
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF 1934

March 31, 2008

(Commission File Number: 001-10579)

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A.
(Exact name of Registrant as specified in its Charter)

TELECOMMUNICATIONS COMPANY OF CHILE
(Translation of Registrant's name into English)

Avenida Providencia No. 111, Piso 22
Providencia, Santiago, Chile
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F ______
Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): Yes ______ No ___X___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): Yes ______ No ___X___

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No ___X___

If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): ___N/A___

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Telefónica Chile

Compañía de Telecomunicaciones de Chile S.A. (Telefónica Chile) is a leading telecommunications company in Chile and one of the country s benchmark stocks. It was the first Latin American company to list on the New York Stock Exchange (NYSE) in 1990, when it carried out a successful issuance of American Depositary Receipts (ADRs).

The Company owns an estimated 65% of all telephone lines in the country, as well as 50% of the broadband market. It also provides a broad range of telecommunications and other services throughout Chile, including: voice, broadband, pay TV, long distance, public telephones, terminal equipment sales and leasing, data transmission and interconnection services.

The Republic of Chile

Chile is a narrow strip of land stretching 2,700 miles along the Pacific Coast of South America. Chile boasts a tremendously diverse landscape, from its southernmost point in the Antarctic territory to the world s driest desert the Atacama in the north, with lakes, volcanoes and agricultural land in between and Easter Island and Robinson Crusoe Island off the coast. The Andes Mountains form a natural border to the east, separating Chile from the neighboring countries Argentina and Bolivia, and beyond the desert in the north, Chile shares a border with Peru.

The capital city, Santiago, is home to over one-third of Chile s total population of approximately 16 million, and it is considered one of the most important business centers in Latin America. Outside of the capital, economic activity is driven by the country s abundant natural and mineral resources. Chile is the largest producer and exporter of copper and molybdenum in the world, and its non-mineral export products include wood pulp, fresh fruit, wine and salmon.

The Chilean government is a democracy, and it is ruled by President Michelle Bachelet, the country s first woman president, who began her four-year term in office in March 2006.

The Chilean economy is characterized by its openness, stability and steady growth, all of which contribute to an attractive investment climate. The country stands out within the region because of its prudent fiscal policies -in particular the practice of maintaining a structural surplus- and its inflation-rate targeting. These policies, as well as the country s solid financial institutions, are reflected in Chile s sovereign bond rating, which is one of the highest in Latin America.

The Chilean telecom market is the most competitive and dynamic in the region, with multiple operators in every business segment and considerable M&A activity. It was the first Latin American market to be fully open to competition, and all segments of the telecom markets, with the exception of fixed telephony, are deregulated in terms of pricing.

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With the exception of the financial statements and their related notes, the information contained herein has not been audited.

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Volume Statistics	**2003**	**2004**	**2005**	**2006**	**2007**
Lines in service	2,416,779	2,427,364	2,440,827	2,215,629	2,179,205
Average lines in service	2,558,291	2,406,266	2,451,356	2,332,634	2,185,823
Connections (lines)	308,266	343,318	358,088	384,003	439,224
Installed capacity (lines)(1)	3,037,267	3,043,379	3,007,432	3,021,487	3,032,522
Total traffic (millions of minutes) (2)	15,178	13,758	12,012	9,643	8,395
Access charge traffic (millions of minutes)	5,582	4,673	3,577	2,933	2,465
DLD traffic (millions of minutes)(3)	647	664	602	542	543
Outgoing ILD traffic (millions of minutes)(3)	64	67	66	68	74
ADSL in service	125,262	200,794	314,177	495,479	644,522
Pay TV Customers	0	0	0	94,209	219.916
Pay-phones (4)	11,060	10,288	10,272	10,472	10,080
DataRed (point to point links)	10,820	9,770	5,821	5,353	4,808
Frame Relay (points)	5,016	3,892	2,621	1,930	1,865
ATM (points)	1,790	1,660	1,085	1,101	1,101
Dedicated IP connections	7,018	10,377	10,869	12,634	15,581
Total personnel	4,720	3,774	3,910	3,660	4,291
Parent company personnel	2,624	2,817	2,945	2,973	3,619
Subsidiaries personnel	2,096	957	965	687	672
Quality and Efficiency Indicators					
Average waiting period for line installations (days between service request and connection)	3.91	3.16	4.00	8.30	6.90
Average waiting period for ADSL installations	3.62	2.15	3.19	6.70	5.60
Defects per line (annual average)	0.35	0.40	0.44	0.54	0.52
Defects repaired within 24 hours (average %)	71.13	56.89	41.29	31.00	39.65
Defects repaired within 72 hours (average %)	95.08	89.60	75.32	65.00	79.01
Consolidated Financial Data (in millions of US$ at Dec-07)					
Operating revenues	1,905	1,607	1,282	1,248	1,273
EBITDA (5)	895	748	626	627	570
Operating income	270	227	192	179	138
Net income	24	712	56	50	22
Long-term debt	1,677	1,280	1,005	1,111	894
Total assets	5,847	4,332	3,776	3,489	3,391
Capital expenditures (millions of nominal US$)	241	151	149	205	291
Market capitalization (millions of nominal US$)	3,569	2,670	2,074	1,884	1,775

(1) Fixed lines installed includes links and ISDN lines
(2) Effective traffic, which includes MLS, local tranche and prepaid
(3) Long distance traffic originated by Telefónica Chile
(4) Does not include community lines

(5) EBITDA= Operating income + depreciation

Dear Shareholders:

In the expanding information society in Latin America, Chile is the undisputed leader, heading the list for virtually every indicator of broadband penetration and new technology incorporation.

Yet, in light of the challenges facing the country, these results should not pause us into complacency.

Various experts and other players agree that Chile is fast approaching the threshold of development. In little more than a decade, by 2020, it can achieve the levels of prosperity and quality of life associated with the countries which serve as its standard of reference.

