Telefónica

CHILE S.A. AND SUBSIDIARIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2012 and 2011

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

INDEX

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

CONSOLIDATED CLASSIFIED STATEMENTS OF FINANCIAL POSITION
As of December 31, 2012 and 2011

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

	Notes	12.31.2012	12.31.2011
		ThCh$	ThCh$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	(5)	246,567,966	40,789,117
Other current financial assets	(6)	4,998,135	12,066,550
Other current non-financial assets	(7)	12,657,692	7,355,194
Trade and other current receivables	(8a)	140,799,919	128,440,079
Current receivables from related companies	(9a)	63,462,235	56,206,273
Inventory	(10a)	6,147,395	7,840,571
Current tax assets	(11b)	10,210,185	18,669,815
Total current assets other than assets groups of assets for disposal, classified as available for sale or as held for distribution to owners		**484,843,527**	**271,367,599**
Non-current assets or groups of assets for disposal, classified as available for sale or held for distribution to owners	(17)	65,627	258,449
TOTAL CURRENT ASSETS		**484,909,154**	**271,626,048**
NON-CURRENT ASSETS			
Other non-current financial assets	(6)	16,709,646	25,202,254
Other non-current non-financial assets	(7)	2,662,177	1,071,391
Non-current receivables	(12)	18,048,113	17,612,824
Non-current receivables from related companies	(9b)	1,366,521	-
Investments in associates accounted for using the equity method	(13)	-	7,411,810
Intangible assets other than goodwill, net	(14a)	38,105,530	41,529,033
Goodwill	(15)	21,660,128	21,699,051
Property, plant and equipment	(16a)	949,333,937	933,886,129
Deferred tax assets	(11c)	7,035,425	4,251,765
TOTAL NON-CURRENT ASSETS		**1,054,921,477**	**1,052,664,257**
TOTAL ASSETS		**1,539,830,631**	**1,324,290,305**

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

CONSOLIDATED CLASSIFIED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2012 and 2011

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

	Notes	12.31.2012	12.31.2011
		ThCh$	ThCh$
LIABILITIES			
CURRENT LIABILITIES			
Other current financial liabilities	(18)	85,101,325	73,192,814
Trade and other payables	(19)	187,498,669	177,516,215
Current payables to related companies	(9c)	81,725,309	72,222,164
Other current provisions	(20)	1,549,209	1,376,579
Current tax liabilities	(11d)	17,865,302	19,656,778
Current employee benefits accrual	(21a)	4,426,045	3,781,496
Other current non-financial liabilities	(22)	6,609,253	6,960,084
TOTAL CURRENT LIABILITIES		**384,775,112**	**354,706,130**
NON-CURRENT LIABILITIES			
Other non-current financial liabilities	(18)	468,889,617	248,412,968
Other non-current provisions		543,244	543,244
Deferred tax liabilities	(11c)	51,895,208	49,993,830
Non-current employee benefits accrual	(21a)	25,888,804	26,659,214
Other non-current non-financial liabilities	(22)	5,606,229	5,712,471
TOTAL NON-CURRENT LIABILITIES		**552,823,102**	**331,321,727**
TOTAL LIABILITIES		**937,598,214**	**686,027,857**
NET SHAREHOLDERS' EQUITY			
Issued capital	(23a)	578,078,382	578,078,382
Retained earnings		24,198,873	57,937,660
Other reserves	(23d)	(2,679,791)	3,606,464
Shareholders' equity attributable to owners of the parent		599,597,464	639,622,506
Non-controlling interest	(23e)	2,634,953	(1,360,058)
TOTAL NET SHAREHOLDERS' EQUITY		**602,232,417**	**638,262,448**
TOTAL NET LIABILITIES & SHAREHOLDERS' EQUITY		**1,539,830,631**	**1,324,290,305**

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

STATEMENTS OF COMPREHENSIVE INCOME	Notes	For the years ended December 31, 2012 ThCh$	2011 ThCh$
Revenues from ordinary operations	(25a)	694,987,687	702,977,213
Other income, by segment	(25b)	4,189,110	15,583,705
Employee benefits expenses	(21b)	(83,016,650)	(91,074,856)
Depreciation and amortization expense	(14b)(15b)	(163,887,152)	(170,460,854)
Other expenses, by nature	(25c)	(343,160,284)	(357,704,433)
Profit from operating activities		**109,112,711**	**99,320,775**
Interest income	(25d)	6,697,605	5,765,311
Interest expense	(25d)	(24,798,961)	(18,913,828)
Share in earnings (losses) of associates accounted for using the equity method	(13b)	322,751	1,078,096
Foreign exchange differences		86,134	114,015
Profits before tax from continuing operations		**91,420,240**	**87,364,369**
Income tax expense	(11e)	(28,867,454)	(18,046,947)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**62,552,786**	**69,317,422**
Profit attributable to holders of equity instruments of the controller and minority interest:			
Profit attributable to owners of the parent		59,105,450	68,001,583
Profit attributable to non-controlling interest	(23e)	3,447,336	1,315,839
PROFIT FOR THE YEAR		**62,552,786**	**69,317,422**
EARNINGS PER SHARE		Ch$	Ch$
Earnings per basic share			
Earnings per basic share for continuing operations	(24)	61.75	71.05
Earnings per basic share for discontinuing operations		-	-
Earnings per basic share		61.75	71.05
Diluted earnings per share			
Diluted earnings per share from continuing operations		61.75	71.05
Diluted earnings per share from discontinuing operations		-	-
Diluted earnings per share		61.75	71.05

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

As of December 31, 2012 and 2011

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

	For the years ended December 31,	
	2012	**2011**
STATEMENTS OF COMPREHENSIVE INCOME	**ThCh$**	**ThCh$**
PROFIT FOR THE YEAR	**62,552,786**	**69,317,422**
OTHER COMPREHENSIVE INCOME		
Components of other comprehensive income before taxes		
Profit (loss) on new measurement of financial assets available for sale	(2,150,492)	(4,456,562)
Profit (loss) on cash flow hedges, before taxes	(5,726,123)	(5,574,482)
Other comprehensive income, before taxes, actuarial gains on defined benefits plans	1,596,249	4,693,838
Participation in profits of associates accounted for using the equity method	609	1,948
Total other components of other comprehensive income, before	**(6,279,757)**	**(5,335,258)**
Income taxes related to components of other comprehensive income		
Income tax related to hedging cash flows from other comprehensive income	1,145,225	978,224
Income tax related to other comprehensive income defined benefits plans	(99,234)	(690,956)
Sum of income taxes related to components of other comprehensive income	**1,045,991**	**287,268**
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**(5,233,766)**	**(5,047,990)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**57,319,020**	**64,269,432**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Comprehensive income attributable to owners of the parent	53,184,113	65,806,805
Comprehensive income attributable to non-controlling interest	4,134,907	(1,537,373)
TOTAL COMPREHENSIVE INCOME	**57,319,020**	**64,269,432**

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
As of December 31, 2012 and 2011

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

	Changes in capital (Note 23 a)	Changes in the other reserves (Note 23 d)					Retained earnings	Equity attributable to owners of the parent	Non controlling interests (Note 23e)	Total equity
	Issued capital	Cash flow hedge reserves (Note 6d)	Benefit plan gain and loss reserve	Accrual of profits or losses on remeasurement of financial assets available for sale	Other miscellaneous reserves	Total other reserves				
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Beginning balance as of 01.01.2012	**578,078,382**	**863,954**	**(3,225,153)**	**5,603,354**	**364,309**	**3,606,464**	**57,937,660**	**639,622,506**	**(1,360,058)**	**638,262,448**
Changes in equity										
Comprehensive income										
Profit	-	-	-	-	-	-	59,105,450	59,105,450	3,447,336	62,552,786
Other comprehensive income	-	(4,580,898)	809,444	(2,150,492)	609	(5,921,337)	-	(5,921,337)	687,571	(5,233,766)
Comprehensive income		**(4,580,898)**	**809,444**	**(2,150,492)**	**609**	**(5,921,337)**	**59,105,450**	**53,184,113**	**4,134,907**	**57,319,020**
Dividends	-	-	-	-	-	-	92,844,237	92,844,237	-	92,844,237
Other decrease from transfers and other changes	-	-	-	-	(364,918)	(364,918)	-	(364,918)	(139,896)	(504,814)
Total changes in shareholders' equity	**-**	**(4,580,898)**	**809,444**	**(2,150,492)**	**(364,309)**	**(6,286,255)**	**(33,738,787)**	**(40,025,042)**	**3,995,011**	**(36,030,031)**
Ending balance as of 12.31.2012	**578,078,382**	**(3,716,944)**	**(2,415,709)**	**3,452,862**	**-**	**(2,679,791)**	**24,198,873**	**599,597,464**	**2,634,953**	**602,232,417**
Beginning balance as of 01.01.2011	**578,078,382**	**5,460,218**	**(10,081,253)**	**10,059,916**	**(22,277)**	**5,416,604**	**70,337,272**	**653,832,258**	**185,518**	**654,017,776**
Changes in equity										
Comprehensive income										
Profit	-	-	-	-	-	-	68,001,583	68,001,583	1,315,839	69,317,422
Other comprehensive income	-	(4,596,264)	6,856,100	(4,456,562)	1,948	(2,194,778)	-	(2,194,778)	(2,853,212)	(5,047,990)
Comprehensive income	**-**	**(4,596,264)**	**6,856,100**	**(4,456,562)**	**1,948**	**(2,194,778)**	**68,001,583**	**65,806,805**	**(1,537,373)**	**64,269,432**
Dividends	-	-	-	-	-	-	80,401,195	80,401,195	-	80,401,195
Other increase (decrease) from transfers and other changes	-	-	-	-	384,638	384,638	-	384,638	(8,203)	376,435
Total changes in shareholders' equity	**-**	**(4,596,264)**	**6,856,100**	**(4,456,562)**	**386,586**	**(1,810,140)**	**(12,399,612)**	**(14,209,752)**	**(1,545,576)**	**(15,755,328)**
Ending balance as of 12.31.2011	**578,078,382**	**863,954**	**(3,225,153)**	**5,603,354**	**364,309**	**3,606,464**	**57,937,660**	**639,622,506**	**(1,360,058)**	**638,262,448**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
As of December 31, 2012 and 2011

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

	For the years ended December 31,	
	2012	**2011**
	ThCh$	**ThCh$**
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Profit	**62,552,786**	**69,317,422**
Adjustments to reconcile profits to net cash flows:		
Adjustments due to decrease (increase) in inventory	1,693,176	(1,802,958)
Adjustments due to decrease (increase) in trade receivables	10,301,587	31,323,444
Adjustments due to decrease (increase) in other receivables derived from operating activities	6,860,277	(15,721,085)
Adjustments due to increase (decrease) in trade payables	8,038,295	11,627,894
Adjustments due to increase (decrease) in other payables derived from operating activities	11,612,058	16,978,674
Adjustments due to depreciation and amortization expenses	163,887,152	170,460,854
Adjustments due to provisions	23,179,418	24,156,106
Adjustments due to unrealized losses (profits) in foreign currency	(86,135)	(114,015)
Adjustments due to non-controlling interests	(3,447,336)	(1,315,839)
Share of profit an associate	(322,750)	(1,078,096)
Other adjustment non- cash	923,791	(11,196,072)
Adjustment for losses due to disposal of non-current assets	4,655,113	3,318,386
Total adjustments due to reconciliation of profit (losses)	**227,294,646**	**226,637,293**
Income taxes reimbursed (paid)	(20,722,077)	(22,251,587)
Cash flows provided by operating activities	**269,125,355**	**273,703,128**
CASH FLOWS PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		
Proceeds from sale of property, plant and equipment	3,471,490	8,995,832
Additions to property, plant and equipment	(192,457,368)	(176,561,911)
Dividends received	4,046,305	388,198
Interest received	3,871,529	5,991,899
Other cash inputs (outputs)	3,339,925	54,853,042
Net cash flows (used in) investment activities	**(177,728,119)**	**(106,332,940)**
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Amounts arising from non-current loans	296,400,000	-
Loan payments	(69,708,117)	(72,502,277)
Payments of financial lease liabilities	(1,396,040)	(910,545)
Dividends paid	(92,844,237)	(80,401,195)
Interest paid	(18,069,993)	(13,934,920)
Other cash input (output)	-	(23,751,111)
Net cash flows provided by (used in) financing activities	**114,381,613**	**(191,500,048)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**205,778,849**	**(24,129,860)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**40,789,117**	**64,918,977**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**246,567,966**	**40,789,117**

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

1. Corporate information:

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

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

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

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

The subsidiary company registered in the Securities Registry is:

Subsidiary	Taxpayer number	Registration number	Participation percentage (direct and indirect) 12.31.2012 %	12.31.2011 %
Telefónica Larga Distancia S.A (1)	96.672.160-K	1061	99.93	99.92

(1) During the first quarter of 2012, subsidiary Telefónica Larga Distancia S.A. carried out a legal capital decrease in the amount of ThCh$19,736, equivalent to 5,699 of its own shares that were acquired from shareholders that exercised their right to withdraw upon the approval of the merger by incorporation of subsidiaries Telefónica Móviles Chile Larga Distancia S.A. and Telefónica Larga Distancia S.A. carried out in May 2010. This capital decrease generated a percentage increase in the interest of Telefónica Chile S.A. in the subsidiary.

2. Significant accounting principles:

a) Accounting period

These consolidated financial statements (hereinafter, "financial statements") cover the years ended December 31, 2012 and 2011.

b) Basis of presentation

The financial statements for December 31, 2011 and their corresponding notes are shown in a comparative manner in accordance with Note 2a). Certain minor reclassifications have been performed in the 2011 financial statements. i) Statement of Financial Position: corresponds to reclassification of the reserve for the estimated cost of dismantling microwave antennas from "Other non-current non financial liabilities" to "Other non-current provisions"; ii) Statements of Comprehensive Income: reclassification of "Other capitalized work performed by the company" to "Other expenses, by nature".

2. Significant accounting principles, continued

c) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB). The figures included in these financial statements are expressed in thousands of Chilean pesos, since the Chilean peso is the Company's functional and reporting currency. All values are rounded to the nearest thousands, except when otherwise indicated.

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

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

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

d) Basis of consolidation

The financial statements of Telefónica Chile S.A. and its subsidiaries include assets and liabilities as of December 31, 2012 and 2011. Balances with related companies, unrealized income and expenses and net income and losses have been eliminated and non-controlling interest has been recognized under "Non-controlling interest" (note 23e).

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

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

The following subsidiaries are included in consolidation:

Taxpayer No.	Company Name	Country of origin	Functional currency	Participation percentage 12.31.2012 Direct	Indirect	Total	12.31.2011 Total
96.961.230-5	Telefónica Gestión de Servicios Compartidos Chile S.A.	Chile	CLP	99.99	-	99.99	99.99
76.181.946-1	Telefónica Multimedia Chile Dos S.A.	Chile	CLP	99.99	-	99.99	99.99
78.703.410-1	Telefónica Empresas Chile S.A. (Ex - Telefónica Multimedia Chile S.A.	Chile	CLP	99.99	-	99.99	99.99
96.811.570-7	Instituto Telefónica Chile S.A.	Chile	CLP	-	99.99	99.99	99.99
96.672.160-k	Telefónica Larga Distancia S.A (1)	Chile	CLP	99.93	-	99.93	99.92
76.086.148-0	Telefónica Chile Servicios Corporativos Ltda.	Chile	CLP	49.00	2.00	51.00	51.00

(1) During the first quarter of 2012, subsidiary Telefónica Larga Distancia S.A. carried out a legal capital decrease in the amount of ThCh$19,736, equivalent to 5,699 of its own shares that were acquired from shareholders that exercised their right to withdraw upon the approval of the merger by incorporation of subsidiaries Telefónica Móviles Chile Larga Distancia S.A. and Telefónica Larga Distancia S.A. carried out in May 2010. This capital decrease generated a percentage increase in the interest of Telefónica Chile S.A. in the subsidiary.

