

Telefónica

CHILE S.A. AND SUBSIDIARIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2013, December 31, 2012 and March 31, 2012

(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, 2013 and December 31, 2012

Telefónica

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

	Notes	03.31.2013	12.31.2012
		ThCh\$	ThCh\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	(5)	177,674,274	246,567,966
Other current financial assets	(6)	28,806,594	4,998,135
Other current non-financial assets	(7)	23,066,929	21,297,059
Trade and other current receivables	(8a)	138,068,312	140,799,919
Current receivables from related companies	(9a)	67,729,945	63,462,235
Inventory	(10a)	6,514,368	6,147,395
Current tax assets	(11b)	5,748,605	1,570,818
Total current assets other than assets groups of assets for disposal, classified as available for sale or as held for distribution to owners		447,609,027	484,843,527
Non-current assets or groups of assets for disposal, classified as available for sale or held for distribution to owners	(16)	65,627	65,627
TOTAL CURRENT ASSETS		447,674,654	484,909,154
NON-CURRENT ASSETS			
Other non-current financial assets	(6)	17,279,216	16,709,646
Other non-current non-financial assets	(7)	2,284,641	2,662,177
Non-current receivables	(12)	16,867,637	18,048,113
Non-current receivables from related companies	(9b)	1,366,521	1,366,521
Intangible assets other than goodwill, net	(13a)	35,166,747	38,105,530
Goodwill	(14)	21,660,128	21,660,128
Property, plant and equipment	(15a)	943,392,825	949,333,937
Deferred tax assets	(11c)	4,502,364	7,035,425
TOTAL NON-CURRENT ASSETS		1,042,520,079	1,054,921,477
TOTAL ASSETS		1,490,194,733	1,539,830,631

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, 2013 and December 31, 2012

Telefónica

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

	Notes	03.31.2013	12.31.2012
		ThCh\$	ThCh\$
LIABILITIES			
CURRENT LIABILITIES			
Other current financial liabilities	(17)	92,132,361	85,101,325
Trade and other payables	(18)	121,410,976	187,498,669
Current payables to related companies	(9c)	77,129,847	81,725,309
Other current provisions	(19)	1,404,161	1,549,209
Current tax liabilities	(11d)	8,173,242	7,588,500
Current employee benefits accrual	(20a)	4,215,594	4,426,045
Other current non-financial liabilities	(21)	24,955,078	16,886,055
TOTAL CURRENT LIABILITIES		329,421,259	384,775,112
NON-CURRENT LIABILITIES			
Other non-current financial liabilities	(17)	465,332,649	468,889,617
Other non-current provisions		543,244	543,244
Deferred tax liabilities	(11c)	50,124,969	51,895,208
Non-current employee benefits accrual	(20a)	24,745,473	25,888,804
Other non-current non-financial liabilities	(21)	5,526,951	5,606,229
TOTAL NON-CURRENT LIABILITIES		546,273,286	552,823,102
TOTAL LIABILITIES		875,694,545	937,598,214
NET SHAREHOLDERS' EQUITY			
Issued capital	(22a)	578,078,382	578,078,382
Retained earnings		37,498,312	24,198,873
Other reserves	(22d)	(4,610,026)	(2,679,791)
Shareholders' equity attributable to owners of the parent		610,966,668	599,597,464
Non-controlling interest	(22e)	3,533,520	2,634,953
TOTAL NET SHAREHOLDERS' EQUITY		614,500,188	602,232,417
TOTAL NET LIABILITIES & SHAREHOLDERS' EQUITY		1,490,194,733	1,539,830,631

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the periods ended March 31, 2013 and 2012

Telefónica

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

STATEMENTS OF COMPREHENSIVE INCOME	Notes	For the periods ended March 31,	
		2013 ThCh\$	2012 ThCh\$
Revenues from ordinary operations	(24a)	163,170,454	172,347,299
Other income, by segment	(24b)	41,013	274,249
Employee benefits expenses	(20b)	(23,636,943)	(22,030,476)
Depreciation and amortization expense	(13b)(15b)	(37,260,306)	(39,701,763)
Other expenses, by nature	(24c)	(78,465,073)	(84,814,394)
Profit from operating activities		23,849,145	26,074,915
Interest income	(24d)	2,508,479	570,503
Interest expense	(24d)	(8,330,827)	(5,719,910)
Share in earnings (losses) of associates accounted for using the equity method	(24e)	-	307,774
Foreign exchange differences		(41,652)	77,674
Profits before tax from continuing operations		17,985,145	21,310,956
Income tax expense	(11e)	(3,787,139)	(2,567,856)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		14,198,006	18,743,100
Profit attributable to holders of equity instruments of the controller and minority interest:			
Profit attributable to owners of the parent		13,299,439	17,424,306
Profit attributable to non-controlling interest	(22e)	898,567	1,318,794
PROFIT FOR THE PERIOD		14,198,006	18,743,100
EARNINGS PER SHARE		Ch\$	Ch\$
Earnings per basic share			
Earnings per basic share for continuing operations	(23)	13.89	18.20
Earnings per basic share for discontinuing operations		-	-
Earnings per basic share		13.89	18.20
Diluted earnings per share			
Diluted earnings per share from continuing operations		13.89	18.20
Diluted earnings per share from discontinuing operations		-	-
Diluted earnings per share		13.89	18.20

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the periods ended March 31, 2013 and 2012

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

Telefónica

For the periods ended March 31,

STATEMENTS OF COMPREHENSIVE INCOME	2013	2012
	ThCh\$	ThCh\$
PROFIT FOR THE PERIOD	14,198,006	18,743,100
OTHER COMPREHENSIVE INCOME		
Components of other comprehensive income before taxes		
Profit (loss) on new measurement of financial assets available for sale	607,407	249,302
Profit (loss) on cash flow hedges	(3,172,053)	2,620,441
Other comprehensive income, before taxes, actuarial gains on defined benefits plans	-	-
Participation in profits of associates accounted for using the equity method	-	265
Total other components of other comprehensive income, before taxes	(2,564,646)	2,870,008
Income taxes related to components of other comprehensive income		
Income tax related to hedging cash flows from other comprehensive income	634,411	(487,412)
Income tax related to other comprehensive income defined benefits plans	-	-
Total income taxes related to components of other comprehensive income	634,411	(487,412)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	(1,930,235)	2,382,596
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	12,267,771	21,125,696
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Comprehensive income attributable to owners of the parent	11,369,204	19,806,902
Comprehensive income attributable to non-controlling interest	898,567	1,318,794
TOTAL COMPREHENSIVE INCOME	12,267,771	21,125,696

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the periods ended March 31, 2013 and 2012

Telefónica

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

	Changes in capital (Note 22 a)	Changes in the other reserves (Note 22 d)				Retained earnings	Equity attributable to owners of the parent	Non controlling interests (Note 22e)	Total equity	
	Issued capital	Cash flow hedge reserves (Note 6d)	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 01.01.2013	578,078,382	(3,716,944)	(2,415,709)	3,452,862	-	(2,679,791)	24,198,873	599,597,464	2,634,953	602,232,417
Changes in equity										
Comprehensive income										
Profit	-	-	-	-	-	-	13,299,439	13,299,439	898,567	14,198,006
Other comprehensive income	-	(2,537,642)	-	607,407	-	(1,930,235)	-	(1,930,235)	-	(1,930,235)
Comprehensive income		(2,537,642)	-	607,407	-	(1,930,235)	13,299,439	11,369,204	898,567	12,267,771
Other decrease from transfers and other changes	-	-	-	-	-	-	-	-	-	-
Total changes in shareholders' equity	-	(2,537,642)	-	607,407	-	(1,930,235)	13,299,439	11,369,204	898,567	12,267,771
Ending balance as of 03.31.2013	578,078,382	(6,254,586)	(2,415,709)	4,060,269	-	(4,610,026)	37,498,312	610,966,668	3,533,520	614,500,188
Beginning balance as of 01.01.2012	578,078,382	863,954	(3,225,153)	5,603,354	364,309	3,606,464	57,937,660	639,622,506	(1,360,058)	638,262,448
Changes in equity										
Comprehensive income										
Profit	-	-	-	-	-	-	17,424,306	17,424,306	1,318,794	18,743,100
Other comprehensive income	-	2,133,029	-	249,302	265	2,382,596	-	2,382,596	-	2,382,596
Comprehensive income		2,133,029	-	249,302	265	2,382,596	17,424,306	19,806,902	1,318,794	21,125,696
Other increase (decrease) from transfers and other changes	-	-	-	-	(113,385)	(113,385)	-	(113,385)	215,801	102,416
Total changes in shareholders' equity	-	2,133,029	-	249,302	(113,120)	2,269,211	17,424,306	19,693,517	1,534,595	21,228,112
Ending balance as of 03.31.2012	578,078,382	2,996,983	(3,225,153)	5,852,656	251,189	5,875,675	75,361,966	659,316,023	174,537	659,490,560

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended March 31, 2013 and 2012

Telefónica

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

	For the periods ended March 31,	
	2013	2012
	ThCh\$	ThCh\$
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Classes of operating activity charges		
Proceeds from sale of assets and services rendered	246,676,895	253,768,322
Classes of payments		
Payments to suppliers for supplying goods and services	(142,715,729)	(131,186,799)
Payments to and on account of employees	(55,392,331)	(45,601,210)
Other operating activity payments	(22,154,861)	(22,106,674)
Net cash flows provided by (used in) operating activities	26,413,974	54,3873,639
Income taxes (paid) reimbursed classified as operating activities (less)	5,504,948	5,821,558
Cash flows provided by (used in) operating activities	20,909,026	49,052,081
CASH FLOWS PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		
Proceeds from sale of property, plant and equipment, classified as investing activities	4,778	20,742
Additions to property, plant and equipment, classified as investing activities	(55,651,387)	(67,341,662)
Dividends received, classified as investing activities	235,123	-
Interest received, classified as investing activities	2,148,615	335,901
Other cash inputs (outputs), classified as investing activities	(25,568,138)	(3,420,129)
Net cash flows provided by (used in) investment activities	(78,831,009)	(70,405,148)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Proceeds from loans, classified as financing activities		
Loans from related entities	-	13,477,401
Payments of financial lease liabilities, classified as financing activities	(342,259)	(348,231)
Payments of loans to related entities	(6,494,540)	-
Interest paid, classified as financing activities	(4,134,910)	(3,616,681)
Net cash flows provided by (used in) financing activities	(10,971,709)	9,512,489
Increase (decrease) in cash and cash equivalents, before the effects of changes in the exchange rate	(68,893,692)	(11,840,578)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(68,893,692)	(11,840,578)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	246,567,966	40,789,117
CASH AND CASH EQUIVALENTS AT END OF PERIOD	177,674,274	28,948,539

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 Internacional Holding Ltda., which is indirect subsidiary of Telefonica S.A., headquartered in Spain.

The subsidiary company registered in the Securities Registry is:

Subsidiary	Taxpayer number	Registration number	Participation percentage (direct and indirect)	
			03.31.2013	12.31.2012
			%	%
Telefónica Larga Distancia S.A.	96.672.160-K	1061	99.93	99.93

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

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

b) Basis of presentation

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

Certain minor reclassifications have been performed in the 2012 financial statements. i) Statement of Financial Position: from current tax assets and liabilities, recoverable taxes in the amount of ThCh\$8,639,367 and taxes payable in the amount of ThCh\$10,276,802 (which are taxes other than income tax) were reclassified to “other current non-financial assets” and “other current non-financial liabilities”, respectively; ii) Statements of Comprehensive Income: a reclassification was made from “other income” to “other expenses, by nature” in the amount of ThCh\$3,496,002, corresponding to human resources services.

2. Significant accounting principles, continued

c) Basis of preparation

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

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

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

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

d) Basis of consolidation

The financial statements of Telefónica Chile S.A. and its subsidiaries include assets and liabilities as of March 31, 2013 and December 31, 2012. Balances with related companies, unrealized income and expenses and net income and losses have been eliminated and non-controlling interest has been recognized under “Non-controlling interest” (note 22e).

