provision fines | (242,982) | (58,316) | - | - |
| Difference tax losses no credit | 2,676,762 | 642,423 | - | - |
| Effect of rate change in the result | (8,472,429) | (2,033,383) | (568,578) | (127,930) |
| Adjustment on deferred tax balances | (1,695,600) | (406,944) | 357,718 | 80,487 |
| Other | 1,103,506 | 264,841 | 782,224 | 176,000 |
| Total corporate tax expense | (1,329,655) | (319,118) | 6,134,302 | 1,380,218 |
| Based on taxable net income and deferred taxes calculated on the basis of temporary differences | | | | |
| 24% and 22.5% income tax | | 3,041,525 | | 2,037,433 |
| 35% income tax | | 49,615 | | 38,516 |
| Derivatives income tax provision | | 74,549 | | - |
| Provisional payment on net income absorbed by loss | | (3,141,680) | | (3,972,544) |
| Income tax expense | | 24,009 | | (1,896,595) |
| Deferred tax expense (income) | | (343,127) | | 3,276,813 |
| Total corporate tax expense | | (319,118) | | 1,380,218 |
| Effective income tax rate | | (2.79%) | | 29.84% |

11. Income Taxes, continued

f) Current income tax liabilities

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

| Concepts | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|------------------------|----------------------|----------------------|
| Income tax accrual (1) | 6,678,085 | 4,829,667 |
| Total | 6,678,085 | 4,829,667 |

(1) First Category income tax is presented net of prepaid monthly tax installments for ThCh\$11,793,976 and ThCh\$13,384,284 as of March 31, 2016 and December 31, 2015, respectively. This item considers inspection contingency provision (see note 27).

g) Tax reform

On September 29, 2014, Law No. 20,780 was published, which contains the Tax Reform which introduces, among other things, changes in the tax regime of companies that pay first category (corporate) income tax, in this context, the income tax rate increases gradually, from 24% for this year up to a rate of 27% in 2018, in the so-called semi-integrated tax system. In the attributed income system incorporated with this legal modification, the maximum rate shall be 25%.

For the purpose of preparing this financial statement, the Company has decided to incorporate the maximum rate of 27% in the determination of deferred taxes, considering the semi-integrated system. This fee, which is considered the taxation system referred to in point B of Article 14 of the Law on Income Tax, taxation system to be taken by the company from January 1, 2017.

The 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 | 03.31.2016 | | | 12.31.2015 | | |
|-------------------------------|-------------------|---------------------------------|-------------------|-------------------|---------------------------------|-------------------|
| | Gross value | Allowance for doubtful accounts | Net value | Gross value | Allowance for doubtful accounts | Net value |
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Trade receivables | 6,423,581 | (1,161,816) | 5,261,765 | 6,216,658 | (1,094,410) | 5,122,248 |
| Miscellaneous receivables (1) | 10,677,617 | - | 10,677,617 | 10,100,284 | - | 10,100,284 |
| Total | 17,101,198 | (1,161,816) | 15,939,382 | 16,316,942 | (1,094,410) | 15,222,532 |

(1) Mainly includes loans related to employees.

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

| Concepts | As of March 31, 2016 | | | | | | | | |
|---------------------------|---------------------------------|------------------|----------------------|--------------------|--|------------------|----------------------|--------------------|-------------------|
| | 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 | 958,533 | 2,611,229 | 2,853,819 | 6,423,581 | (849,504) | (249,064) | (63,248) | (1,161,816) | 5,261,765 |
| Miscellaneous receivables | 1,870,839 | 787,695 | 8,019,083 | 10,677,617 | - | - | - | - | 10,677,617 |
| Total | 2,829,372 | 3,398,924 | 10,872,902 | 17,101,198 | (849,504) | (249,064) | (63,248) | (1,161,816) | 15,939,382 |

| Concepts | As of December 31, 2015 | | | | | | | | |
|---------------------------|---------------------------------|------------------|----------------------|--------------------|--|------------------|----------------------|--------------------|-------------------|
| | 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 March 31, 2016 and December 31, 2015 are detailed as follows:

| Concepts | Intangible, gross ThCh\$ | 03.31.2016 | | Intangible, gross ThCh\$ | 12.31.2015 | |
|--------------------------------------|--------------------------------|---------------------------------------|------------------------------|--------------------------------|---------------------------------------|------------------------------|
| | | Accumulated amortization ThCh\$ | Intangible, net ThCh\$ | | Accumulated amortization ThCh\$ | Intangible, net ThCh\$ |
| Intangible assets in development (1) | 6,320,064 | - | 6,320,064 | 4,023,551 | - | 4,023,551 |
| Licenses and franchises | 234,614,468 | (200,084,096) | 34,530,372 | 232,232,322 | (193,943,527) | 38,288,795 |
| Other intangible assets (2) | 21,832,500 | (19,074,707) | 2,757,793 | 21,832,500 | (18,719,618) | 3,112,882 |
| Total | 262,767,032 | (219,158,803) | 43,608,229 | 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\$3,720,962 and evolutionary developments of SAP's 2016 materials module in the amount of ThCh\$2,446,509 and DSIM link licenses in the amount of ThCh\$113,754.
- (2) Corresponds to rights to use underwater cable.

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

| Movements | Intangible assets in development, net | | Licenses and franchises, net | | Other intangible assets, net | |
|---|---|--------------------|------------------------------------|--------------------|------------------------------------|--------|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Beginning balance as of 01.01.2016 | 4,023,551 | 38,288,795 | 3,112,882 | 45,425,228 | | |
| Additions | 2,446,509 | - | - | 2,446,509 | | |
| Eliminations | - | - | - | - | | |
| Amortization of eliminations | - | - | - | - | | |
| Amortization | - | (6,140,569) | (355,089) | (6,495,658) | | |
| Transfer from work in progress (Note 15b) | (149,996) | 2,382,146 | - | 2,232,150 | | |
| Movement, subtotal | 2,296,513 | (3,758,423) | (355,089) | (1,816,999) | | |
| Ending balance as of 03.31.2016 | 6,320,064 | 34,530,372 | 2,757,793 | 43,608,229 | | |
| Remaining average useful life | - | 1,4 years | 1,9 years | - | | |

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

| Movements | Intangible assets in development, net | | Licenses and franchises, net | | Other intangible assets, net | |
|---|---|------------------|------------------------------------|------------------|------------------------------------|--------|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | 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 March 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 March 31, 2016 and December 31, 2015 are investments in information applications.

14. Goodwill

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

| Taxpayer No, | Company | 12.31.2015 ThCh\$ | Additions ThCh\$ | Eliminations ThCh\$ | 03.31.2016 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 |

| 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, 2015 impairment testing was determined taking into consideration the following estimated variables:

- i. Projected operating income and costs are based on the 2016 budget and on the Strategic Plan for 2017 and 2018, 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 7.30% (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 2015 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 March 31, 2016 and December 31, 2015, and their corresponding accumulated depreciation is as follows:

| Concepts | 03.31.2016 | | | 12.31.2015 | | |
|--|---|---------------------------------|---|---|---------------------------------|---|
| | Property, plant & equipment, Gross ThCh\$ | Accumulated depreciation ThCh\$ | Property, plant & equipment, Net ThCh\$ | Property, plant & equipment, Gross ThCh\$ | Accumulated depreciation ThCh\$ | Property, plant & equipment, Net ThCh\$ |
| Land | 21,043,750 | - | 21,043,750 | 21,043,750 | - | 21,043,750 |
| Buildings | 749,072,040 | (482,253,482) | 266,818,558 | 748,096,057 | (477,766,550) | 270,329,507 |
| Transport equipments | 517,639 | (508,898) | 8,741 | 517,639 | (507,412) | 10,227 |
| Supplies and accessories | 22,454,727 | (21,022,549) | 1,432,178 | 22,410,960 | (20,899,686) | 1,511,274 |
| Office equipments | 2,299,948 | (1,130,937) | 1,169,011 | 2,299,948 | (1,077,663) | 1,222,285 |
| Construction in progress | 154,608,037 | - | 154,608,037 | 119,377,115 | - | 119,377,115 |
| Information equipment | 46,707,279 | (35,770,727) | 10,936,552 | 46,782,640 | (34,661,717) | 12,120,923 |
| Network and communications equipment (1) | 2,443,485,555 | (1,985,259,646) | 458,225,909 | 2,440,074,562 | (1,967,651,277) | 472,423,285 |
| Property, plant and equipment under financial leases | 5,304,293 | (4,971,703) | 332,590 | 5,304,293 | (4,969,765) | 334,528 |
| Other property, plant & equipment (2) | 315,391,190 | (243,412,092) | 71,979,098 | 306,058,790 | (228,337,478) | 77,721,312 |
| Total | 3,760,884,458 | (2,774,330,034) | 986,554,424 | 3,711,965,754 | (2,735,871,548) | 976,094,206 |