2. Significant accounting principles, continued

d) Basis of consolidation, continued

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

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

The summarized financial information at December 31, 2011 of the companies included in the consolidation is as follows:

Taxpayer No.	Company Name	% Participation	Currents assets	Non-currents assets	Total assets	Currents liabilities	Non-currents liabilities	Total liabilities	Equity	Revenues from ordinary operations	Profit (loss), Net
			ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
96.961.230-5	Telefónica Gestión de Servicios Compartidos Chile S.A.	99.9990000	5,860,162	3,406,119	9,266,281	4,762,648	1,159,932	5,922,580	3,343,701	13,125,929	686,483
78.703.410-1	Telefónica Empresas Chile S.A. (Ex - Telefónica Multimedia Chile S.A.	99.9999997	123,602,718	73,337,857	196,940,575	67,779,810	3,057,235	70,837,045	126,103,530	200,858,095	1,046,523
76.181.946-1	Telefónica Multimedia Chile Dos S.A.	99.9999000	3,577,733	847,034	4,424,767	-	-	-	4,424,767	-	(884,405)
96.672.160-k	Telefónica Larga Distancia S.A.	99.9199525	245,412,653	72,436,477	317,849,130	48,129,260	4,864,833	52,994,093	264,855,037	102,008,651	47,157,814
76.086.148-0	Telefónica Chile Servicios Corporativos Ltda.	51.0000000	58,925,873	41,032,486	99,958,359	71,988,399	31,178,329	103,166,728	(3,208,369)	82,886,162	2,611,525
96.811.570-7	Instituto Telefónica Chile S.A.	99.9999531	907,604	143,707	1,051,311	1,394,430	42,283	1,436,713	(385,402)	776,507	(512,268)

2. Significant accounting principles, continued

e) Foreign exchange differences

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

DATE	USD	EURO	REAL	JPY	UF
31-dic-2012	479.96	634.45	234.98	5.58	22,840.75
31-dic-2011	519.20	672.97	278.23	6.74	22,294.03

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

f) Financial assets and liabilities

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

i) Financial investments

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

ii) Receivables

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

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

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

2. Significant accounting principles, continued

f) Financial assets and liabilities, continued

iii) Cash and cash equivalents

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

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

iv) Interest-bearing loans

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

v) Derivative financial instruments

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

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

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

2. Significant accounting principles, continued

f) Financial assets and liabilities, continued

v) Derivative financial instruments, continued

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

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

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

g) Inventory

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

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

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

2. Significant accounting principles, continued

h) Non-current assets destined for sale

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

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

i) Impairment of non-current assets

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

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

Discount rates used are determined before taxes and adjusted for the respective country and business risk. Thus, in 2012 and 2011 the rate used was 8.52% and 10.80% respectively. There were no impairment adjustments made in 2012 and 2011.

j) Leases

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

Leased assets for which the significant risks and rewards of ownership are transferred to the Company are considered finance leases. Initially, the asset and associated liability are recorded at the fair value of the leased asset or the present value of the minimum agreed-upon lease payments if lower. Interest expense is charged to income throughout the life of the lease. Depreciation of these assets is included in depreciation of Property, Plant and Equipment. The Company reviews all contracts to determine if they contain an embedded lease. As of December 31, 2012 and 2011 no embedded leases were identified.

2. Significant accounting principles, continued

k) Income taxes

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

Tax credits and liabilities for the current year and prior years are measured at the estimated amount recoverable or payable to the tax authorities. The Company uses the tax rates and government regulations current as of each year-end to calculate those amounts, which is 20% for 2012 and 2011.

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

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

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

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

l) Investment in associates

The Company's investment in the companies over which it exercises significant influence without exercising control, is recorded using the equity method.

The investment is recorded initially at cost and its book value is modified based on the participation in the income of the associated company at each year-end. If it records net income or losses directly in its net shareholders' equity, the Company also recognizes the participation corresponding to it in those items.

m) Goodwill

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

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

2. Significant accounting principles, continued

n) Intangibles

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

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

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

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

ñ) Property, plant and equipment

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

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

Interest and other financial expenses incurred and directly attributable to the acquisition or construction of qualifying assets, may be capitalized. Qualifying assets, under the criteria of the Telefónica Group, are assets that require at least 18 months of preparation for their use or sale. At year-end of 2012 and 2011 there are no capitalized interests.

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

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

2. Significant accounting principles, continued

o) Depreciation of property, plant and equipment

The Company depreciates Property, plant and equipment from the moment when the assets are in condition to be used, distributing the cost of the assets on a straight-line basis over the respective estimated useful life. The average annual financial depreciation rate of the Company is approximately 8.16% for December, 2012 (8.67% for 2011).

Estimated useful lives are summarized in the following detail:

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

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

p) Provisions

i) Post-employment benefits

The Company is obligated to pay staff severance indemnities in respect of collective negotiation agreements, which are provisioned using the method of actuarial value of the accrued cost of the benefit, using an nominal annual discount rate of 5.8% at December 31, 2012 and 4.8% in 2011, considering estimations such as future permanence, employee mortality rate and future salary increases determined on the basis of actuarial calculations. Discount rates are determined by reference to market interest curves.

ii) Provision for dismantling expenses

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

2. Significant accounting principles, continued

p) Provisions, continued

iii) Other provisions

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

q) Income and expenses

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

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

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

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

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

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

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

2. Significant accounting principles, continued

q) Income and expenses, continued

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

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

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

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

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

r) Use estimates

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

i) Property, plant and equipment and intangibles

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

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

2. Significant accounting principles, continued

r) Significant accounting judgments, estimates and assumptions, continued

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) Income recognition: agreements combining more than one element

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

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

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

v) Post-employment benefits

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

2. Significant accounting principles, continued

r) Significant accounting judgments, estimates and assumptions, continued

v) Post-employment benefits, continued

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

vi) Financial assets and liabilities

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

s) Methods of consolidation

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

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

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

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

2. Significant accounting principles, continued

t) 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 forced and the Company has not opted for early application of any of them:

	New Standard	Mandatory application date
IFRS 9	Financial instruments: Classification and measurement	January 1, 2015
IFRS 10	Consolidated financial statements	January 1, 2013
IFRS 11	Joint agreements	January 1, 2013
IFRS 12	Disclosure of participation in other entities	January 1, 2013
IFRS 13	Fair-value measurement	January 1, 2013

IFRS 9 "Financial instruments: Classification and measurement"

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

IFRS 10 "Consolidated financial statements" / IAS 27 "Separate 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, it 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.

IFRS 11 "Joint agreements" / IAS 28 "Investments in associates and joint ventures"

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. The issuing of IFRS 11 amended IAS 28 in a limited manner regarding issues related to entities

2. Significant accounting principles, continued

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

associated to joint control entities available for sale and changes in interest detained in associated entities and joint control entities.

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 IFRS. 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.

Improvements and amendments		Mandatory application date
IFRS 7	Financial instruments: Information to be disclosed	January 1, 2013
IFRS 10	Consolidated Financial Statements	January 1, 2013 and January 1, 2014
IFRS 11	Joint Agreements	January 1, 2013
IFRS 12	Disclosure of Participation in other Entities	January 1, 2013 and January 1, 2014
IAS 1	Financial Statement Presentation	January 1, 2013
IAS 16	Property, plant and equipment	January 1, 2013
IAS 19	Employee Benefits	January 1, 2013
IAS 27	Separate Financial Statements	January 1, 2013 and January 1, 2014
IAS 28	Investments in Associates and Joint Ventures	January 1, 2013
IAS 32	Financial instruments: Presentation	January 1, 2013 and January 1, 2014
IAS 34	Interim Financial Information	January 1, 2013

IFRS 7 "Financial instruments: Information to be disclosed"

In December 2011 an amendment was issued to IFRS 7 requiring that entities disclose in their financial information the effects or possible effects of compensation agreements in financial statements regarding the entity's financial position. The standard is applicable as of January 1, 2013.

2. Significant accounting principles, continued

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

IFRS 10 "Consolidated financial statements", IFRS 11 "Joint agreements", IFRS 12 "Disclosure of interesests in other entities"

On June 28, 2012, the IASB published amendments to clarify the transition orientation of IFRS 10 Consolidated financial statements. The modifications also provide additional transitory exceptions for the application of IFRS 10, IFRS 11 Joint agreements and IFRS 12 Disclosure of interests in other entities, limiting the requirement of providing comparative information adjusted only for the previous comparative period. On the other hand, for disclosures related to non-consolidated structured entities, the requirement to present comparative information for periods before the first-time application of IFRS 12 will be eliminated. The amendments are effective for annual periods beginning on or after January 1, 2013, also in line with the effective date of IFRS 10, 11 and 12.

IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of interesests in other entities", IAS 27 "Separate Financial Statements"

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

IAS 1 "Financial statement presentation"

"Annual Improvements 2009–2011 Cycle", issued in May 2012, modified paragraphs 10, 38 and 41, eliminated paragraphs 39-40 and added paragraphs 38A-38D and 40A-40D, which clarifies the difference between the voluntary additional comparative information and the minimum comparative information required. In general, the minimum comparative period required is the previous period. An entity must include corporate information in the notes to the financial statements when the entity voluntarily provides comparative information beyond the minimum comparative period required. The additional comparative period does not need to contain a full set of financial statement. In addition, beginning balances of the statement of financial position (known as the third balance sheet) must be presented under the following circumstances: when the entity changes its accounting policies; performs retroactive re-expressions or reclassifications, and this is a change with a material effect on the statement of financial position. The beginning balance of the statement of financial position would be at the beginning of the previous period.

2. Significant accounting principles, continued

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

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

IAS 16 "Property, plant and equipment"

"Annual Improvements 2009–2011 Cycle", issued in May 2012, modified paragraph 8. The modification clarifies that the spare parts and auxiliary equipment items that comply with the definition of property, plant and equipment are not inventory. An entity shall apply these modifications retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for annual periods commencing as of January 1, 2013. 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.

IAS 27 "Separate financial statements"

In May 2011 the IASB published revised IAS 27 with amended title—Separate financial statements. IFRS 10 Consolidated financial statements establishes a single model of control applicable to all entities and requirements related to the preparation of consolidated financial statements.

IAS 28 "Investments in associates and joint ventures"

Issued in May 2011, IAS 28 Investments in associates and joint ventures describes the accounting for investments in associates and establishes the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

2. Significant accounting principles, continued

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

IAS 32 "Financial instruments: Presentation"

"Annual Improvements 2009–2011 Cycle", issued in May 2012, modified paragraphs 35, 37 and 39 and added paragraph 35A, which clarifies that income taxes on distributions to the shareholders of the entity are accounted for in accordance with IAS 12 Income Taxes. The modification eliminates the existing income tax requirements of IAS 32 and requires that entities apply the requirements of IAS 12 to any income tax on distributions to the shareholders of the entity. An entity shall apply these modifications retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for annual periods commencing as of January 1, 2013. Early application is allowed and must be disclosed. Amendments to IAS 32 issued in December 2011 are destined to clear up differences in the application in relation to compensation and reduce the level of diversity in current practice. The standard is applicable as of January 1, 2014 and its early adoption is allowed.

IAS 34 "Interim financial information"

"Annual Improvements 2009–2011 Cycle", issued in May 2012, modified paragraph 16A. The modification clarifies the requirements of IAS 34 related to information on the operating segments of total assets and liabilities for each of the operating segments in order to increase the coherence with the requirements of IFRS 8 Operating Segments. Amended paragraph 16A establishes that total assets and liabilities for a particular operating segment shall only be disclosed when the amounts are regularly measured by senior management and there was a material change in the comparison with the information disclosed in the previous financial statements for this operating segment. An entity shall apply this modification retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for annual periods commencing as of January 1, 2013. Early application is allowed and must be disclosed.

3. Changes in Accounting Policy and Disclosures

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

4. Financial information by segment

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

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

a) Fixed Telecommunications

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

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

b) Television Services

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

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

c) Long Distance

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

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

d) Corporate Communications and Data

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

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

4. Financial information by segment, continued

e) Other

"Other" includes logistics, personnel and management services.

Relevant information regarding Telefónica Chile S.A. and its main subsidiaries, which represent different segments, together with information regarding other subsidiaries, to the years ended December 2012 and 2011 is as follows:

For the year ended as of December 31, 2012	Fixed Telecommunications ThCh$	Long Distance ThCh$	Corporate Communication and Data ThCh$	Television ThCh$	Other ThCh$	Eliminations ThCh$	Total ThCh$
Income from external customers	428,717,230	45,549,544	114,363,230	92,899,408	13,458,275	-	694,987,687
Income between segments	74,165,761	43,885,539	5,453,083	-	178,091,922	(301,596,305)	-
Income from external customers and between segments	**502,882,991**	**89,435,083**	**119,816,313**	**92,899,408**	**191,550,197**	**(301,596,305)**	**694,987,687**
Income from ordinary activities arising from interest							
Interest expense	33,723,129	6,465	39,096	32,468	1,938,185	(10,940,382)	24,798,961
Interest income	6,517,899	8,907,053	2,152,375	22,148	45,598	(10,947,468)	6,697,605
Finance income, net segment	**(27,205,230)**	**8,900,588**	**2,113,279**	**(10,320)**	**(1,892,587)**	**(7,086)**	**(18,101,356)**
Depreciation and amortization	113,044,579	8,791,460	11,083,657	21,367,336	648,835	8,951,285	163,887,152
Other significant income (expense) items	345,601,977	43,023,172	100,137,801	64,398,908	179,422,612	(310,596,646)	421,987,824
Participation in profit of associated companies accounted for using the equity method	56,437,262	33,357	83,277	18,072	20,942	(56,270,160)	322,750
Income tax expense	14,811,116	8,135,379	1,545,351	1,776,561	2,599,047	-	28,867,454
Other significant non-cash items	448,098	(233,889)	(119,398)	6,434	26,859	(41,969)	86,135
Profits(loss) before tax	**73,916,566**	**46,320,507**	**10,672,013**	**7,147,350**	**9,633,964**	**(56,270,160)**	**91,420,240**
Profit (loss) for the year from continuing operations	**59,105,450**	**38,185,128**	**9,126,662**	**5,370,789**	**7,034,917**	**(56,270,160)**	**62,552,786**
Profit (loss) for the period from discontinuing operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit (loss) for the period	**59,105,450**	**38,185,128**	**9,126,662**	**5,370,789**	**7,034,917**	**(56,270,160)**	**62,552,786**
Assets	1,562,924,589	181,579,015	127,244,124	81,503,983	139,126,056	(552,547,136)	1,539,830,631
Investments in associates accounted for using the equity method	287,625,258	20,702	67,281	-	15,534	(287,728,775)	-
Increases in non-current assets	127,067,674	4,283,601	10,137,957	27,410,027	-	-	168,899,259
Liabilities	963,327,125	40,777,996	47,898,191	24,285,806	126,127,458	(264,818,362)	937,598,214
Shareholders' equity	599,597,464	140,801,019	79,345,933	57,218,177	12,998,598	(287,728,774)	602,232,417
Liabilities & Shareholders' equity	1,562,924,589	181,579,015	127,244,124	81,503,983	139,126,056	(552,547,136)	1,539,830,631
Cash flows provided by (used in) operating activities	155,965,850	35,442,729	19,467,764	30,449,579	(5,609,746)	33,409,179	269,125,355
Cash flows provided by (used in) investment activities	30,998,691	(6,302,034)	(1,908,639)	(35,545,889)	-	(164,970,248)	(177,728,119)
Cash flows provided by (used in) from in financing activities	18,660,369	(28,871,810)	(3,123,029)	(9,850,520)	6,005,534	131,561,069	114,381,613

4. Financial information by segment, continued

For the year ended as of December 31, 2011	Fixed Telecommunications ThCh$	Long Distance ThCh$	Corporate Communication and Data ThCh$	Television ThCh$	Other ThCh$	Eliminations ThCh$	Total ThCh$
Income from external customers	455,630,947	48,743,848	109,614,596	81,081,655	7,906,167	-	702,977,213
Income between segments	76,916,545	53,264,803	10,122,297	39,547	66,904,229	(207,247,421)	-
Income from external customers and between segments	**532,547,492**	**102,008,651**	**119,736,893**	**81,121,202**	**74,810,396**	**(207,247,421)**	**702,977,213**
Income from ordinary activities arising from interest							
Interest expense	28,518,534	4,549	204,917	3,326,212	758,110	(13,898,494)	18,913,828
Interest income	9,397,592	9,420,404	831,824	10,803	56	(13,895,368)	5,765,311
Finance income, net segment	**(19,120,942)**	**9,415,855**	**626,907**	**(3,315,409)**	**(758,054)**	**3,126**	**(13,148,517)**
Depreciation and amortization	125,974,132	9,318,465	14,775,719	20,318,098	74,440	-	170,460,854
Other significant income (expense) items	364,044,430	44,962,270	106,497,223	54,383,199	70,589,154	(207,280,692)	433,195,584
Participation in profit of associated companies accounted for using the equity method	50,271,386	28,003	61,970	7,825	7,824	(49,298,912)	1,078,096
Income tax expense	6,236,785	10,463,587	(656,381)	1,091,930	911,026	-	18,046,947
Other significant non-cash items	558,994	449,627	(29,085)	(753,992)	28,727	(140,256)	114,015
Profits(loss) before tax	**74,238,368**	**57,621,401**	**(876,257)**	**2,358,329**	**3,425,299**	**(49,402,771)**	**87,364,369**
Profit (loss) for the year from continuing operations	**68,001,583**	**47,157,814**	**(219,876)**	**1,266,399**	**2,514,273**	**(49,402,771)**	**69,317,422**
Profit (loss) for the period from discontinuing operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit (loss) for the period	**68,001,583**	**47,157,814**	**(219,876)**	**1,266,399**	**2,514,273**	**(49,402,771)**	**69,317,422**
Assets	1,492,506,947	317,849,130	117,391,104	70,285,014	114,697,011	(788,438,901)	1,324,290,305
Investments in associates accounted for using the equity method	405,559,287	120,789	246,718	-	8	(398,514,992)	7,411,810
Increases in non-current assets	131,723,808	6,255,679	11,249,887	29,987,382	-	(4,202,355)	175,014,401
Liabilities	852,884,441	52,994,093	45,093,154	25,447,419	110,136,912	(400,528,162)	686,027,857
Shareholders' equity	639,622,506	264,855,037	72,297,950	44,837,595	4,560,099	(387,910,739)	638,262,448
Liabilities & Shareholders' equity	1,492,506,947	317,849,130	117,391,104	70,285,014	114,697,011	(788,438,901)	1,324,290,305
Cash flows provided by (used in) operating activities	175,843,858	52,619,971	36,421,200	23,183,118	(21,452,738)	7,087,719	273,703,128
Cash flows provided by (used in) investment activities	(61,484,353)	(38,961,489)	(11,180,147)	(29,987,388)	-	35,280,437	(106,332,940)
Cash flows provided by (used in) from in financing activities	(137,696,648)	(13,750,692)	(25,873,310)	6,672,630	21,516,128	(42,368,156)	(191,500,048)

