TELEFONICA MOVILES CHILE S.A. AND SUBSIDIARIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended
December 31, 2011 and 2010

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

TELEFÓNICA MÓVILES CHILE S.A. AND SUBSIDIARIES

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CONTENT

ThCh$: Thousands of Chilean pesos

TELEFONICA MOVILES CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED CLASSIFIED STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010
(Translation of Financial Statements originally issued in Spanish – See Note 2b)

ASSETS	Notes	12.31.2011	12.31.2010
		ThCh$	ThCh$
CURRENT ASSETS			
Cash and cash equivalents	(5)	235,941,528	131,273,568
Other current financial assets	(9)	6,449,206	211,182
Other current non-financial assets	(10)	42,203,223	33,214,925
Trade and other current accounts receivable	(6a)	186,886,517	150,117,776
Current accounts receivable from related companies	(7a)	39,691,996	21,109,095
Inventory	(8a)	45,473,880	53,343,297
Total current operating assets		**556,646,350**	**389,269,843**
TOTAL CURRENT ASSETS		**556,646,350**	**389,269,843**
NON-CURRENT ASSETS			
Other non-current financial assets	(9)	10,942,691	-
Other non-current non-financial assets	(10)	1,983,081	-
Non-current rights receivable	(6a)	96,063	-
Intangible assets other than goodwill, net	(12)	75,072,678	62,763,244
Goodwill	(13)	483,179,725	483,179,725
Property, plant and equipment	(14)	367,485,550	394,480,621
Deferred tax assets	(11c)	15,316,046	38,543,422
TOTAL NON-CURRENT ASSETS		**954,075,834**	**978,967,012**
TOTAL ASSETS		**1,510,722,184**	**1,368,236,855**

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements

TELEFONICA MOVILES CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED CLASSIFIED STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010
(Translation of Financial Statements originally issued in Spanish – See Note 2b)

LIABILITIES	Notes	12.31.2011	12.31.2010
		ThCh$	ThCh$
CURRENT LIABILITIES			
Other current financial liabilities	(17)	33,959,611	110,847,025
Trade and other accounts payable	(19)	164,849,824	187,629,295
Current accounts payable to related companies	(7b)	91,187,683	47,782,229
Other short-term provisions	(20a)	1,843,816	464,466
Current tax liabilities	(11b)	3,778,164	1,291,538
Current employee benefits accrual	(20b)	343,329	4,389,599
Other current non-financial liabilities	(18)	63,361,928	40,405,892
TOTAL CURRENT LIABILITIES		**359,324,355**	**392,810,044**
NON-CURRENT LIABILITIES			
Other non-current financial liabilities	(17)	407,576,247	215,158,204
Other long-term provisions	(20c)	13,658,995	10,866,678
Other non-financial, non-current liabilities		226,213	-
TOTAL NON-CURRENT LIABILITIES		**421,461,455**	**226,024,882**
NET SHAREHOLDERS' EQUITY			
Issued capital	(15a)	941,099,241	941,101,241
Retained earnings (losses)		122,059,601	139,654,641
Other reserves	(15d)	(333,222,468)	(331,353,953)
Shareholders' equity attributable to owners of the parent		729,936,374	749,401,929
Non-controlling interests		-	-
TOTAL NET SHAREHOLDERS' EQUITY		**729,936,374**	**749,401,929**
TOTAL NET LIAB. & SHAREHOLDERS EQUITY		**1,510,722,184**	**1,368,236,855**

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements

TELEFONICA MOVILES CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME BY NATURE
December 31, 2011 and 2010
(Translation of Financial Statements originally issued in Spanish – See Note 2b)

	Notes	For the years ended December 31, 2011	2010
STATEMENTS OF INCOME		**ThCh$**	**ThCh$**
Operating income	(22a)	940,318,921	853,861,636
Other income, by nature	(22a)	35,601,040	28,910,239
Employee benefits expenses	(21)	(20,076,536)	(41,386,901)
Depreciation and amortization expense	(12b-14)	(191,600,893)	(167,014,758)
Other expenses, by nature	(22a)	(556,804,835)	(441,246,466)
Finance income	(22b)	5,242,417	3,048,054
Finance costs	(22b)	(17,524,861)	(7,806,881)
Share in earnings (losses) of associates accounted for using the equity method	(17)	1,252,002	-
Foreign currency translation		44,340	(544,197)
Profits before tax from continuing operations		**196,451,595**	**227,820,726**
Income tax expense	(11d)	(33,847,618)	(28,314,096)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**162,603,977**	**199,506,630**
Profit (loss) attributable to:			
Profit (loss) attributable to owners of the parent		162,603,977	199,506,630
Profit (loss) attributable to non-controlling interests		-	-
PROFIT FOR THE PERIOD		**162,603,977**	**199,506,630**
EARNINGS PER SHARE		**$**	**$**
Earnings per basic share:			
Earnings per basic share for continuing operations	(16)	1,377.69	1,231.28
Diluted earnings per share:			
Diluted earnings per share from continuing operations		1,377.69	1,231.28

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements

TELEFONICA MOVILES CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME BY NATURE
December 31, 2011 and 2010
(Translation of Financial Statements originally issued in Spanish – See Note 2b)

	For the years ended December 31,	
	2011	**2010**
	ThCh$	**ThCh$**
STATEMENT OF COMPREHENSIVE INCOME		
PROFIT FOR THE PERIOD	**162,603,977**	**199,506,630**
Components of other comprehensive income before taxes		
Cash flow hedges:		
Profit (loss) on cash flow hedges, before taxes	1,227,013	(799,253)
Other comprehensive income, before taxes, actuarial gains on defined benefits plans	(3,493,736)	-
Other components of other comprehensive income, before taxes	**(2,266,723)**	**(799,253)**
Income taxes related to components of other comprehensive income:		
Income tax related to hedging cash flows from other comprehensive income	(245,403)	116,131
Income tax related to other comprehensive income defined benefits plans	698,747	-
Sum of income taxes related to components of other comprehensive income	**453,344**	**116,131**
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**(1,813,379)**	**(683,122)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**160,790,598**	**198,823,508**
COMPREHENSIVE INCOME ATTRIBUTABLE TO		
Comprehensive income attributable to owners of the parent	160,790,598	198,823,508
Comprehensive income attributable to non-controlling interests	-	-
TOTAL COMPREHENSIVE INCOME	**160,790,598**	**198,823,508**

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements

TELEFONICA MOVILES CHILE S.A. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
December 31, 2011 and 2010

(Translation of Financial Statements originally issued in Spanish – See Note 2b)

	Issued capital	Cash flow hedge reserves	Benefit plan gain and loss reserve	Other miscellaneous reserves	Total other reserves	Retained earnings	Equity attributable to owners of the parent	Non controlling interests	Total equity
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Beginning balance as of 01.01.2011	**941,101,241**	**(37,577)**	**255,900**	**(331,572,276)**	**(331,353,953)**	**139,654,641**	**749,401,929**	**-**	**749,401,929**
Changes in equity:									
Comprehensive income:									
Profit	-	-	-	-	-	162,603,977	162,603,977	-	162,603,977
Other comprehensive income	-	981,610	(2,794,989)	-	(1,813,379)	-	(1,813,379)	-	(1,813,379)
Dividends	-	-	-	-	-	(180,199,017)	(180,199,017)	-	(180,199,017)
Increase (decrease) from transfers and other changes	(2,000)	-	(55,535)	399	(55,136)	-	(57,136)	-	(57,136)
Total changes in equity	**(2,000)**	**981,610**	**(2,850,524)**	**-**	**(1,868,515)**	**(17,595,040)**	**(19,465,555)**	**-**	**(19,465,555)**
Ending balance as of 12.31.2011	**941,099,241**	**944,033**	**(2,594,624)**	**(331,572,276)**	**(333,222,468)**	**122,059,601**	**729,936,374**	**-**	**729,936,374**
Beginning balance as of 01.01.2010	**1,980,350,053**	**645,545**	**313,177**	**(1,414,869,867)**	**(1,413,911,145)**	**272,837,717**	**839,276,625**	**-**	**839,276,625**
Changes in equity:									
Comprehensive income:									
Profit	-	-	-	-	-	199,506,630	199,506,630	-	199,506,630
Other comprehensive income	-	(683,122)	-	-	(683,122)	-	(683,122)	-	(683,122)
Dividends	-	-	-	44,048,779	44,048,779	(332,689,706)	(288,640,927)	-	(288,640,927)
Increase (decrease) from transfers and other changes	(1,039,248,812)	-	(57,277)	1,039,248,812	1,039,191,535	-	(57,277)	-	(57,277)
Total changes in equity	**(1,039,248,812)**	**(683,122)**	**(57,277)**	**1,083,297,591**	**1,082,557,192**	**(133,183,076)**	**(89,874,696)**	**-**	**(89,874,696)**
Ending balance as of 12.31.2010	**941,101,241**	**(37,577)**	**255,900**	**(331,572,276)**	**(331,353,953)**	**139,654,641**	**749,401,929**	**-**	**749,401,929**

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements

TELEFONICA MOVILES CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2011 and 2010
(Translation of Financial Statements originally issued in Spanish – See Note 2b)

	For the years ended December 31, 2011 ThCh$	2010 ThCh$
Cash flows provided by operating activities:		
Profit	**162,603,977**	**199,506,630**
Adjustments to reconcile profits to net cash flows:		
Adjustments due to income tax expense	33,847,618	28,314,096
Adjustments due to decrease (increase) in inventory	7,692,409	(7,664,698)
Adjustments due to decrease (increase) in trade accounts receivable	(52,679,057)	(42,406,195)
Adjustments due to decrease (increase) in other accounts receivable derived from operating activities	(118,669,260)	(99,393,033)
Adjustments due to increase (decrease) in trade accounts payable	42,330,520	63,772,059
Adjustments due to increase (decrease) in other accounts payable derived from operating activities	15,490,728	18,874,024
Adjustments due to depreciation and amortization expenses	191,600,893	167,014,758
Adjustments due to provisions	11,482,871	47,413
Adjustments due to unrealized losses (profits) in foreign currency	(44,340)	544,197
Adjustments for non-controlling interests	(1,252,002)	-
Other adjustments for which the effects on cash are cash flows from investing or financing	10,067,401	-
Total adjustments due to reconciliation of profit (losses)	139,867,781	129,102,621
Income taxes reimbursed (paid)	-	-
Cash flows provided by operating activities:	**302,471,758**	**328,609,251**
Cash flows used in investment activities:		
Loans to related entities	(65,684,200)	-
Proceeds from sale of property, plant and equipment	1,314,366	-
Additions to property, plant and equipment	(101,314,910)	(75,863,587)
Collection from related entities	63,778,294	-
Interest received	4,320,285	3,572,880
Other cash inputs (outputs)	(3,352,970)	-
Net cash flows used in investment activities	**(100,939,135)**	**(72,290,707)**
Cash flows from financing activities:		
Amounts arising from long-term loans	218,080,956	146,889,500
Payment of financial lease liabilities	(16,684)	(67,174)
Loan payments	(115,868,338)	(23,000,000)
Dividends paid	(172,107,530)	(312,000,000)
Interest paid	(14,371,002)	(5,557,597)
Other cash inputs (outputs)	(12,582,065)	-
Net cash flows used in financing activities	**(96,864,663)**	**(193,735,271)**
Net increase in cash and cash equivalents, before effects of exchange rate changes:	104,667,960	62,583,273
Effects of changes in the exchange rate on cash and cash equivalents:		
Net increase in cash and cash equivalents	104,667,960	62,583,273
Cash and cash equivalents, beginning of period	131,273,568	68,690,295
Cash and cash equivalents, end of period	**235,941,528**	**131,273,568**

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements

Note 1. Corporate Information

Telefónica Móviles Chile S.A. and Subsidiaries (or "the Company") provides mobile telecommunications services in Chile. The registered office of the Company and its Subsidiaries is located at Avenida Providencia 111, Santiago, Chile.

Telefónica Móviles Chile S.A. is a closely held corporation which voluntarily adheres to the regulations of the Superintendency of Securities and Insurance (SVS) ("Superintendencia de Valores y Seguros") and is registered in that entity's registry under Number 922.

At the Extraordinary Shareholders' Meeting held on September 15, 2011, the shareholders agreed to approve the division of Telefónica Móviles Chile S.A. into two companies, under the terms of articles 94 and following of Law No. 18,046, one to remain as the continuing company with the same name and a new company to be established with the name Miraflores 130 S.A. which is allocated assets and liabilities composed mainly of accounts payable and non-essential assets (0.29% of total assets) which represent 0.00015% of the shareholders' equity of the company that is divided according to the latest financial statements reported as of June 30, 2011. This division shall not alter or modify the operation of the continuing company, Telefónica Móviles Chile S.A..

At the Extraordinary Shareholders' Meeting held on December 12, 2011, the shareholders agreed to approve the division of Telefónica Móviles Chile S.A. into two companies, under the terms of articles 94 and following of Law No. 18,046, one remaining as the continuing company with the same name and a new company established with the name Operadora de Torres de Telefonía Limitada, which is allocated mainly non-essential assets and liabilities representing 0.00010625860632358% of the shareholders' equity of the company that is divided according to the latest financial statements reported as of September 30, 2011. This division shall not alter or modify the operation of the continuing company, Telefónica Móviles Chile S.A..

As of December 31, 2011, the Company's direct parent is Inversiones Telefónica Móviles Holding Limitada, which belongs to the Spanish group Telefónica, S.A.

Note 2. Summary of Significant Accounting Policies

a) Periods covered

The consolidated financial statements (hereinafter, the "financial statements") cover the years ended December 31, 2011 and 2010.

b) Basis of presentation

The financial statements as of December 31, 2010 and their corresponding notes are presented in a comparative manner as indicated in Note 2 a). For the convenience of the reader, these consolidated financial statements and their accompanying notes have been translated from Spanish to English.

c) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The figures included in the attached financial statements are expressed in thousands of Chilean pesos, which is the Company's functional currency. All values are rounded to thousands of Chilean pesos, unless otherwise indicated.

d) Basis of consolidation

The financial statements of Telefónica Móviles Chile S.A. and its subsidiaries include assets and liabilities as

2. **Summary of Significant Accounting Policies**, continued

d) **Basis of consolidation**¸ continued

of December 31, 2011 and 2010. Balances with related companies, unrealized income and expenses and net income and losses have been eliminated and non-controlling interests have been recognized under “Non-controlling interests”.

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 Móviles Chile S.A. and have been prepared using homogenous accounting policies.

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 Móviles Chile S.A. and have been prepared using homogenous accounting policies.