- (1) As of March 31, 2016 and December 31, 2015 this heading includes an allowance in the amount of ThCh\$ 1,005,200 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.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



15. Property, plant and equipment, continued

b) As of March 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 | - | - | - | - | - | 52,222,602 | - | - | - | - | 52,222,602 |
| Retirements | - | - | - | - | - | - | (222,779) | (842,196) | - | - | (1,064,975) |
| Acc. Dep, retirements | - | - | - | - | - | - | 222,779 | 777,143 | - | - | 999,922 |
| Depreciation expense | - | (4,486,821) | (1,486) | (122,863) | (53,274) | - | (1,326,712) | (18,404,350) | (1,938) | (15,079,666) | (39,477,110) |
| Transfer of depreciation | - | - | - | - | - | - | - | - | - | - | - |
| Other Increase (decrease) (1) | - | 975,872 | - | 43,767 | - | (16,991,680) | 142,341 | 4,272,027 | - | 9,337,452 | (2,220,221) |
| Movements, subtotal | - | (3,510,949) | (1,486) | (79,096) | (53,274) | 35,230,922 | (1,184,371) | (14,197,376) | (1,938) | (5,742,214) | 10,460,218 |
| Ending balance as of 03.31.2016 | 21,043,750 | 266,818,558 | 8,741 | 1,432,178 | 1,169,011 | 154,608,037 | 10,936,552 | 458,225,909 | 332,590 | 71,979,098 | 986,554,424 |

(1) Includes transfer of work in progress to intangibles ThCh\$ (2,232,150) (Note 13b), transfer from inventory to investments in the amount of ThCh\$11,929 (Note 10b).

As of March 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 communication s 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 | - | 181,945,293 | 458,156 | 19,109,886 | 466,558 | - | 31,048,611 | 1,632,451,933 | - | 161,466,911 | 2,026,947,348 |

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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 periods 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 March 31, 2016 Property, plant and equipment items originating from net financial lease operations amount to ThCh\$332,590 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 | 03.31.2016 | | 12.31.2015 | |
|--------------------------------------|-------------------|-----------------------|-------------------|-----------------------|
| | Current ThCh\$ | Non-current ThCh\$ | Current ThCh\$ | Non-current ThCh\$ |
| Bank loans (a) | 104,076 | 65,100,830 | 101,607 | 68,972,097 |
| Unguaranteed obligations (Bonds) (b) | 6,582,429 | 379,098,182 | 4,155,334 | 398,986,215 |
| Financial leases (c) | 27,108 | - | 122,871 | - |
| Hedge instruments (see note 18.2) | 8,026,371 | - | 3,427,938 | 7,656,345 |
| Other Financial Debt (1) | 186,814 | - | 300,345 | - |
| Total | 14,926,798 | 444,199,012 | 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\$186,814 and ThCh\$300,345 which includes interest in the amount of ThCh\$2,582 and ThCh\$1,147, calculated on an interest rate (Libor 6m+3%)+0.2% commission.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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

a) As of March 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 | Sovereign 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 | | | | | | | | | | |
|--------------------|--------------------|-----------------------|----------------|---------------------|---|--------------------|--------------|--------------|--------------------|--------------|--------------|--------------------|------------------|--|--------|
| | | | | | 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 | Total nominal amounts in original currency | |
| Syndicated Loan(1) | 90.635.000-9 | Telefónica Chile S.A, | Chile | Sovereign Bank N.A, | - | - | 97,500 | - | 97,500 | - | - | - | - | - | 97,500 |
| | Total | | | | - | - | 97,500 | - | 97,500 | - | - | - | - | - | 97,500 |

| Classes | Debtor taxpayer No | Debtor | Debtor country | Creditor | Current | | | Non-current | | | | | Total Non-current as of 03.31.2016 ThCh\$ | | |
|--------------------|--------------------|-----------------------|----------------|---------------------|-------------------------|------------------------------|--|--------------|--------------|--------------------|--------------|--------------|--|------------------|------------|
| | | | | | To Maturity | | Total current as of 03.31.2016 ThCh\$ | To Maturity | | | | | | | |
| | | | | | Up to 90 days ThCh\$ | 90 days to 1 years 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 | |
| Syndicated Loan(1) | 90.635.000-9 | Telefónica Chile S.A, | Chile | Sovereign Bank N.A, | 104,076 | - | 104,076 | 65,100,830 | - | 65,100,830 | - | - | - | - | 65,100,830 |
| | Total | | | | 104,076 | - | 104,076 | 65,100,830 | - | 65,100,830 | - | - | - | - | 65,100,830 |

(1) On April 3, 2012 an international 5-year bullet loan agreement was signed with Sovereign Bank N.A, subsidiary of Santander in the USA, in the amount of USD 97.5 million with an interest rate of libor + 1.95% annually.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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 | Sovereign 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 original 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 | Sovereign Bank N.A. | - | - | 97,500 | - | 97,500 | - | - | - | - | - | 97,500 |
| | Total | | | | - | - | 97,500 | - | 97,500 | - | - | - | - | - | 97,500 |

| Classes | Debtor taxpayer No | Debtor | Debtor country | Creditor | Current | | Total current as of 12.31.2015 ThCh\$ | Non-current | | | | | Total Non-current as of 12.31.2015 ThCh\$ | | |
|--------------------|--------------------|-----------------------|----------------|---------------------|-------------------------|------------------------------|--|--------------|--------------|--------------------|--------------|--------------|--|------------------|------------|
| | | | | | To Maturity | | | To Maturity | | | | | | | |
| | | | | | Up to 90 days ThCh\$ | 90 days to 1 years 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 | |
| Syndicated Loan(1) | 90.635.000-9 | Telefónica Chile S.A. | Chile | Sovereign 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 Sovereign Bank N.A, subsidiary of Santander in the USA, in the amount of USD 97.5 million with an interest rate of libor + 1.95% annually.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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

b) As of March 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 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 original 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 | 36 | - | - | - | - | - | - | - | - | - | 71 |
| Series 144A Bond (1) | 90.635.000-9 | Telefónica Chile S.A. | Chile | The Bank of New York Mellon | - | - | - | - | - | - | - | - | 500,000 | - | 500,000 |
| 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 | | | | | 36 | - | - | - | - | 47,000,000 | - | 47,000,000 | 500,000 | - | 47,500,071 |

| Classes | Debtor taxpayer No. | Debtor | Debtor country | Creditor | Current | | | Non-current | | | | | | Total Non-current as of 03.31.2016 ThCh\$ | | |
|----------------------|---------------------|-----------------------|----------------|-----------------------------|-------------------------|------------------------------|--------------------------------|--------------|--------------|--------------------|--------------|--------------|--------------------|--|------------------|-------------|
| | | | | | To Maturity | | Total current as of 03.31.2016 | To Maturity | | | | | | | | |
| | | | | | 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 | 946,725 | - | 946,725 | - | - | - | - | - | - | - | - | - |
| Series 144A Bond (1) | 90.635.000-9 | Telefónica Chile S.A. | Chile | The Bank of New York Mellon | 5,634,920 | - | 5,634,920 | - | - | - | - | - | - | - | 332,442,930 | 332,442,930 |
| Series Q Bond (2) | 90.635.000-9 | Telefónica Chile S.A. | Chile | Banco Chile | - | 784 | 784 | - | - | - | 46,655,252 | - | 46,655,252 | - | - | 46,655,252 |
| Total | | | | | 6,581,645 | 784 | 6,582,429 | - | - | - | 46,655,252 | - | 46,655,252 | 332,442,930 | - | 379,098,182 |