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

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

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

5. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

Concepts	Currency	12.31.2012 ThCh$	12.31.2011 ThCh$
Cash (a)		**104,247**	**80,399**
	CLP	43,160	5,637
	USD	40,321	34,950
	EUR	20,766	39,812
Banks (b)		**10,939,658**	**6,412,593**
	CLP	10,608,029	5,990,785
	USD	136,003	334,197
	EUR	195,626	87,611
Time deposits (c)		**214,834,792**	**34,067,676**
	CLP	8,535,201	34,067,676
	UF	62,213,631	-
	USD	144,085,960	-
Repurchase agreements (d)		**20,689,269**	**228,449**
	CLP	20,689,269	228,449
Total cash and cash equivalents		**246,567,966**	**40,789,117**
Sub-total by currency	**CLP**	**39,875,659**	**40,292,547**
	UF	**62,213,631**	**-**
	USD	**144,262,284**	**369,147**
	EUR	**216,392**	**127,423**

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

a) Cash

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

b) Banks

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

5. Cash and cash equivalents, continued

c) Time deposits

Time deposits maturing in less than 90 days are recorded at fair value and as of December 31, 2012 and 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$	12.31.2012 ThCh$
Time deposits	CLP	8,526,000	5.15%	16	8,526,000	9,201	8,535,201
Time deposits	UF	2,713	3.70%	90	61,959,287	254,344	62,213,631
Time deposits	USD	299,955	4.04%	78	143,965,001	120,959	144,085,960
Total					**214,450,288**	**384,504**	**214,834,792**

Type of investment	Currency	Principal in original currency (thousands)	Average annual rate	Average days to maturity	Principal in local currency ThCh$	Accrued interest in local currency ThCh$	12.31.2011 ThCh$
Time deposits	CLP	34,022,000	6.40%	26	34,022,000	45,676	34,067,676
Total					**34,022,000**	**45,676**	**34,067,676**

d) Repurchase agreements

Repurchase agreements are instruments from different financial entities.

The balance to December 31, 2012 is as follows:

Code	Dates		Counterparty	Original currency	Subscription value MUSD	Annual rate	Final value ThCh$	Identification of instruments	Book value ThCh$
	Beginning	Ending				%			12.31.2012
CRV	Dec-27-12	Jan-02-13	BCI	CLP	8,400,000	4.8	8,404,480	BCU0300216	8,404,480
CRV	Dec-28-12	Jan-02-13	BBVA	CLP	12,280,000	4.7	12,284,789	BCP0600617	12,284,789
			Total		**20,680,000**		**20,689,269**		**20,689,269**

The balance to December 31, 2011 is as follows:

Code	Dates		Counterparty	Original currency	Subscription value MUSD	Annual rate	Final value ThCh$	Identification of instruments	Book value ThCh$
	Beginning	Ending				%			12.31.2011
CRV	Dec-30-11	Jan-03-12	BCI	USD	440	2.4	228,449	BCU0300713	228,449
			Total		**440**		**228,449**		**228,449**

6. Other current and non-current financial assets

Other current financial assets are detailed as follows:

Concepts		12.31.2012 Current ThCh$	12.31.2012 Non-Current ThCh$	12.31.2011 Current ThCh$	12.31.2011 Non-Current ThCh$
Guarantees established	(a)	478,482	200,959	59,081	200,959
Investment contracts	(b)	-	-	3,349,418	-
Other investments	(c)	-	7,287,018	-	9,437,512
Exchange rate hedge	(d)	4,519,653	9,221,669	8,658,051	15,563,783
Total		**4,998,135**	**16,709,646**	**12,066,550**	**25,202,254**

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

b) Financial investments as of December 31, 2011 are detailed as follows:

Type of investment	Currency	Average annual rate	Average days to maturity	Principal in local currency ThCh$	Accrued interest in local currency ThCh$	Market value 12.31.2011 ThCh$
Time deposit	UF	5.20%	176	3,344,105	5,313	3,349,418
Total				**3,344,105**	**5,313**	**3,349,418**

c) Other investments are detailed as follows:

Participation	Country	Investment currency	12.31.2012 ThCh$	12.31.2011 ThCh$
Telefónica Brasil (Ex - Telecomunicacoes de Sao Paulo S.A.) (1) (2)	Brazil	REAL	7,275,688	9,426,182
Other participation	Chile	CLP	11,330	11,330
Total			**7,287,018**	**9,437,512**

(1) This investment is valued at market value through the trading of its shares, information obtained in the Sao Paulo Stock Exchange (Bovespa), and variations in their value are recorded when they occur, directly in equity under other reserves.
(2) During 2012 dividends were received in the amount of ThCh$1,128,472 for the participation in Telefónica Brasil.

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

d) Hedge instruments are detailed as follows:

Type of hedge	Underlying	Net total as 12.31.2012	Up to 90 days	90 days to 1 year	To Maturity: Total current Assets	Total current Liabilities (note 18)	1 to 3 years	3 to 5 years	Total non-current Assets	Total non-current Liabilities (note 18)
		ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Exchange rate – cash flow hedge (1)	Supplier Debt	(3,352)	(13,890)	10,538	57,911	(61,263)	-	-	-	-
Exchange rate – fair value hedge (2)	Supplier Debt	640,766	657,145	(16,379)	859,922	(219,156)	-	-	-	-
Interest rate – fair value hedge (3)	Financial Debt	(251,333)	(251,333)	-	-	(251,333)	-	-	-	-
Interest rate – cash flows hedge (4)	Financial Debt	(1,847,222)	(1,847,222)	-	450,897	(2,298,119)	-	-	-	-
Exchange rate and interest rate – fair value hedge (5)	Financial Debt	4,447,337	(2,916,425)	2,925,812	3,150,923	(3,141,536)	7,041,757	(2,603,807)	9,221,669	(4,783,719)
	Total	**2,986,196**	**(4,371,725)**	**2,919,971**	**4,519,653**	**(5,971,407)**	**7,041,757**	**(2,603,807)**	**9,221,669**	**(4,783,719)**

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

Type of hedge	Underlying	Net total as 12.31.2011	Up to 90 days	90 days to 1 year	To Maturity: Total current Assets	Total current Liabilities (note 18)	1 to 3 years	3 to 5 years	Total non-current Assets	Total non-current Liabilities (note 18)
		ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Exchange rate – cash flow hedge (1)	Supplier Debt	47,978	-	47,978	129,738	(81,760)	-	-	-	-
Exchange rate – fair value hedge (2)	Financial Debt	(22,376)	2,633	(25,009)	61,208	(83,584)	-	-	-	-
Interest rate – fair value hedge (3)	Financial Debt	81,253	-	81,253	119,503	(38,250)	-	-	-	-
Interest rate – cash flows hedge (4)	Financial Debt	739,525	367,268	372,257	746,461	(6,936)	-	-	-	-
Exchange rate and interest rate – fair value hedge (5)	Financial Debt	21,775,900	7,022,479	(810,362)	7,601,141	(1,389,024)	15,480,020	83,763	15,563,783	-
	Total	**22,622,280**	**7,392,381**	**(333,883)**	**8,658,051**	**(1,599,554)**	**15,480,020**	**83,763**	**15,563,783**	**-**

Hedge instruments have generated an effect on income of ThCh$6,669,028 and ThCh$863,954 in equity during 2011.

Description of hedge instruments:

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

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

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

Concepts	12.31.2012 Current ThCh$	12.31.2012 Non-current ThCh$	12.31.2011 Current ThCh$	12.31.2011 Non-current ThCh$
Support and repair services	2,570,125	-	758,942	-
Insurance	605,588	-	273,462	-
Leases	10,536	-	12,592	-
Franchised commissions	6,176,928	-	3,930,497	-
Other amortizable expenses (1)	3,294,515	2,662,177	2,379,701	1,071,391
Total	**12,657,692**	**2,662,177**	**7,355,194**	**1,071,391**

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

8. Trade and other current receivables

a) Current receivables are detailed as follows:

Concepts	12.31.2012 Gross value ThCh$	12.31.2012 Allowance for doubtful accounts ThCh$	12.31.2012 Net value ThCh$	12.31.2011 Gross value ThCh$	12.31.2011 Allowance for doubtful accounts ThCh$	12.31.2011 Net value ThCh$
Receivables on current loan transactions	**280,205,250**	**(146,837,574)**	**133,367,676**	**252,008,738**	**(132,772,660)**	**119,236,078**
Invoiced services	234,666,169	(146,837,574)	87,828,595	207,231,107	(132,772,660)	74,458,447
Services provided and not invoiced	45,539,081	-	45,539,081	44,777,631	-	44,777,631
Miscellaneous receivables	**7,432,243**	**-**	**7,432,243**	**9,204,001**	**-**	**9,204,001**
Total	**287,637,493**	**(146,837,574)**	**140,799,919**	**261,212,739**	**(132,772,660)**	**128,440,079**

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

Concepts	12.31.2012 Less than 3 months	12.31.2012 3 to 6 months	12.31.2012 6 to 12 months	12.31.2012 Greater than 12 months	12.31.2012 Total	12.31.2011 Less than 3 months	12.31.2011 3 to 6 months	12.31.2011 6 to 12 months	12.31.2011 Greater than 12 months	12.31.2011 Total
Miscellaneous receivables	20,701,090	3,384,715	-	-	24,085,805	31,101,406	8,203,909	-	-	39,305,315
Total	**20,701,090**	**3,384,715**	**-**	**-**	**24,085,805**	**31,101,406**	**8,203,909**	**-**	**-**	**39,305,315**

8. Trade and other current receivables, continued

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

Movements	12.31.2012 ThCh$	12.31.2011 ThCh$
Beginning balance	**133,790,620**	**127,353,390**
Increases	23,435,016	24,156,104
Eliminations/ Additions	(9,305,864)	(17,718,874)
Movements, subtotal	**14,129,151**	**6,437,230**
Ending balance	**147,919,771**	**133,790,620**

d) Allowance for doubtful account movements according to the composition of the portfolio as of December 31, 2012 and 2011 are detailed as follows:

Provisions and write-offs	12.31.2012	12.31.2011
Accrual for portfolio that has not been renegotiated	23,645,554	24,720,132
Accrual for renegotiated portfolio	(210,539)	(564,028)
Write-offs for the year	(9,305,864)	(17,718,874)
Recoveries for the year	-	-
Total	**14,129,151**	**6,437,230**

e) As of December 31, 2012 and 2011 the portfolio of returned documents and those in judicial collection is detailed as follows:

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

Portfolio of returned documents and judicial collection as of 12.31.2011	Returned notes receivable portfolio w/o guarantee	Returned notes receivable, portfolio w/guarantee	Notes receivable in judicial collection, portfolio w/o guarantee	Notes receivable in judicial collection, portfolio w/guarantee
Number of customers in portfolio of returned documents or those in judicial collection	9,259	-	-	-
Portfolio of returned documents or those in judicial collection (ThCh$)	2,567,278	-	-	-

8. Trade and other current receivables, continued

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

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

8. Trade and other current receivables, continued

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

8. Trade and other current receivables, continued

Trade and other current receivables aged by segment for the year ending December 2011 are as follows:

Aging of portfolio by segment for the year-ended December 2011	Up to date ThCh$	From 1 to 30 days ThCh$	From 31 to 60 days ThCh$	From 61 to 90 day ThCh$	From 91 to 120 days ThCh$	From 121 to 150 days ThCh$	From 151 to 180 days ThCh$	From 181 to 210 days ThCh$	From 211 to 250 days ThCh$	More than 250 days ThCh$	Total portfolio w/o guarantee ThCh$
Fixed Telecommunications											
Number of clients w/o renegotiation	496,041	185,290	77,830	69,777	66,612	63,219	60,772	67,730	70,207	1,554,980	2,712,458
Gross portfolio w/o renegotiation	26,398,249	9,504,058	4,349,252	3,458,081	292,310	62,173	30,320	-	-	-	44,094,443
Debt	26,398,249	9,500,682	4,340,120	3,456,707	2,343,529	1,834,987	1,774,463	1,722,202	2,293,834	92,946,238	146,611,011
Accrual	-	3,376	9,132	1,374	(2,051,219)	(1,772,814)	(1,744,143)	(1,722,202)	(2,293,834)	(92,946,238)	(102,516,568)
Number of clients w/renegotiation	22,774	15,026	7,783	4,895	3,336	2,438	2,440	2,475	2,444	11,445	75,056
Gross renegotiated portfolio	663,346	4,663	-	-	-	-	-	-	-	-	668,009
Debt	1,542,566	181,094	88,941	60,801	42,009	34,600	30,644	27,192	29,590	226,834	2,264,271
Accrual	(879,220)	(176,431)	(88,941)	(60,801)	(42,009)	(34,600)	(30,644)	(27,192)	(29,590)	(226,834)	(1,596,262)
Total number of clients	**518,815**	**200,316**	**85,613**	**74,672**	**69,948**	**65,657**	**63,212**	**70,205**	**72,651**	**1,566,425**	**2,787,514**
Total Fixed Telephone Portfolio	**27,061,595**	**9,508,721**	**4,349,252**	**3,458,081**	**292,310**	**62,173**	**30,320**	**-**	**-**	**-**	**44,762,452**
Debt	**27,940,815**	**9,681,776**	**4,429,061**	**3,517,508**	**2,385,538**	**1,869,587**	**1,805,107**	**1,749,394**	**2,323,424**	**93,173,072**	**148,875,282**
Accrual	**(879,220)**	**(173,055)**	**(79,809)**	**(59,427)**	**(2,093,228)**	**(1,807,414)**	**(1,774,787)**	**(1,749,394)**	**(2,323,424)**	**(93,173,072)**	**(104,112,830)**
Long Distance											
Number of clients w/o renegotiation	86,575	66,581	23,163	13,761	18,484	12,337	15,416	15,037	16,872	832,401	1,100,627
Gross portfolio w/o renegotiation	6,387,924	1,628,281	1,003,505	593,649	257,218	914,554	5,552,494	-	-	-	16,337,625
Debt	6,387,924	1,628,281	1,003,505	593,649	520,758	995,990	5,673,030	261,099	233,375	15,915,011	33,212,622
Accrual	-	-	-	-	(263,540)	(81,436)	(120,536)	(261,099)	(233,375)	(15,915,011)	(16,874,997)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	**86,575**	**66,581**	**23,163**	**13,761**	**18,484**	**12,337**	**15,416**	**15,037**	**16,872**	**832,401**	**1,100,627**
Total Long Distance Portfolio	**6,387,924**	**1,628,281**	**1,003,505**	**593,649**	**257,218**	**914,554**	**5,552,494**	**-**	**-**	**-**	**16,337,625**
Debt	**6,387,924**	**1,628,281**	**1,003,505**	**593,649**	**520,758**	**995,990**	**5,673,030**	**261,099**	**233,375**	**15,915,011**	**33,212,622**
Accrual	**-**	**-**	**-**	**-**	**(263,540)**	**(81,436)**	**(120,536)**	**(261,099)**	**(233,375)**	**(15,915,011)**	**(16,874,997)**
Corporate Communication and Data											
Number of clients w/o renegotiation	2,019	1,104	633	408	347	346	295	268	190	4,949	10,559
Gross portfolio w/o renegotiation	42,264,287	6,160,886	1,442,865	623,416	448,517	369,394	275,691	-	-	-	51,585,056
Debt	42,264,287	6,160,886	1,442,865	623,416	504,221	433,011	304,008	677,033	1,165,395	3,177,693	56,752,815
Accrual	-	-	-	-	(55,704)	(63,617)	(28,317)	(677,033)	(1,165,395)	(3,177,693)	(5,167,759)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	**2,019**	**1,104**	**633**	**408**	**347**	**346**	**295**	**268**	**190**	**4,949**	**10,559**
Total Corporate Communication and Data Portfolio	**42,264,287**	**6,160,886**	**1,442,865**	**623,416**	**448,517**	**369,394**	**275,691**	**-**	**-**	**-**	**51,585,056**
Debt	**42,264,287**	**6,160,886**	**1,442,865**	**623,416**	**504,221**	**433,011**	**304,008**	**677,033**	**1,165,395**	**3,177,693**	**56,752,815**
Accrual	**-**	**-**	**-**	**-**	**(55,704)**	**(63,617)**	**(28,317)**	**(677,033)**	**(1,165,395)**	**(3,177,693)**	**(5,167,759)**