Furthermore, there is consensus that reaching this objective requires a significant increase in competitiveness based on innovation and higher productivity. For these three factors to coalesce, Chile needs to have a telecommunications industry capable of rising to the occasion.

In telecommunications, regional comparisons are no longer enough.We must focus on approaching the performance levels of the global leading countries. Currently, Chile has roughly 8 broadband subscribers per 100 inhabitants, compared to 17 in Spain, more than 22 in Australia, and in excess of 34 in Denmark, which is the world leader (OECD data).

This is the aim of our Company; to venture on the mass expansion of Chilean telecommunications through financially profitable and commercially attractive strategies. It is how we envision the country as well as the industry s future, and it is this guiding principle that underlies our determination to become, each day, a better company to our customers, our shareholders, our employees and Chilean society in general.

Change as reality

Telecommunications is advancing at a blistering pace, increasingly going into multiple aspects of everyday life, business and public administration. In an industry such as this, in which dynamic movement is the rule rather than the exception, embracing change is the only possible approach.

Today,Telefónica Chile is a fundamentally different company from what it was merely two years ago. Profound transformations have taken place in our business, our relationship with our customers and our environment.

We are no longer simply a telephone company but a multiproduct telecommunications company, offering complex voice and data services while also providing content. Customer relations have grown closer as well. Telecommunications, which used to be practically a luxury, are now a basic service. Thus, we are present in 35% of households, where we no longer merely manage the telephone but, instead, offer connectivity with the world and, through television, provide a platform for information and entertainment.

In the past, our battles were fought primarily on the regulatory field. Nowadays, they take place on the pitch of competition, where the prize consists in adding new customers and, more importantly, keeping them satisfied.

A strategy that yields results

At the close of 2006 we pledged to initiate a transformation process focused on our customers and on revenue diversification, multiplying our points of access. Our strategy was based on **innovation** -offering new, high-quality and commercially attractive services- and on **integration and flexibility**, which meant bundling services with customized solutions for our customers.

Today we can state that we have come a long way in this transformation process. At year-end 2007 we had a total of 3.04 million connections (including broadband, telephone lines and television plans), which translates into an 8.5% growth rate. While, at year-end 2006, 41% of our customers had multiple services, today the figure amounts to 54%.

Strategies are not proven through words but through real numbers.Very well, then: For the first time in five years, the Company s total revenues have expanded, for real annual growth of 2.0% .

Thus, we were able to fully offset the drop in revenues from lost land lines and lower telephone traffic, and we achieved this through our unregulated business, which already accounts for 74% of our revenues and constitutes our future focus.

Transforming our businesses

Mindful of this transformation strategy, we started the year 2007 by working to implement it in each of our lines of business.

In terms of telephone service, migrating from a traditional to a flexibility-based model has been crucial for our Company as it has reduced our exposure to regulated tariffs. We can now say that we have accomplished our objective: **flexible voice plans** already account for 68% of our Company s total lines in service.

While enabling us to build a new business model for voice services, the success of the flexible plans gave us the customer base needed to develop our integrated and flexible residential service bundles.

A key component of this multiproduct package is **broadband** service. Broadband sales grew 54.4% with respect to 2006, accounting for 16% of the Company s total operating revenues. Our growth efforts yielded results, allowing Telefónica Chile to close out 2007 with 644,522 broadband connections, which is equivalent to **50% of the market.**

Yet perhaps the single most persuasive proof of our dynamism and desire to grow is to be found in the performance of our **digital television** service. Many will be surprised to learn that, as of December 2007, after a mere eighteen months in this market, we had almost 220,000 customers. This result not only reflects our strong competitive position but also attests to our ability to change the face of an industry. The pay- TV market, which had for years been growing at low rates, went from a 20% to a 29% household market penetration.

In addition, our arrival transformed the pay-TV industry in terms of technological sophistication. In 2007 we became the first Latin American company to launch television service over broadband (Internet Protocol Television or IPTV). Moreover, we massively launched a value-added interactive platform that changes how pay-TV service is used (Personal Video Recorder).

Four strategic pillars

We have made strides in implementing changes. However, we firmly believe there is more to be done and we have to do it fast. Our accomplishments are considerable: we are on a clear path, described in our Plan Ahora, which identifies four central pillars and defines specific initiatives and targets to be achieved in order to consolidate our strategy.

Each pillar reflects our fundamental commitments as a company, our first commitment being to our **shareholders**. We want to offer you the best combination of growth and profitability, and fulfilling this promise requires revenue diversification and stabilization.

We also have, above all, a great responsibility to our **customers.** People demand service that is available at all times under the highest standards of quality. Thus, one of our key objectives for 2007 was to significantly raise customer satisfaction rates through investments aimed at increasing network reliability, improving customer care platforms and reducing installation and repair response times. Progress was achieved in all these areas but, while encouraged, we are not satisfied. Consequently, in 2008 this will continue to be a priority.

Then there is our commitment to our **employees**. Employee satisfaction is necessary if we are to advance toward common goals. Thus, we intend to be considered one of the best companies to work for in Chile on the basis of objective and comparable standards. Bolstered by internal ompany activities and greater communication, employee evaluations in the 2007 Great Place to Work survey improved by eight points with respect to the previous year, the biggest leap since 2002.

The final pillar is our commitment to **Chilean society**.We are the leaders in a key industry for the nation. Facilitating mass access to, and mass use of, information and communication technologies is a necessary condition for development. The availability of more and better telecommunication options has a direct impact on the quality of education, productivity, the ability of companies to compete and innovate, and many other areas.

Because of this, we are continuing to deepen our alliance with teachers and children in Chile through Educared.cl, the education portal that in 2007 trained more than 1,500 teachers and 18,000 students in the use of interactive tools.