(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.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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 | 4.07% | 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) | | | | | | | | Total nominal amounts in original currency | |
|----------------------|---------------------|-----------------------|----------------|-----------------------------|--|--------------------|--------------|--------------|--------------------|--------------|--------------|--------------------|--|------------|
| | | | | | To Maturity | | | | | | | | | |
| | | | | | 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 | - | 36 | - | - | - | - | - | - | - | 36 |
| Series 144A Bond (1) | 90.635.000-9 | Telefónica Chile S.A, | Chile | The Bank of New York Mellon | - | - | - | - | - | - | - | - | 500,000 | 500,000 |
| 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 | | | | | - | 36 | - | - | - | 47,000,000 | - | 47,000,000 | 500,000 | 47,500,036 |

| Classes | Debtor taxpayer No, | Debtor | Debtor country | Creditor | Current | | | Non-current | | | | | Total Non-current as of 12.31.2015 ThCh\$ | | |
|----------------------|---------------------|-----------------------|----------------|-----------------------------|----------------------|---------------------------|---|--------------|--------------|--------------------|--------------|--------------|---|--------------------|------------------|
| | | | | | To Maturity | | Total current as of 12.31.2015 ThCh\$\$ | To Maturity | | | | | | | |
| | | | | | Up to 90 days ThCh\$ | 90 days to 1 years 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 | 631,229 | - | 631,229 | - | - | - | 46,614,506 | - | 46,614,506 | - | 46,614,506 |
| Total | | | | | 631,229 | 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.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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

c) As of March 31, 2016 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 | 78.703.410-1 | Telefónica Empresas Chile S.A. | Chile | 76.402.700-0 | CSI Renting Chile S.A. | Chile | UF | Monthly | - | 2.36% | - | 2016 |

| Classes | Debtor taxpayer No, | Debtor | Debtor country | Creditor | Nominal amounts (capital in thousands) To Maturity | | | | | | | | Total nominal amounts in original 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 | 78.703.410-1 | Telefónica Empresas Chile S.A. | Chile | CSI Renting Chile S.A. | 4 | - | - | - | - | - | - | - | - | 4 |
| Total | | | | | 4 | - | - | - | - | - | - | - | - | 4 |

| Classes | Debtor taxpayer No, | Debtor | Debtor country | Creditor | Current To Maturity | | Total current as of 03.31.2016 ThCh\$\$ | Non-current To Maturity | | | | | Total Non-current as of 03.31.2016 ThCh | |
|-----------------|---------------------|--------------------------------|----------------|------------------------|----------------------|---------------------------|---|-------------------------|--------------|--------------------|--------------|--------------|---|--------------------|
| | | | | | Up to 90 days ThCh\$ | 90 days to 1 years 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 |
| Financial Lease | 78.703.410-1 | Telefónica Empresas Chile S.A. | Chile | CSI Renting Chile S.A. | 27,108 | - | 27,108 | - | - | - | - | - | - | - |
| Total | | | | | 27,108 | - | 27,108 | - | - | - | - | - | - | - |

As of March 31, 2016 the present value of minimum current financial lease net payments is ThCh\$27,108 and the total imputable interest is ThCh\$236.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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 |
| Financial Lease | 78.703.410-1 | Telefónica Empresas Chile S.A, | Chile | 76.402.700-0 | CSI Renting Chile S.A, | Chile | UF | Monthly | - | 2.99% | - | 2015 |
| Financial Lease | 78.703.410-1 | Telefónica Empresas Chile S.A, | Chile | 76.402.700-0 | CSI Renting Chile S.A, | Chile | UF | Monthly | - | 2.99% | - | 2015 |

| Classes | Debtor taxpayer No, | Debtor | Debtor country | Creditor | Nominal amounts (capital in thousands) To Maturity | | | | | | | | | | Total nominal amounts in original 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 | - | - | - | - | - | - | - | - | - | - | - | - |
| Financial Lease | 78.703.410-1 | Telefónica Empresas Chile S.A, | Chile | CSI Renting Chile S.A, | 4 | - | - | - | - | - | - | - | - | - | - | 4 |
| Financial Lease | 78.703.410-1 | Telefónica Empresas Chile S.A, | Chile | CSI Renting Chile S.A, | - | - | - | - | - | - | - | - | - | - | - | - |
| Financial Lease | 78.703.410-1 | Telefónica Empresas Chile S.A, | Chile | CSI Renting Chile S.A, | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | | | | | 4 | - | - | - | - | - | - | - | - | - | - | 4 |

| Classes | Debtor taxpayer No, | Debtor | Debtor country | Creditor | Current | | | Non-current | | | | | | | Total Non-current as of 12.31.2015 ThCh | | |
|-----------------|---------------------|--------------------------------|----------------|------------------------|-------------------------|------------------------------|--|-------------|---|---|---|---|---|---|--|---|---|
| | | | | | To Maturity | | Total current as of 12.31.2015 ThCh\$\$ | To Maturity | | | | | | | | | |
| | | | | | Up to 90 days ThCh\$ | 90 days to 1 years 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 | - | - | - | - | - | - | - | - | - | - |
| Financial Lease | 78.703.410-1 | Telefónica Empresas Chile S.A, | Chile | CSI Renting Chile S.A, | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Financial Lease | 78.703.410-1 | Telefónica Empresas Chile S.A, | Chile | CSI Renting Chile S.A, | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 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 | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|---|----------------------|----------------------|
| Debts due to purchases or services provided (1) | 81,161,659 | 92,420,299 |
| Real property providers | 39,281,494 | 47,640,472 |
| Payables to employees | 20,715,282 | 35,969,180 |
| Dividends pending payment | 487,240 | 567,044 |
| Other | 193,014 | 155,016 |
| Total | 141,838,689 | 176,752,011 |

(1) The "Debts due to purchases or services provided" corresponding to foreign and domestic suppliers for the periods ended March 31, 2016 and December 31, 2015 according to the following detail:

| Debts due to purchases or services provided | 03.31.2016 | 12.31.2015 |
|---|-------------------|-------------------|
| Domestic | 45,978,843 | 80,120,109 |
| Foreign | 35,182,816 | 12,300,190 |
| Total | 81,161,659 | 92,420,299 |

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 March 31, 2016 the main suppliers, considering as a minimum margin 4% of the total, are Cobra Chile Servicios S.A. 11%, Ezentis Chile S.A. 7%, Coasin Instalaciones Ltda. 7% y Alcatel-Lucent de Chile S.A 4% and for December 31, 2015 are 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 March 31, 2016 and December 31, 2015 are detailed as follows:

| Suppliers with up to date payments As of 03.31.2016 | Goods | Services | Other | Total |
|--|-------------------|-------------------|-------------------|--------------------|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Trade accounts to date | | | | |
| Up to 30 days | 54,387,795 | 45,613,723 | 21,395,536 | 121,397,054 |
| From 31 to 60 days | - | - | - | - |
| From 61 to 90 days | - | - | - | - |
| Total | 54,387,795 | 45,613,723 | 21,395,536 | 121,397,054 |
| Average period of payment of up to date accounts | 23 | 30 | 30 | |

17. Trade and other payables, continued

b) Accounts payable payment terms, continued

| Suppliers with up to date payments As of 12.31.2015 | Goods | Services | Other | Total |
|--|-------------------|-------------------|-------------------|--------------------|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Trade accounts to date | | | | |
| Up to 30 days | 63,211,975 | 58,404,955 | 36,691,240 | 158,308,170 |
| From 31 to 60 days | - | - | - | - |
| From 61 to 90 days | - | - | - | - |
| Total | 63,211,975 | 58,404,955 | 36,691,240 | 158,308,170 |
| Average period of payment of up to date accounts | 25 | 30 | 30 | |