8. Trade and other current receivables, continued

Aging of portfolio by segment for the year-ended December 2011	Up to date ThCh$	From 1 to 30 days ThCh$	From 31 to 60 days ThCh$	From 61 to 90 day ThCh$	From 91 to 120 days ThCh$	From 121 to 150 days ThCh$	From 151 to 180 days ThCh$	From 181 to 210 days ThCh$	From 211 to 250 days ThCh$	More than 250 days ThCh$	Total portfolio w/o guarantee ThCh$
Television											
Number of clients w/o renegotiation	66,932	25,002	10,502	9,415	8,988	8,530	8,200	9,139	9,473	209,817	365,998
Gross portfolio w/o renegotiation	4,216,955	1,217,707	530,149	517,249	1,241	-	-	-	-	-	6,483,301
Debt	4,216,955	1,217,707	530,510	517,799	512,785	489,033	469,430	515,309	503,974	3,938,233	12,911,735
Accrual	-	-	(361)	(550)	(511,544)	(489,033)	(469,430)	(515,309)	(503,974)	(3,938,233)	(6,428,434)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	**66,932**	**25,002**	**10,502**	**9,415**	**8,988**	**8,530**	**8,200**	**9,139**	**9,473**	**209,817**	**365,998**
Total Television Portfolio	**4,216,955**	**1,217,707**	**530,149**	**517,249**	**1,241**	**-**	**-**	**-**	**-**	**-**	**6,483,301**
Debt	**4,216,955**	**1,217,707**	**530,510**	**517,799**	**512,785**	**489,033**	**469,430**	**515,309**	**503,974**	**3,938,233**	**12,911,735**
Accrual	**-**	**-**	**(361)**	**(550)**	**(511,544)**	**(489,033)**	**(469,430)**	**(515,309)**	**(503,974)**	**(3,938,233)**	**(6,428,434)**
Other											
Number of clients w/o renegotiation	4,589	67	44	8	19	22	35	42	47	95	4,968
Gross portfolio w/o renegotiation	9,204,001	38,820	27,775	1,049	-	-	-	-	-	-	9,271,645
Debt	9,204,001	42,196	36,546	1,873	8,198	5,750	17,547	28,941	30,456	84,777	9,460,285
Accrual	-	(3,376)	(8,771)	(824)	(8,198)	(5,750)	(17,547)	(28,941)	(30,456)	(84,777)	(188,640)
Number of clients w/renegotiation	-	-	-	-	-	-	-	-	-	-	-
Gross renegotiated portfolio	-	-	-	-	-	-	-	-	-	-	-
Debt	-	-	-	-	-	-	-	-	-	-	-
Accrual	-	-	-	-	-	-	-	-	-	-	-
Total number of clients	**4,589**	**67**	**44**	**8**	**19**	**22**	**35**	**42**	**47**	**95**	**4,968**
Total Other Portfolio	**9,204,001**	**38,820**	**27,775**	**1,049**	**-**	**-**	**-**	**-**	**-**	**-**	**9,271,645**
Debt	**9,204,001**	**42,196**	**36,546**	**1,873**	**8,198**	**5,750**	**17,547**	**28,941**	**30,456**	**84,777**	**9,460,285**
Accrual	**-**	**(3,376)**	**(8,771)**	**(824)**	**(8,198)**	**(5,750)**	**(17,547)**	**(28,941)**	**(30,456)**	**(84,777)**	**(188,640)**
Consolidated Portfolio											
Number of clients w/o renegotiation	656,156	278,044	112,172	93,369	94,450	84,454	84,718	92,216	96,789	2,602,242	4,194,610
Gross portfolio w/o renegotiation	88,471,416	18,549,752	7,353,546	5,193,444	999,286	1,346,121	5,858,505	-	-	-	127,772,070
Debt	88,471,416	18,549,752	7,353,546	5,193,444	3,889,491	3,758,771	8,238,478	3,204,584	4,227,034	116,061,952	258,948,468
Accrual	-	-	-	-	(2,890,205)	(2,412,650)	(2,379,973)	(3,204,584)	(4,227,034)	(116,061,952)	(131,176,398)
Number of clients w/renegotiation	22,774	15,026	7,783	4,895	3,336	2,438	2,440	2,475	2,444	11,445	75,056
Gross renegotiated portfolio	663,346	4,663	-	-	-	-	-	-	-	-	668,009
Debt	1,542,566	181,094	88,941	60,801	42,009	34,600	30,644	27,192	29,590	226,834	2,264,271
Accrual	(879,220)	(176,431)	(88,941)	(60,801)	(42,009)	(34,600)	(30,644)	(27,192)	(29,590)	(226,834)	(1,596,262)
Total number of clients	**678,930**	**293,070**	**119,955**	**98,264**	**97,786**	**86,892**	**87,158**	**94,691**	**99,233**	**2,613,687**	**4,269,666**
Total Consolidated Portfolio	**89,134,762**	**18,554,415**	**7,353,546**	**5,193,444**	**999,286**	**1,346,121**	**5,858,505**	**-**	**-**	**-**	**128,440,079**
Debt	**90,013,982**	**18,730,846**	**7,442,487**	**5,254,245**	**3,931,500**	**3,793,371**	**8,269,122**	**3,231,776**	**4,256,624**	**116,288,786**	**261,212,739**
Accrual	**(879,220)**	**(176,431)**	**(88,941)**	**(60,801)**	**(2,932,214)**	**(2,447,250)**	**(2,410,617)**	**(3,231,776)**	**(4,256,624)**	**(116,288,786)**	**(132,772,660)**

9. Receivables from and payable to related companies

a) Current receivables from related companies:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	12.31.2012 ThCh$	12.31.2011 ThCh$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	**Total**			**53,963,248**	**42,419,662**
				Professional Serv.	CLP	60 days	45,013,569	35,205,288
				Access & interc. charges	CLP	60 days	5,890,536	5,270,642
				Media rental	CLP	60 days	2,210,164	-
				Other	CLP	60 days	848,979	1,943,732
Telefónica Argentina S.A.	Foreign	Argentina	Relationship w/parent	**Total**			**2,619,657**	**3,084,244**
				Correspondents	USD	180 days	2,233,326	2,187,353
				Long Dist. Serv.	USD	180 days	120,742	-
				Other	USD	180 days	265,589	896,891
Telefónica del Perú S.A.	Foreign	Peru	Relationship w/parent	Correspondents	USD	180 days	2,679,361	2,057,102
Telefónica de España S.A.U.	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	180 days	798,385	1,844,750
Telefónica International Wholesale Services Chile S.A.	96.910.730-9	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	960,876	764,682
Telefónica International Wholesale Services España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	62,083	354,087
Telefónica Internacional S.A.U.	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	244,530	736,015
Terra Networks Chile S.A.	96.834.230-4	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	110,134	193,487
Atento Chile S.A. (1)	96.895.220-k	Chile	-	Serv. Provided	CLP	60 days	-	207,738
Telefónica Móviles Soluciones y Aplicaciones S.A.	96.990.810-7	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	98,406	152,110
Telcel Venezuela	Foreign	Venezuela	Relationship w/parent	Serv. Provided	USD	180 days	291,438	279,261
Telefónica S.A.	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	80,387	140,985
Telefónica Brasil	Foreign	Brazil	Relationship w/parent	Serv. Provided	USD	90 days	208,234	666,180
Colombia Telecomunicaciones S.A.E.S.P	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	235,557	402,871
Miraflores 130 S.A.	76.172.003-1	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	-	2,465,571
Telefónica Larga Distancia Puerto Rico	Foreign	Puerto Rico	Relationship w/parent	Serv. Provided	USD	90 days	170,534	101,119
Fundación Telefónica Chile S.A.	74.944.200-k	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	89,001	72,453
Telefónica Multimedia S.A.C. Perú	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	90 days	-	89,001
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	48,221	32,604
Telefónica Data Corp	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	60 days	33,629	33,629
Wayra Chile Tecnología e Innovación Ltda.	96.672.150-2	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	36,809	37,389
Otecel S.A.	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	27,038	38,460
Telefónica Internacional Chile S.A.	96.527.390-5	Chile	Parent company	Serv. Provided	CLP	60 days	5,401	12,191
Telefónica Móviles Guatemala	Foreign	Guatemala	Relationship w/parent	Serv. Provided	USD	90 days	3,619	9,497
Atento Colombia S.A.	Foreign	Colombia	-	Serv. Provided	USD	60 days	-	6,515
Telefónica USA Inc.	Foreign	USA	Relationship w/parent	Serv. Provided	USD	60 days	1,213	2,322
Telefónica Móviles El Salvador	Foreign	El Salvador	Relationship w/parent	Serv. Provided	USD	90 days	3,080	1,469
Telefónica Celular de Nicaragua	Foreign	Nicaragua	Relationship w/parent	Serv. Provided	USD	90 days	-	879
Telefónica Factoring Chile	70.096.189-2	Chile	Relationship w/parent	Serv. Provided	USD	90 days	3,751	-
Telefónica Slovakia	Foreign	Slovakia	Relationship w/parent	Serv. Provided	USD	60 days	27,850	-
Media Networks Perú	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	90 days	659,793	-
Total							**63,462,235**	**56,206,273**

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

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

9. Receivables from and payable to related companies, continued

b) Non-current receivables from related companies:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	12.31.2012 ThCh$	12.31.2011 ThCh$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	H.R. obligation	CLP	-	1,366,521	-
Total							**1,366,521**	**-**

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

c) Current payables to related companies:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	12.31.2012 ThCh$	12.31.2011 ThCh$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	**Total**			**46,958,601**	**38,069,658**
				Financial Serv.	CLP	60 days	35,173,112	29,265,031
				Fixed – Mobile cost	CLP	60 days	3,725,749	3,010,006
				Collection payable	CLP	60 days	3,582,973	2,182,740
				Access charges	CLP	60 days	2,015,350	-
				Other	CLP	60 days	2,461,417	3,611,881
Telefónica International Wholesale Services Chile S.A.	96.910.730-9	Chile	Relationship w/parent	**Total**			**16,681,726**	**12,176,072**
				Financial Serv.	CLP	60 days	11,254,015	8,582,015
				IP Voice Traffic	CLP	60 days	1,558,245	1,954,129
				Data and Links	CLP	60 days	3,280,482	-
				Other	CLP	60 days	588,984	1,639,928
Telefónica S.A.	Foreign	Spain	Relationship w/parent	**Total**			**3,350,736**	**2,511,012**
				Brand Fee	EUR	90 days	2,614,910	2,511,012
				Other	EUR	90 days	735,826	-
Atento Chile S.A.	96.895.220-k	Chile	-	**Total**			**-**	**5,469,894**
				Technical Call Center	CLP	60 days	-	2,497,015
				Other	CLP	60 days	-	2,972,879
Telefónica Internacional S.A.U. - España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	2,597,832	2,888,736
Telefónica Argentina S.A.	Foreign	Argentina	Relationship w/parent	Serv. Provided	USD	180 days	1,832,285	2,325,623
Telefónica del Perú S.A.	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	180 days	2,362,401	1,476,065
Telefónica Brasil	Foreign	Brazil	Relationship w/parent	Serv. Provided	USD	90 days	1,430,267	1,206,660
Terra Networks Chile S.A.	96.834.230-4	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	628,642	1,119,863
Telefónica Compras Electrónicas	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	1,963,898	914,293
Telefónica Global Technology	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	579,203	-
Fundación Telefónica Chile	74.944.200-k	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	526,766	673,620
Telefónica Data USA Inc.	Foreign	USA	Relationship w/parent	Serv. Provided	USD	60 days	248,070	642,994
Telefónica International Wholesale Services España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	435,993	524,634
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	328,444	510,637
Media Networks Perú	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	90 days	1,061,557	441,365
Colombia Telecomunicaciones S.A.E.S.P. (Telecom.)	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	128,807	350,060
Telefónica de España S.A.U	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	180 days	166,546	343,594
Atento Perú	Foreign	Peru	-	Serv. Provided	USD	90 days	-	221,865
Telefónica Empresas Brasil	Foreign	Brazil	Relationship w/parent	Serv. Provided	USD	90 days	-	155,651
Telefónica Servicios de Música -España	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	90 days	26,398	67,132
Subtotal next page							**81,308,172**	**72,089,428**

9. Receivables from and payable to related companies, continued

c) Current payables to related companies, continued:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	Term	12.31.2012 ThCh$	12.31.2011 ThCh$
Subtotal previous page							**81,308,172**	**72,089,428**
Telefónica Larga Distancia Puerto Rico	Foreign	Puerto Rico	Relationship w/parent	Serv. Provided	USD	90 days	21,096	32,080
Telecom Italia	Foreign	Italy	Relationship w/parent	Serv. Provided	EUR	90 days	162,517	28,035
Otecel S.A.	Foreign	Colombia	Relationship w/parent	Serv. Provided	USD	60 days	14,950	26,996
Wayra Chile Tecnología e Innovación Ltda.	96.672.150-2	Chile	Relationship w/parent	Serv. Provided	CLP	90 days	35,029	-
Telefónica Móviles El Salvador	Foreign	El Salvador	Relationship w/parent	Serv. Provided	USD	90 days	3,615	21,885
Televisión Federal Telefe – Argentina	Foreign	Argentina	Relationship w/parent	Serv. Provided	USD	90 days	-	9,963
Telcel Venezuela	Foreign	Venezuela	Relationship w/parent	Serv. Provided	USD	180 days	14,115	8,668
Telefónica Factoring	Foreign	Spain	Relationship w/parent	Serv. Provided	USD	180 days	-	2,972
Inversiones Telefónica Móviles	76.124.890-1	Chile	Relationship w/parent	Serv. Provided	CLP	60 days	1,532	1,531
Telefónica Learning	Foreign	Spain	Relationship w/parent	Serv. Provided	EUR	60 days	1,141	606
Telefónica Gestión de Servicios Compartidos - Perú	Foreign	Peru	Relationship w/parent	Serv. Provided	USD	60 days	160,250	-
Telefónica Factoring - España	Foreign	Spain	Relationship w/parent	Serv. Provided	USD	60 days	2,892	-
Total							**81,725,309**	**72,222,164**

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

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

9. Receivables from and payable to related companies, continued

d) Transactions:

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	12.31.2012 ThCh$	12.31.2011 ThCh$
Telefónica Móviles Chile S.A.	87.845.500-2	Chile	Relationship w/parent	**Total**		**98,029,509**	**31,552,215**
				Prof. Services	CLP	71,025,892	50,345,292
				Access charges and Interconnects	CLP	26,866,964	19,044,113
				Fixed - Mobile	CLP	11,614,592	8,232,773
				Other	CLP	437,777	310,310
				Interest income	CLP	134,755	95,518
				Fixed - Mobile cost	CLP	(3,886,334)	(17,657,875)
				800 Service	CLP	(3,717,681)	(16,891,587)
				Other	CLP	(2,466,387)	(11,206,231)
				Interest expense	CLP	(1,980,069)	(720,098)
Atento Chile	96.895.220-k	Chile	-	**Total**		**(13,029,183)**	**(15,515,829)**
				Sale	CLP	513,495	569,814
				Technical Call Center	CLP	(9,956,152)	(11,825,660)
				Other	CLP	(3,586,526)	(4,259,983)
Telefónica International Wholesale Services Chile S.A.	96.910.730-9	Chile	Relationship w/parent	**Total**		**(12,528,049)**	**(11,434,740)**
				Sale	CLP	1,860,799	1,752,427
				IP voice traffic and Internet Access	CLP	(13,294,877)	(12,116,130)
				Other	CLP	(946,559)	(862,635)
				Interest expense	CLP	(147,412)	(208,402)
Telefónica S.A.	Foreign	Spain	Relationship w/parent	Brand Fee	EUR	(9,987,950)	(10,065,988)
				Other	EUR	(1,173,221)	(1,182,388)
Telefónica Argentina S.A.	Foreign	Argentina	Relationship w/parent	Sale	USD	1,261,808	1,128,548
				Cost	USD	(5,053,609)	(4,469,791)
Telefónica Global Technology	Foreign	Spain	Relationship w/parent	Cost	EUR	(2,479,442)	(1,071,872)
Telefónica Compras Electrónica S.A.	Foreign	Spain	Relationship w/parent	Cost	EUR	(1,813,232)	(1,012,757)
Telefónica International Wholesale Services América	Foreign	Uruguay	Relationship w/parent	Cost	USD	(1,428,596)	(1,428,596)
Telefónica International Wholesale Services España	Foreign	Spain	Relationship w/parent	Sale	EUR	151,884	-
				Cost	EUR	(164,147)	(657,274)
Telefónica International Wholesale Services USA	Foreign	USA	Relationship w/parent	Rent Space Satellite	USD	-	(3,982,516)
Telefónica España	Foreign	Spain	Relationship w/parent	Sale	EUR	901,668	1,239,164
				Cost	EUR	(340,672)	(121,250)
Terra Networks Chile S.A.	93.834.230-4	Chile	Relationship w/parent	Sale	CLP	97,880	100,165
				Cost	CLP	(1,189,262)	(1,551,172)
Telefónica Internacional S.A.U.	Foreign	Spain	Relationship w/parent	Sale	EUR	185,019	298,528
				Cost	EUR	(2,500,440)	(3,276,477)
Telefónica Brasil	Foreign	Brazil	Relationship w/parent	Sale	USD	231,203	499,699
				Cost	USD	(931,282)	(1,190,291)
Telefónica Ingeniería de Seguridad S.A.	59.083.900-0	Chile	Relationship w/parent	Sale	CLP	22,375	14,011
				Cost	CLP	(879,656)	(908,959)
Telefónica del Perú S.A.	Foreign	Peru	Relationship w/parent	Sale	USD	940,905	873,231
				Cost	USD	(807,784)	(425,210)
O2 GMBH	Foreign	Inglaterra	Relationship w/parent	Cost	USD	-	(28,449)
Telefónica Servicios de Música	Foreign	España	Relationship w/parent	Cost	EUR	(317,545)	(370,846)
Atento Perú	Foreign	Peru	-	Cost	USD	(338,391)	(408,914)
Colombia Telecomunicaciones S.A.E.S.P. (Telecom.)	Foreign	Colombia	Relationship w/parent	Sale	USD	182,817	432,665
				Cost	USD	(105,444)	(143,545)
Telefónica Móviles El Salvador	Foreign	El Salvador	Relationship w/parent	Sale	USD	3,077	1,347
				Cost	USD	(33,989)	(22,059)

9. Receivables from and payable to related companies, continued

d) Transaction, continued

Company	Taxpayer No.	Country of origin	Nature of the relationship	Transaction origin	Currency	12.31.2012 ThCh$	12.31.2011 ThCh$
Telefónica Móviles Soluciones y Aplicaciones S.A.	96.990.810-7	Chile	Relationship w/parent	Sale	CLP	127,763	119,129
Otecel S.A.	Foreign	Colombia	Relationship w/parent	Sale	USD	72,014	285,483
				Cost	USD	(80,445)	(52,015)
Telefónica Larga Distancia Puerto Rico	Foreign	Puerto Rico	Relationship w/parent	Sale	USD	153,255	61,992
				Cost	USD	(17,793)	(46,144)
Telefónica Learning	Extranjera	Spain	Relationship w/parent	Cost	EUR	(542)	(630)
Wayra Chile Tecnología e Innovación Ltda.	96.672.150-2	Chile	Relationship w/parent	Sale	CLP	59,754	39,569
				Cost	CLP	(35,029)	(10,544)
Telefónica Internacional Chile S.A.	96.527.390-5	Chile	Parent company	Sale	CLP	4,285	8,827
Telcel Venezuela	Foreign	Venezuela	Relationship w/parent	Sale	USD	371,278	245,324
				Cost	USD	(7,767)	(2,336)
Pegaso PCS SA de CV	Foreign	Mexico	Relationship w/parent	Cost	USD	-	(16,017)
Terra Networks Inc	Foreign	USA	Relationship w/parent	Sale	USD	-	1,842
Televisión Federal Telefe – Argentina	Foreign	Argentina	Relationship w/parent	Cost	USD	(37,929)	(35,294)
Telecom Italia S.P.A.	Foreign	Italy	Relationship w/parent	Sale	EUR	84,351	-
				Cost	EUR	(34,500)	(27,612)
Telefónica Móviles Guatemala	Foreign	Guatemala	Relationship w/parent	Sale	USD	5,665	9,127
				Cost	USD	(1,160)	-
Telefónica Investigación y Desarrollo S.A.	Foreign	Spain	Relationship w/parent	Cost	EUR	-	(2,727)
Telefónica Empresas Brasil	Foreign	Brazil	Relationship w/parent	Sale	USD	148,755	-
				Cost	USD	-	(71,477)
Telefónica Factoring Chile	70.096.189-2	Chile	Relationship w/parent	Sale	USD	3,751	-
Telefónica Gestión de Servicios Compartidos Perú	Foreign	Peru	Relationship w/parent	Cost	USD	(160,596)	-
Telefónica USA Inc.	Foreign	USA	Relationship w/parent	Cost	USD	(660,891)	(645,148)
Media Networks Perú	Foreign	Peru	Relationship w/parent	Cost	USD	(4,071,136)	-
Telefónica Slovakia	Foreign	Slovakia	Relationship w/parent	Sale	USD	25,380	-
Fundación Telefónica Chile S.A.	74.944.200-k	Chile	Relationship w/parent	Interest income	CLP	-	18,658
Vivo Brasil	Foreign	Brazil	Relationship w/parent	Sale	USD	-	388,198

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

Title XVI of the Company's Law, and other relevant standards, requires that a 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.

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

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

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

9. Receivables from and payable to related companies, continued

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

The Company is managed by a Board of Directors composed of 14 members and its key employees are 82 executives for 2012 and 80 for 2011.

Concepts	12.31.2012 ThCh$	12.31.2011 ThCh$
Salaries	4,201,899	4,171131
Post employment benefits	252,966	1,094,806
Total	**4,454,865**	**5,265,937**

10. Inventory

a) The detail of inventory is as follows:

Concepts	Gross value ThCh$	12.31.2012 Allowance for obsolescence ThCh$	Net value ThCh$	Gross value ThCh$	12.31.2011 Allowance for obsolescence ThCh$	Net value ThCh$
Merchandise						
Modems and Router	3,591,983	(1,595,750)	1,996,233	3,926,214	(952,756)	2,427,065
Basic telephony, public telephony and switchboard ("centralitas") components	3,685,260	(1,098,845)	2,586,415	3,644,638	(810,096)	1,818,202
Decoders and antennas	685,692	(175,735)	509,957	2,087,561	(293,736)	1,693,122
IP Solutions Projects	673,920	-	673,920	25,724	-	25,724
Other	494,496	(113,626)	380,870	334,528	(121,506)	334,528
Total	**9,131,351**	**(2,983,956)**	**6,147,395**	**10,018,665**	**(2,178,094)**	**7,840,571**

As of December 31, 2012 and 2011 there have been no inventory write-offs, there is no inventory in guarantee or reversal of obsolescence accruals.

b) The movement of inventory is as follows:

Movements	12.31.2012 ThCh$	12.31.2011 ThCh$
Beginning balance	**7,840,571**	**6,348,034**
Purchases	12,912,414	19,556,236
Sales	(13,798,264)	(17,481,105)
Allowance for obsolescence	(805,862)	(569,541)
Transfer to materials allocated to the investment (note 16b)	(1,464)	(13,053)
Movement, subtotal	**(1,693,176)**	**1,492,537**
Ending balance	**6,147,395**	**7,840,571**

11. Income Taxes

a) Income Taxes:

As of December 31, 2012 and 2011, a consolidated first category income tax accrual has been established, therefore a positive tax base was determined in the amount of ThCh$137,800,978 and ThCh$102,931,165, respectively for each year.

The previous figures correspond to the income of the parent company and subsidiaries that present for December 2012 a positive tax base of ThCh$48,350,288 and ThCh$89,350,288 respectively; and ThCh$33,971,470 and ThCh$68,959,695, respectively, for December 2011.

As of December 31, 2012 and 2011 the tax losses accumulated by subsidiaries amount to ThCh$2,282,207 and ThCh$40,880,664, respectively.

At the Extraordinary Shareholders' Meeting held on December 30, 2011 the shareholders approved the merger by absorption of Telefónica Empresas Chile S.A. by Telefónica Multimedia Chile S.A., both direct subsidiaries of Telefónica Chile S.A. The absorbing subsidiary acquired all the assets and liabilities of Telefónica Empresas Chile S.A., and will succeed it in all its rights and obligations as legal continuer, incorporating all the equity and shareholders of Telefónica Empresas Chile S.A. dissolving the latter without the need for liquidation.

As of December 30, 2011 the absorbed company presented first category (corporate) tax losses in the amount of ThCh$3,782,773, which was entirely absorbed on the same date by taxable income with credit, in accordance with its Taxable Retained Earnings Registry ("FUT"). Due to the above, Telefónica Empresas, determined the sum of ThCh$643,071, as Provisional Payment on Absorbed Net Income, which is applicable due to the winding up of its activities.

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

Law No. 20,630 which establishes the first category tax rate at 20% as of the 2013 tax year was published on September 27, 2012. Due to the above, for the purpose of this close we have gathered the effects of that reform to determine the respective current and deferred taxes, which resulted in greater expense from first category and deferred taxes in the amount of ThCh$9,118,868.

11. Income Taxes, continued

a) Income Taxes, continued

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

Subsidiaries	Taxable net income with 17% credit ThCh$	Taxable net income with 20% credit ThCh$	Taxable net Income without credit ThCh$	Amount of credit ThCh$
Telefónica Chile S.A.	180,435,908	230,212,710	10,389,596	94,509,880
Telefónica Larga Distancia S.A.	15,949	82,348,186	9,417,538	20,590,313
Telefónica Chile Servicios Corporativos Ltda.	-	24,877,491	3,536,512	6,219,373
Telefónica Empresas Chile S.A.	1,071,315	18,178,032	5,360,972	4,763,934
Telefónica Gestión de Servicios Compartidos Chile S.A.	3,129,618	1,864,307	429,237	1,107,082
Total	**184,652,790**	**357,480,726**	**29,133,855**	**127,190,582**

b) Current income tax assets

As of December 31, 2012 and 2011, current income tax assets are detailed as follows:

Concepts	12.31.2012 ThCh$	12.31.2011 ThCh$
Retained earnings provisional payments	5,969,367	6,648,262
Monthly prepaid tax installments	1,451,437	7,013,723
Other (1)	2,789,381	5,007,830
Total	**10,210,185**	**18,669,815**

(1) Includes Sence credit, remaining VAT credit and other recoverable taxes.

c) Deferred taxes

As of December 31, 2012 and 2011, the cumulative balances of temporary differences resulted in net deferred tax liabilities of ThCh$44,859,783 and ThCh$45,742,065, respectively, detailed as follows:

Concepts	12.31.2012		12.31.2011	
	Assets ThCh$	Liabilities ThCh$	Assets ThCh$	Liabilities ThCh$
Allowance for doubtful accounts	29,870,885	-	24,670,978	-
Vacation provision	1,390,255	-	1,109,243	-
Staff severance indemnities	6,396,093	8,877,432	4,980,005	6,256,491
Amortization and depreciation of assets	2,460,091	82,916,017	1,336,639	77,337,932
Tax loss carry forward	271,714	-	293,992	-
Deferred income	1,080,637	6,921	710,174	-
Equity adjustment due to termination benefits	1,465,704	(614,420)	1,245,850	877
Incentive bonus	3,191,202	-	2,255,052	-
Other events (1)	1,925,559	1,725,973	2,089,823	838,521
Sub total	**48,052,140**	**92,911,923**	**38,691,756**	**84,433,821**
Reclassification	**(41,016,715)**	**(41,016,715)**	**(34,439,991)**	**(34,439,991)**
Total	**7,035,425**	**51,895,208**	**4,251,765**	**49,993,830**

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

11. Income Taxes, continued

d) Current income tax liabilities

As of December 31, 2012 and 2011, current income tax liabilities are detailed as follows:

Concepts	12.31.2012 ThCh$	12.31.2011 ThCh$
Income tax accrual (1)	7,588,500	11,397,134
Value added tax, net (2)	8,561,790	5,101,472
Other taxes (3)	1,715,012	3,158,172
Total	**17,865,302**	**19,656,778**

(1) First Category income tax is presented net of prepaid monthly tax installments.
(2) Includes VAT debit, VAT credit.
(3) Includes single tax, 10% withholdings, among others.

e) Income tax reconciliation

The income tax expense reconciliation for the period ended December 31, 2012 and 2011 are detailed as follows:

Concepts	12.31.2012		12.31.2011	
	Taxable base ThCh$	20% Tax Rate ThCh$	Taxable base ThCh$	20% Tax Rate ThCh$
Based on accounting income before taxes:				
Income before taxes	**91,420,240**	**18,284,048**	**87,364,369**	**17,472,874**
Permanent differences	**52,917,026**	**10,583,406**	**2,870,366**	**574,074**
Price-level restatement of taxable equity	(12,070,852)	(2,414,170)	(21,198,503)	(4,239,701)
Price-level restatement of investments	3,197,472	639,494	7,824,458	1,564,892
Income from investments in related companies	(322,748)	(64,550)	(565,828)	(113,166)
Adjustment on deferred tax beginning balances (1)	5,011,113	1,002,223	4,533,369	906,674
Difference due to legal change in rates	48,949,693	9,789,939	428,913	85,783
Prior year income tax deficit (surplus)	1,411,608	282,322	(1,474,362)	(294,872)
Provisional payment on own absorbed net income	-	-	6,005,189	1,201,038
Other (2)	6,740,739	1,348,148	7,317,130	1,463,426
Total corporate tax expense	**144,337,266**	**28,867,454**	**90,234,735**	**18,046,948**
Based on taxable net income and deferred taxes calculated on the basis of temporary differences				
20% income tax		27,560,196		20,586,233
35% income tax		319,123		335,197
Prior years deficit (surplus)		282,322		(294,872)
Provisional payment on net income absorbed by third parties		-		(6,005,190)
Refund adjustment		223,336		-
Contingencies provision tax		370,000		-
Income tax expense		**28,754,977**		**14,621,368**
Deferred tax expense		**112,476**		**3,425,579**
Total corporate tax expense		**28,867,454**		**18,046,947**
Effective income tax rate		**31.58%**		**20.66%**

(1) Adjustments for differences between the values used for the purpose of estimating deferred taxes and values according to final balance sheets.
(2) Other includes fines and sanctions, tax loss price-level restatement 2011, and financial write-offs, among others.

12. Non-current receivables

Non-current receivables are detailed as follows:

Concepts	12.31.2012 Gross value	12.31.2012 Allowance for doubtful accounts	12.31.2012 Net value	12.31.2011 Gross value	12.31.2011 Allowance for doubtful accounts	12.31.2011 Net value
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Trade receivables	5,570,800	(1,082,197)	4,488,603	5,455,608	(1,017,960)	4,437,648
Miscellaneous receivables	13,559,510	-	13,559,510	13,175,176	-	13,175,176
Total	**19,130,310**	**(1,082,197)**	**18,048,113**	**18,630,784**	**(1,017,960)**	**17,612,824**

13. Investments in associates accounted for using the equity method

a) For the year 2012 there are no investments in associated companies and for the2011 investments in related companies and a summary of their information are detailed as follows:

Taxpayer No.	Name	Investment balance 12.31.2011	Participation percentage	Currents assets	Non-currents assets	Liabilities currents	Non-currents liabilities	Ordinary income	Ordinary expenses	Income
96.895.220-k	Atento Chile S.A.	7,411,810	28.84	23,277,704	11,098,955	7,518,033	715,672	32,647,066	28,826,504	3,561,683

As for December 31, 2011 the Company held investments in associated companies Atento Chile S.A. with a 28.84% participation, the country of origin is Chile, its functional currency is the Chilean Peso and its main activity is "Call Center Services".

On December 12, 2012 the Company sold all its direct and indirect share interest in Atento Chile S.A. for a value of ThCh$5,319,415, equivalent to 3,209,204 issued shares. The carrying amount of the investment as of that date amounted to ThCh$4,902,885 with an effect on equity of ThCh$20,423. The income generated in the transaction in the amount of ThCh$396,107 is recorded under Other income (see Note 25b).