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

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

The following subsidiaries are included in consolidation:

Taxpayer No.	Company Name	Country of origin	Functional currency	Participation percentage			12.31.2012
				03.31.2013	Direct	Indirect	
96.961.230-5	Telefónica Gestión de Servicios Compartidos Chile S.A.	Chile	CLP	99.99	-	99.99	99.99
76.181.946-1	Telefónica Multimedia Chile Dos S.A.	Chile	CLP	99.99	-	99.99	99.99
78.703.410-1	Telefónica Empresas Chile S.A. (Ex - Telefónica Multimedia Chile S.A.)	Chile	CLP	99.99	-	99.99	99.99
96.811.570-7	Instituto Telefónica Chile S.A.	Chile	CLP	-	99.99	99.99	99.99
96.672.160-k	Telefónica Larga Distancia S.A.	Chile	CLP	99.93	-	99.93	99.93
76.086.148-0	Telefónica Chile Servicios Corporativos Ltda.	Chile	CLP	49.00	2.00	51.00	51.00

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

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

Telefónica

2. Significant accounting principles, continued

d) Basis of consolidation, continued

The summarized financial information at March 31, 2013 of the companies included in the consolidation is as follows:

Taxpayer No.	Company Name	% Participation	Currents assets	Non-currents assets	Total assets	Currents liabilities	Non-currents liabilities	Total liabilities	Equity	Revenues from ordinary operations	Profit (loss), Net
			ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
96.961.230-5	Telefónica Gestión de Servicios Compartidos Chile S.A.	99.9990000	9,730,580	3,153,956	12,884,536	7,075,400	963,276	8,038,676	4,845,860	4,718,947	592,738
78.703.410-1	Telefónica Empresas Chile S.A. (Ex - Telefónica Multimedia Chile S.A.)	99.9999997	135,801,436	74,132,640	209,934,076	69,571,144	2,895,131	72,466,275	137,467,801	51,151,362	1,019,253
76.181.946-1	Telefónica Multimedia Chile Dos S.A.	99.9999000	3,577,733	638	3,578,371	8,326	-	8,326	3,570,045	-	-
96.672.160-k	Telefónica Larga Distancia S.A.	99.9297221	119,766,765	66,330,729	186,097,494	33,896,040	3,178,453	37,074,493	149,023,001	21,867,307	8,221,739
76.086.148-0	Telefónica Chile Servicios Corporativos Ltda.	51.0000000	69,550,835	42,794,236	112,345,071	74,952,140	30,395,494	105,347,634	6,997,437	44,762,753	1,822,005
96.811.570-7	Instituto Telefónica Chile S.A.	99.9999531	187,236	286,303	473,539	1,397,987	22,468	1,420,455	(946,916)	-	2,195

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

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

2. Significant accounting principles, continued**e) Foreign exchange differences**

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

DATE	USD	EURO	REAL	JPY	UF
31.Mar.2013	472.03	605.40	233.91	5.02	22,869.38
31.Dec.2012	479.96	634.45	234.98	5.58	22,840.75
31.Mar2012	487.44	649.83	267.62	5.89	22,533.51

Foreign currency exchange differences are recognized in income statement for the period under "Foreign currency exchange differences".

f) Financial assets and liabilities

All purchases and sales of financial assets are recognized at fair value as of the trading date, which is the date on which the commitment to buy or sell the asset is made.

i) Financial investments

Marketable financial assets, (i.e. investments made to obtain short-term returns from price variations) are classified as "at fair value through profit and loss" and presented as current assets. This category is used for those financial assets for which an investments and disinvestments strategy is established, on a fair value basis. All financial assets included in this category are recorded at fair value, which is obtained from observable market data. Realized or unrealized profits or losses arising from variations in fair value at each year-end are recorded in the income statement.

ii) Receivables

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

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

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.

2. Significant accounting principles, continued

f) Financial assets and liabilities, continued

iii) 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.

iv) Interest-bearing loans

Financial liabilities are valued at amortized cost using the effective interest rate method. Any difference between the cash received and the reimbursement value is charged directly to income during the term of the agreement. Financial obligations, maturing in more than twelve months, are presented as non-current liabilities.

v) Derivative financial instruments

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

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

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

2. Significant accounting principles, continued

f) Financial assets and liabilities, continued

v) Derivative financial instruments, continued

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

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

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

g) Inventory

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

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

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

2. Significant accounting principles, continued

h) Non-current assets destined for sale

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

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

i) Impairment of non-current assets

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

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

Discount rates used are determined before taxes and adjusted for the respective country and business risk. Thus, in 2013 and 2012 the rate used was 8.75% and 10.80% respectively. There were no impairment adjustments made in 2013 and 2012.

j) Leases

Leased assets for which the lessor retains a significant part of the risks and rewards of ownership are classified as operating leases. Payments made on this type of lease are charged to income on a straight-line basis over the term of the lease. Future obligations on these contracts are detailed in Note 25.

Leased assets for which the significant risks and rewards of ownership are transferred to the Company are considered finance leases. Initially, the asset and associated liability are recorded at the fair value of the leased asset or the present value of the minimum agreed-upon lease payments if lower. Interest expense is charged to income throughout the life of the lease. Depreciation of these assets is included in depreciation of Property, Plant and Equipment. The Company reviews all contracts to determine if they contain an embedded lease. As of March 31, 2013 and December 31, 2012 no embedded leases were identified.

2. Significant accounting principles, continued

k) Income taxes

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

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

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

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

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

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

l) Goodwill

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

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

m) Intangibles

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

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

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

2. Significant accounting principles, continued**m) Intangibles, continued**

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

n) Property, plant and equipment

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

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

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

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

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

ñ) Depreciation of property, plant and equipment

The Company depreciates Property, plant and equipment from the moment when the assets are in condition to be used, distributing the cost of the assets on a straight-line basis over the respective estimated useful life. The average annual financial depreciation rate of the Company is approximately 7.84% for March, 2013 (8.16% for March, 2012).

Estimated useful lives are summarized in the following detail:

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

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

2. Significant accounting principles, continued

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 a nominal annual discount rate of 5.8% at March 31, 2013 and 4.8% in 2012, considering estimations such as future permanence, employee mortality rate and future salary increases determined on the basis of actuarial calculations. Discount rates are determined by reference to market interest curves.

ii) Provision for dismantling expenses

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

iii) Other provisions

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

p) Income and expenses

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

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

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

2. Significant accounting principles, continued

p) Income and expenses, continued

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

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

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

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

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

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

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

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

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

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 at each reporting date. In determining the appropriate discount rate management considers the interest rates of instruments issued by the Central Bank of Chile. The mortality rate is based on publicly available mortality tables for the specific country.

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

vi) Financial assets and liabilities

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

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 force and the Company has not opted for early application of any of them:

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

IFRS 9 “Financial instruments: Classification and measurement”

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

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

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

2. Significant accounting principles, continued

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

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

Amendments to IFRS 10 Consolidated financial statements, IFRS 12 Disclosure of interests in other entities and IAS 27 Separate financial statements arise from proposals of the Investment Entities Standard Project published in August 2011. Amendments define an investment entity and introduce an exception to consolidate certain subsidiaries belonging to investment entities. These amendments require that an investment entity measure these subsidiaries at fair value with changes in income in accordance with IFRS 9 Financial instruments in their consolidated and separate financial statements. The amendments also introduce new information disclosure requirements in IFRS 12 and IAS 27 related to investment entities. Entities are required to apply the amendments to annual periods commencing as of January 1, 2014. Early application is allowed.

However, unlike voluntary comparative information, there is no obligation to accompany related notes to the third balance sheet. An entity shall apply these modifications retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for annual periods as of January 1, 2013. Early application is allowed and must be disclosed.

IAS 32 “Financial instruments: Presentation”

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

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

3. Changes in Accounting Policy and Disclosures

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

4. Financial information by segment

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

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

a) Fixed Telecommunications

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

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

b) Television Services

Multimedia services include direct and indirect development, installation, maintenance, marketing and operations of television services via cable, satellite, broadband or any other physical means using any physical or technical means, including individual paid services or multiple basic channels, special or paid, videos on demand and interactive or multimedia television services.

Corresponding with the financial statements, income is recognized as the services are delivered.

c) Long Distance

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

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

d) Corporate Communications and Data

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

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

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

Telefónica

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

4. Financial information by segment, continued

e) Other

“Other” includes logistics, personnel and management services.

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

For the period ended as of March 31, 2013	Fixed Telecommunications	Long Distance	Corporate Communication and Data	Television Services	Other	Eliminations	Total
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Income from external customers	101,983,471	10,677,854	25,727,244	24,078,868	703,017	-	163,170,454
Income between segments	18,017,167	11,189,453	1,345,250	-	48,776,162	(79,328,032)	-
Income from external customers and between segments	120,000,638	21,867,307	27,072,494	24,078,868	49,479,179	(79,328,032)	163,170,454
Income from ordinary activities arising from interest							
Interest expense	9,163,752	1,608	39,261	11,794	438,100	(1,323,688)	8,330,827
Interest income	2,518,165	1,001,833	164,047	136,235	11,887	(1,323,688)	2,508,479
Finance income, net segment	(6,645,587)	1,000,225	124,786	124,441	(426,213)	-	(5,822,348)
Depreciation and amortization	28,176,909	2,201,032	2,776,375	4,105,835	155	-	37,260,306
Other significant income (expense) items	(81,674,441)	(10,482,055)	(23,644,341)	(19,636,852)	(45,920,935)	79,297,621	102,061,003
Participation in profit of associated companies accounted for using the equity method	10,720,728	7,288	19,462	4,224	5,466	(10,757,168)	-
Income tax expense	917,510	1,929,631	94,598	98,004	747,396	-	3,787,139
Other significant non-cash items	(7,480)	(40,363)	(55,451)	6,434	24,799	30,409	(41,652)
Profits(loss) before tax	14,216,949	10,151,370	740,575	471,280	3,162,141	(10,757,170)	17,985,145
Profit (loss) for the period from continuing operations	13,299,439	8,221,739	645,977	373,276	2,414,745	(10,757,170)	14,198,006
Profit (loss) for the period from discontinuing operations	-	-	-	-	-	-	-
Profit (loss) for the period	13,299,439	8,221,739	645,977	373,276	2,414,745	(10,757,170)	14,198,006
Assets	1,526,807,476	186,097,494	127,967,041	81,967,035	129,281,517	(561,925,830)	1,490,194,733
Investments in associates accounted for using the equity method	298,230,666	27,990	90,967	-	21,001	(298,370,624)	-
Increases in non-current assets	22,233,244	599,013	2,407,051	6,507,952	-	-	31,747,260
Liabilities	915,840,808	37,074,493	48,085,499	24,380,776	113,868,176	(263,555,207)	875,694,545
Shareholders' equity	610,966,668	149,023,001	79,881,542	57,586,259	15,413,341	(298,370,623)	614,500,188
Liabilities & Shareholders' equity	1,526,807,476	186,097,494	127,967,041	81,967,035	129,281,517	(561,925,830)	1,490,194,733
Cash flows provided by (used in) operating activities	30,552,447	1,748,185	(4,016,902)	(3,553,428)	(3,616,554)	(204,721)	20,909,027
Cash flows provided by (used in) investment activities	(61,441,120)	(1,762,327)	(6,251,025)	(9,376,537)	-	-	(78,831,009)
Cash flows provided by (used in) from in financing activities	(37,893,314)	(464,160)	10,444,045	12,700,347	4,036,652	204,721	(10,971,709)

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

Telefónica

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

4. Financial information by segment, continued

For the year period as of March 31, 2012	Fixed Telecommunications	Long Distance	Corporate Communication and Data	Television	Other	Eliminations	Total
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Income from external customers	108,488,139	11,661,730	25,232,207	26,209,038	756,185	-	172,347,299
Income between segments	18,697,493	10,319,629	1,355,282	-	50,048,521	(80,420,925)	-
Income from external customers and between segments	127,185,632	21,981,359	26,587,489	26,209,038	50,804,706	(80,420,925)	172,347,299
Income from ordinary activities arising from interest							
Interest expense	8,246,534	18,973	5,677	51,574	543,710	(3,146,558)	5,719,910
Interest income	550,859	2,605,333	542,249	10,427	8,193	(3,146,558)	570,503
Finance income, net segment	(7,695,675)	2,586,360	536,572	(41,147)	(535,517)	-	(5,149,407)
Depreciation and amortization	28,830,400	2,260,920	2,777,027	5,725,131	108,285	-	39,701,763
Other significant income (expense) items	(89,886,660)	(11,828,114)	(23,578,342)	(14,937,091)	(46,393,225)	80,052,811	106,570,621
Participation in profit of associated companies accounted for using the equity method	16,479,714	15,729	37,029	8,035	8,035	(16,240,768)	307,774
Income tax expense	(143,123)	1,194,980	244,906	697,039	574,054	-	2,567,856
Other significant non-cash items	28,571	(240,305)	85,026	238,077	4,386	(38,081)	77,674
Profits(loss) before tax	17,281,182	10,254,109	890,747	5,751,781	3,780,100	(16,646,963)	21,310,956
Profit (loss) for the period from continuing operations	17,424,305	9,059,129	645,841	5,054,742	3,206,046	(16,646,963)	18,743,100
Profit (loss) for the period from discontinuing operations	-	-	-	-	-	-	-
Profit (loss) for the period	17,424,305	9,059,129	645,841	5,054,742	3,206,046	(16,646,963)	18,743,100
Assets	1,485,920,694	324,261,770	120,873,082	78,258,849	123,883,315	(822,429,258)	1,310,768,452
Investments in associates accounted for using the equity method	420,906,512	125,809	256,971	-	8	(413,569,451)	7,719,849
Increases in non-current assets	19,859,134	81,321	1,424,592	3,851,674	-	-	25,216,721
Liabilities	826,604,671	50,329,187	43,004,093	24,189,803	116,028,690	(408,878,552)	651,277,892
Shareholders' equity	659,316,023	273,932,583	77,868,989	54,069,046	7,854,625	(413,550,706)	659,490,560
Liabilities & Shareholders' equity	1,485,920,694	324,261,770	120,873,082	78,258,849	123,883,315	(822,429,258)	1,310,768,452
Cash flows provided by (used in) operating activities	28,215,885	11,695,714	12,236,223	12,719,871	(16,081,471)	265,859	49,052,081
Cash flows provided by (used in) investment activities	(56,089,793)	(217,171)	(5,213,430)	(8,876,922)	-	(7,832)	(70,405,148)
Cash flows provided by (used in) from in financing activities	17,791,550	(11,346,234)	(7,668,211)	(3,678,023)	14,671,434	(258,027)	9,512,489

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	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Cash (a)		102,422	104,247
	CLP	44,216	43,160
	USD	40,333	40,321
	EUR	17,873	20,766
Banks (b)		8,214,983	10,939,658
	CLP	7,950,284	10,608,029
	USD	71,433	136,003
	EUR	193,265	195,626
Time deposits (c)		169,356,870	214,834,792
	CLP	110,057,652	8,535,201
	UF	3,042,420	62,213,631
	USD	56,256,798	144,085,960
Repurchase agreements (d)		-	20,689,269
	CLP	-	20,689,269
Total cash and cash equivalents		177,674,274	246,567,966
Sub-total by currency	CLP	118,052,152	39,875,659
	UF	3,042,420	62,213,631
	USD	56,368,564	144,262,284
	EUR	211,138	216,392

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

a) Cash

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

b) Banks

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

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

Telefónica

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

5. Cash and cash equivalents, continued

c) Time deposits

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

Type of investment	Currency	Principal in original currency (thousands)	Average annual rate	Average days to maturity	Principal in local currency ThCh\$	Accrued interest in local currency ThCh\$	03.31.2013 ThCh\$
Time deposits	CLP	109,513,000	5.44%	36	109,513,000	544,652	110,057,652
Time deposits	UF	132	3.01%	90	3,029,727	12,693	3,042,420
Time deposits	USD	119,147	5.87%	43	56,241,163	15,635	56,256,798
Total					168,783,890	572,980	169,356,870

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

d) Repurchase agreements

Repurchase agreements are instruments from different financial entities.