But if 2007 witnessed a landmark example of our commitment to our country, it was the **Pro Niño** program, a private initiative aimed at eliminating child labor and keeping the most vulnerable minors inside the Chilean school system. In a single year, 1,377 children and adolescents received our support, allowing them to stop working and continue their studies.

Our commitment to art and culture was again expressed in 2007 through Fundación Telefónica. In its 11 years of life, more than two million visitors have streamed through the foundation s exhibition hall. In 2007 the figure continued to rise, as more than 120,000 people attended a total of four exhibits.

The future of a key industry

Endorsing the view of the Ministry of Transportation and Telecommunications that we not only can but must move faster in developing information technologies, we entered in late 2007 into the Public-Private Agreement for Digital Connectivity. Along with the Ministry, we believe that it is possible, by the time of the nation s Bicentennial in 2010, to have two million broadband connections and to have connected 10% of the two poorest quintiles of households. But we especially agree that, in order to quicken the pace, it is crucial, through the appropriate incentives, to encourage and favor network infrastructure investment as well as competition. And not in the higher income sectors, where all operators are already present, but in emerging areas, where networks have yet to reach and where Telefónica Chile is almost always the only player.

Financial results

The Company s transformation process, aimed at diversifying revenues by means of multiplying user connections, is reflected in the financial results of Telefónica Chile.

Operating revenues, which amounted to Ch$ 632.57 billion, grew by 2.0% with respect to the prior year. For the first time since 2002, revenues from new services broadband, pay TV and flexible voice plans, which are not subject to tariff regulation were able to offset the drop from fewer fixed telephony lines and lower telephone traffic. Today, these revenues account for as much as 74% of the Company s total consolidated revenues.

Penetrating these new markets and securing a solid customer base required building an attractive offer package and adopting a very aggressive business approach. As a result, sales commissions and expenses associated with the new TV business affected operating costs as compared to 2006. Thus, EBITDA fell to Ch$ 283.25 billion, a 9% decrease with respect to the previous year. Our future challenge is to continue to find ways to contain costs.

I would also like to underscore the financial soundness exhibited by the Company throughout 2007. Financial debt remained stable at Ch$ 391 billion. In addition, strong cash generation made it possible to allocate Ch$ 144.44 billion for investment, pay dividends in the amount of Ch$ 18.61 billion, and undertake a capital reduction of Ch$ 48.82 billion to distribute excess cash.

This soundness was recognized during the year by both local and international credit rating agencies. In September 2007, the local agency ICR raised the credit rating of the Company s long-term local currency debt from AA- to AA, with a stable outlook

A shared vision

What are the lessons of 2007? Essentially, the confidence gained from seeing the concrete results of a strategy born of a commitment to you, our shareholders.

Today we have become a company with diversified revenues and are once again beginning to grow in sales thanks to our ability to compete effectively. We are a company committed to instilling brand loyalty in its customer base not only by multiplying connections but by making efforts to deliver a higher-quality product. We are a new Telefónica Chile, a company that benefits from a better internal environment and has implemented an advanced labor relations model for use with its contractors.

Today we are present in practically 35% of households in Chile.Through Internet access and television content, our services contribute to ensuring a better education for children. They allow working parents to be more involved with their sons and daughters. Our services bridge distances. They bring families together.

Today we are in strategic partnership with thousands of small, midsized and large companies, and with the Chilean government as well, providing solutions to enable our country to keep growing, innovating and advancing.

Today we can do more.We can continue to bring new technologies to all social strata, helping not only to expand points of access but to increase the intensity of use and applications as well.

Such is the magnitude of our responsibility, which springs from a common vision shared by all of us, whether shareholders, employees or directors, who are a part of this Company. To all of them I would like to express my sincere thanks for their support, assistance and commitment in the face of this challenge; these qualities will enable us, together, to attain our goals.

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History and Significant Events

The Company s history begins in 1880, when telephone services first arrived in Chile. The first telephone call in the country was made on April 28, 1880 and was arranged by Compañía de Teléfonos Edison. This pioneering company, and those that succeeded it, ultimately gave rise to Compañía de Telecomunicaciones de Chile S.A., now commercially known as Telefónica Chile. Since that first call, the Company has gone through many owners and operated under a variety of names, but has always remained at the forefront of telecomunications in Chile.

The Company was officially organized as a corporation pursuant to a public instrument executed on November 18, 1930, and was entered in the Commercial Register of Santiago in 1931. Its Bylaws were approved under Resolution 599 of the Ministry of the Treasury on January 23, 1931.

In 1971, the Company was taken over by the Chilean Government and, in 1974, the Government-owned Corporación de Fomento de Producción (CORFO) acquired 80% of its capital stock. In 1987, CORFO began reducing its equity interest in the Company and proceeded to privatize it through a public offering process. Thus it was that Bond Corporation Chile S.A. came to hold a majority interest in the Company.

In April 1990, Telefónica S.A. (Spain), acting through its subsidiary Telefónica Internacional Chile S.A., acquired a stake in the Company and eventually became the majority and controlling shareholder by purchasing a 50.4% equity interest from Bond Corporation. Son after, in July of that year, Telefónica reduced its equity interest by placing stock on the international markets.The Company listed its stock on the New York Stock Exchange (NYSE). Subsequently, by means of capital increases and the purchase of an additional 1.3% in July 2004, Telefónica Internacional Chile S.A. came to hold a 44.9% equity interest in the Company, continuing to hold this percentage at December 31, 2007.

In July 2004 Telefónica Chile sold 100% of its shareholding in Telefónica Móvil de Chile S.A. to Telefónica Móviles S.A (TEM) for USD 1.321 billion.