Non-controlling interest represent 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	Count. of origin	Funct. currency	Participation percentage			
				12.31.2011			12.31.2010
				Direct	Indirecto	Total	Total
96.672.150-2	Telefónica Móviles Chile Inversiones S.A.	Chile	CLP	99.999996	-	99.999996	99.999996
99.578.440-8	Telefónica Móviles Chile Distribución S.A.	Chile	CLP	99.99	-	99.99	99.99
96.898.630-9	Intertel S.A.	Chile	CLP	50	50	100	100
76.182.386-8	Fondo de Inversión Privado Infraestructura Uno	Chile	CLP	100	-	100	-

e) **Foreign currency translation and indexation**

Assets and liabilities in foreign currency and in Unidades de Fomento (UF) have been converted to Chilean pesos using the current exchange rates as of each period-end, detailed as follows:

Date	US$	EURO	UF
12-31-2011	519.20	672.97	22,294.03
12-31-2010	468.01	621.53	21,455.55

All differences resulting from foreign currency translation in the application of this standard are recognized in the income statement for the period under “Foreign Exchange Differences”.

2. Summary of Significant Accounting Policies, continued

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) Accounts receivable

Accounts receivable consist of financial assets with fixed and determinable payments that are not quoted in an active market. Trade accounts receivable 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 accounts receivable 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.

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 repurchase agreements maturing in less than 90 days.

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.

2. **Summary of Significant Accounting Policies**, continued

f) Financial assets and liabilities, continued

v) Derivative financial instruments

The Company uses hedge derivatives to manage its exposure to interest and exchange rate risks. The Company's objective for maintaining derivatives is to minimize these risks using the most effective method for eliminating or reducing the impact of such exposure.

Derivative instruments are initially recognized at fair value, which normally coincides with the cost, and subsequently the book value is adjusted to fair value, presenting them as financial assets or 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 short-term items are presented as 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 recognized in the income statement.

Variations in the fair value of derivatives that meet the requirements for and have been designated as cash flow hedges are recognized in equity when highly effective. The portion considered ineffective is charged directly to income. When the forecasted transaction or firm commitment results in recording a non-financial asset or liability, profits and losses accumulated in equity become part of the initial cost of the respective asset or liability. Otherwise, profits and losses previously recognized in equity are charged to income in the same period in which the hedged transaction affects net income.

At inception, 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 and 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 was designated.

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

2. **Summary of Significant Accounting Policies**, continued

g) Inventory

Inventory consists primarily of handsets and accessories, which are valued at the lesser of weighted average cost or net realizable value.

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

Obsolescence is determined based on rotation of equipment and accessories.

h) 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 costs 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. Accordingly a rate of 12% was used in 2011 and 2010, and no impairment adjustments were made.

i) 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.

Leased assets for which the significant risks and rewards of ownership are transferred to the Company are considered finance leases. At inception 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 December 31, 2011 and 2010 no embedded leases were identified.

2. **Summary of Significant Accounting Policies**, continued

j) Income taxes

The income tax expense for each period includes current and deferred income taxes.

Tax assets and liabilities for the current and prior periods are measured at the amount the Company estimates it will recover or pay to tax authorities. Tax rates and regulations used to calculate these amounts are those in force as of each year-end (20% for 2011 and 17% for 2010).

Deferred taxes are calculated based on an analysis of the temporary differences that arise from differences between the tax and book value of assets and liabilities. These differences correspond primarily to the allowance for doubtful accounts, allowance for obsolescence, deferred income, depreciation of property, plant and equipment and tax losses.

In accordance with Chilean tax laws, a tax loss from prior periods can be used in future as a tax benefit with no time restraints.

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 taxes payable or recoverable in future periods based on current tax rates as a result of temporary differences as of the end of the current period.

Deferred tax assets and liabilities are not discounted to present value and are classified as non-current.

k) Investment in associates

These investments are initially recorded at cost and their book value is subsequently adjusted based on the Company's interest in the associate's net income for each reporting period. If the associate records gains or losses directly in net equity, the Company also recognizes its corresponding portion of these items.

The investment that the Company has in Telefónica Chile Servicios Corporativos Limitada on which it exercises significant influence without exercising control, is recorded using the equity method (see Note 17).

As of December 31, 2011 and 2010, the investment in Buenaventura S.A. has negative shareholders' equity and, therefore the investment was valued at one Chilean peso for control purposes.

l) Goodwill

Goodwill consists of the difference between the purchase value of the shares of Telefónica Móviles Chile S.A. and the equity value of that investment as of the purchase date, as a result of the merger by incorporation of TEM Inversiones Chile Limitada.

The Company performs impairment testing on goodwill on a yearly basis. Impairment tests, which are based on fair value, are conducted at a reporting unit level. If that fair value is less than the net book value, an irreversible impairment loss is recognized in the income statement.

2. Summary of Significant Accounting Policies, continued

m) Intangibles

i) Concession licenses

Concession licenses consist of the cost incurred to obtain mobile telephone public service concessions. They are presented at purchase cost less accumulated amortization and any accumulated impairment losses that may exist.

The Company amortizes these licenses over the concession period (30 years from publication in the Official Gazette of the decrees confirming the respective licenses, which occurred in December 2003).

ii) Software licenses

Software licenses are recorded at purchase or production cost less accumulated amortization and any accumulated impairment losses.

These licenses are amortized on a straight-line basis over their estimated useful lives which do not exceed 3 years. As of the balance sheet date the Company analyzes if any events or changes exist to indicate that the net carrying amount may not be recoverable, in which case impairment testing is performed.

The amortization methods and periods used are reviewed at each period end and, if appropriate, are adjusted prospectively.

The Company amortizes these software licenses using the straight-line method over the period 3 years.

n) Property, plant and equipment

Property, plant and equipment items are measured at purchase cost, less accumulated depreciation and any possible impairment losses. Land is not depreciated.

Acquisition cost includes external costs plus indirect costs necessary to carry out the investment. Work in progress includes the cost of labor originated during the construction stage. The initial cost also includes the future estimate of dismantling and removal expenses, for which the criteria is applied uniformly and has not changed during the year.

The Company maintains service agreements with customers to which it has leased phones, which are depreciated on a straight-line basis over a period of 14 months.

The Company capitalizes borrowing costs incurred in and directly attributable to the purchase and construction of qualified assets. Qualified assets under the criteria of the Telefónica Group are those that require at least 18 months of preparation for their use or sale. As of December 31, 2011 and 2010, no interest was capitalized.

Costs of improvements that represent an increase in productivity, capacity or efficiency or a longer useful life are capitalized as greater cost for the corresponding asset when they meet the requirements for being recognized as an asset.

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

2. Summary of Significant Accounting Policies, continued

ñ) Depreciation of property, plant and equipment

The Company depreciates Property, plant and equipment from the moment when the assets are in condition to be used, distributing the cost of the assets on a straight-line basis over the respective estimated useful life.

Estimated useful lives are detailed as follows:

Assets	Minimum life or rate	Maximum life or rate
Building	40	40
Network investments	7	15
Leased equipment	1.2	1.2
Office furniture and equipment	10	10
Computer equipment	4	4

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

The Company also applies procedures to evaluate any indications that assets have been impaired. If an asset's carrying amount exceeds its market value or capacity to generate net income, impairment adjustments are charged to income for the period

o) Provisions

i) Employee benefits

Termination benefits:
The Company is obligated to pay staff severance indemnities by virtue of collective negotiation agreements with certain Company executives, which are accrued using the actuarial value of the accrued cost of the benefit method, using the following actuarial variables: annual interest rate of 5.0%, annual turnover rate of 2.4%, annual salary increase of 1.5%, retirement age of 65 years old for men and 60 years old for women. Discount rates are determined by reference to market interest rate curves, which correspond to the average rates used by the market for these actuarial calculations, certified by independent mathematical actuaries registered for these purposes.

Share-based payments:
At the General Shareholders' Meeting held on June 21, 2006, the shareholders approved the Directors' Remuneration Plan (PSP), which has a duration of seven years, with five cycles (or deliveries independent from each other) of three years each, the first beginning on July 1, 2006. At the end of each cycle there is entitlement to receive a certain number of shares of Telefónica, S.A.

The criteria adopted for recording valuating and disclosing these transactions is in accordance with IFRS 2 (seen Note 15d).

Determination of fair value is given by the total number of shares and the fair value per share.

As of December 31, 2011, the variables used to calculate fair value are as follows:

	2008	2009	2010
Number of shares per year	9,401	19,430	13,232
Fair value per share (euros)	8.391	8.41	9.076

2. Summary of Significant Accounting Policies, continued

ii) Provision for dismantling expenses

This corresponds to the cost to be incurred in future to uninstall telecommunications infrastructure once the site lease agreements have expired. This cost, at present value, is recorded as part of the cost of an item of Property, plant and equipment and as a non-current provision for the obligation. The item within Property, plant and equipment is amortized over the average duration of the site lease agreements, which is 15 years. The obligation is recorded by applying the present value of costs method with a 4.4% discount rate.

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.

iv) Employee bonuses

This corresponds to provisions for performance bonuses (goal achievement bonuses) given to personnel

p) Revenue and expenses

Revenues and costs are recognized on an accrual basis, (i.e. when the right to receive or the obligation to pay arises). The moment when goods are delivered or received and services are provided is considered for these purposes, regardless of the timing of the cash flow receivable or payable (in advance, simultaneous or with credit).

The Company's revenue is derived primarily from providing mobile telecommunications services and is recognized to the extent that it is likely that economic benefits will flow to the Company and can be reliably measured. For the purpose of measuring and estimating telephone services provided but not yet invoiced as well as measuring revenue received in advance, the Company uses computer systems and processes to tally, validate and apply rates to airtime used and under contract by customers using records from various commutation centers.

Services provided but not yet invoiced are determined based on contracts, traffic, prices and conditions in force during the period. Amounts for this concept are presented within "trade and other receivables, net, current".

Revenue from the sale of prepaid cards is recognized in the month in which the traffic is used or the card expires, whichever occurs first. Deferred income is included in current liabilities.

Revenue from new phone plans is deferred over a period of 14 months from the signing of the lease agreement.

Revenue from traffic included in the sale of prepaid phones is recognized once minutes are consumed.

Revenue from the sale of prepaid handsets is recognized once they are activated. All expenses related to these mixed commercial offers are charged to income as incurred.

q) Significant accounting judgments, estimates and assumptions

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.

2. **Summary of Significant Accounting Policies**, continued

q) Significant accounting judgments, estimates and assumptions, continued

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 uses for assets. Hypotheses regarding technological framework and its future development imply a significant degree of judgment, as the timing and nature of future technological changes 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.

iv) Revenue 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 revenue recognition criteria in each case. Total revenues from the package are distributed among the identified elements based on their respective fair values.

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

A change in relative fair value estimates could affect distribution of revenues among components and, consequently, could affect income for future periods.

v) Employee benefits

The current value of obligations for staff severance indemnities is determined using actuarial evaluations. Actuarial evaluations involve making assumptions about discount rates, future salary increases, mortality rates and future pension increases. All those assumptions are reviewed at each reporting date.

2. **Summary of Significant Accounting Policies**, continued

q) **Significant accounting judgments, estimates and assumptions**, continued

vi) **Financial assets and liabilities**

When the book value of financial assets and liabilities recorded in the balance sheet cannot be derived from active markets, it is determined using valuation techniques including the discounted cash flows model. Entries to these models are taken from observable markets when possible, but when it is not possible to do so, a certain degree of judgment is necessary to establish fair values. Determination includes consideration of aspects such as liquidity risk, credit risk and volatility. Changes in assumptions regarding these factors might affect the regular value of the financial instrument.

r) **Consolidation methods**

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

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

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

The value of the participation of minority 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.

2. Summary of Significant Accounting Policies, continued

s) New IFRS and Interpretations of the IFRS Interpretations Committee

IFRS improvements and amendments, as well as interpretations that have been published during the year 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 7	Financial Instruments: Disclosure	1 de enero de 2013
IFRS 9	Financial instruments	1 de enero de 2013
IFRS 10	Consolidated Financial Statements	1 de enero de 2013
IFRS 11	Joint Agreements	1 de enero de 2013
IFRS 12	Disclosure of Participation in other Entities	1 de enero de 2013
IFRS 13	Fair-value Measurement	1 de enero de 2013
IAS 12	Income Taxes	1 de enero 2012
IAS 1	Financial Statement Presentation	1 de julio 2012
IAS 19	Employee Benefits	1 de enero 2013
IAS 27	Separate Financial Statements	1 de enero 2013
IAS 28	Investments in associates and joint ventures	1 de enero 2013

IFRS 7 "Financial Instruments: Information to be Disclosed"
An IFRS 7 amendment was issued in December 2011 which requires that entities disclose in their financial information the effects or possible effects of compensation agreements on financial instruments on the entity's financial position. The note is applicable as of January 1, 2013.

IFRS 9 – Financial instruments
This Standard introduces new requirements for the classification and measurement of financial assets, allowing early application. 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, 2013. Early adoption is allowed for 2011 financial statements.

IFRS 10 "Consolidated Financial Statements"
This standard replaces the portion of IAS 27 Separate and Consolidated Financial Statements that deals with accounting for consolidated financial statements. In addition includes matters occurring in SIC 12 Special Purpose Entities. IFRS 10 establishes a single control model that is applicable to all entities (including special purpose entities, or structured entities). The changes introduced by IFRS 10 will place significant demands on management to exercise professional judgment to determine which entity is controlled and must be consolidated, in comparison with the requirements of IAS 27.

2. <u>Summary of Significant Accounting Policies</u>, continued

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

IFRS 11 "Joint Agreements"

IFRS 11 replaces IAS 31 Participation in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contribution of Participants. IFRS 11 uses certain terms used in IAS 31, but with different meanings. While IAS 31 identifies 3 forms of joint ventures, IFRS 11 speaks of only 2 forms of joint agreements (joint ventures and joint operations) when there is joint control. Because IFRS 11 uses the principle of control of IFRS 10 to identify control, the determination as to whether there is joint control can change. In addition IFRS 11 removes the option to account for joint control entities (JCEs) using proportional consolidation. JECs, which fulfill the definition of joint ventures, must be accounted for using the equity method. For joint operations, which include jointly controlled assets, initial joint operations (former jointly controlled operations) and initial joint control entities (JCEs), an entity recognizes the assets, liabilities, income and expenses involved in its existence.

IFRS 12 "Disclosure of Participation in other Entities"

IFRS 12 includes all disclosures that were previously in IAS 27 related to consolidation, as well as all disclosures previously included in IAS 31 and IAS 28. These disclosures refer to the participation in an entity's related companies, joint agreements, associates and structured entities. A number of new disclosures are also required.