The balance to December 31, 2012 is as follows:

Code	Dates		Counterparty	Original currency	Subscription value MUS\$	Annual rate %	Final value ThCh\$	Identification of instruments	Book value ThCh\$
	Beginning	Ending							
CRV	Dec-27-12	Jan-02-13	BCI	CLP	8,400,000	4.8	8,404,480	BCU0300216	8,404,480
CRV	Dec-28-12	Jan-02-13	BBVA	CLP	12,280,000	4.7	12,284,789	BCP0600617	12,284,789
Total					20,680,000		20,689,269		20,689,269

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

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

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6. Other current and non-current financial assets

Other current financial assets are detailed as follows:

Concepts		03.31.2013		12.31.2012	
		Current ThCh\$	Non-Current ThCh\$	Current ThCh\$	Non-Current ThCh\$
Guarantees established	(a)	478,482	200,959	478,482	200,959
Investment contracts	(b)	25,780,780	-	-	-
Other investments	(c)	-	7,894,425	-	7,287,018
Exchange rate hedge	(d)	2,547,332	9,246,507	4,519,653	9,221,669
Total		28,806,594	17,279,216	4,998,135	16,709,646

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

b) Financial investments as of March 31, 2013 are detailed as follows:

Type of investment	Currency	Average annual rate	Average days to maturity	Principal in local currency ThCh\$	Accrued interest in local currency ThCh\$	Market value 03.31.2013 ThCh\$
Time deposit	UF	3.63%	122	25,568,139	212,641	25,780,780
Total				25,568,139	212,641	25,780,780

c) Other investments are detailed as follows:

Participation	Country	Investment currency	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Telefónica Brasil (Ex - Telecomunicacoes de Sao Paulo S.A.) (1) (2)	Brazil	REAL	7,883,095	7,275,688
Other participation	Chile	CLP	11,330	11,330
Total			7,894,425	7,287,018

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

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

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

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

Telefónica

6. Other current and non-current financial assets, continued

d) Hedge instruments are detailed as follows:

Type of hedge	Underlying	Net total as 03.31.2013	Up to 90 days	90 days to 1 year	To Maturity					
					Total current		1 to 3 years	3 to 5 years	Total non-current	
					Assets	Liabilities (note 17)			Assets	Liabilities (note 17)
ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	
Exchange rate – cash flow hedge (1)	Supplier Debt	(218,309)	(200,687)	(17,622)	209,964	(428,273)	-	-	-	-
Exchange rate – fair value hedge (2)	Supplier Debt	(170,194)	(136,549)	(33,645)	334,881	(505,075)	-	-	-	-
Interest rate – fair value hedge (3)	Financial Debt	(133,651)	(133,651)	-	36,199	(169,850)	-	-	-	-
Interest rate – cash flows hedge (4)	Financial Debt	(6,929,924)	(6,929,924)	-	184,591	(7,114,515)	-	-	-	-
Exchange rate and interest rate – fair value hedge (5)	Financial Debt	(599,214)	(3,501,283)	-	1,781,697	(5,282,980)	6,335,204	(3,433,135)	9,246,507	(6,344,438)
Total		(8,051,292)	(10,902,094)	(51,267)	2,547,332	(13,500,693)	6,335,204	(3,433,135)	9,246,507	(6,344,438)

Hedge instruments have generated an effect on income of ThCh\$(7,792,770) and ThCh\$(6,254,586) in equity as of March 31, 2013.

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

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

Description of hedge instruments:

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

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

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

Concepts	03.31.2013		12.31.2012	
	Current ThCh\$	Non-current ThCh\$	Current ThCh\$	Non-current ThCh\$
Support and repair services	3,060,652	-	2,570,125	-
Insurance	192,244	-	605,588	-
Leases	10,425	-	10,536	-
Franchised commissions	6,271,919	-	6,176,928	-
Other amortizable expenses (1)	5,782,670	2,284,641	3,294,515	2,662,177
Other taxes (2)	7,749,019	-	8,639,367	-
Total	23,066,929	2,284,641	21,297,059	2,662,177

(1) The Company negotiated a collective agreement with part of the employees from different unions, which resulted in the early payment of bonuses for 2013 in 2012, among other things.

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

8. Trade and other current receivables

a) Current receivables are detailed as follows:

Concepts	03.31.2013			03.31.2012		
	Gross value ThCh\$	Allowance for doubtful accounts ThCh\$	Net value ThCh\$	Gross value ThCh\$	Allowance for doubtful accounts ThCh\$	Net value ThCh\$
Receivables on current loan transactions	283,548,377	(151,971,609)	131,576,768	280,205,250	(146,837,574)	133,367,676
Invoiced services	240,454,994	(151,971,609)	88,483,385	234,666,169	(146,837,574)	87,828,595
Services provided and not invoiced	43,093,383	-	43,093,383	45,539,081	-	45,539,081
Miscellaneous receivables	6,491,544	-	6,491,544	7,432,243	-	7,432,243
Total	290,039,921	(151,971,609)	138,068,312	287,637,493	(146,837,574)	140,799,919

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

Concepts	03.31.2013					12.31.2012				
	Less than 3 months	3 to 6 months	6 to 12 months	Greater than 12 months	Total	Less than 3 months	3 to 6 months	6 to 12 months	Greater than 12 months	Total
Miscellaneous receivables	37,196,921	4,860,051	-	-	42,056,972	32,573,446	5,670,638	-	-	38,244,084
Total	37,196,921	4,860,051	-	-	42,056,972	32,573,446	5,670,638	-	-	38,244,084

8. Trade and other current receivables, continued

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

Movements	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Beginning balance	147,919,771	133,790,620
Increases	5,256,839	23,435,016
Eliminations/ Additions	-	(9,305,864)
Movements, subtotal	5,256,839	14,129,151
Ending balance	153,176,610	147,919,771

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

Provisions and write-offs	03.31.2013	12.31.2012
Accrual for portfolio that has not been renegotiated	5,210,196	23,645,554
Accrual for renegotiated portfolio	46,643	(210,539)
Write-offs for the year	-	(9,305,864)
Recoveries for the year	-	-
Total	5,256,839	14,129,151

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

Portfolio of returned documents and judicial collection as of 03.31.2013	Returned notes receivable portfolio w/o guarantee	Returned notes receivable, portfolio w/guarantee	Notes receivable in judicial collection, portfolio w/o guarantee	Notes receivable in judicial collection, portfolio w/guarantee
Number of customers in portfolio of returned documents or those in judicial collection	9,904	-	-	-
Portfolio of returned documents or those in judicial collection (ThCh\$)	2,133,207	-	-	-

Portfolio of returned documents and judicial collection as of 12.31.2012	Returned notes receivable portfolio w/o guarantee	Returned notes receivable, portfolio w/guarantee	Notes receivable in judicial collection, portfolio w/o guarantee	Notes receivable in judicial collection, portfolio w/guarantee
Number of customers in portfolio of returned documents or those in judicial collection	9,783	-	-	-
Portfolio of returned documents or those in judicial collection (ThCh\$)	2,130,626	-	-	-

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

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

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8. Trade and other current receivables, continued

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

Aging of portfolio by segment for the period-ended March 2013	Up to date ThCh\$	From 1 to 30 days ThCh\$	From 31 to 60 days ThCh\$	From 61 to 90 day ThCh\$	From 91 to 120 days ThCh\$	From 121 to 150 days ThCh\$	From 151 to 180 days ThCh\$	From 181 to 210 days ThCh\$	From 211 to 250 days ThCh\$	More than 250 days ThCh\$	Total portfolio w/o guarantee ThCh\$	
Fixed Telecommunications												
Number of clients w/o renegotiation (1)	771,142	99,501	60,040	54,100	42,770	48,795	50,395	53,346	52,108	1,813,722	3,045,919	
Gross portfolio w/o renegotiation	42,902,224	5,879,022	2,852,593	1,927,506	764,044	148,017	62,629	-	-	-	54,536,035	
Debt	42,902,224	5,879,022	2,852,593	2,143,867	1,510,223	1,585,818	1,608,295	1,403,473	1,280,141	107,973,769	169,139,425	
Accrual	-	-	-	(216,361)	(746,179)	(1,437,801)	(1,545,666)	(1,403,473)	(1,280,141)	(107,973,769)	(114,603,390)	
Number of clients w/renegotiation	19,758	12,624	4,911	2,903	1,580	813	559	533	672	7,687	52,040	
Gross renegotiated portfolio	597,325	52,897	1,933	1	-	-	-	-	-	-	652,156	
Debt	1,135,659	232,726	75,031	37,661	20,060	11,227	8,121	21,807	21,130	427,813	1,991,235	
Accrual	(538,334)	(179,829)	(73,098)	(37,660)	(20,060)	(11,227)	(8,121)	(21,807)	(21,130)	(427,813)	(1,339,079)	
Total number of clients	790,900	112,125	64,951	57,003	44,350	49,608	50,954	53,879	52,780	1,821,409	3,097,959	
Total Fixed Telephone Portfolio	43,499,549	5,931,919	2,854,526	1,927,507	764,044	148,017	62,629	-	-	-	55,188,191	
Debt	44,037,883	6,111,748	2,927,624	2,181,528	1,530,283	1,597,045	1,616,416	1,425,280	1,301,271	108,401,582	171,130,660	
Accrual	(538,334)	(179,829)	(73,098)	(254,021)	(766,239)	(1,449,028)	(1,553,787)	(1,425,280)	(1,301,271)	(108,401,582)	(115,942,469)	
Long Distance												
Number of clients w/o renegotiation (1)	40,462	34,008	18,235	9,625	8,736	9,619	10,550	9,355	8,995	873,795	1,023,380	
Gross portfolio w/o renegotiation	3,644,167	4,129,016	2,055,535	1,683,838	1,404,005	299,516	782,193	-	-	-	13,998,270	
Debt	3,644,167	4,129,016	2,055,535	1,740,224	1,461,595	411,559	1,744,467	174,638	168,198	17,610,194	33,139,593	
Accrual	-	-	-	(56,386)	(57,590)	(112,043)	(962,274)	(174,638)	(168,198)	(17,610,194)	(19,141,323)	
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-	
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-	
Debt	-	-	-	-	-	-	-	-	-	-	-	
Accrual	-	-	-	-	-	-	-	-	-	-	-	
Total number of clients	40,462	34,008	18,235	9,625	8,736	9,619	10,550	9,355	8,995	873,795	1,023,380	
Total Long Distance Portfolio	3,644,167	4,129,016	2,055,535	1,683,838	1,404,005	299,516	782,193	-	-	-	13,998,270	
Debt	3,644,167	4,129,016	2,055,535	1,740,224	1,461,595	411,559	1,744,467	174,638	168,198	17,610,194	33,139,593	
Accrual	-	-	-	(56,386)	(57,590)	(112,043)	(962,274)	(174,638)	(168,198)	(17,610,194)	(19,141,323)	
Corporate Communication and Data												
Number of clients w/o renegotiation (1)	14,344	6,772	1,607	218	852	883	407	446	376	11,051	36,956	
Gross portfolio w/o renegotiation	29,198,906	10,285,042	6,191,286	424,394	668,685	524,403	198,386	-	-	-	47,491,102	
Debt	29,739,403	10,285,042	6,191,286	424,394	668,685	524,403	198,386	254,274	143,923	4,198,322	52,628,118	
Accrual	(540,497)	-	-	-	-	-	-	(254,274)	(143,923)	(4,198,322)	(5,137,016)	
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-	
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-	
Debt	-	-	-	-	-	-	-	-	-	-	-	
Accrual	-	-	-	-	-	-	-	-	-	-	-	
Total number of clients	14,344	6,772	1,607	218	852	883	407	446	376	11,051	36,956	
Total Corporate Communication and Data Portfolio	29,198,906	10,285,042	6,191,286	424,394	668,685	524,403	198,386	-	-	-	47,491,102	
Debt	29,739,403	10,285,042	6,191,286	424,394	668,685	524,403	198,386	254,274	143,923	4,198,322	52,628,118	
Accrual	(540,497)	-	-	-	-	-	-	(254,274)	(143,923)	(4,198,322)	(5,137,016)	