In February 2004, Decree No. 742 was published, providing terms and conditions for the various plans and joint packages offered by dominant public telephone service operators. Tariff flexibility has allowed Telefónica Chile to offer its customers several commercial plans, other than the regulated plan, to satisfy their various needs. As of December 31, 2007, approximately 68% of telephone lines were subject to tariff flexibility.

In June 2006, the Company entered the pay-TV business by launching the Telefónica Televisión Digital service, bundling this service with voice and broadband services. Digital television is provided by satellite with nationwide coverage. The Company has expanded its offerings, adding other channels and value-added services such as interactivity through broadband TV (IPTV), which it launched in June 2007 as a Concept Test, likewise launching the Personal Video Recorder (PVR) service in September 2007.

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Significant Events in 2007:

- On April 13, 2007, shareholders acting at the General Shareholders Meeting reelected the entire Board of Directors of the Company; subsequently, Emilio Gilolmo was appointed Chairman of the Board.

- At the aforementioned Shareholders Meeting, shareholders approved payment of a final dividend (No. 173) of Ch$ 13.44 per share, equivalent to a total of Ch$ 12.87 billion. The dividend, which was charged to fiscal-year 2006 earnings, was paid on May 16, 2007.

- In addition, shareholders acting at the Special Shareholders Meeting of April 13, 2007, approved a capital decrease of Ch$ 48.82 billion for an additional cash distribution to shareholders. This cash distribution (No. 2) was equivalent to Ch$ 51.0 per share and was paid on June 12, 2007.

- On November 21, interim dividend No. 174 in the amount of Ch$ 5.74 billion, which is equivalent to Ch$ 6.0 per share, was distributed and charged to 2007 earnings pursuant to the General Dividend Distribution Policy.

- In September 2007, ICR (International Credit Rating) raised our local currency long-term debt risk rating from AA- to AA, with a stable outlook, based on: i) solid market position in the Chilean telecommunications industry; ii) strong cash flow generation; and iii) low debt levels.

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Economic Environment

The Chilean economy, widely recognized as one of the healthiest and most stable in the region, rests on several solid foundations: (i) the credibility and independence of the Central Bank in terms of monetary policies and meeting inflation goals; (ii) a voluntary commitment to a structural surplus, which provides that fiscal deficits may not exceed 0.50% of GDP commencing in 2008 and macroeconomic expenditures may not destabilize the fundamentals; (iii) the soundness of the country s financial system, which boasts even lower default rates than some industrialized countries; (iv) a stable institutional framework; (v) fulfillment of commitments; and (vi) a broad opening of the economy.

In 2007, fiscal revenue would have reached record levels, driven by the high prices of commodities, particularly copper. The result would be a fiscal surplus of approximately 8.4% of GDP. At the same time, the economy grew at an estimated rate of 5.2%, exceeding the 4% pace of 2006. Meanwhile, domestic demand increased by approximately 7.3%, total consumption rose by 6.5% and investment expanded by 10.0% . Annual average unemployment declined from 8.0% in 2006 to 7.0% n 2007, while inflation (CPI) for the 12-month period climbed to 7.8% in December 2007 due to price increases in crude oil, perishable foods (due to winter frosts) and non-perishable foods (products that compete with oil). These products are assigned a 20% weight in the basket, which explains the 75% increase in prices. At the end of the 2007 fiscal year, the local currency had appreciated 12.2% in nominal terms with respect to the US dollar at the end of 2006. Monetary policy is now moving away from the expansion cycle, with a nominal annual interest rate of 6.0% as of December 2007, having started the month of January at 5.0% . The current account in 2007 is expected to be 3.6% of GDP.

CHILEAN ECONOMY (revised series)

	2003	2004	2005	2006	2007 (e)
Gross Domestirc Product (billions of Ch$ of each year)	51,156	58,405	66,599	77,338	85,327
Gross Domestic Product (billions of Ch$ as of 1996)	51,156	54,217	57,316	59,589	62,698
GDP Per Capita (nominal US$)	4,648	5,954	7,314	8,875	9,840
GDP Growth (%)	4.0	6.0	5.7	4.0	5.2
Current Account / GDP (%)	-1.1	2.2	1.1	3.6	3.6
Domestic Savings / GDP (%)	20.0	22.2	23.5	24.0	23.6
Investment / GDP (%)	20.1	19.1	20.6	19.3	21.9
Net Debt / GDP (%) (1)	-14.5	-17.5	-18.8	-20.6	-24.0
Short-Term Liabilities / Reserves (%)	61.2	51.2	35.6	32.9	36.4
Annual Average Exchange Rate (Ch$/US$)	691.4	609.5	559.8	530.3	522.5
Unemployment (%)	9.5	10.0	9.3	8.0	7.0
Index (2)					
GDP Deflator	6.2	7.7	7.9	11.7	4.9
Consumer Prices (Annual Average)	2.8	1.1	3.1	3.4	4.4

(1) Debt - International reserves - Government Foreign Investments
(2) Growth Rates
Source: National Institute of Statistics, Central Bank of Chile and Telefónica Chile

Telecommunications Industry and Company Operations | **Economic Environment and Telecommunications**
01.1 **Industry**

Excess revenue resulting from the difference between the effective price of copper and the projected price in the 2007 fiscal budget has in large part been allocated to three large savings funds: the Fiscal External Fund, the Pension Reserve Fund and the Economic and Social Stabilization Fund. In addition, a portion of this revenue has been applied to the prepayment of foreign debt. Consequently, the fiscal sector (Government + Central Bank) has, commencing in December 2006, become a net creditor, in an amount estimated to reach US$ 34 billion by December 2008. This indicator, combined with the favorable state of the external accounts, has led to a low country risk as expressed through Chilean Sovereign Bonds, which hover at the 150 basis-point level, one of the five lowest among emerging countries and the lowest in Latin America. Chile is a very open economy, considering that a US$163 billion GDP coexists with foreign debt of US$55 billion, accumulated Chilean investments abroad of US$77 billion and international reserves of US$17 billion. The 2007 balance of trade amounted to US$ 24.5 billion or 16% of GDP. The average price of copper in 2007 was US$ 3.23 per pound, significantly higher than budgeted for the year.