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

| Overdue trade accounts payable by term As of 03.31.2016 | Goods | Services | Other | Total |
|--|------------------|-------------------|----------|-------------------|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Overdue trade accounts payable by term | | | | |
| Up to 30 days | 8,578,146 | 6,027,222 | - | 14,605,368 |
| From 31 to 60 days | 82,836 | 617,894 | - | 700,730 |
| From 61 to 90 days | - | 785,616 | - | 785,616 |
| From 91 to 120 days | 11,344 | 234,095 | - | 245,439 |
| From 121 to 180 days | 695,026 | 3,409,456 | - | 4,104,482 |
| Total | 9,367,352 | 11,074,283 | - | 20,441,635 |
| Average payment period of overdue accounts | 97 | 202 | - | |

| Overdue trade accounts payable by term As of 12.31.2015 | Goods | Services | Other | Total |
|--|------------------|-------------------|----------|-------------------|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Overdue trade accounts payable by term | | | | |
| Up to 30 days | 1,744,500 | 9,509,166 | - | 11,253,666 |
| From 31 to 60 days | 13,697 | 1,641,387 | - | 1,655,084 |
| From 61 to 90 days | 32,421 | 275,556 | - | 307,977 |
| From 91 to 120 days | 15,084 | 669,338 | - | 684,422 |
| From 121 to 180 days | 1,098,736 | 3,443,956 | - | 4,542,692 |
| Total | 2,904,438 | 15,539,403 | - | 18,443,841 |
| Average payment period of overdue accounts | 85 | 230 | - | |

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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 March 31, 2016 is as follows:

| Description of financial assets | Financial instrument expiry | ASSETS RECORDED AT FAIR VALUE | | | | | | | ASSETS RECORDED AT AMORTIZED COST | | | TOTAL | |
|---|-----------------------------|--|-------------------------------------|-------------------------|----------------------------------|---------------------|---|---|---|------------------------------|--------------------------------------|-----------------------|--------------------|
| | | Other financial assets at FV through P&L | Financial assets available for sale | Asset hedge derivatives | Subtotal of assets at fair value | Valuation hierarchy | | | Balance of financial assets at amortized cost | Investments held to maturity | Subtotal of assets at amortized cost | Total Carrying amount | Total fair value |
| | | | | | | Level 1 | Level 2 | Level 3 | | | | | |
| | | | | | | Market prices | Estimates based on other observable market data | Estimates not based on observable market data | | | | | |
| ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | | |
| 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 | | - | - | 130,030,334 | 130,030,334 | - | 130,030,334 | - | - | - | 130,030,334 | 130,030,334 | |
| Derivative instrument assets | See note 18-2 | - | - | 130,030,334 | 130,030,334 | - | 130,030,334 | - | - | - | 130,030,334 | 130,030,334 | |
| 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 | | - | - | - | - | - | - | - | 17,305,903 | - | 17,305,903 | 17,305,903 | |
| Non-current trade and other accounts receivable | See note 12 | - | - | - | - | - | - | - | 15,939,382 | - | 15,939,382 | 15,939,382 | |
| Account receivable from relate entities | See note 9b | - | - | - | - | - | - | - | 1,366,521 | - | 1,366,521 | 1,366,521 | |
| Non-current financial assets | | 54,322 | 5,680,888 | 130,030,334 | 135,765,544 | 5,680,888 | 130,084,656 | - | 17,305,903 | - | 17,305,903 | 153,071,447 | 153,071,447 |
| Current trade accounts receivable | | - | - | - | - | - | - | - | 216,963,668 | - | 216,963,668 | 216,963,668 | |
| Current trade and other accounts receivable | See note 8a | - | - | - | - | - | - | - | 141,269,251 | - | 141,269,251 | 141,269,251 | |
| Account receivable from relate entities | See note 9a | - | - | - | - | - | - | - | 75,694,417 | - | 75,694,417 | 75,694,417 | |
| 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 | | - | - | 3,348,466 | 3,348,466 | - | 3,348,466 | - | - | - | 3,348,466 | 3,348,466 | |
| Derivative instrument of assets | See note 18-2 | - | - | 3,348,466 | 3,348,466 | - | 3,348,466 | - | - | - | 3,348,466 | 3,348,466 | |
| Cash and cash equivalents | | - | - | - | - | - | - | - | 61,454,808 | - | 61,454,808 | 61,454,808 | |
| Cash and cash equivalents | See note 5 | - | - | - | - | - | - | - | 61,454,808 | - | 61,454,808 | 61,454,808 | |
| Current financial assets | | 237,912 | - | 3,348,466 | 3,586,378 | - | 3,586,378 | - | 278,418,476 | - | 278,418,476 | 282,004,854 | 282,004,854 |
| Total financial assets | | 292,234 | 5,680,888 | 133,378,800 | 139,351,922 | 5,680,888 | 133,671,034 | - | 295,724,379 | - | 295,724,379 | 435,076,301 | 435,076,301 |

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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 | | | | | | | ASSETS RECORDED AT AMORTIZED COST | | | TOTAL | |
|---|-----------------------------|--|-------------------------------------|-------------------------|----------------------------------|---------------------|---|---|---|------------------------------|--------------------------------------|-----------------------|--------------------|
| | | Other financial assets at FV through P&L | Financial assets available for sale | Asset hedge derivatives | Subtotal of assets at fair value | Valuation hierarchy | | | Balance of financial assets at amortized cost | Investments held to maturity | Subtotal of assets at amortized cost | Total Carrying amount | Total fair value |
| | | | | | | Level 1 | Level 2 | Level 3 | | | | | |
| | | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | Market prices | Estimates based on other observable market data | Estimates not based on observable market data | 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.

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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 March 31, 2016 is as follows:

| Description of financial liabilities | Financial instrument expiry | LIABILITES RECORDED AT FAIR VALUE | | | | | LIABILITIES RECORDED AT AMORTIZED COST | | TOTAL | |
|---|-----------------------------|-----------------------------------|---------------------------------------|---------------------|---|---|--|-----------------------|-----------------------|--|
| | | Hedge derivative liabilities | Subtotal of liabilities at fair value | Valuation hierarchy | | | Debits and items payable | Total Carrying amount | Total Carrying amount | |
| | | | | Level 1 | Level 2 | Level 3 | | | | |
| | | | | Market prices | Estimates based on other observable market data | Estimates not based on observable market data | | | | |
| ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | | | |
| Issuance of obligations and other non-current marketable securities | See note 16 b | - | - | - | - | - | 379,098,182 | 379,098,182 | 392,868,994 | |
| Non-current debts with loan entities | See note 16 a | - | - | - | - | - | 65,100,830 | 65,100,830 | 65,204,906 | |
| Long-term hedge derivative instrument of liabilities | See note 18-2 | - | - | - | - | - | - | - | - | |
| Trade and other accounts payable | | - | - | - | - | - | - | - | - | |
| Accounts payable to related entities | | - | - | - | - | - | - | - | - | |
| Non-current financial liabilities | | - | - | - | - | - | 444,199,012 | 444,199,012 | 458,073,900 | |
| Issuance of short-term obligations and other marketable securities | See note 16 b | - | - | - | - | - | 6,582,429 | 6,582,429 | 6,582,429 | |
| Short-term debts with credit entities | See note 16 a/c | - | - | - | - | - | 131,184 | 131,184 | 131,184 | |
| Short-term derivative instrument of liabilities | See note 18-2 | 8,026,371 | 8,026,371 | - | 8,026,371 | - | - | 8,026,371 | 8,026,371 | |
| Trade and other accounts payable | See note 17 | - | - | - | - | - | 141,838,689 | 141,838,689 | 141,838,689 | |
| Accounts payable to related entities | See note 9 c | - | - | - | - | - | 96,780,490 | 96,780,490 | 96,780,490 | |
| Current Other Financial Debt | | - | - | - | - | - | - | - | - | |
| Current financial liabilities | | 8,026,371 | 8,026,371 | - | 8,026,371 | - | 245,519,606 | 253,545,977 | 253,545,977 | |
| Total financial liabilities | | 8,026,371 | 8,026,371 | - | 8,026,371 | - | 689,718,618 | 697,744,989 | 711,619,877 | |