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

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8. Trade and other current receivables, continued

Aging of portfolio by segment for the period-ended March 2013	Up to date ThCh\$	From 1 to 30 days ThCh\$	From 31 to 60 days ThCh\$	From 61 to 90 day ThCh\$	From 91 to 120 days ThCh\$	From 121 to 150 days ThCh\$	From 151 to 180 days ThCh\$	From 181 to 210 days ThCh\$	From 211 to 250 days ThCh\$	More than 250 days ThCh\$	Total portfolio w/o guarantee ThCh\$
Television											
Number of clients w/o renegotiation (1)	90,983	32,235	10,676	9,240	8,759	8,765	9,011	9,454	18,692	244,003	441,816
Gross portfolio w/o renegotiation	12,082,607	703,280	503,811	506,771	3,386	2,510	2,278	-	-	-	13,804,643
Debt	12,082,607	703,280	503,811	506,771	422,520	484,294	532,873	599,071	599,923	8,992,449	25,427,599
Accrual	-	-	-	-	(419,134)	(481,784)	(530,595)	(599,071)	(599,923)	(8,992,449)	(11,622,956)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	90,983	32,235	10,676	9,240	8,759	8,765	9,011	9,454	18,692	244,003	441,816
Total Television Portfolio	12,082,607	703,280	503,811	506,771	3,386	2,510	2,278	-	-	-	13,804,643
Debt	12,082,607	703,280	503,811	506,771	422,520	484,294	532,873	599,071	599,923	8,992,449	25,427,599
Accrual	-	-	-	-	(419,134)	(481,784)	(530,595)	(599,071)	(599,923)	(8,992,449)	(11,622,956)
Other											
Number of clients w/o renegotiation (1)	-	-	-	-	-	-	-	-	-	-	-
Gross portfolio w/o renegotiation	7,586,106	-	-	-	-	-	-	-	-	-	7,586,106
Debt	7,586,106	-	-	-	-	-	-	1,302	43	126,500	7,713,951
Accrual	-	-	-	-	-	-	-	(1,302)	(43)	(126,500)	(127,845)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	-	-	-	-	-	-	-	-	-	-	-
Total Other Portfolio	7,586,106	-	-	-	-	-	-	-	-	-	7,586,106
Debt	7,586,106	-	-	-	-	-	-	1,302	43	126,500	7,713,951
Accrual	-	-	-	-	-	-	-	(1,302)	(43)	(126,500)	(127,845)
Consolidated Portfolio											
Number of clients w/o renegotiation (1)	916,931	172,516	90,558	73,183	61,117	68,062	70,362	72,601	80,171	2,942,571	4,548,071
Gross portfolio w/o renegotiation	95,414,010	20,996,360	11,603,225	4,542,509	2,840,120	974,446	1,045,486	-	-	-	137,416,156
Debt	95,954,507	20,996,360	11,603,225	4,815,256	4,063,023	3,006,074	4,084,021	2,432,758	2,192,228	138,901,234	288,048,686
Accrual	(540,497)	-	-	(272,747)	(1,222,903)	(2,031,628)	(3,038,535)	(2,432,758)	(2,192,228)	(138,901,234)	(150,632,530)
Number of clients w/renegotiation	19,758	12,624	4,911	2,903	1,580	813	559	533	672	7,687	52,040
Gross renegotiated portfolio	597,325	52,897	1,933	1	-	-	-	-	-	-	652,156
Debt	1,135,659	232,726	75,031	37,661	20,060	11,227	8,121	21,807	21,130	427,813	1,991,235
Accrual	(538,334)	(179,829)	(73,098)	(37,660)	(20,060)	(11,227)	(8,121)	(21,807)	(21,130)	(427,813)	(1,339,079)
Total number of clients	936,689	185,140	95,469	76,086	62,697	68,875	70,921	73,134	80,843	2,950,258	4,600,111
Total Consolidated Portfolio	96,011,335	21,049,257	11,605,158	4,542,510	2,840,120	974,446	1,045,486	-	-	-	138,068,312
Debt	97,090,166	21,229,086	11,678,256	4,852,917	4,083,083	3,017,301	4,092,142	2,454,565	2,213,358	139,329,047	290,039,921
Accrual	(1,078,831)	(179,829)	(73,098)	(310,407)	(1,242,963)	(2,042,855)	(3,046,656)	(2,454,565)	(2,213,358)	(139,329,047)	(151,971,609)

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

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

Telefónica

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

8. Trade and other current receivables, continued

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

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

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

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

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

Telefónica

8. Trade and other current receivables, continued

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

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

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

Telefónica

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

9. Receivables from and payable to related companies

a) Current receivables from related companies:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	Total			57,634,715	53,963,248
				Professional Serv.	CLP	60 days	45,625,777	45,013,569
				Access & interc. charges	CLP	60 days	7,052,122	5,890,536
				Media rental	CLP	60 days	2,979,955	2,210,164
				Other	CLP	60 days	1,976,861	848,979
Telefónica del Perú S.A.	Foreign	Peru	Relationship w/parent	Correspondent Serv. Provided	USD	180 days	2,780,014	2,679,361
Telefónica Argentina S.A.	Foreign	Argentina	Relationship w/parent		USD	180 days	2,742,285	2,619,657
Telefónica International Wholesale Services	96.910.730-9	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	955,729	960,876
Telefónica de España S.A.U.	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	180 days	950,232	798,385
Media Networks Perú	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	90 days	740,541	659,793
Colombia Telecomunicaciones S.A.E.S.P	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	333,745	235,557
Telcel Venezuela	Foreign	Venezuela	Relationship w/parent	Serv. Provided	USD	180 days	320,242	291,438
	Foreign		Relationship w/parent	Serv. Provided		90 days		
Telefónica Internacional S.A.U.		Spain			EUR		234,974	244,530
Telefónica Brasil	Foreign	Brazil	Relationship w/parent	Serv. Provided	USD	90 days	165,608	208,234
Telefónica Larga Distancia Puerto Rico	Foreign	Puerto Rico	Relationship w/parent	Serv. Provided	USD	90 days	154,328	170,534
Wayra Chile Tecnología e Innovación Ltda. (1)	96.672.150-2	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	143,752	36,809
			Relationship w/parent	Serv. Provided		60 days		
Terra Networks Chile S.A.	96.834.230-4	Chile	Relationship w/parent		CLP		97,163	110,134
Telefónica Móviles Soluciones y Aplicaciones	96.990.810-7	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	93,172	98,406
Telefónica S.A.	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	85,826	80,387
Fundación Telefónica Chile S.A.	74.944.200-k	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	85,048	89,001
Telefónica International Wholesale Services España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	66,226	62,083
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	53,980	48,221
Telefónica Data España S.A.	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	31,885	-
Telefónica Slovakia	Foreign	Slovakia	Relationship w/parent	Serv. Provided	USD	180 days	27,850	27,850
Otecel S.A.	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	18,366	27,038
Telefónica Internacional Chile S.A.	96.527.390-5	Chile	Parent company	Serv. Provided	CLP	60 days	6,428	5,401
Telefónica Móviles Guatemala	Foreign	Guatemala	Relationship w/parent	Serv. Provided	USD	90 days	4,065	3,619
Telefónica Móviles El Salvador	Foreign	El Salvador	Relationship w/parent	Serv. Provided	USD	90 days	2,558	3,080
Telefónica USA Inc.	Foreign	USA	Relationship w/parent	Serv. Provided	USD	180 days	1,213	1,213
Telefónica Data Corp	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	60 days	-	33,629
Telefónica Factoring Chile	70.096.189-2	Chile	Relationship w/parent	Serv. Provided	USD	90 days	-	3,751
Total							67,729,945	63,462,235

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

b) Non-current receivables from related companies:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	H.R. obligation	CLP	-	1,366,521	1,366,521
Total							1,366,521	1,366,521

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, 2013 and December 31, 2012

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

Telefónica

9. Receivables from and payable to related companies, continued

c) Current payables to related companies:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	Total			47,723,993	46,958,601
				Financial Serv.	CLP	60 days	38,696,035	35,173,112
				Fixed – Mobile cost	CLP	60 days	2,810,477	3,725,749
				Collection payable	CLP	60 days	3,980,661	3,582,973
				Access charges	CLP	60 days	1,289,688	2,015,350
Telefónica International Wholesale Services Chile S.A.	96.910.730-9	Chile	Relationship w/parent	Total			8,771,519	16,681,726
				Financial Serv.	CLP	60 days	1,013,931	11,254,015
				IP Voice Traffic	CLP	60 days	4,756,006	1,558,245
				Data and Links	CLP	60 days	2,896,459	3,280,482
				Other	CLP	60 days	105,123	588,984
Telefónica S.A.	Foreign	Spain	Relationship w/parent	Total			5,214,785	3,350,736
				Brand Fee	EUR	90 days	3,985,881	2,614,910
				Other	EUR	90 days	1,228,904	735,826
Telefónica Internacional S.A.U. - España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	2,664,042	2,597,832
Telefónica del Perú S.A.	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	180 days	2,400,236	2,362,401
Telefónica Compras Electrónicas	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	2,128,828	1,963,898
Telefónica Argentina S.A.	Foreign	Argentina	Relationship w/parent	Serv. Provided	USD	180 days	2,012,561	1,832,285
Telefónica Brasil	Foreign	Brazil	Relationship w/parent	Serv. Provided	USD	90 days	1,428,861	1,430,267
Media Networks Perú	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	90 days	1,131,198	1,061,557
Fundación Telefónica Chile	74.944.200-k	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	1,083,058	526,766
Telefónica Global Technology	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	629,745	579,203
Terra Networks Chile S.A.	96.834.230-4	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	401,692	628,642
Telefónica Data USA Inc.	Foreign	USA	Relationship w/parent	Serv. Provided	USD	60 days	262,216	248,070
Telefónica Latinoamerica Holding S.L.	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	180 days	238,749	-
Telefónica Gestión de Servicios Compartidos - Perú	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	60 days	205,253	160,250
Telefónica de España S.A.U	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	180 days	199,826	166,546
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	181,853	328,444
Telecom Italia	Foreign	Italy	Relationship w/parent	Serv. Provided	EUR	90 days	181,667	162,517
Colombia Telecomunicaciones S.A.E.S.P. (Telecom.)	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	140,243	128,807
Telefónica International Wholesale Services España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	71,530	435,993
Telefónica Servicios de Música -España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	-	26,398
Subtotal next page							77,071,855	81,630,939

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

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

Telefónica

9. Receivables from and payable to related companies, continued

c) Current payables to related companies, continued:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Subtotal previous page							77,071,855	81,630,939
Telefónica Larga Distancia Puerto Rico	Foreign	Puerto Rico	Relationship w/parent	Serv. Provided	USD	90 days	21,836	21,096
Otecel S.A.	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	8,255	14,950
Wayra Chile Tecnología e Innovación Ltda.	96.672.150-2	Chile	Relationship w/parent	Serv. Provided	CLP	90 days	-	35,029
Telefónica Móviles El Salvador	Foreign	El Salvador	Relationship w/parent	Serv. Provided	USD	90 days	3,354	3,615
Telcel Venezuela	Foreign	Venezuela	Relationship w/parent	Serv. Provided	USD	180 days	15,653	14,115
Televisión Federal Telefe – Argentina	Foreign	Argentina	Relationship w/parent	Serv. Provided	USD	90 days	6,231	-
Inversiones Telefónica Móviles	76.124.890-1	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	1,532	1,532
Telefónica Learning	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	60 days	-	1,141
Telefónica Factoring - España	Foreign	Spain	Relationship w/parent	Serv. Provided	USD	60 days	1,131	2,892
Total							77,129,847	81,725,309