IFRS 13 "Fair-value Measurement"

IFRS 13 establishes a single source of guidance on the manner of measuring fair value, when it is required or permitted by IF RS. It does not change when an entity must use fair value. The standard changes the definition of fair value – Fair Value: the price that could have been received when selling an assets or the price that could be paid when liquidating a liability in a habitual transaction between market participants on the valuation date (exit price). In addition incorporates certain new disclosures.

IAS 12 "Income Taxes"

IAS12 introduces a refutable assumption that deferred taxes on investments in properties measured at fair value shall be recognized on a sales basis, unless the entity has a business model that can indicate that the investment in properties shall be consumed during the business. If consumed, a consumption basis must be adopted. In addition the improvement introduces the requirement that deferred taxes on non-depreciable assets measured using the revaluation model in IAS 16 must always be measured on the basis of sales. Its application is mandatory for annual periods beginning on or after July 2012.

IAS 1 "Financial Statement Presentation"

Amendments to IAS 1 are related to the presentation of Other Comprehensive Income items, providing the option to present income for the period and comprehensive income in a single section or separately. In addition it modifies paragraphs referring to information to be presented for income for the period and other comprehensive income. All the above implies making the respective amendments to other standards that are affected by this improvement: IFRS 1 First-time Adoption of International Financial Reporting Standards modifies paragraph 21 and adds 39k; IFRS 5 Non-current Assets Held for Sale and Discontinued Operations modifies paragraph 33A and adds 44I; IFRS 7 Financial Instruments: Information to be Disclosed modifies

2. **Summary of Significant Accounting Policies**, continued

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

IAS 1 "Financial Statement Presentation", continued

paragraph 27B and adds 44Q; IAS 12 Income Tax modifies paragraph 77, eliminates 77A and adds 98B; IAS 20 Accounting for Government Grants and Information to be Disclosed on Governmental Assistance modifies paragraph 29, eliminates 29A and adds 46; IAS 21 Effects of Variations in Foreign Currency Exchange Rates modifies paragraph 39 and adds 60H; IAS 32 Financial Instruments: Presentation modifies paragraph 40 and adds 97K; IAS 33 Earnings per Share modifies paragraphs 4A, 67A, 68A and 73A and adds 74D; IAS 34 Interim Financial Information modifies paragraphs 8, 8A, 11A and 20 and adds 51. The application of these amendments is mandatory for annual periods commencing as of July 1, 2012. Early application is allowed and must be disclosed.

IAS 19 "Employee Benefits"

On June 16, 2011, the IASB published amendments to IAS 19, Employee Benefits, which change the accounting for defined benefits plans and termination benefits. Amendments require recognition of changes in the defined benefits obligation and in plan assets when these changes occur, eliminating the corridor focus and accelerating recognition of past service costs. Changes in the defined benefits obligation and plan assets are broken down into three components: cost of service, net interest on net defined benefit liabilities (assets) and re measuring defined benefit net liabilities (assets). Net interest is calculated using a rate of return for high quality corporate bonds. This could be less than the rate currently used to calculate the expected return on plan assets, resulting in a decrease in net income for the year. Amendments are effective for annual periods commencing on or after January 1, 2013, and early application is allowed. Retrospective application is mandatory, with certain exceptions.

The Company is evaluating the impact that the new standards could have on the financial statements.

3. **Changes in Accounting Policy and Disclosures**

a) Accounting changes:

During the years covered by these financial statements, accounting policies have been consistently applied.

b) Changes in estimates:

During the years covered by these financial statements, the Company has made no changes in estimates that could affect the comparison between each financial statement.

4. Financial Information by Segment

Telefónica Móviles Chile S.A. discloses segment information in accordance with IFRS 8, "Operating Segments" which establishes the standards for reporting on operating segments and related disclosures for products and services and geographic areas. Operating segments are defined as components of an entity for which discrete financial information is available and is regularly reviewed by the Company's chief operating decision maker to make decisions about resource allocation and assess its performance.

The Company provides mobile telecommunications services in Chile. As established by the Undersecretary of Telecommunications, companies that provide mobile telephone services cannot engage in other activities outside their main line of business. Therefore the Company is in itself a single segment.

There have been no changes in the measurement methods used to determine segment results with respect to the prior period.

5. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

Description	Currency	12.31.2011 ThCh$	12.31.2010 ThCh$
Cash and banks (a)		**9,778,741**	**4,648,258**
	CLP	9,762,641	4,595,858
	USD	8,772	43,862
	EUR	7,328	8,538
Time deposits (b)		**125,989,120**	**125,125,050**
	CLP	125,644,490	124,052,483
	UF	-	1,072,567
	USD	344,630	-
Money market securities ©		**100,173,667**	-
	CLP	100,173,667	-
Repurchase agreements (d)		**-**	**1,500,260**
	CLP	-	1,500,260
Total cash and cash equivalents		**235,941,528**	**131,273,568**
Subtotal by currency	**CLP**	**235,580,798**	**130,148,601**
	USD	**353,402**	**43,862**
	UF	**-**	**1,072,567**
	EUR	**7,328**	**8,538**

5. Cash and Cash Equivalents, continued

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

a) Available balances

This corresponds to balances maintained in cash and bank balances, whose book value equals their fair value.

b) Time deposits

Time deposits maturing in less than 90 days are recorded at fair value and as of December 31, 2011 and 2010 are detailed as follows:

Type of investment	Currency	Principal in original currency (thousands)	Average annual rate %	Average days to maturity	Principal in local currency	Accrued interest in local currency	Foreign currency translation local currency	Total as of 12.31.2011
					ThCh$	ThCh$	ThCh$	ThCh$
Time deposit	CLP	125,388,000	5.78%	26	125,388,000	256,490	-	125,644,490
Time deposit	USD	663.41	10.80%	27	337,455	189	6,986	344,630
Totales					**125,725,455**	**256,679**	**6,986**	**125,989,120**

Type of investment	Currency	Principal in original currency (thousands)	Average annual rate %	Average days to maturity	Principal in local currency	Foreign currency translation local currency	Accrued interest in local currency	Total as of 12.31.2010
					ThCh$	ThCh$	ThCh$	ThCh$
Time deposit	CLP	123,681,260	0.30%	33	123,681,260	371,223	-	124,052,483
Time deposit	UF	49,761.86	2.36%	73	1,063,377	9,190	-	1,072,567
Totales					**124,744,637**	**380,413**	**-**	**125,125,050**

c) Money market securities

Type of investment	Currency	Principal in original currency (thousands)	Average annual rate %	Average days to maturity	Principal in local currency	Accrued interest in local currency	Foreign currency translation local currency	Total as of 12.31.2011
					ThCh$	ThCh$	ThCh$	ThCh$
Instrumentos financieros de fácil liquidación	CLP	100,000,000	6.58%	30	100,000,000	173,667	-	100,173,667
Totales					**100,000,000**	**173,667**	**-**	**100,173,667**

5. Cash and Cash Equivalents, continued

d) Repurchase agreements

Investments in instruments with repurchase agreements maturing in 90 days are recorded at fair value. As of December 31, 2011 the Company did not record balances for these transactions.

For December 31, 2010 is detailed as follows:

	Dates							Identification	
Code	Beginning	Ending	Counterparty	Original currency	Subscription value	Annual rate	Final value	of instruments	Book value ThCh$ 12.31.2010
					ThCh$	%	ThCh$		
CRV	29-Dic-10	04-Ene-11	BANCO DE CREDITO E INVERSIONES	CLP	1,500,000	3,12%	1,500,780	PDBC050309	1,500,260
			Totales		**1,500,000**		**1,500,780**		**1,500,260**

6. Trade and Other Accounts Receivable and Non-current Rights Receivable

a) Current accounts receivable are detailed as follows:

Description	12.31.2011			12.31.2011			12.31.2010		
	Current			Non-current			Current		
	Gross value ThCh$	All. f/doubt. accts. ThCh$	Net value ThCh$	Gross value ThCh$	All. f/doubt. accts. ThCh$	Net value ThCh$	Gross value ThCh$	All. f/doubt. accts. ThCh$	Net value ThCh$
Trade A/R	197,165,702	(59,579,950)	137,585,752	-	-	-	176,276,973	(48,023,155)	128,253,818
Misc. Receivables (1)	49,300,765	-	49,300,765	96,063	-	96,063	21,863,958	-	21,863,958
Total	**246,466,467**	**(59,579,950)**	**186,886,517**	**96,063**	-	**96,063**	**198,140,931**	**(48,023,155)**	**150,117,776**

(1) As of December 31, 2011, this heading shows an amount of ThCh$49,153,717 corresponding to the account receivable from ATC arising from Fondo de Inversión Privado Infraestructura Uno, generated by the sale of Operadora de Torres de Telefonía Limitada.

b) The following table details movements in allowance for doubtful accounts:

Movements	12.31.2011 ThCh$	12.31.2010 ThCh$
Beginning balance	**48,023,155**	**36,810,903**
Increases	33,327,235	35,107,637
Eliminations/ Additions	(21,770,440)	(23,895,385)
Ending balance	**59,579,950**	**48,023,155**

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

Description	12.31.2011					12.31.2010				
	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
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Trade A/R	2,603,792	-	-	-	2,603,792	6,221,801	-	-	-	6,221,801
Total	**2,603,792**	-	-	-	**2,603,792**	**6,221,801**	-	-	-	**6,221,801**

7. Related Party Disclosures

a) Current notes and accounts receivable:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	12.31.2011 ThCh$	12.31.2010 ThCh$
TELEFONICA CHILE S.A.	90.635.000-9	Chile	Common shareholder	Prest. Servicios	CLP	10,094,414	7,851,350
TELEFONICA LARGA DISTANCIA S.A.	96.672.160-K	Chile	Common shareholder	Prest. Servicios	CLP	585,414	608,619
TELEFONICA MOVILES ESPAÑA, S.A.	0-E	Spain	Common shareholder	Prest. Servicios	EUR	451,541	792,321
TELEFONICA GESTION SERVICIOS COMPARTIDOS CHILE S.A.	96.961.230-5	Chile	Common shareholder	Prest. Servicios	CLP	205,805	87,276
TELEFONICA MOVILES ARGENTINA, S.A.	0-E	Argentina	Common shareholder	Prest. Servicios	USD	203,627	164,122
TELEFONICA MOVILES VENEZUELA	0-E	Venezuela	Common shareholder	Prest. Servicios	USD	147,891	151,480
O2 (UK) (ANTES VP COMMUNIC)	0-E	Inglaterra	Common shareholder	Prest. Servicios	USD	116,439	210,591
TELEFONICA INTERNATIONAL WHOLESALE SERVICES CHILE S.A.	96.910.730.-9	Chile	Common shareholder	Prest. Servicios	CLP	112,545	-
TELEFONICA MOVILES SAO PAULO	0-E	Brasil	Common shareholder	Prest. Servicios	USD	63,274	51,919
INSTITUTO TELEFONICA CHILE S.A.	96.811.570-7	Chile	Common shareholder	Prest. Servicios	CLP	46,123	5,787
TELEFONICA INTERNACIONAL, S.A.	0-E	Spain	Shareholder	Prest. Servicios	EUR	43,884	38,023
VIVO, S.A.	0-E	Brasil	Common shareholder	Prest. Servicios	USD	42,360	50,676
ATENTO CHILE S.A.	96.895.220-K	Chile	Common shareholder	Prest. Servicios	CLP	20,263	16,637
TELEFONICA MOVILES PERU, S.A.	0-E	Peru	Common shareholder	Prest. Servicios	USD	13,708	11,889
TELEFONICA MOVILES COLOMBIA	0-E	Colombia	Common shareholder	Prest. Servicios	USD	13,241	10,608
FUNDACION TELEFONICA CHILE	74.944.200-K	Chile	Common shareholder	Prest. Servicios	CLP	11,627	-
TELEFONICA MOVILES URUGUAY HOLD	0-E	Uruguay	Common shareholder	Prest. Servicios	USD	8,584	6,854
TELEFONICA MOVILES SOLUCIONES Y APLICACIONES S.A.	96.990.810-7	Chile	Common shareholder	Prest. Servicios	CLP	7,686	7,442
TELEFONICA MOVILES PANAMA	0-E	Panama	Common shareholder	Prest. Servicios	USD	5,774	4,459
TELEFONICA MOVILES MEXICO, S.A. DE C.V.	0-E	Mexico	Common shareholder	Prest. Servicios	USD	5,686	261,664
OTECEL, S.A. ECUADOR	0-E	Ecuador	Common shareholder	Prest. Servicios	USD	5,268	4,647
TERRA NETWORKS CHILE S.A.	96.834.230-4	Chile	Common shareholder	Prest. Servicios	CLP	3,157	6,651
O2 GERMANY GMBH & CO OHG	0-E	Germany	Common shareholder	Prest. Servicios	USD	2,361	12,880
TELEFONICA INGENIERIA SEGURIDAD S.A.	59.083.900-0	Chile	Common shareholder	Prest. Servicios	CLP	1,743	1,856
VIVO BRASIL COMUNICACIONES	0-E	Brazil	Common shareholder	Prest. Servicios	USD	1,402	1,186
TELEFONICA MOVILES GUATEMALA	0-E	Guatemala	Common shareholder	Prest. Servicios	USD	1,116	-
TELEFONICA MOVILES NICARAGUA, S.A.	0-E	Nicaragua	Common shareholder	Prest. Servicios	USD	769	616
MANX TELECOM LTD	0-E	England	Common shareholder	Prest. Servicios	USD	551	1,239
TELEFONICA MOVILES EL SALVADOR, S.A.	0-E	El Salvador	Common shareholder	Prest. Servicios	USD	280	4,853
INVERSIONES TELEFONICA MOVILES HOLDING LTDA.	76.124.890-1	Chile	Common shareholder	Prest. Servicios	EUR	-	67,000
TELEFONICA, S.A.	0-E	Spain	Shareholder	Prest. Servicios	EUR	-	10,535
O2 COMMUNICATIONS (IRELAND) LTD.	0-E	Ireland	Common shareholder	Prest. Servicios	USD	-	5,312
TELEFONICA EMPRESAS CHILE S.A. (1)	78.703.410-1	Chile	Common shareholder	Prest. Servicios	CLP	-	2,713,025
TELEFONICA CHILE SERVICIOS CORPORATIVOS LTDA.	76.086.148-0	Chile	Common shareholder	Prest. Servicios	CLP	2,592,604	-
			Common shareholder	Cuenta Corriente Mercantil	CLP	24,545,298	-
TELEFONICA FACTORING CHILE S.A.	76.096.189-2	Chile	Common shareholder	Prest. Servicios	CLP	68,979	-
			Common shareholder	Cuenta Corriente Mercantil	CLP	268,582	7,947,578
Total						**39,691,996**	**21,109,095**

(1) At Extraordinary Shareholders' Meeting held on December 30, 2011, the shareholders approved the merger by incorporation of Telefónica Multimedia S.A. and Telefónica Empresas Chile S.A., with Telefónica Multimedia S.A. as the legal continuer. On the same date they agreed to change the name of the continuer to Telefónica Empresas Chile S.A.