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



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 | | | | | | LIABILITIES RECORDED AT AMORTIZED COST | | TOTAL | |
|---|-----------------------------|-----------------------------------|---------------------------------------|---------------------|---|---|--------------------------|--|-----------------------|-------|--|
| | | Hedge derivative liabilities | Subtotal of liabilities at fair value | Valuation hierarchy | | | Debits and items payable | Total Carrying amount | Total Carrying amount | | |
| | | | | Level 1 | Level 2 | Level 3 | | | | | |
| | | | | Market prices | Estimates based on other observable market data | Estimates not based on observable market data | | | | | |
| ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | | | |
| Issuance of obligations and other non-current marketable securities | See note 17 b | - | - | - | - | - | 398,986,215 | 398,986,215 | 400,040,285 | | |
| Non-current debts with loan entities | See note 17 a/c | - | - | - | - | - | 68,972,097 | 68,972,097 | 69,073,704 | | |
| Long-term hedge derivative instrument of liabilities | See note 19-2 | 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 17 b | - | - | - | - | - | 4,155,334 | 4,155,334 | 4,155,334 | | |
| Short-term debts with credit entities | See note 17 a/c | - | - | - | - | - | 224,478 | 224,478 | 224,478 | | |
| Short-term derivative instrument of liabilities | See note 19-2 | 3,427,938 | 3,427,938 | - | 3,427,938 | - | - | 3,427,938 | 3,427,938 | | |
| Trade and other accounts payable | See note 18 | - | - | - | - | - | 176,752,011 | 176,752,011 | 176,752,011 | | |
| Accounts payable to related entities | See note 9 c | - | - | - | - | - | 81,567,128 | 81,567,128 | 81,567,128 | | |
| Current financial liabilities | | 3,427,938 | 3,427,938 | - | 3,427,938 | - | 262,999,296 | 266,427,234 | 266,427,234 | | |
| Total financial liabilities | | 11,084,283 | 11,084,283 | - | 11,084,283 | - | 730,957,608 | 742,041,891 | 743,197,568 | | |

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).

Notes to the consolidated financial statements, continued

As of March 31, 2016 (not audited) and December 31, 2015

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



18. Financial instruments, continued

2. Hedging instruments

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

| Type of hedge | Underlying | Net total as | Up to | 90 days to | Total current | | To Maturity | | Total non-current | |
|--|----------------|--------------------|--------------------|------------------|------------------|--------------------|--------------|--------------------|--------------------|-------------|
| | | 03.31.2016 | 90 days | 1 year | Assets | Liabilities | 1 to 3 years | 3 to 5 years | Assets | Liabilities |
| | | ThCh\$ | ThCh\$ | ThCh\$ | (note 6) | (note 17) | ThCh\$ | ThCh\$ | (note 6) | (note 17) |
| | | | | | | | | | | |
| Exchange rate – cash flow hedge (1) | Supplier Debt | (2,774,954) | (2,212,018) | (562,935) | - | (2,774,954) | - | - | - | - |
| Exchange rate – fair value hedge (2) | Supplier Debt | (104,662) | (104,662) | - | 254,954 | (359,616) | - | - | - | - |
| Interest rate – cash flows hedge (4) | Financial Debt | 14,804,548 | (1,915,254) | 30,005 | 3,006,552 | (4,891,801) | - | 16,689,797 | 16,689,797 | - |
| Exchange rate and interest rate – fair value hedge (5) | Financial Debt | 113,427,497 | 86,960 | - | 86,960 | - | - | 113,340,537 | 113,340,537 | - |
| | Total | 125,352,429 | (4,144,974) | (532,930) | 3,348,466 | (8,026,371) | - | 130,030,334 | 130,030,334 | - |

Hedge instruments have generated an effect on income of ThCh\$ (23,571,584), As of March 31, 2016 the accumulated effect on equity is ThCh\$ 9,881,748 (see note 22d).

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

| Type of hedge | Underlying | Net total as | Up to | 90 days to | Total current | | To Maturity | | Total non-current | |
|--|----------------|--------------------|------------------|----------------|------------------|--------------------|-------------------|--------------------|--------------------|--------------------|
| | | 12.31.2015 | 90 days | 1 year | Assets | Liabilities | 1 to 3 years | 3 to 5 years | Assets | Liabilities |
| | | ThCh\$ | ThCh\$ | ThCh\$ | (note 6) | (note 17) | ThCh\$ | ThCh\$ | (note 6) | (note 17) |
| | | | | | | | | | | |
| 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 23d).

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 | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|-------------------------|----------------------|----------------------|
| Civil and regulatory(1) | 526,928 | 591,254 |
| Total | 526,928 | 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 28.a), therefore they do not foresee that they will result in liabilities other than those recorded.

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

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

| Movements | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|---------------------------------|----------------------|----------------------|
| Beginning balance | 591,254 | 1,754,983 |
| Increase in existing provisions | 330,371 | 1,905,974 |
| Provision used | (394,697) | (3,069,703) |
| Movement subtotal | (64,326) | (1,163,729) |
| Ending balance | 526,928 | 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 March 31, 2016 and December 31, 2015 current and non-current employee benefits accrual are as follows:

| Concepts | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|---|----------------------|----------------------|
| Current amount of liability recognized for termination benefits | 3,603,517 | 3,416,667 |
| Non-current amount of liability recognized for termination benefits | 27,402,491 | 27,061,311 |
| Total | 31,006,008 | 30,477,978 |

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

| Movements | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|---|----------------------|----------------------|
| Beginning balance | 30,477,978 | 30,738,412 |
| Service costs | 626,224 | 1,751,894 |
| Interest costs | 337,975 | 1,386,302 |
| Actuarial (profits)/losses, net due to experience | (131,819) | (95,952) |
| Benefits paid | (304,350) | (358,766) |
| Others | - | (2,943,912) |
| Movement subtotal | 528,030 | (260,434) |
| Ending balance | 31,006,008 | 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 March 31, 2016 and December 31, 2015 are detailed as follows:

- **Discount Rate:** A 4.51% nominal annual rate is used, which must be representative of the time value of money, for which a risk-free rate is used represented by BCP (Chilean Central Bank Bonds issued in Chilean pesos) for the relevant term, around 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 March 31, 2016 and December 31, 2015 period was 3%.
- **Mortality:** The RV 2009 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 periods.
- **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 March 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% | (2,018,477) | 2,266,035 |

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 | 4,492,431 | 2,890,465 | 2,953,341 |

d) Employee benefits expenses

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

| Concepts | 03.31.2016 ThCh\$ | 03.31.2015 ThCh\$ |
|---|----------------------|----------------------|
| Wages and salaries | 18,116,230 | 18,601,241 |
| Post employment benefit obligations expense | 965,820 | 917,099 |
| Total | 19,082,050 | 19,518,340 |

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

Other non-financial liabilities are detailed as follows:

| Concepts | 03.31.2016 | | 12.31.2015 | |
|-------------------------|-------------------|-----------------------|-------------------|-----------------------|
| | Current ThCh\$ | Non-current ThCh\$ | Current ThCh\$ | Non-current ThCh\$ |
| Deferred income | 4,686,355 | 5,304,052 | 4,796,168 | 5,478,452 |
| Connection installments | 225,490 | 204,443 | 393,983 | 220,726 |
| Subsidies (1) | 143,003 | 1,281,136 | 143,003 | 1,316,886 |
| Deferred income (2) | 4,317,862 | 3,818,473 | 4,259,182 | 3,940,840 |
| Other taxes (3) | 19,690,704 | - | 12,814,011 | - |
| Total | 24,377,059 | 5,304,052 | 17,610,179 | 5,478,452 |

(1) Corresponds to the balance pending recognition on the following projects:

- Fiber optics network between Puerto Natales and Cerro Castillo in the amount of ThCh\$600,780 in non-current and ThCh\$ 52,623 in current.
- Connectivity for Service Networks and their Respective Neighborhoods and Community Information Tele-centers in the amount of ThCh\$680,355 in non-current and ThCh\$90,380 in current.