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

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

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

Telefónica

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

9. Receivables from and payable to related companies, continued

d) Transactions:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	Total		27,861,650	26,462,260
				Prof. Services	CLP	18,864,928	21,423,963
				Access charges and Interconnects	CLP	6,850,437	7,779,702
				Fixed - Mobile	CLP	2,166,836	2,460,768
				Other	CLP	992,012	1,126,579
				Fixed - Mobile cost	CLP	(376,064)	(3,701,014)
				Interest expense	CLP	(422,924)	(525,851)
				Other	CLP	(213,575)	(2,101,887)
Atento Chile	96.895.220-k	Chile	-	Sale	CLP	-	132,259
				Cost	CLP	-	(3,808,511)
Telefónica International Wholesale Services Chile S.A.	96.910.730-9	Chile	Relationship w/parent	Total		(3,525,095)	(3,414,459)
				Sale	CLP	459,113	441,846
				IP voice traffic and Internet Access	CLP	(3,851,716)	(3,698,370)
				Other	CLP	(115,094)	(110,511)
Telefónica S.A.	Foreign	Spain	Relationship w/parent	Interest expense	CLP	(17,398)	(47,424)
				Brand Fee	EUR	(2,332,463)	(2,483,819)
Telefónica Argentina S.A.	Foreign	Argentina	Relationship w/parent	Other	EUR	(352,178)	(375,031)
				Sale	USD	-	371,608
				Cost	USD	-	(1,387,427)
Telefónica Global Technology	Foreign	Spain	Relationship w/parent	Cost	EUR	(640,077)	(699,431)
Telefónica Compras Electrónica S.A.	Foreign	Spain	Relationship w/parent	Cost	EUR	(168,150)	(490,000)
Telefónica International Wholesale Services América	Foreign	Uruguay	Relationship w/parent	Cost	USD	(357,149)	(357,149)
Telefónica International Wholesale Services España	Foreign	Spain	Relationship w/parent	Sale	EUR	24,110	
Telefónica España	Foreign	Spain	Relationship w/parent	Sale	EUR	274,561	197,347
				Cost	EUR	(807)	(287,626)
Terra Networks Chile S.A.	93.834.230-4	Chile	Relationship w/parent	Sale	CLP	19,576	22,252
				Cost	CLP	(89,806)	(278,229)
Telefónica Internacional S.A.U.	Foreign	Spain	Relationship w/parent	Sale	EUR	44,736	31,255
				Cost	EUR	(114,039)	(539,085)
Telefónica Brasil	Foreign	Brazil	Relationship w/parent	Sale	USD	57,317	37,756
				Cost	USD	(83,250)	(212,637)
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Relationship w/parent	Sale	CLP	4,733	6,269
				Cost	CLP	(315,896)	(173,135)
Telefónica del Perú S.A.	Foreign	Peru	Relationship w/parent	Sale	USD	304,038	223,500
				Cost	USD	-	(173,642)
Telefónica Latinoamérica Holding S.L.	Foreign	Spain	Relationship w/parent	Cost	USD	(246,361)	-
Telefónica Servicios de Música	Foreign	Spain	Relationship w/parent	Cost	EUR	(70,702)	(112,947)
Atento Perú	Foreign	Peru	-	Cost	USD	-	(45,183)
Colombia Telecomunicaciones S.A.E.S.P. (Telecom.)	Foreign	Colombia	Relationship w/parent	Sale	USD	118,101	17,796
				Cost	USD	-	(30,958)
Telefónica Móviles El Salvador	Foreign	El Salvador	Relationship w/parent	Sale	USD	390	-
				Cost	USD	(234)	(21,917)

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

Telefónica

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

9. Receivables from and payable to related companies, continued

d) Transaction, continued

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Telefónica Móviles Soluciones y Aplicaciones S.A.	96.990.810-7	Chile	Relationship w/parent	Sale	CLP	27,323	26,166
Otecel S.A.	Foreign	Colombia	Relationship w/parent	Sale	USD	29,060	10,761
				Cost	USD	-	(14,652)
Telefónica Larga Distancia Puerto Rico	Foreign	Puerto Rico	Relationship w/parent	Sale	USD	35,575	47,418
				Cost	USD	-	(16,979)
Wayra Chile Tecnología e Innovación Ltda.	96.672.150-2	Chile	Relationship w/parent	Sale	CLP	124,750	15,703
				Cost	CLP	-	(8,757)
Telefónica Internacional Chile S.A.	96.527.390-5	Chile	Parent company	Sale	CLP	3,070	1,499
Telcel Venezuela	Foreign	Venezuela	Relationship w/parent	Sale	USD	137,595	66,172
				Cost	USD	-	(3,264)
Televisión Federal Telefe – Argentina	Foreign	Argentina	Relationship w/parent	Cost	USD	(9,333)	(9,760)
Telecom Italia S.P.A.	Foreign	Italy	Relationship w/parent	Sale	EUR	21,214	19,426
				Cost	EUR	-	(8,515)
Telefónica Móviles Guatemala	Foreign	Guatemala	Relationship w/parent	Sale	USD	2,082	477
Telefónica Gestión de Servicios Compartidos Perú	Foreign	Peru	Relationship w/parent	Cost	USD	(59,573)	-
Telefónica USA Inc.	Foreign	USA	Relationship w/parent	Cost	USD	(104,183)	(138,735)
Media Networks Perú	Foreign	Peru	Relationship w/parent	Rental of space	USD	(683,722)	(620,523)
				Other	USD	(475,566)	(431,608)
Fundación Telefónica Chile S.A.	74.944.200-k	Chile	Relationship w/parent	Interest income	CLP	-	5,091

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

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

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

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

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

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

9. Receivables from and payable to related companies, continued

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

The Company is managed by a Board of Directors composed of 14 members and its key employees are 74 executives for March 2013 and 81 for 2012.

Concepts	03.31.2013	03.31.2012
	ThCh\$	ThCh\$
Salaries	4,285,426	4,104,350
Post employment benefits	2,070,609	331,976
Total	6,356,035	4,436,326

10. Inventory

- a) The detail of inventory is as follows:

Concepts	03.31.2013			12.31.2012		
	Gross value	Allowance for obsolescence	Net value	Gross value	Allowance for obsolescence	Net value
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Merchandise						
Modems and Router	3,558,896	(1,804,437)	1,754,459	3,591,983	(1,595,750)	1,996,233
Basic telephony, public telephony and switchboard ("centralitas") components	3,900,836	(1,294,466)	2,606,370	3,685,260	(1,098,845)	2,586,415
Decoders and antennas	1,272,505	(264,807)	1,007,698	685,692	(175,735)	509,957
IP Solutions Projects	778,312	-	778,312	673,920	-	673,920
Other	490,277	(122,748)	367,529	494,496	(113,626)	380,870
Total	10,000,826	(3,486,458)	6,514,368	9,131,351	(2,983,956)	6,147,395

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

- b) The movement of inventory is as follows:

Movements	03.31.2013	12.31.2012
	ThCh\$	ThCh\$
Beginning balance	6,147,395	7,840,571
Purchases	7,082,851	12,912,414
Sales	(6,213,377)	(13,798,264)
Allowance for obsolescence	(502,501)	(805,862)
Transfer to materials allocated to the investment (note 15b)	-	(1,464)
Movement, subtotal	366,973	(1,693,176)
Ending balance	6,514,368	6,147,395

11. Income Taxes

a) Income Taxes:

As of March 31, 2013 and 2012, a consolidated first category income tax accrual has been established, therefore a positive tax base was determined in the amount of ThCh\$20,868,450 and ThCh\$27,727,962, respectively for each year.

The previous figures correspond to the income of the parent company and subsidiaries that present for March 2013 a positive tax base of ThCh\$8,797,493 and ThCh\$12,070,957 respectively; and ThCh\$11,226,978 and ThCh\$16,500,984, respectively, for March 2012.

As of March 31, 2013 and December 31, 2012 the tax losses accumulated by subsidiaries amount to ThCh\$2,301,123 and ThCh\$2,282,207, 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.

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

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

Telefónica

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

11. Income Taxes, continued

a) Income Taxes, continued

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

Subsidiaries	Taxable net income with 17% credit ThCh\$	Taxable net income with 20% credit ThCh\$	Taxable net Income without credit ThCh\$	Amount of credit ThCh\$
Telefónica Chile S.A.	180,977,216	237,854,299	12,180,264	96,531,147
Telefónica Larga Distancia S.A.	15,997	90,856,285	11,519,266	22,717,347
Telefónica Chile Servicios Corporativos Ltda.	-	13,375,665	3,535,742	3,343,916
Telefónica Empresas Chile S.A.	1,074,529	19,389,044	5,685,836	5,067,345
Telefónica Gestión de Servicios Compartidos Chile S.A.	3,139,007	1,998,177	462,594	1,142,473
Total	185,206,749	363,473,470	33,383,702	128,802,228

b) Current income tax assets

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

Concepts	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Prepaid tax installments on absorbed earnings for the period	2,272,040	-
Monthly prepaid tax installments	2,686,565	1,175,818
Sence Credit	790,000	395,000
Total	5,748,605	1,570,818

c) Deferred taxes

As of March 31, 2013 and December 31, 2012, the cumulative balances of temporary differences resulted in net deferred tax liabilities of ThCh\$45,622,605 and ThCh\$44,859,783, respectively, detailed as follows:

Concepts	03.31.2013		12.31.2012	
	Assets ThCh\$	Liabilities ThCh\$	Assets ThCh\$	Liabilities ThCh\$
Allowance for doubtful accounts	30,922,254	-	29,870,885	-
Vacation provision	872,390	-	1,390,255	-
Staff severance indemnities	6,380,442	8,864,640	6,396,093	8,877,432
Amortization and depreciation of assets	2,614,730	82,511,168	2,460,091	82,916,017
Tax loss carry forward	272,583	-	271,714	-
Deferred income	1,098,428	-	1,080,637	6,921
Equity adjustment due to termination benefits	1,489,518	(1,220,000)	1,465,704	(614,420)
Incentive bonus	945,963	-	3,191,202	-
Other events (1)	1,772,469	1,835,574	1,925,559	1,725,973
Sub total	46,368,777	91,991,382	48,052,140	92,911,923
Reclassification	(41,866,413)	(41,866,413)	(41,016,715)	(41,016,715)
Total	4,502,364	50,124,969	7,035,425	51,895,208

(1) Includes miscellaneous provisions, integration plan accrual, among others.

11. Income Taxes, continued**d) Current income tax liabilities**

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

Concepts	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Income tax accrual (1)	8,173,242	7,588,500
Total	8,173,242	7,588,500

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

e) Income tax reconciliation

The income tax expense reconciliation for the period ended March 31, 2013 and 2012 are detailed as follows:

Concepts	03.31.2013		03.31.2012	
	Taxable base ThCh\$	20% Tax Rate ThCh\$	Taxable base ThCh\$	18.5% Tax Rate ThCh\$
Based on accounting income before taxes:				
Income before taxes	17,985,145	3,597,029	21,310,956	3,942,527
Permanent differences	950,545	190,110	(7,430,657)	(1,374,671)
Price-level restatement of taxable equity	(1,996,431)	(399,286)	(6,525,686)	(1,207,252)
Price-level restatement of investments	386,418	77,284	796,362	147,327
Income from investments in related companies	-	-	(307,774)	(56,938)
Adjustment on deferred tax beginning balances (1)	-	-	(237,283)	(43,897)
Difference due to legal change in rates (2)	-	-	(1,398,798)	(258,778)
Other (3)	2,560,558	512,112	242,522	44,867
Total corporate tax expense	18,935,690	3,787,139	13,880,299	2,567,856
Based on taxable net income and deferred taxes calculated on the basis of temporary differences				
20% y 18.5% income tax		4,173,690		5,129,673
35% income tax		188,255		18
Provisional payment on net income absorbed by third parties		(2,272,040)		-
Contingencies provision tax		300,000		-
Income tax expense		2,389,905		5,129,691
Deferred tax expense (income)		1,397,234		(2,561,835)
Total corporate tax expense		3,787,139		2,567,856
Effective income tax rate		21.06%		12.05%

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

(2) Due to a change in legal regulations for 2011 and 2012 the income tax rate increased from 17% to 20%. The ThCh\$ 258,778 gathers the effects on income generated by the rate change.

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

Notes to the consolidated financial statements, continued

As of March 31, 2013 and December 31, 2012

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

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12. Non-current receivables

Non-current receivables are detailed as follows:

Concepts	03.31.2013			12.31.2012		
	Gross value	Allowance for doubtful accounts	Net value	Gross value	Allowance for doubtful accounts	Net value
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Trade receivables	5,539,632	(1,205,000)	4,334,632	5,570,800	(1,082,197)	4,488,603
Miscellaneous receivables	12,533,005	-	12,533,005	13,559,510	-	13,559,510
Total	18,072,637	(1,205,000)	16,867,637	19,130,310	(1,082,197)	18,048,113

13. Intangible Assets other than goodwill

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

Concepts	03.31.2013			12.31.2012		
	Intangible, gross ThCh\$	Accumulated amortization ThCh\$	Intangible, net ThCh\$	Intangible, gross ThCh\$	Accumulated amortization ThCh\$	Intangible, net ThCh\$
Intangible assets in development (1)	773,740	-	773,740	3,449,912	-	3,449,912
Licenses and franchises	161,116,215	(133,801,683)	27,314,532	156,006,228	(128,791,614)	27,214,614
Other intangible assets (2)	21,832,500	(14,754,025)	7,078,475	21,832,500	(14,391,496)	7,441,004
Total	183,722,455	(148,555,708)	35,166,747	181,288,640	(143,183,110)	38,105,530

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

(2) Corresponds to rights to use underwater cable.