13. Investments in associates accounted for using the equity method, continued

b) The movement of participations in associated companies during the years 2012 and 2011 is as follows:

Movements	12.31.2012 ThCh$	12.31.2011 ThCh$
Beginning balance	**7,411,810**	**6,331,767**
Share in previous year ordinary profits (1)	127,855	50,907
Share in current year ordinary profits	194,896	1,027,189
Acquisition of interest in Telefónica Chile Servicios Corporativos Ltda.	-	(1)
Payment of dividends Atento Chile S.A. (2)	(2,811,862)	-
Other reserve increases (decreases)	(19,814)	1,948
Decrease due to sale of investment in Atento Chile S.A.	(4,902,885)	-
Movement, subtotal	**(7,411,810)**	**1,080,043**
Ending balance	**-**	**7,411,810**

(1) Corresponds to adjustment in the share of retained earnings of Atento Chile S.A., which is considered with a one-month time lag for year-end purposes. It is thus, as of December 31, 2012 the company presents the change in value of the investment generated in the month of December 2011, recognized during 2012, as a consequence of the value of the investment as of year-end being calculated on the basis of the unaudited financial statements as of November 30, 2011, as informed in the financial statements as of December 31, 2011.

(2) In May a dividend of ThCh$1,514,100 was received and in November a dividend of ThCh$1,297,762 was received.

14. Intangible Assets other than goodwill

a) Intangible assets other than goodwill as of December 31, 2012 and 2011 are detailed as follows:

Concepts	12.31.2012 Intangible, gross ThCh$	12.31.2012 Accumulated amortization ThCh$	12.31.2012 Intangible, net ThCh$	12.31.2011 Intangible, gross ThCh$	12.31.2011 Accumulated amortization ThCh$	12.31.2011 Intangible, net ThCh$
Intangible assets in development (1)	3,449,912	-	3,449,912	10,349,651	-	10,349,651
Licenses and franchises	156,006,228	(128,791,614)	27,214,614	136,305,479	(114,017,221)	22,288,258
Other intangible assets (2)	21,832,500	(14,391,496)	7,441,004	21,832,500	(12,941,376)	8,891,124
Total	**181,288,640**	**(143,183,110)**	**38,105,530**	**168,487,630**	**(126,958,597)**	**41,529,033**

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

(2) Corresponds to rights to use underwater cable.

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

Movements	Intangible assets in development, net ThCh$	Licenses and franchises, net ThCh$	Other intangible assets, net ThCh$	Intangible, net ThCh$
Beginning balance as of 01.01.2012	**10,349,651**	**22,288,258**	**8,891,124**	**41,529,033**
Additions	2,744,704	-	-	2,744,704
Transfer to service development costs	(9,664,685)	9,664,685	-	-
Amortization	-	(14,773,608)	(1,450,120)	(16,223,728)
Transfer of amortization	-	(785)	-	(785)
Transfer from work in progress (Note 16b)	20,242	10,036,064	-	10,056,306
Movement, subtotal	**(6,899,739)**	**4,926,356**	**(1,450,120)**	**(3,423,503)**
Ending balance as of 12.31.2012	**3,449,912**	**27,214,614**	**7,441,004**	**38,105,530**
Remaining average useful life	**-**	**2 years**	**5,4 years**	**-**

14. Intangible Assets other than goodwill, continued

Movements of intangible assets other than goodwill for 2011 are detailed as follows:

Movements	Intangible assets in development, net ThCh$	Licenses and franchises, net ThCh$	Other intangible assets, net ThCh$	Intangible, net ThCh$
Beginning balance as of 01.01.2011	**5,738,307**	**20,966,935**	**10,344,746**	**37,049,988**
Additions	10,555,154	-	-	10,555,154
Transfer to service development costs	(4,452,041)	4,452,041	-	-
Amortization	-	(13,496,361)	(1,453,622)	(14,949,983)
Transfer from work in progress (Note 16b)	(1,491,769)	10,365,643	-	8,873,874
Movement, subtotal	**4,611,344**	**1,321,323**	**(1,453,622)**	**4,479,045**
Ending balance as of 12.31.2011	**10,349,651**	**22,288,258**	**8,891,124**	**41,529,033**
Remaining average useful life	**-**	**2 years**	**6,1 years**	**-**

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

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. Impairment testing is determined taking into consideration the following estimated variables:

i. Projected income: The projection performed in respect to growth in the volume of future services rendered is 0.6%, growth rate that is consistent with historical behavior.

ii. Discount: The rate used to discount future cash flows is 9.20%, rate that represents the market value of the specific business and industry risk, taking into consideration the time value of money and individual risks of the assets being analyzed.

iii. Market assumptions: The future cash flows projection takes into account market assumptions on industry growth, country growth and projected inflation.

iv. Sensibility analysis: A sensibility analysis was performed in respect to the market recoverable value, modifying the discount rate and growth rate values. The sensitivity contemplated increasing the discount rate by 14%, and dropping the growth rate from 12% to 10.67%. No impairment whatsoever was identified in the values recorded in the Company's financial statements.

The financial statements for the years 2012 and 2011 have not been affected as a result of the impairment tests performed on these assets.

In the "Additions" column, the main additions for the years 2012 and 2011 correspond to investments in information applications.

15. Goodwill

Goodwill movement for the years 2012 and 2011 is as follows:

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

Taxpayer No.	Company	01.01.2011 ThCh$	Additions ThCh$	Eliminations ThCh$	12.31.2011 ThCh$
96.672.160-k	Telefónica Larga Distancia S.A.	21,039,896	-	-	21,039,896
96.811.570-7	Instituto Telefónica Chile S.A.	38,923	-	-	38,923
96.834.320-3	Telefónica Internet Empresas S.A.	620,232	-	-	620,232
	Total	**21,699,051**	**-**	**-**	**21,699,051**

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

i. Projected income: The projection performed in respect to growth in the volume of future services rendered is 0.6%, growth rate that is consistent with historical behavior.

ii. Discount: The rate used to discount future cash flows is 9.20%, rate that represents the market value of the specific business and industry risk, taking into consideration the time value of money and individual risks of the assets being analyzed.

iii. Market assumptions: The future cash flows projection takes into account market assumptions on industry growth, country growth and projected inflation.

iv. Sensibility analysis: A sensibility analysis was performed in respect to the market recoverable value, modifying the discount rate and growth rate values. The sensitivity contemplated increasing the discount rate by 14%, and dropping the growth rate from 12% to 10.67%. No impairment whatsoever was identified in the values recorded in the Company's financial statements.

According to the impairment calculations performed by management, as of 2012 and 2011 year-end there has been no need detected to make significant adjustments since the recoverable value is greater than the book value in all cases.

16. Property, plant and equipment

a) The detail of Property, plant and equipment items for the years 2012 and 2011 and their corresponding accumulated depreciation is as follows:

Concepts	12.31.2012 Property, plant & equipment, Gross ThCh$	12.31.2012 Accumulated depreciation ThCh$	12.31.2012 Property, plant & equipment, Net ThCh$	12.31.2011 Property, plant & equipment, Gross ThCh$	12.31.2011 Accumulated depreciation ThCh$	12.31.2011 Property, plant & equipment, Net ThCh$
Land	21,490,644	-	21,490,644	21,600,479	-	21,600,479
Buildings	716,968,498	(428,659,342)	288,309,156	715,856,642	(403,262,819)	312,593,823
Transport equipments	590,958	(510,651)	80,307	590,958	(476,914)	114,044
Supplies and accessories	21,800,462	(19,365,538)	2,434,924	21,113,380	(18,984,925)	2,128,455
Office equipments	1,582,632	(502,606)	1,080,026	1,215,174	(357,970)	857,204
Construction in progress	179,424,467	-	179,424,467	139,827,437	-	139,827,437
Other property, plant & equipment (1)	2,457,075,742	(2,000,561,329)	456,514,413	2,393,683,258	(1,936,918,571)	456,764,687
Total	**3,398,933,403**	**(2,449,599,466)**	**949,333,937**	**3,293,887,328**	**(2,360,001,199)**	**933,886,129**

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

Concepts	12.31.2012 Property, plant & equipment, Gross ThCh$	12.31.2012 Accumulated depreciation ThCh$	12.31.2012 Property, plant & equipment, Net ThCh$	12.31.2011 Property, plant & equipment, Gross ThCh$	12.31.2011 Accumulated depreciation ThCh$	12.31.2011 Property, plant & equipment, Gross ThCh$
General equipment	27,992,539	(27,356,702)	635,837	27,873,106	(26,870,998)	1,002,108
Subscriber equipment	195,996,728	(141,634,205)	54,362,523	194,032,509	(153,655,288)	40,377,221
Information processes equipment	36,402,588	(28,433,886)	7,968,702	32,465,653	(24,644,400)	7,821,253
Central offices (*)	1,291,930,166	(1,101,909,030)	190,021,136	1,251,449,230	(1,061,365,199)	190,084,031
External plant	904,753,721	(701,227,506)	203,526,215	887,862,760	(670,382,686)	217,480,074
Total	**2,457,075,742**	**(2,000,561,329)**	**456,514,413**	**2,393,683,258**	**(1,936,918,571)**	**456,764,687**

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

16. Property, plant and equipment, continued

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

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

(1) Includes net movement of transfers from construction in progress to service assets, transfers to intangible assets in the amount of ThCh$(10,056,306) (note 14b), transfers of inventory in the amount of ThCh$1,464 and assets re-injected from goods destined for sale in the amount of ThCh$181,678.

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

b) Movements of property, plant and equipment items for the year 2011 are as follows:

Movements	Land ThCh$	Buildings, net ThCh$	Transport equipments, net ThCh$	Supplies and accessories, net ThCh$	Office equipment, net ThCh$	Construction in progress, net ThCh$	Other property, plant & equipment, net ThCh$	Property, plant and equipment, net ThCh$
Beginning balance as of 01.01.2011	**21,635,013**	**325,503,290**	**147,780**	**2,103,144**	**870,748**	**109,053,169**	**476,714,727**	**936,027,871**
Additions	-	-	-	-	-	164,459,247	-	164,459,247
Retirements	(57,534)	(1,603,633)	(21,183)	(1,711)	-	-	(52,481,875)	(54,165,936)
Acc. Dep. retirements	-	1,442,386	21,183	1,711	-	-	50,190,046	51,655,326
Depreciation expense	-	(18,586,896)	(33,736)	(412,402)	(107,895)	-	(136,369,942)	(155,510,871)
Other Increase (decrease) (1) (2)	23,000	5,838,676	-	437,713	94,351	(133,684,979)	118,711,731	(8,579,508)
Movements, subtotal	**(34,534)**	**(12,909,467)**	**(33,736)**	**25,311**	**(13,544)**	**30,774,268**	**(19,950,040)**	**(2,141,742)**
Ending balance as of 12.31.2011	**21,600,479**	**312,593,823**	**114,044**	**2,128,455**	**857,204**	**139,827,437**	**456,764,687**	**933,886,129**

(1) Corresponds to net movement of transfers from construction in progress to service assets, transfers to intangible assets in the amount of ThCh$(8,873,874) (note 15b) and to transfers between inventory and construction in progress in the amount of ThCh$13,053 (Note 10b) and estimated cost of dismantling assets in the amount of ThCh$281,313.

(2) The decrease in construction in progress includes an amount of ThCh$47,355,267 which corresponds to assets in the homes of customers that are already in operation. Within the balance of the account the total value of assets that are waiting to be installed in customer homes is ThCh$19,216,761.

16. Property, plant and equipment, continued

Additions for the year 2012 fundamentally show the effect of incorporation of customer residential equipment (fixed telephone, broadband and television), long-distance transmission and voice and data equipment.

Removals include the effect of the sale of telecommunications infrastructures carried out on April 1 and December 31, 2011 by Telefónica Chile S.A. to ATC Sitios de Chile S.A. Those assets were recorded at a gross book value of ThCh$2,855,917 with depreciation of ThCh$2,812,929 as of April 30, 2011 and with a gross value of ThCh$759,875 with depreciation of ThCh$700,715 as of December 31, 2011.

Property, plant and equipment items originating from net financial lease operations amount to ThCh$1,870,381 for the year 2012 in the categories of buildings and the other property, plant and equipment. For year 2011, the amount for this concept was ThCh$3,088,213 corresponding to the buildings category and equipment of information technology.

The net amount of Property, plant and equipment items which are temporarily out of service as of December 31, 2012 and 2011 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.

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

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

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

The detail of which for the year 2012 and 2011 is as follows:

Concepts	12.31.2012 ThCh$	12.31.2011 ThCh$
Land	34,327	52,626
Buildings	31,300	205,823
Total	**65,627**	**258,449**

18. Other current and other non-current financial liabilities

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

Concepts		12.31.2012		12.31.2011	
		Current ThCh$	Non-current ThCh$	Current ThCh$	Non-current ThCh$
Bank loans	(a)	72,081,274	85,947,989	26,921	107,967,458
Unguaranteed obligations (Bonds)	(b)	5,113,610	376,167,965	70,215,324	137,919,376
Financial leases	(c)	1,935,034	1,989,944	1,351,015	2,526,134
Hedge instruments	(see note 6d)	5,971,407	4,783,719	1,599,554	-
Total		**85,101,325**	**468,889,617**	**73,192,814**	**248,412,968**

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

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

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

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

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

ii. On April 18, 2012 a 3-year bullet loan agreement was signed with Scotiabank & Trust (Cayman) Ltd. in the amount of USD 25 million at an interest rate of libor + 1.40% annually.

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

a) The detail of bank loans for 2011 is as follows:

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					
													To Maturity					Total nominal amounts in original currency
													Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	
Syndicated Loan	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	BBVA Bancomer and other	Mexico	USD	At expiry	1.19%	1.05%	USD 150 mm	2013	-	-	150,000	-	-	150,000
Bilateral Loan	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	USD	At expiry	1.73%	1.57%	USD 58.25 mm	2015	-	-	-	58,250	-	58,250
	Total bank loans												**-**	**-**	**150,000**	**58,250**	**-**	**208,250**

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current			Non-current			
								To Maturity		Total current as of 12.31.2011 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	90.635.000-9	Telefónica Chile S.A.	Chile	Foreign	BBVA Bancomer and other	Mexico	USD	15,053	-	15,053	77,842,519	-	-	77,842,519
Bilateral Loan	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	USD	11,868	-	11,868	-	30,124,939	-	30,124,939
	Total bank loans							**26,921**	**-**	**26,921**	**77,842,519**	**30,124,939**	**-**	**107,967,458**

iii. On February 25, 2011, Banco Santander S.A. Madrid transferred the rights over the loan of USD 58,250,000 granted to Telefónica Chile S.A. to Banco Santander Chile.

iv. On June 21, 2011, the Company paid the total current loan with Banco BBVA Bancomer and Others in the amount of USD 150,000,000 (equivalent to ThCh$70,942,500).

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

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

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

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

(1) The classification of both series is “AA-” and “AA” by Fitch Ratings and ICR, respectively. Both operations were led by BBVA.

(2) On October 12, 2012, Telefónica Chile S.A. issued Reg S 144A Bonds in the American capitals market in the amount of US$500,000,000 (equivalent to ThCh$236,400.00), at an effective annual interest rate in US dollars of 3.887% and a 10-year bullet maturing on October 12, 2022. Placement banks were Banco Bilbao Vizcaya Argentaria, S.A. Citigroup Global Markets Inc. and J.P. Morgan Securities LLC. Funds resulting from the issuance shall be destined to refinancing of liabilities and others corporate purposes.

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

b) The detail of unguaranteed obligations (Bonds) for 2011 is as follows:

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands)					
													To Maturity					Total nominal amounts in original currency
													Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	
Series F Bond	90.635.000-9	Telefónica Chile S.A.	Chile	97.080.000-K	Banco Bice	Chile	UF	Biannual	6.43%	6.00%	UF 1,500,000	2016	-	71	143	107	-	321
Series L Bond	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	UF	At expiry	4.45%	3.75%	UF 3,000,000	2012	-	3,000	-	-	-	3,000
Series M Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	CLP	At expiry	5.93%	6.05%	MCh$ 20,500	2014	-	-	-	20,500,000	-	20,500,000
Series N Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	UF	At expiry	3.21%	3.50%	UF 5,000,000	2014	-	-	-	5,000	-	5,000
Total unguaranteed obligations													**-**	**3,071**	**143**	**20,505,107**	**-**	**20,508,321**

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current			Non-current			
								To Maturity		Total current as of 12.31.2011 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$	
Series F Bond	90.635.000-9	Telefónica Chile S.A.	Chile	97.080.000-K	Banco Bice	Chile	UF	-	1,658,403	1,658,403	4,777,290	758,471	-	5,535,761
Series L Bond	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	UF	-	66,972,144	66,972,144	-	-	-	-
Series M Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	CLP	325,409	-	325,409	-	20,528,685	-	20,528,685
Series N Bond (1)	90.635.000-9	Telefónica Chile S.A.	Chile	97.004.000-5	Banco Chile	Chile	UF	1,259,368	-	1,259,368	-	111,854,930	-	111,854,930
Total unguaranteed obligations								**1,584,777**	**68,630,547**	**70,215,324**	**4,777,290**	**133,142,086**	**-**	**137,919,376**

(1) The classification of both series is “AA-” and “AA” by Fitch Ratings and ICR, respectively. Both operations were led by BBVA.