(2) The current portion mainly includes self-financed projects in the amount of MCh\$1,802 and non-current portion includes entitlements for the use of underwater cables in the amount of MCh\$1,639 and sold capacity in the amount of MCh\$1,008.

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

Movements of the deferred income are as follows:

| Movements | 03.31.2016 | | 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 | 2,105,028 | 506,390 | 12,695,304 | 1,641,540 |
| Reduction/applications | (2,214,841) | (680,790) | (13,248,436) | (2,354,777) |
| Movement subtotal | (109,813) | (174,400) | (553,132) | (713,237) |
| Ending balance | 4,686,355 | 5,304,052 | 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 periods ended as of March 31, 2016 and December 31, 2015.

a) Capital

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

Number of shares

| Series | N° of shares subscribed | 03.31.2016 | | N° of shares subscribed | 12.31.2015 | |
|--------|-------------------------|-------------------|---------------------------------|-------------------------|-------------------|---------------------------------|
| | | N° of shares paid | N° of shares with voting rights | | N° of shares paid | N° of shares with voting rights |
| A | 873,995,447 | 873,995,447 | 873,995,447 | 873,995,447 | 873,995,447 | 873,995,447 |
| B | 83,161,638 | 83,161,638 | 83,161,638 | 83,161,638 | 83,161,638 | 83,161,638 |
| Total | 957,157,085 | 957,157,085 | 957,157,085 | 957,157,085 | 957,157,085 | 957,157,085 |

Capital

| Series | 03.31.2016 | | 12.31.2015 | |
|--------|--------------------|-----------------|--------------------|-----------------|
| | Subscribed capital | Paid-in capital | Subscribed capital | Paid-in capital |
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| A | 527,852,620 | 527,852,620 | 527,852,620 | 527,852,620 |
| B | 50,225,762 | 50,225,762 | 50,225,762 | 50,225,762 |
| Total | 578,078,382 | 578,078,382 | 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.

In accordance with Law 18,046, article 69, number 2), the shareholder that does not agree with the decision adopted by the shareholders at the Extraordinary Shareholders' Meeting, in respect to the merger, can express their decision to withdraw from the Company in the manner and within the deadlines established by Law. Regardless of that, each shareholder shall be entitled to 1.3170666 shares of Telefónica Chile S.A., as determined by experts using the exchange equation based on the financial statements as of December 31, 2015, for each share of Telefónica Larga Distancia S.A.

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 March 31, 2016 is as follows:

| Type of Shareholder | Participation percentage % | Number of shareholders |
|---|----------------------------|------------------------|
| Participation of 10% or more | 97.920 | 1 |
| Less than 10% participation: | | |
| Investment equal to or exceeding UF 200 | 1.511 | 211 |
| Investment under UF 200 | 0.569 | 8,048 |
| Total | 100 | 8,260 |
| Company's parent | 97.920 | 1 |

As of March 31, 2016 and December 31, 2015, the indirect participation of Telefónica S.A. (Spain) in the equity of Telefónica Chile S.A. reached 97.920%.

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 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.

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 |

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 03.31.2016 ThCh\$ |
|---|------------------------------------|------------------------|------------------------------------|
| Cash flows hedge reserve | 8,929,007 | 952,741 | 9,881,748 |
| Employee benefits reserve, net tax | (3,202,898) | 89,793 | (3,113,105) |
| Reserve for financial assets available for sale | 4,932 | 1,053,515 | 1,058,447 |
| Proposed dividends reserve | (7,375,148) | - | (7,375,148) |
| Total | (1,644,107) | 2,096,049 | 451,942 |

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

e) Non-controlling interest

As of March 31, 2016 and December 31, 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 | 0.070000 | 40,694 | 48,708 |
| Telefónica de Chile Servicios Corporativos Ltda. | 49.000000 | 49.000000 | 14,694,096 | 14,135,014 |
| Total | | | 14,734,790 | 14,183,722 |

As of March 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) | |
|---|-------------------------------------|-----------|---|--|----------------------|
| | 2015 % | 2014 % | % | 03.31.2016 ThCh\$ | 03.31.2015 ThCh\$ |
| Telefónica Larga Distancia S.A. | 0,070000 | 0,070000 | | 3,057 | 2,874 |
| Telefónica Chile Servicios Corporativos Ltda. | 49.000000 | 49.000000 | | 479,599 | 313,661 |
| Total | | | | 482,656 | 316,535 |

23. Earnings per Share

The details of Earnings per share are as follows:

| Basic earnings per share | 03.31.2016 | 03.31.2015 |
|---|--------------|-------------|
| | ThCh\$ | ThCh\$ |
| Earnings attributable to owners of the parent | 11,269,212 | 2,927,873 |
| Profit available for shareholders | 11,269,212 | 2,927,873 |
| Weighted average number of shares | 957,157,085 | 957,157,085 |
| Basic earnings per share in Ch\$ | 11,77 | 3,06 |

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

24. Income and Expenses

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

| Ordinary income | 03.31.2016 | 03.31.2015 |
|--------------------------|--------------------|--------------------|
| | ThCh\$ | ThCh\$ |
| Fixed Telecommunications | 56,233,888 | 55,678,023 |
| Broadband (1) | 46,979,268 | 43,532,741 |
| Television | 42,336,855 | 39,846,127 |
| Long Distance | 7,168,654 | 7,115,904 |
| Corporate Communication | 26,317,787 | 22,991,262 |
| Other Businesses | 139,207 | 41,586 |
| Total | 179,175,659 | 169,205,643 |

(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 March 31, 2016 and 2015 are as follows:

| Other income | 03.31.2016 | 03.31.2015 |
|--|----------------|---------------|
| | ThCh\$ | ThCh\$ |
| Income from disposal of real property | 2,050 | 1,996 |
| Other current management income | 17,685 | 9,562 |
| Income from indemnities, complaints and others | 695,413 | 20,418 |
| Total | 715,148 | 31,976 |

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

| Other expenses | 03.31.2016 | 03.31.2015 |
|---------------------------------|-------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Interconnections | 10,306,308 | 9,808,159 |
| Media rental | 26,329,900 | 23,752,541 |
| Cost of sale of inventory | 8,802,560 | 2,904,996 |
| Other exterior services | 8,808,543 | 8,951,675 |
| Sales commissions | 8,551,208 | 9,479,494 |
| Customer service | 6,088,109 | 6,613,163 |
| Plant maintenance | 10,097,493 | 11,401,200 |
| Allowance for doubtful accounts | 5,416,864 | 4,521,129 |
| Advertising | 2,941,573 | 4,351,128 |
| Expenses related to real estate | 4,623,981 | 3,798,139 |
| Information services | 5,525,335 | 5,959,438 |
| Other | 1,483,096 | 2,704,458 |
| Total | 98,974,970 | 94,245,520 |

24. Income and Expenses, continued

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

| Financial expenses, net | 03.31.2016 | 03.31.2015 |
|--|--------------------|--------------------|
| | ThCh\$ | ThCh\$ |
| Interest income | | |
| Interest earned on deposits | 445,270 | 816,572 |
| Interest on financial instruments | 13,127 | 1,343 |
| Other interest income | 205,749 | 429,534 |
| Total interest income | 664,146 | 1,247,449 |
| Interest expense | | |
| Interest on loans from bank institutions | 452,800 | 365,645 |
| Interest on obligations and bonds | 3,862,750 | 3,909,421 |
| Finance leases | 1,284 | 5,516 |
| Interest on mercantile mandate | 491,672 | 1,020,965 |
| Interest rate hedges (Cross Currency Swap) | 142,299 | 196,976 |
| Other financial expenses | 330,744 | - |
| Total interest expense | 5,281,549 | 5,498,523 |
| Total finance income and costs, net | (4,617,403) | (4,251,074) |