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

Movements	Intangible assets in development, net ThCh\$	Licenses and franchises, net ThCh\$	Other intangible assets, net ThCh\$	Intangible, net ThCh\$
Beginning balance as of 01.01.2013	3,449,912	27,214,614	7,441,004	38,105,530
Additions	272	-	-	272
Transfer to service development costs	(2,676,444)	2,676,444	-	-
Amortization	-	(5,010,068)	(362,529)	(5,372,597)
Transfer from work in progress (Note 15b)	-	2,433,542	-	2,433,542
Movement, subtotal	(2,676,172)	99,918	(362,529)	(2,938,783)
Ending balance as of 03.31.2013	773,740	27,314,532	7,078,475	35,166,747
Remaining average useful life	-	1.4 years	4.9 years	-

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

Movements	Intangible assets in development, net ThCh\$	Licenses and franchises, net ThCh\$	Other intangible assets, net ThCh\$	Intangible, net ThCh\$
Beginning balance as of 01.01.2012	10,349,651	22,288,258	8,891,124	41,529,033
Additions	2,744,704	-	-	2,744,704
Transfer to service development costs	(9,664,685)	9,664,685	-	-
Amortization	-	(14,773,608)	(1,450,120)	(16,223,728)
Transfer of amortization	-	(785)	-	(785)
Transfer from work in progress (Note 15b)	20,242	10,036,064	-	10,056,306
Movement, subtotal	(6,899,739)	4,926,356	(1,450,120)	(3,423,503)
Ending balance as of 12.31.2012	3,449,912	27,214,614	7,441,004	38,105,530
Remaining average useful life	-	2 years	5.4 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 are amortized on a straight-line basis over their estimated useful lives. Amortization for each period is recognized in the statement of comprehensive income within "Depreciation and Amortization".

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

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

In the financial statements as of December 31, 2012 there was no effect on income due to impairment testing of these assets, and no impairment testing has been performed as of March 2013.

In the "Additions" column, the main additions for the periods 2013 and 2012 correspond to investments in information applications.

Notes to the consolidated financial statements, continued

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14. Goodwill

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

Taxpayer No.	Company	01.01.2013 ThCh\$	Additions ThCh\$	Eliminations ThCh\$	03.31.2013 ThCh\$
96.672.160-k	Telefónica Larga Distancia S.A.	21,039,896	-	-	21,039,896
96.834.320-3	Telefónica Internet Empresas S.A.	620,232	-	-	620,232
Total		21,660,128	-	-	21,660,128

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

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

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

According to the impairment calculations performed by management, as of 2012 year-end there has been no need detected to make significant adjustments since the recoverable value is greater than the book value in all cases. As of March 31, 2013 no impairment tests have been performed.

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

15. Property, plant and equipment

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

Concepts	03.31.2013			12.31.2012		
	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	21,490,644	-	21,490,644	21,490,644	-	21,490,644
Buildings	718,713,857	(433,043,072)	285,670,785	716,968,498	(428,659,342)	288,309,156
Transport equipments	590,958	(519,085)	71,873	590,958	(510,651)	80,307
Supplies and accessories	21,835,825	(19,497,112)	2,338,713	21,800,462	(19,365,538)	2,434,924
Office equipments	1,582,632	(540,177)	1,042,455	1,582,632	(502,606)	1,080,026
Construction in progress	200,510,703	-	200,510,703	179,424,467	-	179,424,467
Other property, plant & equipment (1)	2,445,058,346	(2,012,790,694)	432,267,652	2,457,075,742	(2,000,561,329)	456,514,413
Total	3,409,782,965	(2,466,390,140)	943,392,825	3,398,933,403	(2,449,599,466)	949,333,937

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

Concepts	03.31.2013			12.31.2012		
	Property, plant & equipment, Gross ThCh\$	Accumulated depreciation ThCh\$	Property, plant & equipment, Net ThCh\$	Property, plant & equipment, Gross ThCh\$	Accumulated depreciation ThCh\$	Property, plant & equipment, Gross ThCh\$
General equipment	27,992,540	(27,458,595)	533,945	27,992,539	(27,356,702)	635,837
Subscriber equipment	190,569,523	(145,562,927)	45,006,596	195,996,728	(141,634,205)	54,362,523
Information processes equipment	36,402,588	(29,639,521)	6,763,067	36,402,588	(28,433,886)	7,968,702
Central offices (*)	1,285,539,837	(1,104,109,221)	181,430,616	1,291,930,166	(1,101,909,030)	190,021,136
External plant	904,553,858	(706,020,430)	198,533,428	904,753,721	(701,227,506)	203,526,215
Total	2,445,058,346	(2,012,790,694)	432,267,652	2,457,075,742	(2,000,561,329)	456,514,413

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

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15. Property, plant and equipment, continued

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

Movements	Land	Buildings, net	Transport equipments, net	Supplies and accessories, net	Office equipment, net	Construction in progress, net	Other property, plant & equipment, net	Property, plant and equipment, net
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Beginning balance as of 01.01.2013	21,490,644	288,309,156	80,307	2,434,924	1,080,026	179,424,467	456,514,413	949,333,937
Additions	-	-	-	-	-	31,746,987	-	31,746,987
Retirements	-	(76,106)	-	-	-	-	(18,387,777)	(18,463,883)
Acc. Dep. retirements	-	71,258	-	-	-	-	16,970,485	17,041,743
Depreciation expense	-	(4,454,989)	(8,434)	(131,574)	(37,571)	-	(27,255,141)	(31,887,709)
Transfer of depreciation	-	-	-	-	-	-	(1,944,708)	(1,944,708)
Other Increase (decrease) (1)	-	1,821,466	-	35,363	-	(10,660,751)	6,370,380	(2,433,542)
Movements, subtotal	-	(2,638,371)	(8,434)	(96,211)	(37,571)	21,086,236	(24,246,761)	(5,941,112)
Ending balance as of 03.31.2013	21,490,644	285,670,785	71,873	2,338,713	1,042,455	200,510,703	432,267,652	943,392,825

(1) Includes net movement of transfers from construction in progress to transfers to intangible assets in the amount of ThCh\$(2,433,542) (note 13b).

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

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

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

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

15. Property, plant and equipment, continued

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

Property, plant and equipment items originating from net financial lease operations amount to ThCh\$1,565,922 for the period 2013 in the categories of buildings and the other property, plant and equipment. For year 2012, the amount for this concept was ThCh\$1,870,381 corresponding to the buildings category and equipment of information technology.

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

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

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

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

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

Concepts	03.31.2013	12.31.2012
	ThCh\$	ThCh\$
Land	34,327	34,327
Buildings	31,300	31,300
Total	65,627	65,627

17. Other current and other non-current financial liabilities

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

Concepts		03.31.2013		12.31.2012	
		Current ThCh\$	Non-current ThCh\$	Current ThCh\$	Non-current ThCh\$
Bank loans	(a)	70,914,105	84,594,296	72,081,274	85,947,989
Unguaranteed obligations (Bonds)	(b)	5,796,496	372,715,137	5,113,610	376,167,965
Financial leases	(c)	1,921,067	1,678,778	1,935,034	1,989,944
Hedge instruments	(see note 6d)	13,500,693	6,344,438	5,971,407	4,783,719
Total		92,132,361	465,332,649	85,101,325	468,889,617

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

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

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													Up to 90 days	90 days to 1 years	To Maturity 1 to 3 years	3 to 5 years	5 years and over	
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	BBVA Bancomer and other	Mexico	USD	At expiry	0.98%	0.84%	USD 150 mm	2013	-	150,000	-	-	-	150,000
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	Sovereign Bank N.A.	USA	USD	At expiry	2.52%	2.15%	USD 97.5 mm	2017	-	-	-	97,500	-	97,500
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	Banco Scotiabank & Trust	Cayman Islands	USD	At expiry	2.16%	1.60%	USD 25 mm	2015	-	-	25,000	-	-	25,000
Bilateral Loan	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	USD	At expiry	1.43%	1.28%	USD 58.25 mm	2015	-	-	58,250	-	-	58,250
Total bank loans													-	150,000	83,250	97,500	-	330,750

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current			Non-current			
								To Maturity Up to 90 days ThCh\$	90 days to 1 years ThCh\$	Total current as of 03.31.2013 ThCh\$	To Maturity 1 to 3 years ThCh\$	3 to 5 years ThCh\$	5 years and over ThCh\$	Total Non current as of 03.31.2013 ThCh\$
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	BBVA Bancomer and other	Mexico	USD	70,827,911	-	70,827,911	-	-	-	-
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	Sovereign Bank N.A.	USA	USD	71,586	-	71,586	-	45,485,601	-	45,485,601
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	Banco Scotiabank & Trust	Cayman Islands	USD	5,781	-	5,781	11,679,818	-	-	11,679,818
Bilateral Loan	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	USD	-	8,827	8,827	27,428,877	-	-	27,428,877
Total bank loans								70,905,278	8,827	70,914,105	39,108,695	45,485,601	-	84,594,296

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

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

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

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	BBVA Bancomer and other Sovereign Bank	Mexico	USD	At expiry	0.99%	0.85%	USD 150 mm	2013	-	150,000	-	-	-	150,000
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	N.A.	USA	USD	At expiry	2.53%	2.17%	USD 97.5 mm	2017	-	-	-	97,500	-	97,500
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	Banco Scotiabank & Trust	Cayman Islands	USD	At expiry	2.17%	1.61%	USD 25 mm	2015	-	-	25,000	-	-	25,000
Bilateral Loan	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	USD	At expiry	1.46%	1.31%	USD 58.25 mm	2015	-	-	58,250	-	-	58,250
Total bank loans													-	150,000	83,250	97,500	-	330,750

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

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

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

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

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													Up to 90 days	90 days to 1 years	To Maturity 1 to 3 years	3 to 5 years	5 years and over	
Series F Bond	90.635.000-9	Telefónica Chile S.A.	Chile	97.080.000-K	Banco Bice The Bank of New York Mellon	Chile	UF	Biannual	6.43%	6.00%	UF 1,500,000	2016	36	36	143	36	-	251
Series 144A Bond	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	The Bank of New York Mellon	USA	USD	At expiry	4.07%	3.88%	US\$ 500 mm	2022	-	-	-	-	500,000	500,000
Series M Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	CLP	At expiry	5.93%	6.05%	MM\$ 20,500	2014	-	-	20,500,000	-	-	20,500,000
Series N Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	UF	At expiry	3.21%	3.50%	UF 5,000,000	2014	-	-	5,000	-	-	5,000
Total unguaranteed obligations													36	36	20,505,143	36	500,000	21,005,251

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current		Non-current			Total Non current as of 03.31.2013 ThCh\$	
								To Maturity Up to 90 days ThCh\$	90 days to 1 years ThCh\$	To Maturity 1 to 3 years ThCh\$	3 to 5 years ThCh\$	5 years and over ThCh\$		
Series F Bond	90.635.000-9	Telefónica Chile S.A.	Chile	97.080.000-K	Banco Bice The Bank of New York Mellon	Chile	UF	971,854	799,733	1,771,587	3,267,053	800,248	-	4,067,301
Series 144A Bond	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	The Bank of New York Mellon	USA	USD	-	4,024,909	4,024,909	-	-	233,460,534	233,460,534
Series M Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	CLP	-	-	-	20,523,144	-	-	20,523,144
Series N Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	UF	-	-	-	114,664,158	-	-	114,664,158
Total unguaranteed obligations								971,854	4,824,642	5,796,496	138,454,355	800,248	233,460,534	372,715,137

- (1) The classification of both series is "AA-" and "AA" by Fitch Ratings and ICR, respectively. Both operations were led by BBVA.
- (2) On October 12, 2012, Telefónica Chile S.A. issued Reg S 144A Bonds in the American capitals market in the amount of US\$500,000,000 (equivalent to ThCh\$236,400.00), 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.

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

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

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													To Maturity					
													Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	
Series F Bond	90.635.000-9	Telefónica Chile S.A.	Chile	97.080.000-K	Banco Bice The Bank of New York Mellon	Chile	UF	Biannual	6.43%	6.00%	UF 1,500,000	2016	-	71	143	71	-	285
Series 144A Bond	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	The Bank of New York Mellon	USA	USD	At expiry	4.07%	3.88%	US\$ 500 mm	2022	-	-	-	-	500,000	500,000
Series M Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	CLP	At expiry	5.93%	6.05%	MCh\$ 20,500	2014	-	-	20,500,000	-	-	20,500,000
Series N Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	UF	At expiry	3.21%	3.50%	UF 5,000,000	2014	-	-	5,000	-	-	5,000
Total unguaranteed obligations													-	71	20,505,143	71	500,000	21,005,285

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

- (1) The classification of both series is "AA-" and "AA" by Fitch Ratings and ICR, respectively. Both operations were led by BBVA.
- (2) On October 12, 2012, Telefónica Chile S.A. issued Reg S 144A Bonds in the American capitals market in the amount of US\$500,000,000 (equivalent to ThCh\$236,400.00), 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.