In 2007, domestic savings remained at 23.6% of GDP, with investment levels on the order of 22% of GDP. Net foreign investment in Chile continues at close to 4% of GDP because the influx of foreign capital especially through direct investment has been encouraged by the country s economic stability and risk ratings, among other factors.

In 2006, Moody s Investor Service raised its country rating to A2 and, in December 2007, Standard & Poor s raised its rating from A to A+ , both with a stable outlook.

Telecommunications Industry

The offering of integrated services was further consolidated in 2007, generating a new focus of competition among the various industry operators, all of which have weighed in with either their own services or third-party partnerships. Thus, in the residential market, practically all fixed operators already offer bundled services (voice, broadband and TV). A similar situation is developing with voice and broadband plans in the SME segment, while, in the corporate segment, operators offer integrated solutions that allow companies to consolidate their IP networks to transmit voice and data, facilitating integration toward business processes based on information technologies. Across the board, mobile communications have become widely available throughout the country s various social and corporate strata.

The competition model still in place at the national level is based on a network infrastructure that uses mainly copper pair (ADSL), coaxial, mobile (GSM) and (for corporate clients) fiber-optic technologies.

In the mobile market, a noteworthy development was the addition of 3G to the technological arsenal of operators, who as a whole utilize the UMTS / HSDPA standard.

In the area of wireless solutions,Telmex launched WiMax service for voice and broadband. VTR stated its intention of expanding its current coverage under the same technology, while Telsur continues to implement its wireless telephony services.

Industry Developments

In 2007, the telecommunications industry in Chile, including the pay television business, posted sales of US$ 6.0 billion, or 17% higher than in 2006 in nominal terms. This increase is primarily due to the growth of the mobile market and to broadband and pay television development.

At December 2007, the fixed telephony market stood at approximately 3.4 million lines, which amounts to a 2% increase with respect to December 2006. The fixed-line penetration rate as of December 2007 was 20.2 lines per 100 inhabitant, which is similar to the 19.8 figure for 2006.

The long-distance fixed telephony market maintained the downward trend in traffic that has been the case since 1999. Thus, annual domestic long-distance traffic decreased by 10.8% in 2007 with respect to last year, while international long-distance traffic fell by 9.9% in the same period. These drops are primarily due to the growth of mobile telephony and Internet communications at the expense of fixed telephony.

The corporate communications and data transmission markets witnessed an increase in sales on the order of 10%, principally driven by IP services and increased outsourcing and integration of information

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Chilean Telecommunications Industry

Business	**Operators**	**Market Size**	**Telefónica Chile Market Share**
Fixed Telephony (1)	7	20.2 lines per 100 inhabitants	65% of lines in service
Long Distance (2)			
- Domestic	17	83 minutes per inhabitant per year (3)	41% of total market traffic
- International	17	10 minutes per inhabitant per year (3)	41% of total market traffic
Payphones (4)	7	Approx. 29,291 lines	33% of payphones
Data Transmission	8	Revenues of US$ 420 million (5)	42% of revenues
Pay TV	5	1.29 million connections	17% of customers
Dial up Internet Access	45 ISPs	30,000 dial up connections on public telephone network (6)	81% of traffic (7)
Broadband	8	1.29 million broadband connections (8)	50% of total connections
Home Assistance	3	265 thousand customers	19% of customers
Mobile Telephony	3	88 lines per 100 inhabitants	(9)

(1) There are 3 additional companies which operate only in rural telephony. In total, there are 10 fixed telephony companies operating under 12 brands.
(2) There are 39 operators with an assigned carrier code for offering LD services. At December 31, 2007, only 30 were in operation and 17 of them account for 99% of total LD traffic.
(3) In actual minutes.
(4) Does not include community telephones of Telefónica Chile.
(5) Calculated in US dollars at December 2007. Includes private networks as well as voice and data equipment. Estimated share based on data as of September 2007.
(6) Includes residential dial-up access connecting at least once a month.
(7) Includes all points of access to the Telefónica Chile networks, regardless of ISP.
(8) Includes speeds of at least 128 Kbps
(9) As of July 2004, Telefónica Chile is no longer in this business.

technology services. Operators continue to migrate their traditional services (ATM, Frame Relay, Datared and enlaces E1) toward IP and NGN (Next Generation networks). As of December 2007, there were eight major operators in the main cities of Chile, three of which possess nationwide infrastructure coverage.

Regarding Internet access services, total broadband connections (ADSL, cable MODEM and wireless) reached 1.3 million by year-end 2007, having grown 26% with respect to year-end 2006. As of December 2007, ADSL broadband connections accounted for 59% of total nationwide broadband connections. In addition, Chile now has in place a network of approximately 525 Wi-Fi hotspots located throughout the country.

At year-end 2007, the mobile telephony market reached a total figure of approximately 14.7 million subscribers, having grown by 14% with respect to the prior year. The factors affecting this growth notably include expanded offers of GSM services and availability of prepaid services, which account for 76% of total customers. All three mobile operators currently participating in this market use primarily GSM technology.

In the pay television business, VTR is the dominant player, with a market share of 66%. Second place is held by Telefónica Chile, with 17% after a mere 18 months of operations in this business. Followed by close to twenty cable TV operators limited to specific areas and collectively accounting for approximately 5% of the market. The remaining

12% is made up by two satellite TV operators, of which 4.3% corresponds to the local satellite operator ZAP TV, which was acquired by Telmex in July 2007.