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

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

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

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

As December31, 2012 the present value of minimum current and non-current financial lease net payments is ThCh$3,924,978 and the total imputable interest is ThCh$191,981.

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

c) The detail of financial leases for 2011 as follows:

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Amortization type	Effective rate	Nominal rate	Nominal value	Term	Nominal amounts (in thousands) To Maturity Up to 90 days	90 days to 1 years	1 to 3 years	3 to 5 years	5 years and over	Total nominal amounts in original currency
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	UF	Monthly	-	8.10%	-	2016	1	2	4	3	-	10
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	92.040.000-0	IBM	Chile	USD	Monthly	-	-	-	2014	697	2,084	4,784	-	-	7,565
Total Financial leases													**698**	**2,086**	**4,788**	**3**	**-**	**7,575**

Classes	Debtor taxpayer No.	Debtor	Debtor country	Creditor taxpayer No.	Creditor	Creditor country	Currency	Current To Maturity Up to 90 days ThCh$	90 days to 1 years ThCh$	Total current as of 12.31.2011 ThCh	Non-current 1 to 3 years ThCh$	To Maturity 3 to 5 years ThCh$	5 years and over ThCh$	Total Non current as of 12.31.2011 ThCh
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	97.036.000-K	Banco Santander	Chile	UF	7,137	22,832	29,969	72,763	55,892	-	128,655
Financial leases	90.635.000-9	Telefónica Chile S.A.	Chile	92.040.000-0	IBM	Chile	USD	448,282	872,764	1,321,046	2,397,479	-	-	2,397,479
Total Financial leases								**455,419**	**895,596**	**1,351,015**	**2,470,242**	**55,892**	**-**	**2,526,134**

As December 31, 2011 the present value of minimum current and non-current financial lease net payments is ThCh$3,877,149 and the total imputable interest is ThCh$256,917.

19. Trade and other payables

The composition of Trade and other payables is as follows:

Concepts	12.31.2012 ThCh$	12.31.2011 ThCh$
Debts due to purchases or services provided (1)	122,902,244	78,770,472
Real property providers	34,667,478	74,374,659
Dividends pending payment	539,490	523,001
Payables to employees	24,419,202	19,234,730
Other	4,970,255	4,613,353
Total current	**187,498,669**	**177,516,215**

(1) The "Debts due to purchases or services provided" corresponding to foreign and domestic suppliers for the year ended December 31, 2012 and 2011 according to the following detail:

Debts due to purchases or services provided	12.31.2012 ThCh$	12.31.2011 ThCh$
Domestic	107,806,879	63,352,488
Foreign	15,095,365	15,417,984
Total	**122,902,244**	**78,770,472**

20. Other short-term provisions

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

Concepts	12.31.2012 ThCh$	12.31.2011 ThCh$
Civil and regulatory	1,549,209	1,376,579
Total	**1,549,209**	**1,376,579**

Civil and regulatory provisions are mainly composed of the complaint filed by the Chilean Telecommunications Undersecretary (Subtel) due to miscellaneous fines for an amount of MCh$597 and MCh$1,011 for 2012 and 2011, respectively, and civil lawsuit with the government in the amount of MCh$600 for 2012.

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

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

20. Other short-term provisions, continued

Movements in provisions for the year 2012 and 2011 as follows:

Movements	12.31.2012 ThCh$	12.31.2011 ThCh$
Beginning balance	**1,376,579**	**3,963,773**
Increase in existing provisions	1,012,725	1,083,494
Provision used	(840,095)	(3,670,688)
Movement subtotal	**172,630**	**(2,587,194)**
Ending balance	**1,549,209**	**1,376,579**

21. Employee benefits accrual

a) Post employment benefits

Current and non-current employee benefits accrual for the year 2012 and 2011 are as follows:

Concepts	12.31.2012 ThCh$	12.31.2011 ThCh$
Current amount of liability recognized for termination benefits	4,426,045	3,781,496
Non-current amount of liability recognized for termination benefits	25,888,804	26,659,214
Total	**30,314,849**	**30,440,710**

Movements for current employee benefits provisions for years 2012 and 2011 are detailed as follows:

Movements	12.31.2012 ThCh$	12.31.2011 ThCh$
Beginning balance	**30,440,710**	**51,799,185**
Service costs	1,535,227	438,667
Interest costs	1,763,458	2,225,489
Actuarial (profits)/losses, net (1)	(2,617,326)	159,590
Provision reversal (2)	-	(18,058,960)
Benefits paid	(1,213,568)	(7,390,693)
Intercompany transfers (3)	406,348	1,267,432
Movement subtotal	**(125,861)**	**(21,358,475)**
Ending balance	**30,314,849**	**30,440,710**

(1) In December 2012 there was a review of actuarial variables used to calculate the provision resulting in an increase in the discount rate, from 4.81% for 2011 to 5.80% for 2012, an increase in the salary increase rate of 1.5% for 2011 at 3% for 2012, and finally the RV 2004 mortality rate was changed for RV 2009. These changes meant recording a decrease in the provision in the amount of ThCh$1,596,249, with a charge to equity

(2) During the first quarter of 2011 the Company performed a review of the obligation maintained for termination benefits. As a result of that review the Company recorded a decrease in that accrual in the amount of ThCh$17,379,650, with a charge to equity and income for the year. All the above in function of the change in estimate of implicit obligations that the Company has with its employees. In addition it includes ThCh$679,310 for reversal of the integration plan recorded in 2010.

(3) Corresponds to values transferred from Telefónica Móviles Chile S.A. to subsidiary Telefónica Chile Servicios Corporativos Ltda. for the concept of termination benefits for employees transfered in the integration process.

21. Employee benefits accrual, continued

a) Post employment benefits, continued

Actuarial assumptions used for the year 2012 and 2011 are as follows:

Actuarial hypotheses used	12.31.2012	12.31.2011
Discount rate (nominal)	5.80%	4.81%
Expected salary increase rate	3.00%	1.50%
Mortality table	RV-2009	RV-2004
Turnover rate	5.46%	5.46%

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

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

b) Employee expenses

The composition of employee expenses is as follows:

Concepts	12.31.2012 ThCh$	12.31.2011 ThCh$
Wages and salaries	80,252,771	90,544,693
Post employment benefit obligations expense (1)	2,763,879	530,163
Total	**83,016,650**	**91,074,856**

(1) Correspond to the year ended December 31, 2012 and 4-month period as of December 31, 2011.

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

Other non-financial liabilities are detailed as follows:

Concepts	12.31.2012		12.31.2011	
	Current ThCh$	Non-current ThCh$	Current ThCh$	Non-current ThCh$
Connection installments	1,281,644	101,887	1,424,670	111,234
Subsidies	143,003	1,745,895	143,003	1,897,566
Deferred income	5,184,606	3,758,447	5,392,411	3,703,671
Total	**6,609,253**	**5,606,229**	**6,960,084**	**5,712,471**

Movements of Other non-financial liabilities are as follows:

Movements	12.31.2012		12.31.2011	
	Current ThCh$	Non-current ThCh$	Current ThCh$	Non-current ThCh$
Beginning balance	**6,960,084**	**5,712,471**	**7,914,003**	**5,910,720**
Endowments	8,128,543	1,776,539	3,027,142	238,381
Reduction/applications	(8,479,374)	(1,882,781)	(3,981,061)	(436,630)
Movement subtotal	**(350,831)**	**(106,242)**	**(953,919)**	**(198,249)**
Ending balance	**6,609,253**	**5,606,229**	**6,960,084**	**5,712,471**

23. Equity

a) Capital

As of December 31, 2012 and 2011, the Company's paid-in capital is composed as follows:

Number of shares

Series	12.31.2012 Nº of shares subscribed	Nº of shares paid	Nº of shares with voting rights	12.31.2011 Nº of shares subscribed	Nº of shares paid	Nº of shares with voting rights
A	873,995,447	873,995,447	873,995,447	873,995,447	873,995,447	873,995,447
B	83,161,638	83,161,638	83,161,638	83,161,638	83,161,638	83,161,638
Total	**957,157,085**	**957,157,085**	**957,157,085**	**957,157,085**	**957,157,085**	**957,157,085**

Capital

Series	12.31.2012 Subscribed capital ThCh$	Paid-in capital ThCh$	12.31.2011 Subscribed capital ThCh$	Paid-in capital ThCh$
A	527,852,620	527,852,620	527,852,620	527,852,620
B	50,225,762	50,225,762	50,225,762	50,225,762
Total	**578,078,382**	**578,078,382**	**578,078,382**	**578,078,382**

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

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

b) Distribution of shareholders

As established in Circular No. 792 issued by the Superintendency of Securities and Insurance ("SVS") of Chile, the distribution of shareholders based on their participation in the Company as of December 31, 2012 is as follows:

Type of Shareholder	Participation percentage %	Number of shareholders
Participation of 10% or more	97.888	2
Less than 10% participation:		
Investment equal to or exceeding UF 200	1.488	277
Investment under UF 200	0.624	8,856
Total	**100**	**9,135**
Company's parent	97.89	2

As of December 31, 2012 and 2011, the indirect participation of Telefónica S.A. (Spain) in the equity of Telefónica Chile S.A. reached 97.89% through Inversiones Telefónica Internacional Holding Ltda. with 52.99% and Telefónica Internacional Chile S.A. with 44.9%.

23. Equity, continued

c) Dividends:

i) Dividends policy:

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

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

ii) Capital decrease and dividends distributed:

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

Date	Number dividend	Dividend	Amount distributed ThCh$	Value per share Ch$	Charge to net income	Payment date
11-18-2011	181	Final	30,000,000	31.34282	Fiscal year 2011	December - 2011
11-18-2011	182	Final	50,401,195	52.65718	Fiscal year 2010	December - 2011
11-15-2012	183	Interim	34,906,581	36.46902	Fiscal year 2012	December - 2012
11-15-2012	184	Eventual	57,937,656	60.53098	Withheld 2011	December - 2012

d) Other reserves:

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

Concepts	Balance of 12.31.2011 ThCh$	Net movement ThCh$	Balance of 12.31.2012 ThCh$
Cash flows hedge reserve	863,954	(4,580,898)	(3,716,944)
Employee benefits reserve, net tax	(3,225,153)	809,444	(2,415,709)
Reserve for financial assets available for sale	5,603,354	(2,150,492)	3,452,862
Other (1)	364,309	(364,309)	-
Total	**3,606,464**	**(6,286,255)**	**(2,679,791)**

(1) Net movement includes reversal accrual corresponding to the "PSP" share-based remuneration plan in the amount of ThCh $384,638 and reversal of ThCh $20,331 corresponding to the share in the equity changes of associated company Atento Chile S.A. disposed of in December 2012.

23. Equity, continued

d) Other reserves, continued

i) Cash flows hedge reserve

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

ii) Employee benefits reserve

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

iii) Reserves for financial assets available for sale

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

e) Non-controlling interest

Non-controlling interest corresponds to recognition of the portion of shareholders' equity and income of subsidiaries belonging to third parties. The detail for the years ended as of December, 31, 2012 and 2011, respectively, is as follows:

Subsidiaries	Non-controlling Interest percentage		Shareholders' equity Non-controlling interest		Participation in profit income (loss)	
	2012 %	2011 %	2012 ThCh$	2011 ThCh$	2012 ThCh$	2011 ThCh$
Telefónica Larga Distancia S.A.	0.070000	0,080000	98,949	212,010	26,838	37,749
Telefónica Gestión de Servicios Compartidos Chile S.A.	0,001000	0.001000	43	33	9	7
Telefónica de Chile Servicios Corporativos Ltda.	49,000000	49.000000	2,535,962	(1,572,101)	3,420,491	1,278,085
Instituto Telefónica Chile S.A.	0,000047	0.000047	(1)	-	-	-
Telefónica Multimedia Chile Dos S.A.	0,000200	0.000200	-	-	(2)	(2)
Total			**2,634,953**	**(1,360,058)**	**3,447,336**	**1,315,839**

24. Earnings per Share

The details of Earnings per share are as follows:

Basic earnings per share	12.31.2012 ThCh$	12.31.2011 ThCh$
Earnings attributable to owners of the parent	59,105,450	68,001,583
Profit available for shareholders	**59,105,450**	**68,001,583**
Weighted average number of shares	957,157,085	957,157,085
Basic earnings per share in Ch$	**61.75**	**71.05**

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 potential negative effects on the Company's earnings per share.

25. Income and Expenses

a) The details of income for the years 2012 and 2011 are as follows:

Ordinary income	12.31.2012 ThCh$	12.31.2011 ThCh$
Sale of goods	18,353,087	20,086,483
Services rendered	676,634,600	682,890,730
Total	**694,987,687**	**702,977,213**

b) The detail of other operating income for the years 2012 and 2011 are as follows:

Other income	12.31.2012 ThCh$	12.31.2011 ThCh$
Other current management income	558,287	4,256,668
Income from indemnities, complaints and others	1,524,201	867,419
Income from disposal of real property (1)	2,106,622	10,459,618
Total	**4,189,110**	**15,583,705**

(1) As of December 31, 2012 income generated from the sale of Atento Chile S.A. is included in the amount of ThCh$396,107.

As of December 31, 2011 Includes income generated by the completion of the second phase of the sale of telecommunications infrastructure of Telefónica Chile S.A. to ATC Sitios de Chile S.A. whose assets had a net book value of ThCh$59,160 (see note 16b).

25. Income and Expenses, continued

c) The detail of other miscellaneous operating expenses by segment for the years 2012 and 2011 is as follows:

Other expenses	12.31.2012 ThCh$	12.31.2011 ThCh$
Interconnections	69,106,697	78,711,344
Media rental	48,841,268	43,839,294
Cost of sale of inventory	18,831,291	17,481,105
Other exterior services	34,063,345	46,550,050
Sales commissions	28,773,081	27,942,383
Customer service	22,614,788	25,258,978
Plant maintenance	37,152,887	33,690,344
Allowance for doubtful accounts	23,179,419	24,156,104
Advertising	13,968,925	14,313,228
Expenses related to real estate	15,232,921	15,766,765
Information services	19,925,963	20,472,087
Other	11,469,699	9,522,751
Total	**343,160,284**	**357,704,433**

d) The detail of financial expenses, net, for the years 2012 and 2011 is as follows:

Financial expenses, net	12.31.2012 ThCh$	12.31.2011 ThCh$
Interest income		
Interest earned on deposits	4,242,346	5,562,622
Interest on financial instruments	98,336	30,660
Other interest income (1)	2,356,923	172,029
Total interest income	**6,697,605**	**5,765,311**
Interest expense		
Interest on loans from bank institutions	2,265,581	1,389,345
Interest on obligations and bonds	9,792,420	8,102,697
Finance leases	132,372	168,276
Interest on mercantile mandate	2,024,751	870,379
Interest rate hedges (Cross Currency Swap)	9,937,233	7,951,434
Other financial expenses	646,604	431,697
Total interest expense	**24,798,961**	**18,913,828**
Total net	**(18,101,356)**	**(13,148,517)**

(1) As of December 31, 2012 this heading includes dividends received in April, June and December for a total of ThCh$1,128,472 for the participation in Telefónica Brasil (formerly Telecomunicacoes Sao Paulo SA Telesp).

26. Operating leases

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

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

Description	12.31.2012 Minimum payments ThCh$	12.31.2011 Minimum payments ThCh$
Expenses for the period	5,748,682	4,868,500
Up to 1 year	4,572,351	4,544,287
From 1 to 5 years	6,393,888	9,460,702
More than 5 years	5,961,266	7,633620
Total	**22,676,187**	**26,507,109**

27. Local and Foreign Currency

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

Currents assets	12.31.2012 ThCh$	12.31.2011 ThCh$
Cash and cash equivalents	**246,567,966**	**40,789,117**
US Dollars	144,262,284	369,147
Euros	216,392	127,423
Chilean Pesos	39,875,659	40,292,547
U.F.	62,213,631	-
Other current financial assets	**4,998,135**	**12,066,550**
US Dollars	3,228,327	139,356
Euros	11,856	-
Chilean Pesos	1,757,952	940,128
U.F.	-	10,987,066
Trade and other receivables, current	**140,799,919**	**128,440,079**
US Dollars	8,959,583	3,976,266
Chilean Pesos	131,840,336	122,463,999
U.F.	-	1,999,814
Receivables from related companies	**63,462,235**	**56,206,273**
US Dollars	6,802,366	8,082,752
Euros	-	98,451
Chilean Pesos	56,659,869	48,025,070
Other current assets (1)	**29,015,272**	**33,865,580**
Chilean Pesos	29,015,272	33,865,580
Non-currents assets or groups of assets for disposal classified as held for sale	**65.627**	**258,449**
Chilean Pesos	65,627	258,449
Total current assets	**484,909,154**	**271,626,048**
US Dollars	163,252,560	12,567,521
Euros	228,248	225,874
Chilean Pesos	259,214,715	245,845,773
U.F.	62,213,631	12,986,880

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

Non-currents assets	12.31.2012 ThCh$	12.31.2011 ThCh$
Other non-current financial assets	**16,709,646**	**25,202,254**
US Dollars	-	8,856,931
Chilean Pesos	7,487,977	9,638,471
U.F.	9,221,669	6,706,852
Non-current receivables	**18,048,113**	**17,612,824**
Chilean Pesos	18,048,113	17,612,824
Non-current receivables from related companies	**1,366,521**	**-**
Chilean Pesos	1,366,521	-
Other non-current assets (2)	**1,018,797,197**	**1,009,849,179**
Chilean Pesos	1,018,797,197	1,009,849,179
Total non-current assets	**1,054,921,477**	**1,052,664,257**
US Dollars	-	8,856,931
Chilean Pesos	1,045,699,808	1,037,100,474
U.F.	9,221,669	6,706,852

(2) Includes: Other non-current non-financial assets, investments in associates accounted for using the equity method intangible assets, goodwill, property, plant and equipment and deferred tax assets.