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

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

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													To Maturity					
													Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	UF	Monthly	-	8.10%	-	2016	-	2	2	2	-	6
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	92.040.000-0	IBM	Chile	USD	Monthly	-	-	-	2014	174	1,911	1,335	-	-	3,420
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.36%	-	2015	3	9	25	-	-	37
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.99%	-	2015	6	4	10	-	-	20
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.99%	-	2015	4	2	7	-	-	13
Total Financial leases													187	1,928	1,379	2	-	3,496

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current		Total current as of 03.31.2013 ThCh	Non-current			Total Non current as of 03.31.2013 ThCh
								To Maturity			1 to 3 years ThCh\$	To Maturity 3 to 5 years ThCh\$	5 years and over ThCh\$	
								Up to 90 days ThCh\$	90 days to 1 years ThCh\$					
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	UF	8,403	27,095	35,498	41,577	46,681	-	88,258
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	92.040.000-0	IBM	Chile	USD	313,147	933,447	1,246,594	619,926	-	-	619,926
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	67,749	213,948	281,697	576,956	-	-	576,956
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	129,696	81,147	210,843	232,247	-	-	232,247
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	90,126	56,309	146,435	161,391	-	-	161,391
Total Financial leases								609,121	1,311,946	1,921,067	1,632,097	46,681	-	1,678,778

As March 31, 2013 the present value of minimum current and non-current financial lease net payments is ThCh\$3,599,846 and the total imputable interest is ThCh\$140,758.

Notes to the consolidated financial statements, continued

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

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

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					Total nominal amounts in original currency
													To Maturity					
													Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	UF	Monthly	-	8.10%	-	2016	1	2	3	2	-	8
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	92.040.000-0	IBM	Chile	USD	Monthly	-	-	-	2014	232	2,549	2,002	-	-	4,783
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.36%	-	2015	3	9	25	-	-	37
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.99%	-	2015	5	4	10	-	-	19
Financial leases	78.703.410-1	Telefónica Empresas Chile S.A.	Chile	76.402.700-0	CSI Renting Chile S.A.	Chile	UF	Monthly	-	2.99%	-	2015	4	2	7	-	-	13
Total Financial leases													245	2,566	2,047	2	-	4,860

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

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

18. Trade and other payables

The composition of Trade and other payables is as follows:

Concepts	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Debts due to purchases or services provided (1)	91,313,102	122,902,244
Real property providers	15,804,864	34,667,478
Dividends pending payment	539,490	539,490
Payables to employees	10,076,565	24,419,202
Other	3,676,955	4,970,255
Total current	121,410,976	187,498,669

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

Debts due to purchases or services provided	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Domestic	78,563,954	107,806,879
Foreign	12,749,148	15,095,365
Total	91,313,102	122,902,244

19. Other short-term provisions

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

Concepts	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Civil and regulatory	1,404,161	1,549,209
Total	1,404,161	1,549,209

Civil and regulatory provisions are mainly composed of the complaint filed by the Chilean Telecommunications Undersecretary (Subtel) due to miscellaneous fines for an amount of ThCh\$597,000 for 2013 and 2012, and civil lawsuit in the amount of ThCh\$600,000 for 2013 and 2012, respectively.

Based on the progress of the proceedings, the Company's management considers that the provisions recorded in the consolidated financial statements adequately cover the litigation risks described in Note 27, 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.

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19. Other short-term provisions, continued

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

Movements	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Beginning balance	1,549,209	1,376,579
Increase in existing provisions	204,467	1,012,725
Provision used	(349,515)	(840,095)
Movement subtotal	(145,048)	172,630
Ending balance	1,404,161	1,549,209

20. Employee benefits accrual

a) Post employment benefits

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

Concepts	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Current amount of liability recognized for termination benefits	4,215,594	4,426,045
Non-current amount of liability recognized for termination benefits	24,745,473	25,888,804
Total	28,961,067	30,314,849

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

Movements	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Beginning balance	30,314,849	30,440,710
Service costs	100,527	1,535,227
Interest costs	430,316	1,763,458
Actuarial (profits)/losses, net (1)	-	(2,617,326)
Benefits paid	(1,884,625)	(1,213,568)
Intercompany transfers (2)	-	406,348
Movement subtotal	(1,353,782)	(125,861)
Ending balance	28,961,067	30,314,849

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

20. Employee benefits accrual, continued**a) Post employment benefits, continued**

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

Actuarial hypotheses used	03.31.2013	12.31.2012
Discount rate (nominal)	5.80%	5.80%
Expected salary increase rate	3.00%	3.00%
Mortality table	RV-2009	RV-2009
Turnover rate	5.46%	5.46%

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

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

b) Employee expenses

The composition of employee expenses is as follows:

Concepts	03.31.2013 ThCh\$	03.31.2012 ThCh\$
Wages and salaries	23,131,312	20,690,042
Post employment benefit obligations expense (1)	505,631	1,340,434
Total	23,636,943	22,030,476

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

Other non-financial liabilities are detailed as follows:

Concepts	03.31.2013		12.31.2012	
	Current ThCh\$	Non-current ThCh\$	Current ThCh\$	Non-current ThCh\$
Deferred income	7,299,247	5,526,951	6,609,253	5,606,229
Connection installments	1,258,046	98,083	1,281,644	101,887
Subsidies	143,003	1,710,144	143,003	1,745,895
Deferred income	5,898,198	3,718,724	5,184,606	3,758,447
Other taxes (1)	17,655,831	-	10,276,802	-
Total	24,955,078	5,526,951	16,886,055	5,606,229

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

Movements of the deferred income are as follows:

Movements	03.31.2013		12.31.2012	
	Current ThCh\$	Non-current ThCh\$	Current ThCh\$	Non-current ThCh\$
Beginning balance	6,609,253	5,606,229	6,960,084	5,712,471
Endowments	2,430,017	373,758	8,128,543	1,776,539
Reduction/applications	(1,740,023)	(453,036)	(8,479,374)	(1,882,781)
Movement subtotal	689,994	(79,278)	(350,831)	(106,242)
Ending balance	7,299,247	5,526,951	6,609,253	5,606,229

22. Equity**a) Capital**

As of March 31, 2013 and 2012, the Company's paid-in capital is composed as follows:

Number of shares

Series	N° of shares subscribed	03.31.2013		N° of shares subscribed	03.31.2012	
		N° of shares paid	N° of shares with voting rights		N° of shares paid	N° of shares with voting rights
A	873,995,447	873,995,447	873,995,447	873,995,447	873,995,447	873,995,447
B	83,161,638	83,161,638	83,161,638	83,161,638	83,161,638	83,161,638
Total	957,157,085	957,157,085	957,157,085	957,157,085	957,157,085	957,157,085

Capital

Series	03.31.2013		03.31.2012	
	Subscribed capital ThCh\$	Paid-in capital ThCh\$	Subscribed capital ThCh\$	Paid-in capital ThCh\$
A	527,852,620	527,852,620	527,852,620	527,852,620
B	50,225,762	50,225,762	50,225,762	50,225,762
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.

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, 2013 is as follows:

Type of Shareholder	Participation percentage %	Number of shareholders
Participation of 10% or more	97.903	2
Less than 10% participation:		
Investment equal to or exceeding UF 200	1.489	274
Investment under UF 200	0.608	8,595
Total	100	8,871
Company's parent	97.89	2

As of March 31, 2013 and 2012, the indirect participation of Telefónica S.A. (Spain) in the equity of Telefónica Chile S.A. reached 97.89% through Inversiones Telefónica Internacional Holding Ltda. with 52.99% and Telefónica Internacional Chile S.A. with 44.9%.

22. Equity, continued

c) Dividends:

i) Dividends policy:

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

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

ii) Capital decrease and dividends distributed:

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

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

d) Other reserves:

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

Concepts	Balance of 12.31.2012 ThCh\$	Net movement ThCh\$	Balance of 03.31.2013 ThCh\$
Cash flows hedge reserve	(3,716,944)	(2,537,642)	(6,254,586)
Employee benefits reserve, net tax	(2,415,709)	-	(2,415,709)
Reserve for financial assets available for sale	3,452,862	607,407	4,060,269
Total	(2,679,791)	(1,930,235)	(4,610,026)

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

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

ii) Employee benefits reserve

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

iii) Reserves for financial assets available for sale

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

e) Non-controlling interest

Non-controlling interest corresponds to recognition of the portion of shareholders' equity and income of subsidiaries belonging to third parties. The detail for the periods ended as of March 31, 2013 and 2012, respectively, is as follows:

Subsidiaries	Non-controlling Interest percentage		Shareholders' equity Non-controlling interest		Participation in profit income (loss)	
	2013 %	2012 %	2013 ThCh\$	2012 ThCh\$	2013 ThCh\$	2012 ThCh\$
Telefónica Larga Distancia S.A.	0.070000	0.070000	104,729	98,949	5,778	6,370
Telefónica Gestión de Servicios Compartidos Chile S.A.	0.001000	0.001000	48	43	7	2
Telefónica de Chile Servicios Corporativos Ltda.	49.000000	49.000000	3,428,744	2,535,962	892,782	1,312,422
Instituto Telefónica Chile S.A.	0.000047	0.000047	(1)	(1)	-	-
Total			3,533,520	2,634,953	898,567	1,318,794

23. Earnings per Share

The details of Earnings per share are as follows:

Basic earnings per share	03.31.2013 ThCh\$	03.31.2012 ThCh\$
Earnings attributable to owners of the parent	13,299,439	17,424,306
Profit available for shareholders	13,299,439	17,424,306
Weighted average number of shares	957,157,085	957,157,085
Basic earnings per share in Ch\$	13.89	18.20

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 year. 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 for the periods 2013 and 2012 are as follows:

Ordinary income	03.31.2013 ThCh\$	03.31.2012 ThCh\$
Sale of goods	3,956,149	4,489,525
Services rendered	159,214,305	167,857,774
Total	163,170,454	172,347,299

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

Other income	03.31.2013 ThCh\$	03.31.2012 ThCh\$
Other current management income	17,985	11,687
Income from indemnities, complaints and others	18,250	163,422
Income from disposal of real property	4,778	99,140
Total	41,013	274,249

24. Income and Expenses, continued

- c) The detail of other miscellaneous operating expenses by segment for the periods 2013 and 2012 is as follows:

Other expenses	03.31.2013 ThCh\$	03.31.2012 ThCh\$
Interconnections	16,301,425	18,838,774
Media rental	13,514,503	12,172,661
Cost of sale of inventory	1,650,201	4,142,893
Other exterior services	6,993,395	6,916,429
Sales commissions	7,714,959	7,430,322
Customer service	4,945,465	5,689,729
Plant maintenance	8,200,652	8,851,513
Allowance for doubtful accounts	5,256,839	6,281,963
Advertising	3,197,445	3,524,454
Expenses related to real estate	3,926,055	4,879,916
Information services	4,774,874	5,795,317
Other	1,989,260	290,423
Total	78,465,073	84,814,394

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

Financial expenses, net	03.31.2013 ThCh\$	03.31.2012 ThCh\$
Interest income		
Interest earned on deposits	2,035,695	485,460
Interest on financial instruments	38,083	17,498
Other interest income	434,701	67,545
Total interest income	2,508,479	570,503
Interest expense		
Interest on loans from bank institutions	622,410	330,557
Interest on obligations and bonds	3,590,288	2,075,176
Finance leases	50,712	31,830
Interest on mercantile mandate	456,267	573,274
Interest rate hedges (Cross Currency Swap)	3,400,352	2,340,822
Other financial expenses	210,798	368,251
Total interest expense	8,330,827	5,719,910
Total net	(5,822,348)	(5,149,407)

- e) Participation in associates for the 2012 period was ThCh\$ 307,774 and corresponded to Atento Chile S.A. During the last quarter of 2012 the Telefónica Group closed the sale of the Atento Group (call center subsidiary) to a group of companies controlled by Bain Capital (USA) a risk capital fund, and it stopped forming part of the group of related companies.