There are no allowances for doubtful accounts or guarantees related to amounts included in outstanding balances.

7. Related Party Disclosures, continued

b) Current notes and accounts receivable:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	12.31.2011 ThCh$	12.31.2010 ThCh$
INVERSIONES TELEFONICA MOVILES HOLDING LTDA.	76.124.890-1	Chile	Common shareholder	Dividendos	EUR	28,782,633	20,689,707
TELEFONICA CHILE SERVICIOS CORPORATIVOS LTDA.	76.086.148-0	Chile	Common shareholder	Prest. Servicios	CLP	21,779,946	-
TELEFONICA CHILE S.A.	90.635.000-9	Chile	Common shareholder	Prest. Servicios	CLP	12,596,675	8,537,034
MIRAFLORES 130 S.A. (1)	76.172.003-1	Chile	Common shareholder	Cuenta Corriente Mercantil	CLP	4,760,000	-
TELEFONICA, S.A.	0-E	Spain	Shareholder	Prest. Servicios	EUR	4,464,682	3,154,938
TELEFONICA EMPRESAS CHILE S.A. (2)	78.703.410-1	Chile	Common shareholder	Prest. Servicios	CLP	4,227,375	3,706,608
TELEFONICA INTERNACIONAL, S.A.	0-E	Spain	Shareholder	Prest. Servicios	EUR	3,710,354	2,386,305
ATENTO CHILE S.A.	96.895.220-K	Chile	Common shareholder	Prest. Servicios	CLP	3,302,292	3,447,055
TELEFONICA LARGA DISTANCIA S.A.	96.672.160-K	Chile	Common shareholder	Prest. Servicios	CLP	2,410,100	2,430,630
TELEFONICA GESTION SERVICIOS COMPARTIDOS CHILE S.A.	96.961.230-5	Chile	Common shareholder	Prest. Servicios	CLP	1,381,828	210,906
TELEFONICA MOVILES SOLUCIONES Y APLICACIONES S.A.	96.990.810-7	Chile	Common shareholder	Prest. Servicios	CLP	1,291,207	569,863
TELEATENTO DEL PERU S.A.C.	0-E	Peru	Common shareholder	Prest. Servicios	USD	526,741	307,459
TELEFONICA INGENIERIA SEGURIDAD S.A.	59.083.900-0	Chile	Common shareholder	Prest. Servicios	CLP	466,825	286,934
TELEFONICA INTERNATIONAL WHOLESALE SERVICES CHILE S.A.	96.910.730.-9	Chile	Common shareholder	Prest. Servicios	CLP	388,209	176,768
TELEFONICA MOVILES ESPAÑA, S.A.	0-E	Spain	Common shareholder	Prest. Servicios	EUR	377,663	346,591
TELEFONICA MOVILES PERU, S.A.	0-E	Peru	Common shareholder	Prest. Servicios	USD	145,179	53,951
TELEFONICA MOVILES ARGENTINA, S.A.	0-E	Argentina	Common shareholder	Prest. Servicios	USD	124,754	100,552
TELEFONICA MOVILES SAO PAULO	0-E	Brasil	Common shareholder	Prest. Servicios	USD	80,000	80,000
TERRA NETWORKS CHILE S.A.	96.834.230-4	Chile	Common shareholder	Prest. Servicios	CLP	75,172	166,953
TELEFONICA INVESTIGACION Y DESARROLLO, S.A.	0-E	Spain	Common shareholder	Prest. Servicios	EUR	63,403	15,373
INSTITUTO TELEFONICA CHILE S.A.	96.811.570-7	Chile	Common shareholder	Prest. Servicios	CLP	61,128	291,193
VIVO, S.A.	0-E	Brazil	Common shareholder	Prest. Servicios	USD	40,777	28,163
TELEFONICA MOVILES MEXICO, S.A. DE C.V.	0-E	México	Common shareholder	Prest. Servicios	USD	29,438	9,402
O2 COMMUNICATIONS (IRELAND) LTD.	0-E	Ireland	Common shareholder	Prest. Servicios	USD	20,259	762
TELEFONICA MOVILES URUGUAY HOLD	0-E	Uruguay	Common shareholder	Prest. Servicios	USD	15,009	9,120
TELEFONICA INTERNATIONAL WHOLESALE S.L. UNIPERSONAL	0-E	Spain	Common shareholder	Prest. Servicios	EUR	14,174	12,765
TELEFONICA MOVILES COLOMBIA	0-E	Colombia	Common shareholder	Prest. Servicios	USD	13,137	13,265
OTECEL, S.A. ECUADOR	0-E	Ecuador	Common shareholder	Prest. Servicios	USD	9,560	6,717
O2 GERMANY GMBH & CO OHG	0-E	Germany	Common shareholder	Prest. Servicios	USD	9,198	12,055
TELEFONICA MOVILES VENEZUELA	0-E	Venezuela	Common shareholder	Prest. Servicios	USD	7,962	14,415
FUNDACIÓN TELEFÓNICA CHILE	74.944.200-K	Chile	Common shareholder	Prest. Servicios	CLP	6,786	-
TELEFONICA MOVILES PANAMA	0-E	Panama	Common shareholder	Prest. Servicios	USD	3,665	3,652
MANX TELECOM LTD	0-E	England	Common shareholder	Prest. Servicios	USD	838	209
TELEFONICA MOVILES GUATEMALA	0-E	Guatemala	Common shareholder	Prest. Servicios	USD	458	458
TELEFONICA MOVILES EL SALVADOR, S.A.	0-E	El Salvador	Common shareholder	Prest. Servicios	USD	193	242
TELEFONICA MOVILES NICARAGUA, S.A.	0-E	Nicaragua	Common shareholder	Prest. Servicios	USD	63	71
TELEFONICA GLOBAL TECHNOLOGY S.A.U.	0-E	Spain	Common shareholder	Prest. Servicios	EUR	-	712,113
Total						**91,187,683**	**47,782,229**

(1) The Extraordinary Shareholders' Meeting held on September 15, 2011 approved the division of Telefónica Móviles Chile S.A. thus originating Miraflores 130 S.A..

(2) At Extraordinary Shareholders' Meeting held on December 30, 2011, the shareholders approved the merger by incorporation of Telefónica Multimedia S.A. and Telefónica Empresas Chile S.A., with Telefónica Multimedia S.A. as the legal continuer. On the same date they agreed to change the name of the continuer to Telefónica Empresas Chile S.A.

7. **Related Party Disclosures**, continued

c) Transactions:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	12.31.2011 ThCh$	12.31.2012 ThCh$
TELEFONICA INGENIERIA SEGURIDAD S.A.	59.083.900-0	Chile	Common shareholder	Sales	16,259	2,494
	59.083.900-0	Chile	Common shareholder	Costs	(423,245)	(353,890)
TELEFONICA MOVILES ESPAÑA, S.A.	0-E	Spain	Common shareholder	Sales	945,582	1,772,226
	0-E	Spain	Common shareholder	Costs	(1,003,546)	(1,000,444)
TELEFONICA INTERNACIONAL, S.A.	0-E	Spain	Shareholder	Sales	43,884	-
	0-E	Spain	Shareholder	Costs	(3,807,790)	-
TELEFONICA CHILE S.A.	90.635.000-9	Chile	Common shareholder	Sales	37,830,295	28,063,941
	90.635.000-9	Chile	Common shareholder	Costs	(28,332,197)	(26,870,329)
TELEFONICA MOVILES EL SALVADOR, S.A.	0-E	El Salvador	Common shareholder	Sales	1,171	3,137
	0-E	El Salvador	Common shareholder	Costs	(855)	(2,152)
TELEFONICA, S.A.	0-E	Spain	Shareholder	Costs	(15,527,888)	(608,320)
TELEFONICA GLOBAL TECHNOLOGY S.A.U.	0-E	Spain	Common shareholder	Costs	(1,007,638)	(10,853,141)
ATENTO CHILE S.A.	96.895.220-K	Chile	Common shareholder	Sales	214,774	153,417
	96.895.220-K	Chile	Common shareholder	Costs	(11,653,256)	(7,610,360)
FUNDACION TELEFONICA CHILE	74.944.200-K	Chile	Common shareholder	Sales	1,138	-
TERRA NETWORKS CHILE S.A.	96.834.230-4	Chile	Common shareholder	Sales	36,630	40,386
	96.834.230-4	Chile	Common shareholder	Costs	(1,150,231)	(427,455)
TELEFONICA MOVILES ARGENTINA, S.A.	0-E	Argentina	Common shareholder	Sales	1,186,420	377,997
	0-E	Argentina	Common shareholder	Costs	(926,571)	(590,323)
TELEFONICA LARGA DISTANCIA S.A.	96.672.160-K	Chile	Common shareholder	Sales	3,293,278	3,541,883
	96.672.160-K	Chile	Common shareholder	Costs	(10,410,993)	(10,538,508)
TELEFONICA EMPRESAS CHILE S.A. (1)	78.703.410-1	Chile	Common shareholder	Sales	3,430,144	3,345,170
	78.703.410-1	Chile	Common shareholder	Costs	(4,320,905)	(564,634)
OTECEL, S.A. ECUADOR	0-E	Ecuador	Common shareholder	Sales	36,234	36,784
	0-E	Ecuador	Common shareholder	Costs	(56,336)	(41,248)
TELEFONICA GLOBAL APLLICATIONS	0-E	Spain	Common shareholder	Costs	(240,851)	-
TELEFONICA ARGENTINA, S.A.	0-E	Argentina	Common shareholder	Costs	(68,941)	-
TELEFONICA GESTION SERVICIOS COMPARTIDOS CHILE S.A.	96.961.230-5	Chile	Common shareholder	Sales	335,297	83,379
	96.961.230-5	Chile	Common shareholder	Costs	(1,476,662)	(1,176,467)
INSTITUTO TELEFONICA CHILE S.A.	96.811.570-7	Chile	Common shareholder	Sales	37,208	7,822
	96.811.570-7	Chile	Common shareholder	Costs	(92,170)	(211,517)
TELEFONICA FACTORING CHILE S.A.	76.096.189-2	Chile	Common shareholder	Financial income	65,148	52,578
	76.096.189-2	Chile	Common shareholder	Costs	-	(182,524)
TELEFONICA CHILE SERVICIOS CORPORATIVOS LTDA.	76.086.148-0	Chile	Common shareholder	Sales	840,015	-
	76.086.148-0	Chile	Common shareholder	Costs	(33,434,648)	-
	76.086.148-0	Chile	Common shareholder	Financial income	720,098	-
TELEFONICA MOVILES SOLUCIONES Y APLICACIONES S.A.	96.990.810-7	Chile	Common shareholder	Sales	109,939	46,602
	96.990.810-7	Chile	Common shareholder	Costs	(1,359,514)	(907,729)
TELEFONICA MOVILES MEXICO, S.A. DE C.V.	0-E	Mexico	Common shareholder	Sales	15,857	1,003,403
	0-E	Mexico	Common shareholder	Costs	(59,878)	(45,407)
TELEFONICA MOVILES URUGUAY HOLD	0-E	Uruguay	Common shareholder	Sales	50,174	41,535
	0-E	Uruguay	Common shareholder	Costs	(75,049)	(73,978)
TELEFONICA MOVILES PANAMA	0-E	Panama	Common shareholder	Sales	19,525	14,453
	0-E	Panama	Common shareholder	Costs	(14,933)	(14,159)
TELEFONICA MOVILES GUATEMALA	0-E	Guatemala	Common shareholder	Sales	5,132	6,934
	0-E	Guatemala	Common shareholder	Costs	(947)	(2,670)
TELEFONICA MOVILES VENEZUELA	0-E	Venezuela	Common shareholder	Sales	31,770	28,328
	0-E	Venezuela	Common shareholder	Costs	(19,054)	(24,003)
TELEFONICA MOVILES COLOMBIA	0-E	Colombia	Common shareholder	Sales	354,897	34,165
	0-E	Colombia	Common shareholder	Costs	(377,266)	(66,705)
TELEFONICA MOVILES PERU, S.A.	0-E	Peru	Common shareholder	Sales	66,361	1,002,461
	0-E	Peru	Common shareholder	Costs	(585,396)	(291,102)
TELEFONICA MOVILES NICARAGUA, S.A.	0-E	Nicaragua	Common shareholder	Sales	1,287	4,356
	0-E	Nicaragua	Common shareholder	Costs	(895)	(898)
VIVO, S.A.	0-E	Brazil	Common shareholder	Sales	194,845	195,181
	0-E	Brazil	Common shareholder	Costs	(150,067)	(135,023)
O2 COMMUNICATIONS (IRELAND) LTD.	0-E	Ireland	Common shareholder	Sales	5,195	63,977
	0-E	Ireland	Common shareholder	Costs	(1,728)	-
O2 GERMANY GMBH & CO OHG	0-E	Germany	Common shareholder	Sales	39,336	38,755
	0-E	Germany	Common shareholder	Costs	(105,921)	(98,033)
MANX TELECOM LTD	0-E	England	Common shareholder	Sales	2,130	2,441
	0-E	England	Common shareholder	Costs	(3,456)	(2,077)
O2 (UK) (ANTES VP COMMUNIC)	0-E	England	Common shareholder	Sales	245,682	395,474
TELEFONICA INTERNATIONAL WHOLESALE SERVICES CHILE S.A.	96.910.730-9	Chile	Common shareholder	Sales	104,646	(413,043)
	96.910.730-9	Chile	Common shareholder	Costs	(544,446)	-
TELEFONICA LEARNING SERVICES	0-E	Spain	Common shareholder	Costs	(705)	-
TELEFONICA SERVICIOS INTEGRALES DE DISTRIBUCION, S.A.U.	0-E	Spain	Common shareholder	Costs	-	(151,594)
TELEFONICA MOVILES ESPAÑA, S.A.U.	0-E	Spain	Common shareholder	Costs	-	(1,767,153)
COLOMBIA TELECOMUNICACIONES, ESP	0-E	Colombia	Common shareholder	Costs	-	(56,830)
TELEATENTO DEL PERU S.A.C.	0-E	Peru	Common shareholder	Costs	(1,362,175)	(726,019)

7. **Related Party Disclosures**, continued

c) Transactions, continued

Title XVI of the Company's Law requires that a Company's transactions with related companies (defined as entities belonging to the same group of companies) are carried out under terms similar to those commonly prevailing in the market.

In company accounts receivable there have been charges and credits to current accounts due to billing on sale of equipment and services.

In the case of sales and services provided, these are due in the short-term (less than one year) and expiry conditions in each case vary on the basis of the transaction that generates them.