Regulatory Framework

Tariff System

Pursuant to Law No. 18,168 (General Telecommunications Act), prices for public telecommunications services and intermediary telecommunications services are freely determined by operators unless the Antitrust authority specifically rules that market conditions are insufficient to ensure a free pricing system, in which case certain telecommunications services become subject to tariff regulation.

Maximum tariffs for the local fixed telephony services provided by Telefónica Chile S.A. are set every five years. The current period ends May 4, 2009.

For the 2009-2014 period, the Antitrust Authority may determine which fixed telephony services are to be subject to tariff regulation or be unregulated. Mobile telephony, data and pay television services are specifically exempt under the General Telecommunications Act. Furthermore, maximum tariffs for interconnection services (mainly network access fees) are by law always subject to regulation for all industry operators and are set in accordance with the procedures provided in the aforementioned Act.

Pursuant to the General Telecommunications Act, the structure, level and indexing of the maximum tariffs that may be charged for tariff- regulated services are determined under a joint decree issued by the

Ministry of Transportation and Telecommunications and the Ministry of Economy, Development and Reconstruction (hereinafter, the Ministries). The Ministries determine such maximum tariffs on the basis of a hypothetical efficient-company model.

Regulated Tariffs for Local Telephony Services

In Resolution No. 686, dated May 20, 2003, the Competition Tribunal ruled that local telephone services, payphone service, fixed line connections and other services associated with local telephone service were to be subject to tariff regulation. Accordingly, it was determined that Telefónica Chile would, in its capacity as dominant operator , be regulated as to tariff levels and structure throughout Chile, with the exception of Regions X and XI and Easter Island, where other companies are the dominant operators.

Tariff Decree No.169 for the 2004 2009 five-year period applicable to Telefónica Chile, was approved and published in the Official Gazette on February 11, 2005, with retroactive effect as of May 6, 2004.

Tariff Flexibility

Pursuant to Resolution No. 709 dated October 13, 2003, the Antitrust Authority decided to: Accept the request submitted by Compañía de Telecomunicaciones de Chile S.A., but only inasmuch as Resolution No. 686, dated May 20, 2003 needs clarification in the sense that lower tariffs or other plans may be offered; provided, however, that the terms thereof aimed at duly protecting and assuring customers with respect to those holding a dominant position in the market, shall be subject to regulation by the relevant authority.

The Official Gazette of February 26, 2004 published Decree No. 742, which provides regulations governing the terms on which dominant local public telephony operators may provide alternative plans and joint offers. The aforementioned regulations were subsequently amended under Decree No. 160, dated February 26, 2007 and published in the Official Gazette on May 8, 2007, eliminating certain existing obligations. These include the obligation, prior to their launching, to invite third parties to participate in bundled offers, as well as obligations relating to information provided to customers.

This tariff flexibility allows Telefónica Chile to offer its customers various commercial plans other than the regulated plan. Services subject to tariff regulation account for approximately 26% of revenues in 2007.

Under Open Resolution No. 1,443, dated November 21, 2007, the Office of the Undersecretary of Telecommunications (Subtel) lowered the average monthly consumption level for Heavy Use Plans to 5,000 minutes for 2008, compared to 7,500 minutes for 2007.

Adaptation of Technical and Regulatory Provisions

In striving toward a telecommunications industry that is more equitable, competitive and protective of society, in 2007 Subtel adapted and modified certain technical and regulatory provisions pursuant to commitments jointly undertaken with operators under the public consultation titled Removal of Obstacles to the Short-Term Development of Telecommunications. These measures include amending tariff flexibility regulations by eliminating the need to offer terms prior to marketing unregulated plans and joint offers and by authorizing the use of electronic media to sell services. Thus, Subtel did away with some barriers and obstacles that were impairing efficient development of the telecommunications market in terms of competition, investment incentives and protection of customers and users.

IP Telephony Regulation

On December 20, 2006, Subtel initiated a public consultation regarding the draft IP Telephony Public Service Regulations, with the aim of identifying all issues that should be included in such regulations. Telefónica Chile provided comments and proposals on January 26, 2007. As of January 2008, Subtel had submitted the Regulation, which is still subject to legal compliance confirmation by the Office of the General Comptroller of the Republic.

Draft Bills Aimed at Amending the Legal Framework

Changes in the telecommunications industry and technological advances have radically affected the way in which services are provided as well as the range of services, yet the legal framework has remained intact. This has created vacuums that prevent the industry from responding to the growing and varied needs of users in terms of telecommunications access. In view of this, Subtel has shared with industry operators the following draft bills:

Creation of a Panel of Experts

This bill aims at creating a panel of technical experts comprising seven professionals, to be appointed by the Antitrust authority. The panel will be responsible for resolving any dispute and disagreement between a company and the regulatory authorities, thus reducing the number of compliance and regulatory telecommunications issues subject to the judicial process. The costs of the panel will be borne pro rata by the licensee companies on the basis of each company s asset value and/or the estimated number of disputes affecting it and the nature and complexity of such disputes.

Creation of an Office of Superintendent of Telecommunications

This bill aims at creating a jurisdictional separation between the setting of telecommunications policy and the monitoring and punitive preventive control of market operations. As of January 31, 2008, this draft bill is under analysis at Subtel.

Amendment of License Rules

This bill aims at giving network operators and service providers a set of rules to obviate bureaucratic procedures when initiating services. In view of technological advances leading to a convergence of networks and services, the proposed system is designed, among other issues, to replace the licensing and permitting procedures currently required prior to initiating service. The new registration-based system would make it necessary to register before telecommunications service can be provided, but would eliminate the need for prior approval from regulatory authorities unless the service involves exclusive use of the radio spectrum.

In addition, this bill:

- establishes differences between network operators and service operators;
- eliminates local-domestic long distance (DLD) separation and DLD multicarrier, keeping it only for international long distance (ILD);
- amends the freedom to determine service areas by providing that service areas originally listed upon registration may not be reduced;
- defines broadband as a telecommunications service;
- provides for higher penalties by increasing fines; and
- shortens the period for addressing service supply requests from two years to six months.