25. Operating leases

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

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

Description	03.31.2013	03.31.2012
	Minimum payments ThCh\$	Minimum payments ThCh\$
Expenses for the period	1,290,578	1,401,999
Up to 1 year	3,832,192	4,575,407
From 1 to 5 years	6,332,468	8,600,131
More than 5 years	5,526,156	7,090,663
Total	16,981,394	21,668,200

26. Local and Foreign Currency

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

Currents assets	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Cash and cash equivalents	177,674,274	246,567,966
US Dollars	56,368,564	144,262,284
Euros	211,138	216,392
Chilean Pesos	118,052,152	39,875,659
U.F.	3,042,420	62,213,631
Other current financial assets	28,806,594	4,998,135
US Dollars	1,781,863	3,228,327
Euros	-	11,856
Chilean Pesos	1,243,951	1,757,952
U.F.	25,780,780	-
Trade and other receivables, current	138,068,312	140,799,919
US Dollars	2,737,896	8,959,583
Chilean Pesos	135,330,416	131,840,336
Receivables from related companies	67,729,945	63,462,235
US Dollars	7,235,734	6,802,366
Chilean Pesos	60,494,211	56,659,869
Other current assets (1)	35,329,902	29,015,272
Chilean Pesos	35,329,902	29,015,272
Non-currents assets or groups of assets for disposal classified as held for sale	65,627	65,627
Chilean Pesos	65,627	65,627
Total current assets	447,674,654	484,909,154
US Dollars	68,124,057	163,252,560
Euros	211,138	228,248
Chilean Pesos	350,516,259	259,214,715
U.F.	28,823,200	62,213,631

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

Non-currents assets	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Other non-current financial assets	17,279,216	16,709,646
Chilean Pesos	8,032,709	7,487,977
U.F.	9,246,507	9,221,669
Non-current receivables	16,867,637	18,048,113
Chilean Pesos	16,867,637	18,048,113
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)	1,007,006,705	1,018,797,197
Chilean Pesos	1,007,006,705	1,018,797,197
Total non-current assets	1,042,520,079	1,054,921,477
Chilean Pesos	1,033,273,572	1,045,699,808
U.F.	9,246,507	9,221,669

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

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26. Local and Foreign Currency, continued

The detail for currency of current liabilities is as follows:

Currents liabilities	03.31.2013	12.31.2012	03.31.2013	12.31.2012
	Up to 90 days ThCh\$		91 days to 1 year ThCh\$	
Other current financial liabilities	72,555,143	986,100	19,577,218	84,115,225
US Dollars	71,218,425	449,219	4,967,183	74,828,160
Chilean Pesos	68,890	241,491	13,431,803	5,928,632
U.F.	1,267,828	295,390	1,178,232	3,358,433
Trade and other payables	121,361,291	187,446,551	49,685	52,118
US Dollars	25,926,894	25,429,216	-	-
Euros	349,334	519,821	-	-
Other currency	59	59	-	-
Chilean Pesos	87,406,782	153,865,813	49,685	52,118
U.F.	7,678,222	7,631,642	-	-
Payables to related companies, current	77,129,847	81,725,309	-	-
US Dollars	11,817,965	15,614,695	-	-
Euros	2,648,075	3,920,352	-	-
Chilean Pesos	62,663,807	62,190,262	-	-
Other current liabilities (1)	8,173,242	17,865,302	30,574,833	12,584,507
Chilean Pesos	8,173,242	17,865,302	30,574,833	12,584,507
Total current liabilities	279,219,523	288,023,262	50,201,736	96,751,850
US Dollars	108,963,284	41,493,130	4,967,183	74,828,160
Euros	2,997,409	4,440,173	-	-
Other currency	59	59	-	-
Chilean Pesos	158,312,721	234,162,868	44,056,321	18,565,257
U.F.	8,946,050	7,927,032	1,178,232	3,358,433

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

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

Non-current liabilities	03.31.2013	12.31.2012	03.31.2013	12.31.2012	03.31.2013	12.31.2012
	1 to 3 years ThCh\$		3 to 5 years ThCh\$		5 years and over ThCh\$	
Other non-current financial liabilities	182,106,450	181,914,652	49,765,665	49,654,868	233,460,534	237,320,098
US Dollars	39,728,621	40,684,380	45,485,601	46,209,119	233,460,534	237,320,098
Chilean Pesos	23,434,447	22,685,781	3,433,135	2,603,807	-	-
U.F.	118,943,382	118,544,491	846,929	841,942	-	-
Other non-current liabilities (2)	2,204,203	2,167,141	806,121	846,594	77,930,313	80,919,749
Chilean Pesos	2,204,203	2,167,141	806,121	846,594	77,930,313	80,919,749
Other non-current liabilities	184,310,653	184,081,793	50,571,786	50,501,462	311,390,847	318,239,847
US Dollars	39,728,621	40,684,380	45,485,601	46,209,119	233,460,534	237,320,098
Chilean Pesos	25,638,650	24,852,922	4,239,256	3,450,401	77,930,313	80,919,749
U.F.	118,943,382	118,544,491	846,929	841,942	-	-

(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, 2013, which altogether amounts to ThCh\$1,404,161.

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

a) Miscellaneous lawsuits

i) Labor lawsuits

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

ii) Other complaints

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

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:

- a) Local loan with Banco Santander Chile in the amount of US\$58.25 million, expiring in March 2015.
- b) International loan with BBVA Bancomer and others in the amount of US\$150 million, expiring in May 2013.
- c) International loan with Sovereign Bank N.A. in the amount of US\$ 97.5 million, expiring in April 2017.
- d) International loan with ScotiaBank & Trust in the amount of US\$ 25 million, expiring in April 2015.

These financial entities impose obligations of several types on the Company during the term of the loans, which are usual for this type of financing. In addition, in the case of BBVA a maximum debt ratio clause of 2.5 is established for the Company. The Company reports in a quarterly manner to that entity in accordance with agreed upon terms and dates. Compliance with that financial index is reported through a certificate of covenants issued by the external audit firm.

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

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

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

ANNEX I
 CONSOLIDATED STATEMENTS OF CASH FLOWS DIRECT (PROFORMA)

Telefónica

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

27. Contingencies and restrictions, continued

b) Financial restrictions, continued

In summary the debt agreements contemplate the following financial restrictions:

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

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

	03.31.2013 ThCh\$	12.31.2012 ThCh\$
Total debt	863,900,706	923,856,892
Total Current Liabilities	329,421,259	384,775,112
Total Non-current Liabilities	546,273,286	552,823,102
Current Hedge Assets (less)*	2,547,332	4,519,653
Non-current Hedge Assets (less)*	9,246,507	9,221,669
Net shareholders' equity	614,500,188	602,232,417
Total debt	863,900,706	923,856,892
Net shareholders' equity	614,500,188	602,232,417
Debt ratio	1.41	1.53

* 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.

CONSOLIDATED STATEMENTS OF CASH FLOWS DIRECT (PROFORMA)

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

27. Contingencies and restrictions, continued

c) Guarantee deposits:

The detail of guarantee deposits is as follows:

Guarantee creditor	Debtor			Current guarantee deposits ThCh\$	Liberated guarantees		2015 & thereon ThCh\$
	Name	Relationship	Type of guarantee		2013 ThCh\$	2014 ThCh\$	
Subsecretaría de Telecomunicaciones	TCH	Parent company	Deposit	267,331	-	-	267,331
Others Guarantees (1)	TCH	Parent company	Deposit	72,958	69,853	1,517	1,588
Subsecretaría de Telecomunicaciones	TLD	Subsidiary	Deposit	1,030,536	-	-	1,030,536
Others Guarantees (1)	TLD	Subsidiary	Deposit	3,745	1,285	2,460	-
Gendarmería de Chile	TEM	Subsidiary	Deposit	2,236,486	-	-	2,236,486
Ministerio del Interior y Seguridad Pública	TEM	Subsidiary	Deposit	604,044	604,044	-	-
Servicio de Salud Metropolitano Oriente	TEM	Subsidiary	Deposit	380,577	380,577	-	-
Subsecretaría de Salud Pública	TEM	Subsidiary	Deposit	306,007	306,007	-	-
Megasalud S.A.	TEM	Subsidiary	Deposit	280,000	280,000	-	-
Servicio de Salud de Valparaíso	TEM	Subsidiary	Deposit	268,804	268,804	-	-
Servicio de Salud Metropolitano Occidente	TEM	Subsidiary	Deposit	268,686	268,686	-	-
Servicio de Salud del Maule	TEM	Subsidiary	Deposit	249,360	249,360	-	-
Servicio de Salud de Ñuble	TEM	Subsidiary	Deposit	234,086	234,086	-	-
Servicio de Salud de Bio-Bio	TEM	Subsidiary	Deposit	233,596	233,596	-	-
Servicio de Salud de Viña del Mar	TEM	Subsidiary	Deposit	233,499	233,499	-	-
Servicio de Salud Metropolitano Central	TEM	Subsidiary	Deposit	232,919	232,919	-	-
Servicio de Salud de Coquimbo	TEM	Subsidiary	Deposit	229,132	229,132	-	-
Junta Nacional de Auxilio Escolar y Becas	TEM	Subsidiary	Deposit	227,512	-	-	227,512
Servicio de Salud Metropolitano Norte	TEM	Subsidiary	Deposit	216,640	216,640	-	-
Servicio de Salud de Araucanía Sur	TEM	Subsidiary	Deposit	206,450	206,450	-	-
Servicio de Salud de O'Higgins	TEM	Subsidiary	Deposit	204,478	204,478	-	-
Servicio Electoral	TEM	Subsidiary	Deposit	200,000	200,000	-	-
Servicio de Salud de Aconcagua	TEM	Subsidiary	Deposit	199,488	199,488	-	-
Servicio de Salud de Reloncaví	TEM	Subsidiary	Deposit	172,798	172,798	-	-
Servicio de Salud Metropolitano Sur Oriente	TEM	Subsidiary	Deposit	164,960	164,960	-	-
Servicio de Salud de Valdivia	TEM	Subsidiary	Deposit	155,882	155,882	-	-
Servicio de Salud Metropolitano Sur	TEM	Subsidiary	Deposit	148,934	148,934	-	-
Central de Abastec.del Sist. Nac.de Serv. De Salud	TEM	Subsidiary	Deposit	146,126	146,126	-	-
Servicio de Salud de Concepción	TEM	Subsidiary	Deposit	144,983	144,983	-	-
Servicio de Salud de Aysen	TEM	Subsidiary	Deposit	138,966	138,966	-	-
Servicio de Salud de Atacama	TEM	Subsidiary	Deposit	132,358	132,358	-	-
Fundación Educativa para el Desarrollo	TEM	Subsidiary	Deposit	130,933	130,933	-	-
Servicio de Registro Civil e Identificación	TEM	Subsidiary	Deposit	100,000	100,000	-	-
Cepech S.A.	TEM	Subsidiary	Deposit	95,000	-	-	95,000
Minera Escondida Ltda.	TEM	Subsidiary	Deposit	82,516	-	82,516	-
Corporación Administrativa del Poder Judicial	TEM	Subsidiary	Deposit	80,000	-	80,000	-
Hospital de Urgencia Asistencia Pública	TEM	Subsidiary	Deposit	75,687	75,687	-	-
Policía de Investigaciones de Chile	TEM	Subsidiary	Deposit	75,000	75,000	-	-
Others Guarantees (1)	TEM	Subsidiary	Deposit	1,973,412	1,413,429	165,816	394,167
				12,203,889	7,618,960	332,309	4,252,620

(1) This item includes all guarantees with a value of less than ThCh\$60,000, 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 June 11, 2012 regulating the installation of telecommunications services emitting and transmitting antennas. The approved indications include i) installation restrictions in saturated zones; more rigorous approval conditions are imposed for towers higher than 12 meters; ii) limited installation of towers close to sensitive places as determined by the Telecommunications Undersecretary (schools, hospitals, daycares, nursing homes and others); and iii) compensation is established with community improvements which must be agreed upon by the Neighborhood Councils and Municipal Council, for 30% of the total cost of the tower, should some type of camouflage be used in the structure and 50% in cases where no camouflage is used.

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

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

The Company is in the process of evaluating each phase contemplated by Law to identify and quantify its impact. As of March 31, 2013 the Company's expenditures in relation to the implementation of the corresponding phases are not significant.

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

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

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

c) Technological changes

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

d) Level of Chilean economic activity

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

29. Risk management (Not audited), continued

e) Financial risk management objectives and policies

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

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

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

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

Market Risk

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

Interest rate risk

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

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

29. Risk management (Not audited), continued

e) Financial risk management objectives and policies, continued

The Company periodically determines the efficient exposure to short and long-term debt due to changes in interest rates, considering its own expectations regarding future evolution of rates. As of the end of the first quarter of 2013 the Company had 31% 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, 2013 corresponds to the Nominal Average Chamber Rate (TCPN) (“Tasa Promedio de Cámara Nominal”). In this manner, an increase of 25 basic points in the monthly TCPN would mean an increase in the monthly financial accrual expense for 2013 of approximately Ch\$76.0 million, whereas a decrease in the TCPN would mean a reduction of Ch\$76.0 million in the monthly financial accrual expense for 2013.

Foreign currency risk

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

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

Credit risk

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

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

29. Risk management (Not audited), continued

e) Financial risk management objectives and policies, continued

Credit risk, continued

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

Liquidity risk

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

Capital management

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

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

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

f) Regulatory Framework

Numeric Portability

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

29. Risk management (Not audited), continued

f) Regulatory Framework, continued

Numeric Portability, continued

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

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

Fixed telephone number extension by one digit

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

Elimination of National Long Distance Service in certain regions

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

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

30. Subsequent events

The consolidated financial statements of Telefónica Chile S.A., for the period ended as of March 31, 2013 were approved and authorized for issuance at the Board of Directors Meeting held on April 18, 2013.

1) At the Ordinary Shareholders' Meeting held on April 17, 2013, the shareholders agreed to the following:

- a) Establish as a final dividend the amount of Ch\$36.46902 per share already distributed in December 2012 as an interim dividend, with a charge to net income for 2012. This dividend complies with the Company's dividends policy, which contemplates distributing at least 30% of distributable net income generated during the respective year.
- b) Broadly empower the Board of Directors so that it can define and agree on the payment of one or more possible dividends, for the amounts and on the dates it establishes with a charge to retained earnings as of 2012 and up to the date of the next Ordinary Shareholders' Meeting, for a total to be distributed not to exceed retained earnings, and as long as there is cash available.
- c) Designate Ernst & Young Chile Auditores Consultores Ltda. as the Company's external auditors.
- d) Designate FITCH CHILE and ICR as risk rating companies for 2013.
- e) Approve remuneration of the Board of Directors for 2013.
- f) Designate the electronic newspaper www.latercera.com as the newspaper to be used to publish company publications.

In the period from April 1 to 18, 2013, there have been no other significant subsequent events that affect these financial statements.

Rodolfo Escalante Fiestas
Accounting Manager

Roberto Muñoz Laporte
General Manager