On September 23, 2010 the Company signed a mercantile current account agreement with Telefónica Factoring Chile S.A., which establishes remittances in Chilean pesos at a nominal monthly TAB rate (annual base). The agreed-upon term of the mercantile current account and its management expires on December 31, 2012. An extension of the term can be agreed upon for a period of 12 months each.

On March 1, 2011, the Company signed a mercantile current account agreement with Telefónica Chile Servicios Corporativos Limitada, which establishes remittances in Chilean pesos at a nominal monthly TAB Rate (annual base). The agreed-upon term of the mercantile current account and its management is two years. The parties can agree in writing to extend the term of the current account for annual periods, without the need to ultimately liquidate the Current Account.

On December 23, 2011, the Company signed a mercantile current account with Miraflores 130 S.A. which establishes management of cash surpluses, which shall be provided to Telefónica Móviles Chile S.A. for investment, rendering of accounts on the results obtained and eventually the application of resulting net income for the purpose instructed by Miraflores 130 S.A. all for a 0.2% annual commission on the average annual amount of the investment. That mandate is for an indefinite term.

d) Salaries and benefits received by the Company's key personnel.

Description	12.31.2011 ThCh$	12.31.2010 ThCh$
Wages, salaries and bonuses (1)	-	2,808,775
Total	**-**	**2,808,775**

(1) During January 2011, key employees were transferred to Telefónica Chile Servicios Corporativos Limitada.

The Company has a director's remuneration plan, with share-based payment. The amount as of December 31, 2011 and 2010 is ThCh$ 200,465 and ThCh$ 255,900, respectively.

8. Inventory

a) Inventory is detailed as follows:

Description	12.31.2011 ThCh$	12.31.2010 ThCh$
Merchandise	52,521,347	59,383,070
Obsolescence provision	(7,047,467)	(6,039,773)
Total	**45,473,880**	**53,343,297**

As of December 31, 2011 and 2010 there have been no inventory write-offs.

b) Inventory movements are detailed as follows:

Description	12.31.2011 ThCh$	12.31.2010 ThCh$
Beginning balance	53,343,297	46,845,159
Purchases	188,110,739	167,193,331
Sales	(88,181,894)	(64,900,458)
Transfer to materials allocated to the investment	(106,790,568)	(86,969,958)
Obsolescence provision	(1,007,694)	(1,166,560)
Other	-	(7,658,217)
Total	**45,473,880**	**53,343,297**

9. Other Current and Non-current Financial Assets

Other current and non-current financial assets of December 31, 2011 and 2010 are detailed as follows:

	12.31.2011		12.31.2010	
	Current ThCh$	Non-Current ThCh$	Current ThCh$	Non-Current ThCh$
Investment contracts (a)	3,349,418	-	-	-
Exchange rate hedge (b)	3,099,788	10,942,691	211,182	-
Total	**6,449,206**	**10,942,691**	**211,182**	**-**

9. Other Current Financial Assets, continued

a) Financial investments for more than 90 days as of December 31, 2011 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$	Foreign currency translation local currency ThCh$	Total as of 12.31.2011 ThCh$
Time deposit	UF	150,00	5,20%	176	3,340,552	5,313	3,553	3,349,418
Total					**3,340,552**	**5,313**	**3,553**	**3,349,418**

b) Hedge and investment assets as of December 31, 2011 and 2010 are detailed as follows:

Debtor's Taxpayer No.	Debtor	Country of Debtor	Creditor's Taxpayer No.	Creditor	Creditor's country	Currency	Current – Expiration date – Up to 90 days ThCh$	Current – Expiration date – 90 days to 1 year ThCh$	Current – Total current as of 12.31.2011	Non-current – Expirition date – 1 to 3 years ThCh$	Non-current – Expirition date – 3 to 5 years ThCh$	Non-current – Expirition date – 5 years and over ThCh$	Non-current – Total non-current as of 12.31.2011
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.032.000-8	BBVA	Chile	USD	-	2,402,683	2,402,683	-	345,721	-	345,721
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.006.000-6	BCI	Chile	USD	-	60,411	60,411	-	-	-	-
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.004.000-5	BANCO CHILE	Chile	USD	-	-	-	-	3,370,300	-	3,370,300
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.951.000-4	HSBC	Chile	USD	-	9,058	9,058	-	-	-	-
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.018.000-1	SCOTIABANK	Chile	USD	-	216,418	216,418	-	-	-	-
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.036.000-K	BANCO SANTANDER	Chile	USD	-	-	-	-	758,472	-	758,472
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.043.000-8	JP MORGAN	Chile	USD	-	-	-	-	-	-	-
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.030.000-7	BANCO ESTADO	Chile	CLP	-	402,581	402,581	-	-	-	-
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.018.000-1	SCOTIABANK	Chile	CLP	-	8,637	8,637	-	-	-	-
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.032.000-8	BBVA	Chile	UF	-	-	-	-	6,468,198	-	6,468,198
Total derivative instrument assets							**-**	**3,099,788**	**3,099,788**	**-**	**10,942,691**	**-**	**10,942,691**

Debtor's Taxpayer No.	Debtor	Country of Debtor	Creditor's Taxpayer No.	Creditor	Creditor's country	Currency	Expiration date – Up to 90 days ThCh$	Expiration date – 90 days to 1 year ThCh$	Total current as of 12.31.2010
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.032.000-8	BBVA	Chile	USD	322	-	322
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.032.000-8	BBVA	Chile	UF	136,829	-	136,829
87.845.500-2	Telefónica Móviles Chile S.A.	Chile	97.023.000-9	CORPBANCA	Chile	USD	74,031	-	74,031
Total derivative instrument assets							**211,182**	**-**	**211,182**

10. Other current and non-current financial assets

Description	12.31.2011 Current ThCh$	12.31.2011 Non-Current ThCh$	12.31.2010 Current ThCh$	12.31.2010 Non-Current ThCh$
Advance payments (1)	8,032,283	-	10,035,572	-
Deferred handset costs	20,099,786	-	8,755,993	-
Customer guarantees	1,615,563	-	1,582,537	-
Other prepaid expenses (2)	11,901,148	-	12,394,906	-
Other amortizable expenses (3)	-	1,983,081	-	-
Other taxes (4)	554,443	-	445,917	-
Total	**42,203,223**	**1,983,081**	**33,214,925**	**-**

(1) Includes advance payments associated with insurance and rent.
(2) Includes deferred commissions that are paid to franchises for mobile equipment additions and exchanges.
(3) The Company negotiated a collective agreement with some of its employees, granting them, a negotiation termination bonus among other benefits. That bonus is deferred using the straight-line method over the term of the collective agreement.
(4) Includes SENCE credit and other taxes.

11. Income Taxes

a) General information:

As of December 31, 2011 Telefónica Móviles Chile S.A. has First Category taxable net income in the amount of ThCh$50,700,345 for which an income tax accrual was established in the amount of ThCh$ 10,140,069. As of December 31, 2010 the Company did not establish a First Category income tax accrual since as of that date the Company had a tax loss of ThCh$ 38,037,283.

b) Current income tax liabilities

As of December 31, 2011 and 2010, current income tax liabilities are detailed as follows:

Description	12.31.2011 ThCh$	12.31.2010 ThCh$
Income tax accrual (1)	3,778,164	1,291,538
Total	**3,778,164**	**1,291,538**

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

c) Deferred taxes:

As of December 31, 2011 and 2010, the cumulative balances of temporary differences resulted in net deferred tax assets of ThCh$ 15,316,046 and ThCh$ 38,543,422, respectively, detailed as follows:

Description	12.31.2011		12.31.2010	
	Asset ThCh$	Liability ThCh$	Asset ThCh$	Liability ThCh$
Trade and notes receivable	11,312,704	-	9,919,580	-
Obsolescence provision	1,250,925	-	1,162,656	-
Unearned income	4,040,951	-	6,017,342	-
Tax loss	-	-	7,607,457	-
Provision for dismantling expenses	2,010,266	-	-	-
Deferred selling cost and deferred sales commissions	-	5,924,908	-	4,228,345
Property, plant and equipment	25,929,739	24,319,210	40,317,429	22,657,997
Other events	2,138,871	1,123,292	1,803,157	1,397,857
Sub totales	**46,683,456**	**31,367,410**	**66,827,621**	**28,284,199**
Reclasification	**-**	**-**	**(1,111,530)**	**(1,111,530)**
Total	**46,683,456**	**31,367,410**	**65,716,091**	**27,172,669**

11. Income Taxes, continued

d) Income tax reconciliation:

The income tax expense reconciliation as of December 31, 2011 and 2010 are detailed as follows:

Concepts	12.31.2011 Taxable base ThCh$	12.31.2011 20% Tax Rate ThCh$	12.31.2010 Taxable base ThCh$	12.31.2010 17% Tax Rate ThCh$
Based on accounting income before taxes:				
Income before taxes	**196,451,595**	**39,290,319**	**227,820,726**	**38,729,523**
Permanent differences	**(27,213,507)**	**(5,442,701)**	**(61,267,220)**	**(10,415,427)**
Accrued investment income	(1,251,715)	(250,343)	2,820	479
Price-level restatement of taxable equity	(32,140,907)	(6,428,181)	(44,219,369)	(7,517,293)
Others (1)	6,179,115	1,235,823	(17,050,671)	(2,898,613)
Total corporate tax expense	**169,238,088**	**33,847,618**	**166,553,506**	**28,314,096**
Based on taxable net income and deferred taxes calculated on the basis of temporary differences:				
20 and 17% income tax	-	10,140,069	-	-
35% income tax	-	2,543	-	-
Prior years deficit	-	(248)	-	1,291,538
Income tax expense		**10,142,364**		**1,291,538**
Deferred tax expense (2)		**23,705,254**		**27,022,558**
Total corporate tax expense		**33,847,618**		**28,314,096**
Effective income tax rate		**17.23%**		**12.43%**

(1) The variation for this concept is due to absorption of the Company's tax loss carry forward, rate changes and other minor adjustments.
(2) Due to a change in legal regulations for 2011 and 2012, the income tax rate will increase from 17% to 20% and 18.5%, respectively. From 2013 and thereon, it will go back to 17%.

12. Intangible Assets other than goodwill

a) Intangible assets other than goodwill as of December 31, 2011 and 2010 are detailed as follows:

Description	12.31.2011 Intangibles, gross ThCh$	12.31.2011 Accumulated amortization ThCh$	12.31.2011 Intangible, net ThCh$	12.31.2010 Intangibles, gross ThCh$	12.31.2010 Accumulated amortization ThCh$	12.31.2010 Intangible, net ThCh$
Licenses and software	260,562,521	(185,489,843)	75,072,678	232,090,302	(169,327,058)	62,763,244
Total	**260,562,521**	**(185,489,843)**	**75,072,678**	**232,090,302**	**(169,327,058)**	**62,763,244**

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

b) Movements in intangible assets other than goodwill for December 31, 2011 and 2010 are detailed as follows:

Movements	Administrative concessions, net ThCh$	Licenses and software, net ThCh$	Intangibles, net ThCh$
Beginning balance as of 01.01.11	-	**62,763,244**	**62,763,244**
Amortization expense	-	(16,046,889)	(16,046,889)
Other Increase (decrease)	-	28,356,323	28,356,323
Ending balance as of 12.31.2011	-	**75,072,678**	**75,072,678**

Movements	Administrative concessions, net ThCh$	Licenses and software, net ThCh$	Intangibles, net ThCh$
Beginning balance as of 01.01.10	-	**54,246,518**	**54,246,518**
Amortization expense	-	(9,737,482)	(9,737,482)
Other Increase (decrease)	-	18,254,208	18,254,208
Ending balance as of 12.31.2010	-	**62,763,244**	**62,763,244**

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. The financial statements for 2011 and 2010 have not been affected as a result of the impairment tests performed on these assets.

13. **Goodwill**

The balance of goodwil for December 31, 2011 and 2010 are detailed as follows:

Description	12.31.2011 ThCh$	12.31.2010 ThCh$
Telefónica Móviles Chile S.A. (1) (2)	483,179,725	483,179,725
Total	**483,179,725**	**483,179,725**

(1) Corresponds to the difference between the acquisition value of the shares of Telefónica Móviles Chile S.A. and the equity value of that investment as of the purchase date, arising from the merger by incorporation with TEM Inversiones Chile Limitada.

(2) The Company tests goodwill for impairment in an annual manner. The impairment test, which is based on fair-value, is performed at a reporting unit level. If that fair value is less than the net book value, an irreversible impairment loss is recognized in the income statement account.

14. Property, Plant and Equipment

As of December 31, 2011 and 2010 the major categories of Property, plant and equipment and their corresponding accumulated depreciation are detailed as follows:

Movements	12.31.2011			12.31.2010		
	Gross PP&E ThCh$	Accumulated depreciation ThCh$	Net PP&E ThCh$	Gross PP&E ThCh$	Accumulated depreciation ThCh$	Net PP&E ThCh$
Work in progress	40,463,920	-	40,463,920	59,603,651	-	59,603,651
Land	3,829,393	-	3,829,393	3,829,393	-	3,829,393
Buildings (1)	119,453,253	(101,152,789)	18,300,464	127,745,486	(106,347,884)	21,397,602
Plant and equipment	808,279,368	(510,230,285)	298,049,083	928,438,263	(623,563,124)	304,875,139
Information technology equipment	15,929,573	(11,546,168)	4,383,405	21,108,247	(17,659,333)	3,448,914
Fixed installations and accessories	9,874,137	(7,454,633)	2,419,504	8,672,372	(7,495,714)	1,176,658
Vehicles	106,528	(66,747)	39,781	274,331	(125,067)	149,264
Totals	**997,936,172**	**(630,450,622)**	**367,485,550**	**1,149,671,743**	**(755,191,122)**	**394,480,621**

(1) The book value of items received through financial leases as of December 31, 2010 is ThCh$ 3,711,404, presented under the buildings heading. On September 15, 2011 this financial lease was transferred to Miraflores 130 S.A. (See Note 15 a).

(2) On December 12, 2011 telecommunications infrastructure was withdrawn in the amount of ThCh$1,622,720, due to the division of the company in two: Telefónica Móviles Chile S.A. and Operadora de Torres de Telefonía Ltda. (See Note 1).