Subtel has indicated that it will conduct a second public consultation on this issue.

Network Neutrality Bill

Aimed at ISPs and telecommunications access providers, the Network Neutrality Bill, among other provisions, maintains the prohibition against blocking, interfering with, discriminating against or hindering the ability of users to access, utilize, send, receive or offer any legitimate content, application or service through the Internet; requires access providers and ISPs to take action designed to ensure user privacy, virus protection and network security; and sets a 90-day period for Subtel to issue regulatory provisions for operating issues and identify practices restricting the free use of content or services. This bill is now at its second constitutional stage. Telefónica Chile has submitted a report, including comments and proposals, to the Senate Public Works, Transportation and Telecommunications Committee, including comments and proposals.

Digital Connectivity

In 2007, Telefónica Chile jointly executed a Digital Connectivity Agreement with Subtel, Fundación País Digital, fixed and mobile telephony licensees, long distance carriers, the Mobile Telephony Association and the Association of Internet Providers. By setting goals aimed at improving telecommunications service coverage, the agreement seeks to enhance collaborative efforts toward significantly reducing the digital gap. Goals include facilitating communications for the general public, attaining two million broadband access points, connecting 100% of rural schools, providing access to telecommunications services to 95% of the country s rural population, and driving the country s productive development through information and communication technologies.

Telefónica Chile will participate in the various work areas described in the Digital Connectivity Agreement. These include: digital connectivity regulations; competition and new technology; Telecommunications Development Fund and corporate social responsibility; and indicators and tracking.

Mission

Telefónica Chile s mission is to lead the growth and innovative development of the Information Society in Chile by building relationships of deep-seated trust and mutual benefit with customers, employees, shareholders, the government, and the country at large.

The Company harnesses its corporate values, technological innovations and communications solutions in the service of this objective, striving to improve the lives of its customers and contribute to the country s welfare.

In furtherance of its mission, in 2007 the Company invested more than US$290 million toward the development of broadband technologies and digital services (Digital TV, data services and information technologies).

Corporate and Business Strategy

Telefónica Chile s corporate and business strategy is focused on making the Company more competitive and the leader in the Chilean telecommunications industry. Current market dynamics and new customer needs, such as coverage assurance, greater Internet connection speed or greater direct interaction with users, require Telefónica Chile to offer increasingly fast, flexible and attractive services and make them available at the customer s request. Another important goal is to provide coverage for all socioeconomic sectors, making Internet access and simpler communications possible for the entire population.

The execution of this strategy is based on Plan Ahora, an internal action plan built on the Company s commitment to four strategic pillars: customers, employees, society and shareholders, defining specific objectives for each and delineating the initiatives undertaken to achieve these objectives.

Shareholders: The best combination of growth and profitability

Telefónica Chile maintains a particular emphasis on constant innovation and on productivity gains, with the aim of growing profitably and in line with shareholder demands. Thus, the Company invests in businesses with the greatest potential impact, ensuring efficient operations and process management.

Customers: The best customer experience

The objective is to lead the industry in customer satisfaction. To achieve this, the Company promotes an organizational culture based on excellence, innovation and customer focus in all areas, emphasizing service delivery and customer care quality with a view to consolidating its competitive and market leadership position.

Employees: The best company to work for in the telecommunications industry

With a view to attracting the best talent and assembling a team that is not only the best but is also motivated and keen to accomplish its goals, the Company has implemented an internal workplace management model that focuses on five areas of action: leadership, communications, compensation, development, and recognition.

Society: Social commitment

Our objective is to be recognized as a socially responsible company in light of our efforts to shrink the digital-social gap by providing broadband access to the low-income population and by contributing to education through digital literacy and connectivity programs at schools and through social programs.

In this context, the line of action by business area is as follows:

Residential Segment

The objective is to grow and build customer loyalty through a leveraged bundled offering of services that include flexible plans of minutes broadband, television and value-added services. A significant component of this strategy is to develop an extensive and innovative range of services on ADSL broadband, thus helping to make the digital home concept a reality and driving the market through interactive entertainment.

SME Segment

The objective is to provide customers with flexible solutions and integrated services that meet specific needs in the area of information and communication technology, while offering competitively superior quality and service. The emphasis is on improving service by migrating to plans of minutes, increasing broadband speed and massively expanding solutions designed to integrate equipment, maintenance, and voice and data services.

Corporate Segment

The objective is to maintain leadership by reinforcing long-term relationships with customers, developing deeper customer insight and offering comprehensive solutions through the IP-driven convergence of voice, data, and video. Quality assurance will be the principal underpinning; consequently, efforts will be made to achieve a high degree of operations, service provision and resource management excellence.

Telecommunications Products and Services

The Company s primary business focus in 2007 was on marketing its Duo and Trio voice, broadband and television bundles, whose main feature is the flexibility afforded customers to choose the services they need according to their specific interests. In other words, customers build their own service bundles with the number of voice minutes they need, the broadband speed they require, and the TV plan that suits their personal tastes. As of December 31, 2007, 54% of all Company customers had subscribed to more than one product with Telefónica Chile, which compares favorably with only 41% in 2006.

The main products and services offered by the Company are described below:

Telephone Service (Voice):

Telefónica Chile ended 2007 with 2,179,205 lines in service, of which 69% were for residential customers, 18% for SME customers, 11%, for corporate clients and 2% for wholesalers. The average number of lines in service fell by 6.3 % compared to 2006.

The Company provides basic telephone services to its customers through the public telephone network in two forms:

(i) Regulated Plan:

Includes telephone line service (fixed monthly charge); local traffic (metered local service and local calls); and connection to the public network, among others.