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

| Currency translation | 03.31.2016 | 03.31.2015 |
|---|----------------|------------------|
| | ThCh\$ | ThCh\$ |
| Other financial transactions | - | 90,005 |
| Current accounts receivable from related entities | (1,254,359) | 279,609 |
| Current accounts payable to related entities | 772,404 | (346,339) |
| Current trade and other accounts receivable | (147,383) | (16,890) |
| Trade and other accounts payable | 618,816 | (347,470) |
| Cash and cash equivalents | (252,857) | 130,893 |
| Financial investments | - | 771,281 |
| Financial debt | 23,923,522 | (11,735,118) |
| Other non-financial liabilities | 12,067 | - |
| Leasing financial debt | - | (59,444) |
| Hedge instruments | (23,459,879) | 11,118,055 |
| Total | 212,332 | (115,418) |

| Indexation units | 03.31.2016 | 03.31.2015 |
|---|-----------------|--------------|
| | ThCh\$ | ThCh\$ |
| Cash and cash equivalents | (271) | - |
| Current trade and other accounts receivable | (41) | (52) |
| Trade and other accounts payable | - | (97) |
| Current tax liabilities | (16,347) | - |
| Financial debt | (6,511) | 461 |
| Leasing financial debt | (27) | 1,312 |
| Total | (23,198) | 1,624 |

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 | 03.31.2016 | 03.31.2015 |
|---|------------|------------|
| | ThCh\$ | ThCh\$ |
| Minimum operating lease payments recognized as expenses | 2,228,206 | 1,313,672 |

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

| Concepts | 03.31.2016 | | | 12.31.2015 | | |
|---------------------------------------|--------------|--------------------------|-----------|--------------|--------------------------|-----------|
| | Gross amount | Accumulated depreciation | Net value | Gross amount | Accumulated depreciation | Net value |
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Financial leases recognized as assets | 5,304,293 | (4,971,703) | 332,590 | 5,304,293 | (4,969,765) | 334,528 |

25. Leases, continued

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

| Concepts | 03.31.2016 | | | Total ThCh\$ |
|---|-----------------------------|-------------------------------------|--------------------------------|-----------------|
| | Up to one year ThCh\$ | From one to five years ThCh\$ | More than 5 years ThCh\$ | |
| Minimum financial lease payments payable | 27,344 | - | - | 27,344 |
| Future financial burden due to financial leases | 236 | - | - | 236 |
| Minimum operating lease payments payable | 5,829,692 | 7,456,194 | 244,171 | 13,530,057 |

| Concepts | 03.31.2015 | | | Total ThCh\$ |
|---|-----------------------------|-------------------------------------|--------------------------------|-----------------|
| | Up to one year ThCh\$ | From one to five years ThCh\$ | More than 5 years ThCh\$ | |
| Minimum financial lease payments payable | 639,360 | - | - | 639,360 |
| Future financial burden due to financial leases | 10,142 | - | - | 10,142 |
| Minimum operating lease payments payable | 4,008,405 | 14,246,569 | 341,252 | 18,596,226 |

26. Local and Foreign Currency

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

| Currents assets | 03.31.2016 | 12.31.2015 |
|---|--------------------|--------------------|
| | ThCh\$ | ThCh\$ |
| Cash and cash equivalents | 61,454,808 | 86,977,350 |
| US Dollars | 9,786,679 | 978,727 |
| Euros | 21,050 | 45,065 |
| Chilean Pesos | 51,647,079 | 85,953,558 |
| Other current financial assets | 3,586,378 | 3,357,124 |
| US Dollars | 3,006,559 | 3,288,063 |
| Euros | 910 | - |
| Chilean Pesos | 491,949 | - |
| U.F. | 86,960 | 69,061 |
| Current trade and other accounts receivable | 141,269,251 | 134,403,204 |
| US Dollars | - | - |
| Euros | 17,549 | 11,709 |
| Chilean Pesos | 140,996,937 | 134,146,691 |
| U.F. | 254,765 | 244,804 |
| Current receivables from related companies | 75,694,417 | 71,651,761 |
| US Dollars | 4,135,340 | 3,593,473 |
| Chilean Pesos | 71,514,408 | 68,058,288 |
| Other currencies | 44,669 | - |
| Other current assets (1) | 52,625,492 | 46,771,493 |
| Chilean Pesos | 52,625,492 | 46,771,493 |
| Total current assets | 334,630,346 | 343,160,932 |
| US Dollars | 16,928,578 | 7,860,263 |
| Euros | 39,509 | 56,774 |
| Chilean Pesos | 317,275,865 | 334,930,030 |
| U.F. | 341,725 | 313,865 |
| Other currencies | 44,669 | - |

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

| Non-currents assets | 03.31.2016 | 12.31.2015 |
|---|----------------------|----------------------|
| | ThCh\$ | ThCh\$ |
| Other non-current financial assets | 136,819,060 | 159,888,748 |
| US Dollars | 113,340,537 | 140,187,305 |
| Chilean Pesos | 23,478,523 | 19,701,443 |
| U.F. | - | - |
| Non-current trade and other accounts receivable | 15,939,382 | 15,222,532 |
| Chilean Pesos | 15,939,382 | 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) | 1,068,908,413 | 1,060,465,949 |
| Chilean Pesos | 1,068,908,413 | 1,060,465,949 |
| Total non-current assets | 1,223,033,376 | 1,236,943,750 |
| US Dollars | 113,340,537 | 140,187,305 |
| Chilean Pesos | 1,109,692,839 | 1,096,756,445 |
| U.F. | - | - |

(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 | 03.31.2016 | 12.31.2015 | 03.31.2016 | 12.31.2015 |
|--|----------------------|--------------------|--------------------------------|-------------------|
| | to 90 days ThCh\$ | | De 91 days a 1 years ThCh\$ | |
| Other current financial liabilities | 14,926,014 | 4,573,685 | 784 | 3,534,410 |
| US Dollars | 8,809,097 | 101,721 | - | 2,598,459 |
| Euros | 30,326 | - | - | - |
| Chilean Pesos | 5,112,758 | 4,350,612 | 784 | - |
| U.F. | 973,833 | 121,352 | - | 935,951 |
| Trade and other payables | 141,838,689 | 176,752,011 | - | - |
| US Dollars | 23,901,635 | 31,414,662 | - | - |
| Euros | 571,918 | 659,099 | - | - |
| Chilean Pesos | 97,719,236 | 126,138,335 | - | - |
| U,F, | 19,645,841 | 18,539,856 | - | - |
| Other currency | 59 | 59 | - | - |
| Current receivables from related companies | 96,780,490 | 81,567,128 | - | - |
| US Dollars | 6,739,906 | 3,868,571 | - | - |
| Euros | 2,255,079 | - | - | - |
| Chilean Pesos | 87,785,505 | 77,698,557 | - | - |
| Other current liabilities (1) | 6,678,085 | 4,829,667 | 28,507,504 | 21,618,100 |
| Chilean Pesos | 6,678,085 | 4,829,667 | 28,507,504 | 21,618,100 |
| Total current liabilities | 260,223,278 | 267,722,491 | 28,508,288 | 25,152,510 |
| US Dollars | 39,450,638 | 35,384,954 | - | 2,598,459 |
| Euros | 2,857,323 | 659,099 | - | - |
| Other currency | 59 | 59 | - | - |
| Chilean Pesos | 197,295,584 | 213,017,171 | 28,508,288 | 21,618,100 |
| U.F. | 20,619,674 | 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 | 03.31.2016 | 12.31.2015 | 03.31.2016 | 12.31.2015 | 03.31.2016 | 12.31.2015 |
|---|------------------------|-------------------|------------------------|-------------------|----------------------------|--------------------|
| | 1 to 3 years ThCh\$ | | 3 to 5 years ThCh\$ | | 5 years and over ThCh\$ | |
| Other non-current financial liabilities | 65,100,830 | 68,972,097 | 46,655,252 | 54,270,851 | 332,442,930 | 352,371,709 |
| US Dollars | 65,100,830 | 68,972,097 | - | - | 332,442,930 | 352,371,709 |
| Chilean Pesos | - | - | 46,655,252 | 54,270,851 | - | - |
| U.F. | - | - | - | - | - | - |
| Non-current Current payables to related companies | - | - | 21,428,586 | 21,181,406 | - | - |
| Chilean Pesos | - | - | 21,428,586 | 21,181,406 | - | - |
| Other non-current liabilities (2) | 754,517 | 1,063,488 | 12,598,739 | 15,033,659 | 93,952,782 | 92,254,280 |
| Chilean Pesos | 754,517 | 1,063,488 | 12,598,739 | 15,033,659 | 93,952,782 | 92,254,280 |
| Other non-current liabilities | 65,855,347 | 70,035,585 | 80,682,577 | 90,485,916 | 426,395,712 | 444,625,989 |
| US Dollars | 65,100,830 | 68,972,097 | - | - | 332,442,930 | 352,371,709 |
| Chilean Pesos | 754,517 | 1,063,488 | 80,682,577 | 90,485,916 | 93,952,782 | 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 March 31, 2016, which altogether amounts to ThCh\$225,451. It is estimated that Telefónica Chile S.A. must pay the amount of ThCh\$56,950 before June 30, 2016 and the rest, during the first quarter of 2016.