14. **Property, Plant and Equipment,** continued

Movements of major categories of Property, plant and equipment for December 31, 2011 period are detailed as follows:

Movements	Work in progress	Land	Buildings, net	Plant and equipment, net	Information technology equipment, net	Fixed installations and accessories, net	Vehicles net	Property, plant and equipment, net
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Beginning balance as of 01.01.11	59,603,651	3,829,393	21,397,602	304,875,139	3,448,914	1,176,658	149,264	394,480,621
Additions	180,362,773	-	-	-	-	-	-	180,362,773
Retirements	-	-	(16,863,592)	(273,159,917)	(7,901,838)	(224,957)	(167,803)	(298,318,107)
Acc. Dep. retirements	-	-	13,327,843	271,536,928	7,901,838	224,957	95,051	293,086,617
Depreciation expense	-	-	(6,866,930)	(166,689,825)	(1,788,673)	(171,845)	(36,731)	(175,554,004)
Other Increase (decrease) (1)	(199,502,504)	-	7,305,541	161,486,758	2,723,164	1,414,691	-	(26,572,350)
Ending balance as of 12.31.2011	**40,463,920**	**3,829,393**	**18,300,464**	**298,049,083**	**4,383,405**	**2,419,504**	**39,781**	**367,485,550**

(1) Corresponds to the net movement of transfer of construction in progress to assets in service, transfers to intangible assets in the amount of ThCh$(28,272,966) and transfer due to reclassification of beginning balances (tangible and intangible) for an amount of ThCh$(83,357), increase in tangible value of Site Dismantling Provision in the amount of ThCh$1,780,903 and transfer from equipment held for sale to investment materials in the amount of ThCh$3,070.

Movements of major categories of Property, plant and equipment for December 31, 2010 are detailed as follows:

Movements	Work in progress	Land	Buildings, net	Plant and equipment, net	Information technology equipment, net	Fixed installations and accessories, net	Vehicles net	Propiedad, planta y equipos, net
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Beginning balance as of 01.01.10	47,598,226	10,748,421	60,610,381	250,388,044	1,630,435	1,269,390	185,996	372,430,893
Additions	198,415,853	-	-	-	-	-	-	198,415,853
Retirements	-	-	(504,969)	(67,674,758)	0	0	0	(68,179,727)
Acc. Dep. retirements	-	-	504,969	66,840,115	0	0	0	67,345,084
Depreciation expense	-	-	(39,986,964)	(116,326,086)	(779,863)	(147,629)	(36,732)	(157,277,274)
Other Increase (decrease) (1)	(186,410,428) -	6,919,028	774,185	171,647,824	2,598,342	54,897	-	(18,254,208)
Ending balance as of 12.31.2010	**59,603,651**	**3,829,393**	**21,397,602**	**304,875,139**	**3,448,914**	**1,176,658**	**149,264**	**394,480,621**

(1) Corresponds to net movement of transfers from construction in progress to assets in service, transfer to intangible assets, in the amount of ThCh$(18,254,208).

14. Property, Plant and Equipment, continued

The net amount of Property, plant and equipment items that are temporarily out of service as of December 31, 2011 and 2010 is not significant.

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.

15. Equity

In September 2010, the 66,009,475 own issue shares resulting from the merger indicated in the previous paragraph, were legally decreased, therefore the Company's new capital is ThCh$ 941,101,241.

On September 8, 2009, at an Extraordinary Shareholders' Meeting, the shareholders approved the merger by incorporation of the partners and equity of TEM Inversiones Chile Limitada. Thus, Telefónica Móviles Chile S.A. absorbed TEM Inversiones Chile Limitada, which was dissolved early with no need to liquidate, incorporating the partners and all assets, liabilities and equity leaving the Company as legal successor. The merger involved incorporating the partners of TEM Inversiones Chile Limitada who became shareholders of Telefónica Móviles Chile S.A.

Based on the above, the Company's shareholders are detailed as follows:

Company	Shares
Inversiones Telefónica Móviles Holding Limitada	118,026,144
Telefónica, S.A.	1
Total	118,026,145

The 118,026,145 shares are common, registered, single series shares without par value.

a) Capital:

As of December 31, 2011 and 2010, the Company's paid-in capital is detailed as follows:

Number of shares:

Series	12.31.2011			12.31.2010		
	No. of shares subscribed	No. of paid shares	No. of shares with voting rights	No. of shares subscribed	No. of paid shares	No. of shares with voting rights
SINGLE	118,026,145	118,026,145	118,026,145	118,026,145	118,026,145	118,026,145
Total	**118,026,145**	**118,026,145**	**118,026,145**	**118,026,145**	**118,026,145**	**118,026,145**

15. Shareholders' Equity, continued

a) Capital, continued

Capital:

Serie	12.31.2011 Subscribed capital ThCh$	12.31.2011 Isuued capital ThCh$	12.31.2010 Subscribed capital ThCh$	12.31.2010 Paid capital ThCh$
SINGLE	941,099,241	941,099,241	941,101,241	941,101,241
Total	**941,099,241**	**941,099,241**	**941,101,241**	**941,101,241**

At the Extraordinary Shareholders' Meeting of the company held on September 15, 2011, the shareholders agreed to approve the division of Telefónica Móviles Chile S.A. establishing Miraflores 130 S.A., generating a capital decrease of ThCh$ 1,000 (see Note 1).

At the Extraordinary Shareholders' Meeting of the company held on December 12, 2011, the shareholders approved the division of Telefónica Móviles Chile S.A., establishing Operadora de Torres de Telefonía Ltda., generating a capital decrease of ThCh$ 1,000 (see Note 1).

b) Distribution of shareholders:

In accordance with Circular No. 792 issued by the Superintendency of Securities and Insurance (SVS), the Company's shareholders and their ownership interest as of December 31, 2011 are detailed as follows:

Type of Shareholder	Participation percentage %	Number of shareholders
10% o más de participación	99,999999	1
Menos de 10% de participación:		
Inversión igual o superior a UF 200	0.000000	0
Inversión inferior a UF 200	0,000001	1
Totales	**100.0000000**	**2**
Controlador de la Sociedad	99,999999	1

As of December 31, 2011 and 2010, the direct participation of Inversiones Telefónica Móviles Holding Ltda., in the equity of Telefónica Móviles Chile S.A., reaches 99.999999%.

15. Shareholders' Equity, continued

c) Dividends

i) Dividends policy:

As established in Law 18,046, when it reports net income, the Company must distribute at least 30% of that net income each year as dividends unless otherwise unanimously agreed upon by the shareholders of all issued shares.

As of December 31, 2010 proposed dividends amount to ThCh$ 20,689,707, which were reversed with the approval of the final dividend of Ch$65,000,000 on March 02, 2011.

On December 31, 2011 an interim dividend has been approved in the amount of ThCh$ 28,781,193.

ii) Dividends distributed:

On March 02, 2011, the Board of Directors agreed to distribute an eventual dividend in the amount of ThCh$65,000,000 on March 29, 2011 with a charge to 2010 income.

On July 1, 2011, a Board Meeting was held where the directors agreed to distribute an interim dividend of ThCh$37,000,000 on July 26, 2011, with a charge to 2010 income.

At the Board of Directors Meeting held on December 2, 2011 the directors agreed to distribute an eventual dividend of ThCh$ 50,107,530 with a charge to 2010 income on December 28, 2011 and an interim dividend of ThCh$ 20,000,000 on the same date, but with a charge to 2011 income.

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

Date	Dividend	Amount Distributed ThCh$	Charge to net income	Payment date
02-23-2010	Eventual	50,000,000	Fiscal year 2009	03-23-2010
05-25-2010	Eventual	50,000,000	Fiscal year 2009	06-22-2010
08-10-2010	Eventual	87,000,000	Fiscal year 2009	09-27-2010
11-25-2010	Eventual	85,837,718	Fiscal year 2009	12-27-2010
11-25-2010	Interim	39,162,282	Fiscal year 2010	12-27-2010
11-25-2010	Proposed	20,689,706	Fiscal year 2010	-
03-02-2011	Final	65,000,000	Fiscal year 2010	03-29-2011
07-01-2011	Interim	37,000,000	Fiscal year 2010	07-26-2011
12-02-2011	Eventual	50,107,530	Fiscal year 2011	12-28-2011
12-02-2011	Interim	20,000,000	Fiscal year 2011	12-28-2011
12-31-2011	Interim	28,781,193	Fiscal year 2011	-

15. Shareholders' Equity, continued

d) Other reserves

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

Description	Balance as of 12.31.2010 ThCh$	Net movement ThCh$	Balance as of 12.31.2011 ThCh$
Business combination reserve	(97,886,668)	118	(97,886,550)
Cash flows hedge reserve	(37,577)	981,610	944,033
Employee benefits reserve	256,001	(2,850,524)	(2,594,523)
Revaluation issued capital	(233,685,709)	281	(233,685,428)
Totals	**(331,353,953)**	**(1,868,515)**	**(333,222,468)**

i) Business combination reserve

This reserve corresponds to corporate reorganizations undertaken by the Telefónica Móviles Chile Group in prior periods.

ii) Cash flows hedge reserve

This reserve corresponds to cross currency swap contracts and foreign exchange futures contracts used as hedges.

iii) Employee benefit reserve

This reserve corresponds to the amounts recorded in equity related to the Performance Share Plan (PSP) which lasts seven years with five cycles (or deliveries independent of one another) of three years each, beginning July 1, 2006.

This reserve additionally includes the equity effect generated by the participation in Telefónica Chile Servicios Corporativos Ltda. a subsidiary of Telefónica Chile S.A.

iv) Price-level restatement of issued capital

In accordance with article 10-2 of Law 18,046 and Circular 456 issued by the SVS, price-level restatement of issued capital as of December 31, 2008 must be presented in this account.

e) Non-controlling interests

As of December 31, 2011, the Company has non-controling interests arising from the investment in Telefónica Móviles Chile Inversiones S.A. in the amount of Ch$23.

16. Earnings per Share

Earnings per share are detailed as follows:

Basic earnings per share	12.31.2011 ThCh$	12.31.2010 ThCh$
Earnings attributable to owners of the parent	162,603,977	199,506,630
Profit available for shareholders	162,603,977	199,506,630
Weighted average number of shares	118,026,145	162,032,462
Basic earnings per share in Ch$	**1,377.69**	**1,231.28**

Earnings per share have been calculated by dividing profit for the year 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 potentially dilutive effects on the Company's earnings per share.

17. Other Current and Other Non-current Financial Liabilities

Current and non-current interest bearing loans are detailed as follows:

Description	12.31.2011		12.31.2010	
	Current ThCh$	Non-current ThCh$	Current ThCh$	Non-current ThCh$
Bank loans (a)	31,463,261	110,428,690	107,693,802	30,944,410
Unguaranteed obligations (Bonds) (a)	1,400,943	295,607,540	1,820,104	170,309,977
Hedge liabilities, swap contracts, cross currency (b)	1,095,407	-	1,333,119	13,903,817
Investment in related company reserve (c)	-	1,540,017	-	-
Total	**33,959,611**	**407,576,247**	**110,847,025**	**215,158,204**

17. **Other Current and Non-current Financial Liabilities,** continued

a) **Interest bearing loans**, continued

i) The following table details interest-bearing loans as of December 31, 2011:

Types	Debtor taxpayer No.	Debtor	Debtor Country	Creditor taxpayer No.	Creditor	Country of debtor	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Current			Non-current			
													To Maturity		Total current as of 12.31.2011 ThCh$	To Maturity			Total Non current as of 12.31.2011 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$	
Syndicated Loan (1)	87845500-2	Telefónica Móviles Chile S.A.	Chile	97030000-7	Banco Estado	Chile	CLP	Upon maturity	7,48%	7,03%	MM$ 31.000	2012	31,073,278	-	31,073,278	-	-	-	-
Syndicated Loan (4)	87845500-2	Telefónica Móviles Chile S.A.	Chile	0-E	BBVA BANCOMER	México	US$	Upon maturity	1,48%	1,09%	US$ 70 mm	2016	19,667	-	19,667	-	35,829,063	-	35,829,063
Bilateral Loan (5)	87845500-2	Telefónica Móviles Chile S.A.	Chile	97030000-7	Banco Estado	Chile	CLP	Upon maturity	6,98%	6,79%	MM$ 49.000	2016		268,173	268,173	-	48,703,107	-	48,703,107
Bilateral Loan (6)	87845500-2	Telefónica Móviles Chile S.A.	Chile	9700400-5	Banco Chile	Chile	CLP	Upon maturity	7,43%	7,20%	MM$ 26.000	2014		102,143	102,143	25,896,520	-	-	25,896,520
Total bank loans													**31,092,945**	**370,316**	**31,463,261**	**25,896,520**	**84,532,170**	**-**	**110,428,690**
Series A Bond (2)	87845500-2	Telefónica Móviles Chile S.A.	Chile	97036000-K	Banco Santander	Chile	CLP	Upon maturity	5,62%	5,60%	MM$ 32.000	2014	807,667	-	807,667	31,993,244	-	-	31,993,244
144A Bond (3)	87845500-2	Telefónica Móviles Chile S.A.	Chile	0-E	Bank of New York	USA	US$	Upon maturity	3,23%	2,88%	US$ 300 mm	2015	-	164,537	164,537	-	154,317,657	-	154,317,657
Series C Bond (7)	87845500-2	Telefónica Móviles Chile S.A.	Chile	97036000-K	Banco Santander	Chile	CLP	Upon maturity	6,73%	6,30%	MM$ 66.000	2016	-	312,694	312,694	-	65,069,375	-	65,069,375
Series D Bond (8)	87845500-2	Telefónica Móviles Chile S.A.	Chile	97036000-K	Banco Santander	Chile	U.F.	Upon maturity	3,83%	3,60%	UF 2 mm	2016	-	116,045	116,045	-	44,227,264	-	44,227,264
Total unguaranteed obligations													**807,667**	**593,276**	**1,400,943**	**31,993,244**	**263,614,296**	**-**	**295,607,540**

(1) Becomes due on November 15, 2012. On June 15, 2011, there was a capital amortization of the local syndicated loan in the amount of ThCh$23,000,000

(2) On August 5, 2009, there was a first placement in the local market.

(3) On November 3, 2010, there was a first placement in the foreign market. The Bond characteristics are:

- They are registered, which does not prevent their free transferability to qualifying institutional investors, in accordance with Rule 144 of the Securities Law of the United States of America, or to investors outside the United States, in accordance with Regulation S of the same securities law. They are of a single series maturing on November 9, 2015. The issuance does not consider guarantees, except for the right to general pledge over the assets of the Investee.
- The funds arising from the issuance were destined to refinancing liabilities and to other corporate purposes.

(4) On June 15, 2011, a syndicated loan was entered into with agent bank BBVA Bancomer, in the amount of US$ 70,000,000 for a 5-year term.

(5) On November 24, 2011, a bilateral loan was entered into with Banco Estado, in the amount of MCh$ 49,000 for a 5-year bullet term.

(6) On December 1, 2011, a bilateral loan was entered into with Banco Chile, in the amount of MCh$ 26,000 for a 3-year bullet term.

(7) On November 15, 2011, there was a placement in the local market in the amount of MCh $ 66,000 for a 5-year bullet term.