27. Local and Foreign Currency, continued

The detail for currency of current liabilities is as follows:

Currents liabilities	12.31.2012 Up to 90 days ThCh$	12.31.2011 Up to 90 days ThCh$	12.31.2012 91 days to 1 year ThCh$	12.31.2011 91 days to 1 year ThCh$
Other current financial liabilities	**986,100**	**3,054,137**	**84,115,225**	**70,138,677**
US Dollars	449,219	526,795	74,828,160	872,764
Chilean Pesos	241,491	1,260,837	5,928,632	578,661
U.F.	295,390	1,266,505	3,358,433	68,687,252
Trade and other payables	**187,446,551**	**177,465,314**	**52,118**	**50,901**
US Dollars	25,429,216	47,418,075	-	-
Euros	519,821	1,154,941	-	-
Other currency	59	194,024	-	-
Chilean Pesos	153,865,813	118,776,334	52,118	50,901
U.F.	7,631,642	9,921,940	-	-
Payables to related companies, current	**81,725,309**	**72,222,164**	**-**	**-**
US Dollars	15,614,695	14,755,311	-	-
Euros	3,920,352	3,704,205	-	-
Chilean Pesos	62,190,262	53,762,648	-	-
Other current liabilities (1)	**17,865,302**	**19,656,778**	**12,584,507**	**12,118,159**
Chilean Pesos	17,865,302	19,656,778	12,584,507	12,118,159
Total current liabilities	**288,023,262**	**272,398,393**	**96,751,850**	**82,307,737**
US Dollars	41,493,130	62,700,181	74,828,160	872,764
Euros	4,440,173	4,859,146	-	-
Other currency	59	194,024	-	-
Chilean Pesos	234,162,868	193,456,597	18,565,257	12,747,721
U.F.	7,927,032	11,188,445	3,358,433	68,687,252

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

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

Non-current liabilities	12.31.2012 1 to 3 years ThCh$	12.31.2011 1 to 3 years ThCh$	12.31.2012 3 to 5 years ThCh$	12.31.2011 3 to 5 years ThCh$	12.31.2012 5 years and over ThCh$	12.31.2011 5 years and over ThCh$
Other non-current financial liabilities	**181,914,652**	**85,090,051**	**49,654,868**	**163,322,917**	**237,320,098**	**-**
US Dollars	40,684,380	80,239,998	46,209,119	30,124,939	237,320,098	-
Chilean Pesos	22,685,781	-	2,603,807	20,528,685	-	-
U.F.	118,544,491	4,850,053	841,942	112,669,293	-	-
Other non-current liabilities (2)	**2,167,141**	**2,001,934**	**846,594**	**9,870,274**	**80,919,749**	**71,036,551**
Chilean Pesos	2,167,141	2,001,934	846,594	9,870,274	80,919,749	71,036,551
Other non-current liabilities	**184,081,793**	**87,091,985**	**50,501,462**	**173,193,191**	**318,239,847**	**71,036,551**
US Dollars	40,684,380	80,239,998	46,209,119	30,124,939	237,320,098	-
Chilean Pesos	24,852,922	2,001,934	3,450,401	30,398,959	80,919,749	71,036,551
U.F.	118,544,491	4,850,053	841,942	112,669,293	-	-

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

28. Contingencies and restrictions

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

Notwithstanding there are certain proceedings in which due to the aforementioned considerations it is believed that there is a risk of loss that is rated as probable, which has motivated the establishment of provisions for the amount of what would be the estimated loss as of December 31, 2012, which altogether amounts to ThCh$1,549,209.

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

a) Lawsuit against the State of Chile:

Telefónica Chile S.A. and Telefónica Larga Distancia S.A. filed a non-contractual damage indemnity complaint against the State of Chile for the illegality committed by it, consisting in the Ministry of Public Works ("MOP") incorporating in the concession tender documents of each of the concession contracts for road highway works signed from 1994 to 1998, a clause that extended to the highway concessionaries without the State being empowered to do so, the effects of the agreements signed from 1993 to 1995 between the Highways Department of the MOP ("Dirección de Vialidad del MOP") and TCH and TLD, regarding freeing them from the legal obligation of assuming the cost of moving telecommunication networks. The Government liberated the highway concessionaries from the obligation set forth in Article 16 of the Concessions Law (DFL 164/1991 issued by the MOP), through extending to them the effects of private covenants signed between the Government and TCH and TLD, which established that, under certain assumptions, these companies would assume the cost of moving their networks should the MOP so require.

The amount of damages claimed, consisting in both companies having been forced to pay to transfer their telecommunications networks due to the construction of public works concessions protected by the Concessions Law, is as follows:

a.- Telefónica Chile S.A.: ThCh$1,929,207
b.- Telefónica Larga Distancia S.A.: ThCh$2,865,209

28. Contingencies and restrictions, continued

a) Lawsuit against the State of Chile, continued

On March 24, 2008, the first and final instance sentence was notified rejecting the complaint without costs. This sentence was appealed and a right of appeal on points of law was filed by the complainants, recourses that were rejected by final sentence dictated by the Santiago Court of Appeals on January 5, 2011. The complainants filed a right of appeal on points of law before the Supreme Court, which was rejected through resolution dated December 4, 2012 (proceeding ended).

b) Miscellaneous lawsuits

i) Labor lawsuits

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

ii) Other complaints

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

28. Contingencies and restrictions, continued

c) Financial restrictions:

In order to develop its investment plans, the Company has obtained financing both in the local market and in the external market (see Note 18).

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

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

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

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

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

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

28. Contingencies and restrictions, continued

c) Financial restrictions, continued

In summary the debt agreements contemplate the following financial restrictions:

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

The obligations arising from the financing contracts mentioned above have been fulfilled as of December 31, 2012 and 2011. The debt ratio is calculated on the consolidated financial statements, and the values determined are:

	12.31.2012 ThCh$	12.31.2011 ThCh$
Total debt	**923,856,892**	**661,806,023**
Total Current Liabilities	384,775,112	354,706,130
Total Non-current Liabilities	552,823,102	331,321,727
Current Hedge Assets (less)*	4,519,653	8,658,051
Non-current Hedge Assets (less)*	9,221,669	15,563,783
Net shareholders' equity	**602,232,417**	**638,262,448**
Total debt	**923,856,892**	**661,806,023**
Net shareholders' equity	**602,232,417**	**638,262,448**
Debt ratio	**1.53**	**1.04**

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

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

28. Contingencies and restrictions, continued

d) Guarantee deposits:

The detail of guarantee deposits is as follows:

	Debtor			Current guarantee deposits	Liberated guarantees		
Guarantee creditor	Name	Relationship	Type of guarantee	ThCh$	2013 ThCh$	2014 ThCh$	2015 & thereon ThCh$
Director Regional de Vialidad VII Región	TCH	Parent company	Deposit	267,331	-	-	267,331
Others Guarantees (1)	TCH	Parent company	Deposit	175,269	172,167	1,514	1,588
Subsecretaria de Telecomunicaciones	TLD	Subsidiary	Deposit	1,030,536	-	-	1,030,536
Others Guarantees (1)	TLD	Subsidiary	Deposit	3,745	1,285	2,460	-
Gendarmería de Chile	TEM	Subsidiary	Deposit	2,236,486	-	-	2,236,486
Ministerio del Interior y Seguridad Publica	TEM	Subsidiary	Deposit	906,066	906,066	-	-
Dirección logística de Carabineros de Chile	TEM	Subsidiary	Deposit	391,571	391,571	-	-
Servicio de Salud Metropolitano Oriente	TEM	Subsidiary	Deposit	380,577	380,577	-	-
Servicio de Salud de Valparaíso – San Antonio	TEM	Subsidiary	Deposit	268,804	268,804	-	-
Subsecretaría de Salud Pública	TEM	Subsidiary	Deposit	306,007	306,007	-	-
Servicio de Salud Metropolitano Occidente	TEM	Subsidiary	Deposit	268,686	268,686	-	-
Servicio de Salud de Reloncavi	TEM	Subsidiary	Deposit	252,798	252,798	-	-
Servicio de Salud del Maule	TEM	Subsidiary	Deposit	249,360	249,360	-	-
Servicio de Salud de Ñuble	TEM	Subsidiary	Deposit	234,086	234,086	-	-
Servicio de Salud de Bio – Bio	TEM	Subsidiary	Deposit	233,596	233,596	-	-
Servicio de Salud de Viña del Mar – Quillota	TEM	Subsidiary	Deposit	233,499	233,499	-	-
Servicio de Salud Metropolitano Central	TEM	Subsidiary	Deposit	232,919	232,919	-	-
Servicio de Salud de Coquimbo	TEM	Subsidiary	Deposit	229,132	229,132	-	-
Junta Nacional de Auxilio Escolar y Becas	TEM	Subsidiary	Deposit	227,512	-	-	227,512
Servicio de Salud Metropolitano Norte	TEM	Subsidiary	Deposit	216,640	216,640	-	-
Servicio de Salud de Araucanía Sur	TEM	Subsidiary	Deposit	206,450	206,450	-	-
Servicio de Salud de O'Higgins	TEM	Subsidiary	Deposit	204,478	204,478	-	-
Servicio de Salud de Aconcagua	TEM	Subsidiary	Deposit	199,488	199,488	-	-
Servicio de Salud Metropolitano Sur Oriente	TEM	Subsidiary	Deposit	164,960	164,960	-	-
Servicio de Salud de Valdivia	TEM	Subsidiary	Deposit	155,882	155,882	-	-
Servicio de Salud Metropolitano Sur	TEM	Subsidiary	Deposit	148,934	148,934	-	-
Central de Abastec. del Sist. Nac. de Serv. de Salud	TEM	Subsidiary	Deposit	146,126	146,126	-	-
Servicio de Salud de Concepción	TEM	Subsidiary	Deposit	144,983	144,983	-	-
Servicio de Salud de Aysen	TEM	Subsidiary	Deposit	138,966	138,966	-	-
Servicio de Salud de Atacama	TEM	Subsidiary	Deposit	132,358	132,358	-	-
Fundación Educacional para El Desarrollo	TEM	Subsidiary	Deposit	130,933	130,933	-	-
Minera Escondida Limitada	TEM	Subsidiary	Deposit	82,516	-	82,516	-
Corporación Administrativa del Poder Judicial	TEM	Subsidiary	Deposit	80,000	-	80,000	-
Hospital de Urgencia Asistencia Pública	TEM	Subsidiary	Deposit	75,687	75,687	-	-
Policía de Investigaciones de Chile	TEM	Subsidiary	Deposit	75,000	75,000	-	-
Others Guarantees (1)	TEM	Subsidiary	Deposit	1,965,981	1,500,994	153,711	311,276
				12,397,362	**8,002,432**	**320,201**	**4,074,729**

(1) This item includes all guarantees with a value of less than ThCh$60,000, for each company.
TCH: Telefónica Chile S.A.
TEM: Telefónica Empresas Chile S.A.
TLD: Telefónica Larga Distancia S.A.

29. Environment

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

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

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

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

The Company is in the process of evaluating each phase contemplated by Law to identify and quantify its impact. As of December 31, 2012 the Company's expenditures in relation to the implementation of the corresponding phases are not significant.

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

30. Risk management (Not audited)

a) Competition

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

b) New Tariff Decree

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

c) Technological changes

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

d) Level of Chilean economic activity

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

30. Risk management (Not audited), continued

e) Financial risk management objectives and polices

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

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

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

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

Market Risk

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

Interest rate risk

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

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

30. Risk management (Not audited), continued

e) Financial risk management objectives and polices, continued

The Company periodically determines the efficient exposure to short and long-term debt due to changes in interest rates, considering its own expectations regarding future evolution of rates. As of 2012 year-end the Company had 31% of its current and non–current financial debt accruing interest at a fixed rate.

The Company believes it is reasonable to measure the risk associated to interest on the financial debt such as the sensitivity of the monthly financial accrual expense in case of a change of 25 basic points in the reference interest rate of the debt, which as of December 31, 2012 corresponds to the Nominal Average Chamber Rate (TCPN) ("Tasa Promedio de Cámara Nominal"). In this manner, an increase of 25 basic points in the monthly TCPN would mean an increase in the monthly financial accrual expense for 2012 of approximately Ch$76.0 million, whereas a decrease in the TCPN would mean a reduction of Ch$76.0 million in the monthly financial accrual expense for 2012.

Foreign currency risk

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

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

Credit risk

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

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

30. Risk management (Not audited), continued

e) Financial risk management objectives and polices, continued

Credit risk, continued

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

Liquidity risk

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

Capital management

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

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

There were no changes in the objectives, policies or processes during the years ended as of December 31, 2012 and 2011.

f) Regulatory Framework

Numeric Portability

Through Resolution No. 6,367 of November 19, 2011, the Undersecretary of Telecommunications enabled Telephone Number Portability in accordance with the timeline. The main milestones began with landline portability in the primary area of Arica, on December 5, 2011, continuing with mobile portability throughout the country on January 16, 2012, followed by landline portability in Santiago, on March 12, 2012. Landline portability was enabled progressively in the rest of the country until its completion on August 27, 2012, in the cities of Valdivia, Osorno, Puerto Montt, Copiapó, La Serena and Ovalle. Number portability of complementary services is still pending and is scheduled for February 2013.

30. Risk management (Not audited), continued

f) Regulatory Framework, continued

Numeric Portability, continued

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

It should be noted that portability does not have a significant impact, since the carrier rate of all companies at a national level is 1.9% of a total of 3,270,000 land lines and 3.1% of 24,227,000 total mobile lines.

Due to the above, in our opinion portability has facilitated competition.

Elimination of National Long Distance Service in certain regions

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

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

31. Subsequent events

The consolidated financial statements of Telefónica Chile S.A., for the year ended as of December 31, 2012 were approved and authorized for issuance at the Board of Directors Meeting held on January 29, 2013.

On January 29, 2013 the Company's Board of Directors approved the request for the cancellation of the inscription and registration of Telefónica Chile S.A. in the Valparaiso Stock Exchange, for internal management simplification reasons.

In the period from January 1 to 29, 2013, there have been no other significant subsequent events that affect these financial statements.

Rodolfo Escalante Fiestas
Accounting Manager

Roberto Muñoz Laporte
General Manager

CONSOLIDATED STATEMENTS OF CASH FLOWS DIRECT (PROFORMA)

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

	For the year ended December 31, 2012 ThCh$
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Classes of operating activity charges	
Proceeds from sale of assets and services rendered	1,001,394,620
Classes of payments	
Payments to suppliers for supplying goods and services	(498,675,005)
Payments to and on account of employees	(136,503,500)
Other operating activity payments	(76,368,683)
Net cash flows provided by (used in) operating activities	**289,847,432**
Income taxes (paid) reimbursed classified as operating activities	(20,722,077)
Cash flows provided by (used in) operating activities	**269,125,355**
CASH FLOWS PROVIDED BY (USED IN) INVESTMENT ACTIVITIES	
Proceeds from sale of property, plant and equipment, classified as investing activities	3,471,490
Additions to property, plant and equipment, classified as investing activities	(192,457,368)
Dividends received, classified as investing activities	4,046,305
Interest received, classified as investing activities	3,871,529
Other cash inputs (outputs), classified as investing activities	3,339,925
Net cash flows provided by (used in) investment activities	**(177,728,119)**
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES	
Proceeds from loans, classified as financing activities	
Amounts arising from long-term loans	296,400,000
Loans payments, classified as financing activities	(69,708,117)
Payments of financial lease liabilities, classified as financing activities	(1,396,040)
Dividends paid, classified as financing activities	(92,844,237)
Interest paid, classified as financing activities	(18,069,993)
Net cash flows provided by (used in) financing activities	**114,381,613**
Increase (decrease) in cash and cash equivalents, before the effects of changes in the exchange rate	**205,778,849**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**205,778,849**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**40,789,117**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**246,567,966**