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\$674,120.

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

a) Miscellaneous lawsuits

i) Labor lawsuits

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

ii) 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:

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 Sovereign 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 F Bond, dated April 15, 1991 in the amount of UF 1.5 million, placed at 25 years with biannual maturity.
- ii) Series 144A Bond dated October 12, in the amount of US\$ 500 million placed at 10 year bullet.
- iii) 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 |
|---|------------------------|
| Local Bonds (Series F) | Debt index < = 2.5 |
| 144A Bond | There are none |
| Q Bond | There are none |
| International loan with Sovereign Bank N.A, | There are none |

27. Contingencies and restrictions, continued

b) Financial restrictions, continued

The obligations arising from the financing contracts mentioned above have been fulfilled as of March 31, 2016 and December 31, 2015, the debt ratio is calculated on the consolidated financial statements, and the values determined are:

| | 03.31.2016 ThCh\$ | 12.31.2015 ThCh\$ |
|----------------------------------|----------------------|----------------------|
| Total debt | 728,286,402 | 740,749,741 |
| Total Current Liabilities | 288,731,566 | 292,875,001 |
| Total Non-current Liabilities | 572,933,636 | 605,147,490 |
| Current Hedge Assets (less)* | 3,348,466 | 3,119,212 |
| Non-current Hedge Assets (less)* | 130,030,334 | 154,153,538 |
| Net shareholders' equity | 695,998,520 | 682,082,191 |
| Total debt | 728,286,402 | 740,749,741 |
| Net shareholders' equity | 695,998,520 | 682,082,191 |
| Debt ratio | 1.05 | 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.

The Covenants ratio has been fulfilled as of March 31, 2016 and December 31, 2015.

27. Contingencies and restrictions, continued

c) Guarantee deposits:

The detail of guarantee deposits is as follows:

| Guarantee creditor | Debtor | | Type of guarantee | Current guarantee deposits ThCh\$ | Liberated guarantees | | |
|--|--------|----------------|-------------------|--------------------------------------|----------------------|------------------|--------------------------|
| | Name | Relationship | | | 2016 ThCh\$ | 2017 ThCh\$ | 2018 & thereon ThCh\$ |
| Conect S.A. | TCH | Parent company | Deposit | 1,039,823 | - | - | 1,039,823 |
| Empresa Constructora Moller y Perez Cotapos S.A. | TCH | Parent company | Deposit | 545,336 | 545,336 | - | - |
| MOP- Dirección Región de Vialidad Coquimbo | TCH | Parent company | Deposit | 204,624 | - | 204,624 | - |
| Serviu Región Metropolitana | TCH | Parent company | Deposit | 373,875 | 245,730 | - | 128,145 |
| Corporación de Fomento de la Producción | TCH | Parent company | Deposit | 126,072 | - | 126,072 | - |
| Otras Garantías (1) | TCH | Parent company | Deposit | 655,844 | 405,247 | 122,894 | 127,703 |
| Subsecretaría de Telecomunicaciones | TLD | Subsidiary | Deposit | 1,030,536 | - | - | 1,030,536 |
| Otras Garantías (1) | TLD | Subsidiary | Deposit | 94,295 | - | 88,275 | 6,020 |
| Gendarmería de Chile | TEM | Subsidiary | Deposit | 2,691,380 | 1,242,856 | 1,003,352 | 445,172 |
| Servicio Electoral | TEM | Subsidiary | Deposit | 1,380,289 | - | 1,380,289 | - |
| Fundación Integra | TEM | Subsidiary | Deposit | 856,952 | - | - | 856,952 |
| Subsecretaría de Educación | TEM | Subsidiary | Deposit | 834,040 | - | - | 834,040 |
| Banco del Estado de Chile | TEM | Subsidiary | Deposit | 731,989 | 216,683 | 515,306 | - |
| Estado Mayor Conjunto | TEM | Subsidiary | Deposit | 686,120 | 251,219 | 434,901 | - |
| Cemento Bio Bio S.A. | TEM | Subsidiary | Deposit | 542,125 | - | - | 542,125 |
| Tesorería del Estado Mayor General del Ejército | TEM | Subsidiary | Deposit | 424,998 | - | - | 424,998 |
| Asociación Chilena de Seguridad | TEM | Subsidiary | Deposit | 324,293 | - | - | 324,293 |
| Subsecretaría de Telecomunicaciones | TEM | Subsidiary | Deposit | 309,426 | 309,426 | - | - |
| Consejo de Defensa del Estado | TEM | Subsidiary | Deposit | 252,311 | 251,553 | 758 | - |
| Comando Logístico de la Fuerza Aérea | TEM | Subsidiary | Deposit | 163,030 | - | - | 163,030 |
| Org. Europea para la Investigación Astronómica (ESSO) | TEM | Subsidiary | Deposit | 147,916 | 147,916 | - | - |
| Redbanc S.A. | TEM | Subsidiary | Deposit | 120,768 | - | 120,768 | - |
| Intendencia Región Antofagasta | TEM | Subsidiary | Deposit | 110,544 | - | 110,544 | - |
| Terminal Aéreo de Santiago | TEM | Subsidiary | Deposit | 107,476 | 107,476 | - | - |
| Minera Esperanza | TEM | Subsidiary | Deposit | 103,593 | - | 103,593 | - |
| Corporación de Fomento de la Producción | TEM | Subsidiary | Deposit | 42,672 | 42,000 | 3,672 | - |
| Otras Garantías (1) | TEM | Subsidiary | Deposit | 3,914,560 | 1,512,452 | 1,108,344 | 1293,764 |
| Total | | | | 17,817,887 | 5,277,894 | 5,323,392 | 7,216,601 |

(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.

TLD: Telefónica Larga Distancia 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 March 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 policies

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

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

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

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

Market Risk

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

29. Risk management (Not audited), continued

e) Financial risk management objectives and policies, 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 March 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 March 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\$54,300, whereas a decrease in the TCPN would mean a reduction of ThCh\$54,300 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 policies, 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. The return on equity (income/average total equity) as of March 31, 2016 amounts to 1.65%, a increase of 278.3% in comparison to March 2015, where it reached 0.44%. This primarily by higher operating income

The Company manages its capital structure and makes adjustments to it, in response to changes in economic conditions.

There were no changes in the objectives, policies or processes during the periods ended as of March 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 addition of one digit in mobile telephone numbers will be implemented as of February 6, 2016 and Intermodal Portability will be enabled on September 5, 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, Inc for five years.

30. Subsequent events

The consolidated financial statements of Telefónica Chile S.A., for the period ended as of March 31, 2016, were approved and their issuance was authorized at the Board of Directors Meeting held on April 21, 2016.

In the period from April 1 to April 21, 2016, there have been no other significant subsequent events that affect these consolidated financial statements.

Alejandro Gil Ibarra
Accounting Manager

Juan Parra Hidalgo
Director of Finance and Management Control

Roberto Muñoz Laporte
General Manager