(8) On November 15, 2011, there was a placement in the local market in the amount of UF 2,000,000 for a 5-year bullet term.

18. Other Current and Non-current Financial Liabilities, continued

a) Interest-bearing loans, continued

ii) The following table details interest-bearing loans as of December 31, 2010:

Types	Debtor taxpayer No.	Debtor	Debtor Country	Creditor taxpayer No.	Creditor	Country of debtor	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Current – To Maturity – Up to 90 days ThCh$	Current – To Maturity – 90 days to 1 years ThCh$	Current – Total current as of 06.30.2011 ThCh$	Non-current – To Maturity – 1 to 3 years ThCh$	Non-current – To Maturity – 3 to 5 years ThCh$	Non-current – To Maturity – 5 years and over ThCh$	Non-current – Total Non current as of 12.31.2011 ThCh$
Syndicated Loan (1)	87845500-2	Telefónica Móviles Chile S.A.	Chile	0-E	Calyon New York Branch	USA	US$	Upon maturity	1.10%	0.87%	US$ 179 mm	2011	84,359,335	23,334,467	107,693,802	-	-	-	-
Syndicated Loan (2)	87845500-2	Telefónica Móviles Chile S.A.	Chile	97030000-7	Banco Estado	Chile	CLP	Upon maturity	3.55%	3.41%	MM$ 54.000	2012	-	-	-	30,944,410	-	-	30,944,410
Total bank loans													**84,359,335**	**23,334,467**	**107,693,802**	**30,944,410**	**-**	**-**	**30,944,410**
Series A Bond (3)	87845500-2	Telefónica Móviles Chile S.A.	Chile	97036000-K	Banco Santander	Chile	CLP	Upon maturity	5.62%	5.60%	MM$ 32.000	2014	811,758	-	811,758	31,985,278	-	-	31,985,278
144A Bond (4)	87845500-2	Telefónica Móviles Chile S.A.	Chile	0-E	Bank of New York	USA	US$	Upon maturity	3.23%	2.88%	US$ 300 mm	2015	-	1,008,346	1,008,346	-	138,324,699	-	138,324,699
Total unguaranteed obligations													**811,758**	**1,008,346**	**1,820,104**	**31,985,278**	**138,324,699**	**-**	**170,309,977**

(1) Becomes due on on January 5, 2011

(2) Becomes due on November 15, 2012. On November 15, 2010, there was a capital amortization of the local syndicated loan in the amount of ThCh$ 23,000,000

(3) On August 5, 2009, there was a first placement in the local market.

(4) On November 3, 2010, there was a first placement on the foreign market.

17. Other Current and Non-current Financial Liabilities, continued

b) As of December 31, 2011 and 2010 hedge and investment liabilities are detailed as follows:

Debtor taxpayer No.	Debtor	Country of debtor	Creditor taxpayer No.	Creditor	Creditor country	Curr.	Current – Maturity – up to 90 days ThCh$	Current – Maturity – 90 days to 1 year ThCh$	Current – Total current as of 12.31.2011 ThCh$
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.032.000-8	BBVA	Chile	CLP	47,661	576,770	624,431
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.006.000-6	BCI	Chile	CLP	-	23,251	23,251
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.004.000-5	BANCO CHILE	Chile	CLP	-	331,397	331,397
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.018.000-1	SCOTIABANK	Chile	CLP	2,359	32,039	34,398
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.036.000-K	BANCO SANTANDER	Chile	CLP	15,892	46,006	61,898
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.043.000-8	JP MORGAN	Chile	CLP	-	20,032	20,032
Total derivative instrument liabilities							**65,912**	**1,029,495**	**1,095,407**

Debtor taxpayer No.	Debtor	Country of debtor	Creditor taxpayer No.	Creditor	Creditor country	Curr.	Current – Maturity – up to 90 days ThCh$	Current – Maturity – 90 days to 1 year ThCh$	Current – Total current as of 12.31.2010 ThCh$	Non-current – Maturity – 1 to 3 years ThCh$	Non-current – Maturity – 3 to 5 years ThCh$	Non-current – Maturity – 5 and over ThCh$	Non-current – Total current as of 12.31.2010 ThCh$
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.032.000-8	BBVA	Chile	USD	49,586	568,586	618,172	-	-	-	-
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.006.000-6	BCI	Chile	USD	6,951	134,143	141,094	-	-	-	-
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.030.000-7	Banco del Estado de Chile	Chile	USD	78,588	230,619	309,207	-	-	-	-
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.018.000-1	SCOTIABANK	Chile	USD	31,324	110,896	142,220	-	-	-	-
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.023.000-9	CORPBANCA	Chile	USD	77,928	-	77,928	-	-	-	-
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.004.000-5	BANCHILE	Chile	USD	-	44,498	44,498	-	-	-	-
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.032.000-8	BBVA	Chile	CLP	-	-	-	1,456,162	-	-	1,456,162
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.006.000-6	BCI	Chile	CLP	-	-	-	978,470	-	-	978,470
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.036.000-K	SANTANDER	Chile	CLP	-	-	-	4,882,017	3,100,090	-	7,982,107
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.004.000-5	BANCHILE	Chile	CLP	-	-	-	-	2,039,474	-	2,039,474
87845500-2	Telefónica Móviles Chile S.A.	Chile	97.919.000-K	ABNCHILE	Chile	CLP	-	-	-	1,447,604	-	-	1,447,604
Total derivative instrument liabilities							**244,377**	**1,088,742**	**1,333,119**	**8,764,253**	**5,139,564**	**-**	**13,903,817**

17. Other Current and Non-current Financial Liabilities, continued

As of December 31, 2011, investments in associated companies are detailed as follows:

Taxpayer No.	Name	Investment balance 12.31.2011	Participation percentage	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Ordinary income	Ordinary expenses	Income
96.961.230-5	Telefónica Chile Servicios Corporativos Ltda. (1)	(1,540,017)	48.00	58,925,873	41,032,486	73,354,918	29,811,810	82,886,162	78,646,356	1,252,002

(1) On July 25, 2011, the Company acquired 48% interest in related company Telefónica Chile Servicios Corporativos Limitada, which as of December 31, 2011 shows negative equity. For that reason the investment was recorded at Ch$ 1 and a reserve was established for the value.

Movements in investments accounted for using the equity method for December 31, 2011 are detailed as follows:

Movements	12.31.2011 Telefónica Chile Servicios Corporativos Ltda. ThCh$
Beginning balance	-
Share of ordinary earnings (losses) for 2011	1,252,002
Acquisition of share in Telefónica Chile Servicios Corporativos Ltda.	2,970
Other increase (decrease)	(2,794,989)
Movements, subtotal	**(1,540,017)**
Ending balance	**(1,540,017)**

18. Other Current Non-financial Liabilities

Other current non-financial liabilities are detailed as follows:

Description	12.31.2011 ThCh$	12.31.2010 ThCh$
Deferred income, current (1) (3)	62,404,619	33,501,232
Short-term creditors on financial lease transactions	-	531,882
Other taxes (2)	957,309	4,340,715
Others	-	2,032,063
Total	**63,361,928**	**40,405,892**

(1) As of December 31, 2011 includes deferred income in the amount of ThCh$ 17,544,106 generated by the transaction carried out on December 12 2011, where Telefónica Móviles Chile S.A. sold communications infrastructure to ATC Sitios de Chile S.A.
(2) Includes withholding tax, Value Added Tax, social security institutions and others.
(3) Movements of deferred income are detailed as follows:

18. Other Current Non-financial Liabilities, continued

Deferred revenues	12.31.2011 Current ThCh$	12.31.2010 Current ThCh$
Opening balance	33,501,232	27,794,921
Endowments	468,390,061	441,392,349
Reduction/applications	(439,486,674)	(435,686,038)
Movements, subtotal	**28,903,387**	**5,706,311**
Final balance	**62,404,619**	**33,501,232**

19. Trade and Other Accounts Payable

Trade and other accounts payable are detailed as follows:

Description	12.31.2011 ThCh$	12.31.2010 ThCh$
Accounts payable due to purchases or services rendered (1)	117,864,409	114,938,141
Property, plant and equipment suppliers	46,985,415	69,937,302
Other accounts payable	-	2,753,852
Total	**164,849,824**	**187,629,295**

(1) “Debts for purchases or services rendered” correspond to foreign and domestic suppliers, for purchase of handsets, interconnection services, circuit rentals, marketing, call center, network maintenance and information services, among other things.

20. Other Provisions

The balance of provisions is detailed as follows:

a) Other short-term provisions

Description	12.31.2011 ThCh$	12.31.2010 ThCh$
Legal contingencies provision (1)	1,843,816	464,466
Total	**1,843,816**	**464,466**

(1) As of December 31, 2011, includes ThCh$ 1,404,756 corresponding to a fine imposed by the Antitrust Commission in the amount of 3,000 U.T.A.

Based on the development of legal proceedings, the Company's management considers that the provisions recorded in the consolidated financial statements adequately cover the risks for the lawsuits described in Note 23, and therefore, they do not expect additional liabilities to arise.

Given the characteristics of the risks covered by these provisions, the Company is unable to determine a reasonable timeframe for the dates of any payments that may be required.

b) Current employee benefits provision

Description	12.31.2011 ThCh$	12.31.2010 ThCh$
Goal achievement bonuses (1)	343,329	4,389,599
Total	**343,329**	**4,389,599**

(1) During January 2011, key personnel was transferred to Telefónica Chile Servicios Corporativos Ltda. a direct subsidiary of Telefónica Chile S.A. and as of December 31, 2011 almost all employees have been transferred to Telefónica Gestión Servicios Compartidos Chile S.A..

c) Other long-term provisions

Description	12.31.2011 ThCh$	12.31.2010 ThCh$
Staff severance indemnities (1)	406,656	430,175
Management personnel pension plan accrual (1)	-	123,912
Dismantling provision	13,252,339	10,312,591
Total	**13,658,995**	**10,866,678**

(1) During January 2011, key personnel was transferred to Telefónica Chile Servicios Corporativos Ltda. a direct subsidiary of Telefónica Chile S.A. and as of December 31, 2011 almost all employees have been transferred to Telefónica Gestión Servicios Compartidos Chile S.A..

20. Other Provisions, continued

Movements in non-current provisions for the periods ended December 31, 2011 and 2010 are detailed as follows:

Movements	12.31.2011 ThCh$	12.31.2010 ThCh$
Beginning balance	**10,866,678**	**9,813,179**
Increase in existing provisions	4,139,215	1,125,323
Provision used	(1,346,898)	(71,824)
Movements, subtotal	**2,792,317**	**1,053,499**
Ending balance	**13,658,995**	**10,866,678**

21. Employee benefit expenses

Personnel expenses are detailed as follows:

Description	12.31.2011 ThCh$	12.31.2010 ThCh$
Wages and salaries (1)	14,870,215	35,205,430
Benefits obligation expense	2,957,932	2,453,355
Health and life insurance	818,197	1,560,617
Other employee expenses	1,430,192	2,167,499
Total	**20,076,536**	**41,386,901**

(1) During January 2011, key personnel was transferred to Telefónica Chile Servicios Corporativos Ltda. a direct subsidiary of Telefónica Chile S.A. and as of December 31, 2011 almost all employees have been transferred to Telefónica Gestión Servicios Compartidos Chile S.A. The cost of services received for this concept is classified under other expenses (Note 22a iii), in the expenses for personnel transferred from other companies item.

22. Revenue and Expenses

a) Operating income and expenses

i) Operating income for the periods ended December 31, 2011 and 2010 is detailed as follows:

Operating income	12.31.2011 ThCh$	12.31.2010 ThCh$
Sales and equipment rental	63,211,635	52,758,575
Telecommunications services rendered	877,107,286	801,103,061
Total	**940,318,921**	**853,861,636**

22. Revenue and Expenses, continued

a) Operating income and expenses, continued

ii) Other operating income for the periods ended December 31, 2011 and 2010 is detailed as follows:

Other income	12.31.2011 ThCh$	12.31.2010 ThCh$
Subleased space	3,866,774	3,400,847
Administration and management	268,496	3,069,150
Indemnity (1)	460	21,630,201
Other common management earnings	337,930	-
Earnings from transfer of investment company	31,127,380	810,041
Total	**35,601,040**	**28,910,239**

(1) As of December 31, 2010 includes ThCh$ 21,077,916 for the concept of indemnities received from insurance company associated to damages caused by the earthquake of February 2010.
(2) As of December 31, 2011, includes deferred income in the amount of ThCh$ 17,544,106 generated by the operation performed on December 12, 2011, where Telefónica Móviles Chile S.A. sold telecommunications infrastructure to ATC Sitios de Chile S.A. which had a net book value of ThCh$ 1,622,720.

iii) As of December 31, 2011 and 2010, other miscellaneous operating expenses are detailed as follows:

Other expenses	12.31.2011 ThCh$	12.31.2010 ThCh$
Interconnections	161,793,476	128,112,312
Rent	51,484,498	38,351,899
Cost of sales of equipment and cards	81,327,604	69,702,629
External services	9,908,985	9,646,396
Sales commission	66,157,130	57,447,228
Customer services	25,988,796	25,464,816
Maintenance	23,749,468	22,476,194
Allowance for doubtful accounts	25,685,887	21,776,238
Advertising	19,672,678	17,870,997
Employee exp. transferred by other comp.	38,890,368	5,790,181
Electrical energy for technical installations	9,648,610	8,694,342
Administrative and management services	25,437,319	11,638,899
Others	17,060,016	24,274,335
Total	**556,804,835**	**441,246,466**

22. **Revenues and Expenses,** continued

b) Finance income and expenses

Finance income and expenses for the periods ended December 31, 2011 and 2010 are detailed as follows:

Net financial income	12.31.2011 ThCh$	12.31.2010 ThCh$
Finance income		
Interest earned on deposits and agreements	4,405,165	2,525,866
Derivative contracts (Forward)	52,007	469,609
Other finance income	785,245	52,579
Total finance income	**5,242,417**	**3,048,054**
Finance expenses		
Interest on loans from bank institutions	3,335,264	3,104,369
Interest on obligations and bonds	7,235,160	2,866,283
Finance leases	16,721	66,951
Derivative contracts (Forward)	547,792	-
Interest rate hedges (cross currency swap)	4,877,423	1,024,132
Provisiones por desmantelamiento	1,512,501	745,146
Total finance expenses	**17,524,861**	**7,806,881**
Net finance income	**(12,282,444)**	**(4,758,827)**

23. Contingencies and Restrictions

a) Direct and indirect guarantees:

As of December 31, 2011, the Company has not provided any direct or indirect guarantees to third parties.

b) Lawsuits or other legal actions in which the Company is involved in:

The following section discloses contingencies regarding lawsuits and other legal actions in which the Company is involved that have been judged to be probable or reasonably possible by our legal counsel:

- Ordinary Labor Lawsuits: there are contingencies caused by ordinary lawsuits filed before the Department of Labor against the Company, which claim its direct or subsidiary liability. A total sum of ThCh$ 182,801 is estimated as a probable contingency.

23. Contingencies and Restrictions, continued

- Contentious-administrative: due to the lawsuits filed before the Undersecretary of Telecommunications and Ordinary Courts, the probable contingency amounts to ThCh$ 176,082, for the concept of fines, including those applied daily as a court action.

- Consumer Rights Protection Law: complaints have been filed against the Company for infraction of the Consumer Rights Protection Law, with damage indemnity lawsuits and associated fines. These represent a probable contingency in the amount of ThCh$ 32,739.

- Antitrust Commission: On December 23, 2011, the Supreme Court accepted the complaint filed by the National Economic Attorney General's Office ("Fiscalía Nacional Económica") against the sentence dictated by the Antitrust Commission and condemned Telefónica Móviles Chile S.A. to pay a fine of UTA 3,000 (three thousand unidades tributarias anuales). As of December 31, 2011 a reserve was established in the amount of ThCh$ 1,404,756.

- Tax affairs: there are two processes being followed before Customs for collection of customs duties on imported handsets, due to the application of the Free Trade Agreements signed by Chile and Mexico and South Korea. They currently represent a probable contingency amounting to ThCh$ 47,438.

c) Other contingencies:

As of December 31, 2011 there are no other contingencies and restrictions to report.

d) Insurance:

On March 3, 2010, and due to the earthquake of February 27, 2010, the Superintendency of Securities and Insurance was informed that the Company has property damages all risk and loss of income from service shutdown, among other insurance on all its facilities. Therefore as reported, the real estate and its contents as well as eventual shutdown of activities, are insured.

On February 16, 2011 the Superintendency of Securities and Insurance was informed that the Company had closed the insurance settlement process for all risk of damage and loss of income due to lack of services as a consequence of the mentioned earthquake. The payments received by the Company are consistent with and correspond to the reserves informed and recognized in the Financial Statements filed before that Superintendency.

e) Financial restrictions:

As of December 31, 2011 and 2010 the company has no financial restrictions.

24. Local and Foreign Currency

Current and non-current assets in local and foreign currency are detailed as follows:

Current assets	12.31.2011 ThCh$	12.31.2010 ThCh$
Cash and cash equivalents	**235,941,528**	**131,273,568**
US dollars	353,402	43,862
Euros	7,328	8,538
Chilean pesos	235,580,798	130,148,601
U.F.	-	1,072,567
Other current financial assets	**6,449,206**	**211,182**
US dollars	2,688,570	210,860
Chilean pesos	411,218	-
U.F.	3,349,418	322
Trade and other accounts receivable, current	**186,886,517**	**150,117,776**
US dollars	146,492	-
Euros	21,207	-
Chilean pesos	186,718,818	150,117,776
Accounts receivable from related companies	**39,691,996**	**21,109,095**
US dollars	632,331	954,995
Euros	495,425	907,879
Chilean pesos	38,564,240	19,246,221
Other current assets (1)	**87,677,103**	**86,558,222**
US dollars	-	16,949
Chilean pesos	86,734,571	77,587,728
U.F.	942,532	8,953,545
Total current assets	**556,646,350**	**389,269,843**
US dollars	3,820,795	1,226,666
Euros	523,960	916,417
Chilean pesos	548,009,645	377,100,326
U.F.	4,291,950	10,026,434

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

Non-current assets	12.31.2011 ThCh$	12.31.2010 ThCh$
Other non-current financial assets	**10,942,691**	**-**
US dollars	4,474,493	-
U.F.	6,468,198	
Otros activos no financieros no corrientes	**1,983,081**	**-**
Chilean pesos	1,983,081	-
Non-current rights receivable	**96,063**	**-**
Chilean pesos	96,063	-
Other non-current assets (2)	**941,053,999**	**978,967,012**
Chilean pesos	941,053,999	978,967,012
Total non-current assets	**954,075,834**	**978,967,012**
US dollars	4,474,493	-
Chilean pesos	943,133,143	978,967,012
U.F.	6,468,198	-

(2) Includes: Intangible assets, property, plant and equipment and deferred tax assets

24. Local and Foreign Currency, continued

Current and non-current liabilities in local and foreign currency are detailed as follows:

Current liabilities	**12.31.2011** ThCh$	**12.31.2010** ThCh$
Other current financial liabilities	**33,959,611**	**110,847,025**
US dollars	184,204	85,367,682
U.F.	116,045	-
Chilean pesos	33,659,362	25,479,343
Trade and other accounts payable	**164,849,824**	**187,629,295**
US dollars	38,242,904	116,213,222
Euros	3,037,629	42,247,518
Chilean pesos	69,241,606	25,060,044
U.F.	9,801,490	3,974,690
Other currencies	44,526,195	133,821
Accounts payable to related companies, current	**91,187,683**	**47,782,229**
US dollars	1,027,231	640,493
Euros	37,412,909	27,317,792
Chilean pesos	52,747,543	19,823,944
Other current liabilities (1)	**69,327,237**	**46,551,495**
Chilean pesos	69,327,237	46,019,613
U.F.	-	531,882
Total current liabilities	**359,324,355**	**392,810,044**
US dollars	39,454,339	202,221,397
Euros	40,450,538	69,565,310
Chilean pesos	224,975,748	116,382,944
Other currencies	44,526,195	133,821
U.F.	9,917,535	4,506,572

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

Non-current liabilities	**12.31.2011** ThCh$	**12.31.2010** ThCh$
Other non-current financial liabilities	**407,576,247**	**215,158,204**
US dollars	190,146,720	138,324,699
U.F.	44,227,264	-
Chilean pesos	173,202,263	76,833,505
Other non-current liabilities (2)	**13,885,208**	**10,866,678**
Chilean pesos	13,885,208	10,866,678
Total non-current liabilities	**421,461,455**	**226,024,882**
US dollars	190,146,720	138,324,699
U.F.	44,227,264	-
Chilean pesos	187,087,471	87,700,183

(2) Includes: Other long-term provisions and other non-current financial liabilities.

.25. Environment:

As of December 31, 2011 and 2010, the Company has not made any investments or incurred any expenses for this concept.

In the opinion of its management and legal counsel the Company's operations have no significant environmental impact and currently comply with standards issued by the Undersecretary of Telecommunications, published in the Official Gazette on May 8, 2000, wich define maximum radiation density for cellular antennas and with Exempt Resolution 1672 of 2002 regarding electromagnetic radiation from portable phones.

26. Financial Risk Management

a) Characterization of the Market and Competition

The mobile services industry in Chile is very competitive in nature, which has allowed it to grow at significant rates. This means that permanent investments are necessary in order to maintain the technological leading edge, reflected in the deployment of third generation (3G) networks, greater coverage and a growing commercial supply of data services and products.

According to Company's estimates, at the end of 2011 the industry has over 24 million subscribers, with an inter-annual growth of 15%, driven mainly by a high level of competition, lower rates, growing supply of equipment and commercialization of Mobile Broadband, whose penetration increases progressively.

The industry is currently composed of three operators: Movistar is the market leader with 9.5 million customers, followed by Entel PCS and Claro. The strategies employed by these concessionaries are all aimed at offering better service quality and competitive pricing.

During the last quarter of 2010 one of the most significant reforms was approved, Numeric Portability, which will allow customers to migrate from an operator and maintain their telephone number. This will strongly increase the competitiveness of the industry since a great barrier for capturing the customers of the competition will be eliminated. Operators are therefore already adjusting their platforms and working on their subscriber fidelity in order to begin with this great reform at the begin of 2012.

All activities of mobile telephone concessionaries are regulated by General Telecommunications Law No. 18,168 and its regulations, and the application and control of these standards is provided by the Ministry of Transportation and Telecommunications through the Telecommunications Undersecretary.

26. Financial Risk Management, continued

a) Characterization of the Market and Competition, continued

Main landmarks for the year 2011:

- Movistar and Entel increased their coverage in an extensive zone of the Second Region.
- It has been announced that Chile shall implement the Early Tsunami Warning System used in Japan, which will initially use text massages (SMS) as a means.
- The network neutrality law was enacted.
- VTR shall offer mobile telephone services in January – March 2012
- GTD signed an agreement with Movistar to enter the mobile business, being the first firm to debut as a Virtual Mobile Operator.
- Approval of a bill modifying Law 18,168 in order to indefinitely extend the Telecommunications Development Fund, which finances extension of coverage of telecommunications services
- The Fiscalía Nacional Económica asked the Antitrust Commission to prohibit fixed and mobile Internet packages
- Numeric portability began on January 16.
- Announcement of merger of Entel – GTD and subsequent retraction by the latter.
- Sale of Smartphones grew 117% during 2011.
- Falabella expects to make its debut in mobile telephony during the second half of 2012.
- Virgin Mobile announces its arrival as virtual mobile operator in mid 2012.
- New antenna law for 2012.
- Spectrum tender in the 2.6 GHz band for 4G during the first half of 2012.

b) Competition risk

The Company faces a high degree of competition, characterized by aggressive commercial strategies and considerable efforts to obtain and maintain customers. The Company estimates that this risk stems primarily from the entry of new players into the mobile telecommunications industry and from strong competition in mobile broadband sales.

In order to improve its already strong position, the Company will continue to develop its competitive strategy based on innovation, aligning this strategy with the performance of key business variables and the reliability, reputation and convenience that the brand represents for its customers.

c) Regulatory environment

Regulation plays an important role in the mobile telephone industry. Stable standards and criteria allow market players to properly assess growth projects and reduce investment risk levels. Correctly rate-setting, in turn, permits creation of a healthy competitive environment.

In this sense, rate setting of regulated services can alter economic rationality, promoting the creation of new services or even discouraging the rendering of those services. It is of interest to both companies and authorities to provide more services and decrease the digital gap in Chile. To do so, in addition to proper rates, regulation must be appropriate and allow for timely resolution of conflicts that arise between companies.

Interconnection rates for mobile services have been set for the 2009 – 2013 period.

26. Financial Risk Management, continued

d) Financial risk management objectives and policies

The Company's main financial liabilities, in addition to derivatives, consist of bank loans, bond obligations and accounts payable mainly to suppliers. The main purpose of these financial liabilities is to secure financing for the Company's operations. The Company has trade accounts receivable, cash and short-term investments that arise directly from its operations. The Company is exposed to market risk, credit risk and liquidity risk.

The Company's management oversees that financial risks are identified, measured and managed in accordance with policies defined for such purposes. All risk management activities are carried out by teams of specialists with appropriate skills, experience and supervision.

The policies for managing these risks are summarized below:

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

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

The Company manages its interest rate risk by maintaining a balanced portfolio of loans and variable and fixed-rate debt. The Company maintains interest rate swaps in which it agrees to exchange, at given intervals, the difference between the fixed-rate amounts and the variable-rate amounts calculated for an agreed-upon notional principal amount. These swaps are designated to hedge the underlying debt obligations.

The Company periodically determines the efficient exposure of its short and long-term debt to changes in interest rates, based on the future evolution of rates. As of December 31, 2011, 92% of the Company's short and long-term financial debt is maintained at floating interest rates, considering as variable any debt that must be refinanced in a term of less than one year, or the hedges for which expire in that time period.

Foreign currency risk: Foreign currency risk is the risk that the fair value or future cash flows from a financial instrument fluctuate due to changes in exchange rates. The Company's exposure to the risk of exchange rate variation is related principally to securing short and long-term financing in foreign currencies and to operating activities related to handset purchases. The Company's policy calls for trading derivative financial instruments that help minimize this risk.

Thanks to hedging activities to manage the Company's main currency risk, the sensitivity of the fair value of future cash flows of the hedged item to exchange rate variations is close to zero, fundamentally because 100% of the company's debt in foreign currency is hedged. For the year ended as of December 31, 2011, the Company maintains 42% of its total debt in foreign currency.

26. Financial Risk Management, continued

d) Financial risk management objectives and policies, continued

As a result, the Company has entered into forward and swap contracts with local financial institutions to hedge the risks associated to purchases in foreign currency and its international syndicated loan.

Credit risk: credit risk is the risk of a counterparty not meeting its obligations stemming from a financial instrument or customer agreement, which could lead to financial loss. The Company is exposed to credit risk from its operating activities (principally accounts receivable) and financing activities, including bank deposits, foreign exchange transactions and other financial instruments.

Credit risks related to customer credits are managed in accordance with policies, procedures and controls established by the Company for managing customer credit risk. Customer credit quality is evaluated on an ongoing basis. Amounts pending collection from customers are monitored. The maximum exposure to credit risk as of the reporting date is equal to the value of each type of financial assets.

Credit risk related to bank balances, financial instruments and marketable securities is managed by the Chief Financial Officer based on Company policies. Surplus funds are only invested with approved counterparties and within the credit limits assigned to each entity. Counterparty limits are reviewed annually and may be updated at other times during the year. These limits are established to reduce the counterparty's risk concentration to a minimum.

Liquidity risk: The Company monitors its risk of lack of funds using a recurring liquidity planning tool. The Company's objective is to maintain a short-term investment profile that minimizes the need to resort to external short-term financing.

e) Technological changes

Given the nature of the market and competition from other operators, coupled with the progressive evolution of telecommunications technology, the Company must continually invest in network infrastructure, handsets and technical platforms, among other assets, in order to provide consumers with optimum telecommunications and other related services.

f) Perspectives

In the short-term the Company expects the highly competitive scenario to continue, due to the high levels of penetration already reached, together with aggressive commercial actions undertaken by operators, focusing mainly on increasing the use of data transmission services, especially mobile broadband services through new 3G networks.

During this year we expect to strong competitive pressure, both due to current operators as well as new entrants (Nextel and VTR Móvil) resulting from the public tender for 90Mhz spectrum. In addition it should be noted that at the end of 2012 numeric portability will be applied. This new scenario shall increase the competitive magnitude and demand human resource and financial investments, which will result in incorporating users that are unhappy with the service that their operator is currently providing.

In the long-term an exponential increase in data traffic is expected, due to the growing offer of application in smartphones and the growth of Mobile Broad Band.

27. <u>Subsequent Events</u>

The consolidated financial statements of Telefónica Móviles Chile S.A., for the year ended as of December 31, 2011 were approved and authorized for issuance at the Board of Directors Meeting held on January 26, 2012.

On January 16, 2012, Telefónica Móviles Chile S.A. prepaid local syndicated loan in the amount of MCh$31,000 led by Banco Estado with an original expiry date of November 15, 2012.

From January 1, 2012 to the date of issuance of these financial statements, there have been no other events of a financial or other nature that might significantly affect their balances or interpretation.