(ii) Plans of minutes (Tariff flexibility plans):

Starting in 2004, as an alternative to the Regulated Plan, the Company began to market Flexible Plans (see Regulatory Framework) such as: (i) Planes de Minutos (Plans of minutes), consisting of telephone service wit a certain number of minutes for a monthly charge; (ii) Línea Económica (Economy Line), consisting of a monthly amount from which customer calls are deducted, allowing for additional calls to be placed using prepai cards (iii) Línea Súper Económica (Super Economy Line), which enables customers to make calls for a certain number of minutes through prepai cards charged on a monthly basis; and (iv) bundled services, such as broadband plus plans of minutes.

At December 31, 2007, 1,483,340 lines had been subscribed for with flexible plans, accounting for 68% of all the Company s lines in service. Revenues from the flexible plans accounted for 20.5% of consolidated revenues. The plans of minutes have slowed the decrease in fixed lines because they are marketed individually and also as part of service bundles along with broadband and television.

Broadband:

Telefónica Chile offers broadband ADSL technology to residential customers, SME customers and corporate clients, as well as to Internet Service Providers (ISPs) as resellers.

In 2007, broadband experienced dynamic growth as a result of the Company s bundling, segmentation and flexibility strategy, with the total number of connections increasing by 30.1% at year end. Thus, starting in March, the Company took over first place in market share, ending the year with a 50% share. This marks a significant milestone for Telefónica Chile s broadband service and consolidates the Company s leadership in the market.

This growth has laid the foundation for the development of new services and content, to use broadband as the primary gateway into Chilean households. In this context, various business initiatives were undertaken during the year, including a change in the ISP model under which Telefónica Chile became its own Internet Service Provider for its customers, who in the past could obtain Internet connections only through other companies. The result is unified management and service, providing customers with a single contact point for all their needs, in addition to significant efficiencies due to process simplification. Value- added broadband services were also improved, with home wireless access promotions (Wi-Fi) and computer security packages. In addition, the hotspot platform was enhanced through an alliance with Movistar, the mobile telephone operator, enabling customers to surf the web using the mobile data network and Telefónica Chile s hotspots with the same product.

In addition, a successful campaign for broadband upgrade plans was conducted in 2007. Combined with greater availability of different speed alternatives, this has brought the average installed access speed to 643 kbps.

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Lastly, the launching of the Company s new Vacation Duo and Trio products now allow Telefónica Chile customers to take advantage of an attractive opportunity to add broadband and television to their vacation homes.

At December 31, 2007, there were a total of 644,522 broadband connections, of which 81% were for residential customers, 16% for SME customers, 1% for corporate clients and 2% for wholesalers.

Digital Television:

On June 14, 2006, Telefónica Chile launched its pay television service, with a flexible and innovative marketing format.

Telefónica was the first company to make pay television flexible, providing a custom offering tailored to the interests and budget of each home and allowing customers to pay for what they watch. The Telefónica TV Digital offering, as the service is called, provides an entry-level plan for Ch$ 9,900, including a selection of the channels in greatest demand, such as Disney Channel, Discovery Kids, Discovery Channel, Cartoon Network, TNT, Sony, Warner, ESPN Football Channel, and Fox, among others. Customers can then add various theme-based plans, whether family-oriented or centered on movies, world news or world sports, as well as premium movie and sports plans.

The Telefónica TV Digital service has nationwide coverage and delivers o all customers additional services which include parental control, an on-screen programming guide, program reminders, pay-per-view service access, and a search feature by theme. In addition, one year after entering the pay television market, Telefónica Chile launched Internet Protocol Television service (IPTV). This service is being deployed in stages, and is initially being provided to a certain number of customers for concept testing. It is offered in specific areas of Santiago, where the Telefónica Chile network has the required technological infrastructure. This service is part of the Company s flexible offering of Digital TV content, with interactive features such as VOD (Video On Demand) which provides a broad and diverse menu of first-run and archived movies, series and audiovisual material thanks to a library that boasts over 200 hours of content. Telefónica Chile is the first Latin American company to make this technology available. Additionally, in September 2007, the Company launched the PVR (Personal Video Recorder) service, allowing customers to record shows, pause live shows and fast forward and/or rewind whenever they wish.

With the pay TV service, provided by the subsidiary Telefónica Multimedia Chile S.A., Telefónica Chile supplements its telecommunication offer with entertainment, offering its customers Dúos, which are combinations of fixed telephone and TV services, and Tríos, which include broadband along with TV and fixed telephone services. At 2007 year-end, 71% of Company Pay TV customers were Tríos customers, while 26% had Dúos . Currently, more than 15% of the Company s total customers have pay TV service included.

This service has allowed the pay TV market in Chile to grow more than 20% with respect to 2006, benefiting from the flexibility afforded customers, who can choose a service that is tailored to their interests and pocketbooks.

As of December 31, 2007, after one year and half of operation, the Company had 219,916 pay TV customers, having achieved a 17% market share and becoming the country s second largest pay TV operator.

Other additional services:

Prepaid Services

Prepaid services have supported the development of flexible plans. The prepaid service known as Tarjeta Línea Propria (TLP) allows customers to have their own versatile, portable virtual line, while controlling and managing their telecommunications expenses. Users can make calls from any fixed telephone, public phone or enabled mobile phone, and surf the web on a broadband connection using Wi-Fi or through dialup access. Additionally,the TLP allows customers to charge the Super Economy Line. Moreover, in addition to the physical TLP, this year the Company began selling an electronic version.

As of December 31, 2007, 15,765,453 TLPs were sold at Ch$ 1,000 each.The total number of prepaid lines reached 360,558 in 2007.

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Security and alarm monitoring services:

Telefónica Chile, through its subsidiary Telemergencia, offers alarm monitoring services to residential customers and SMEs through telephone and/or cell phone connection to a security platform manned by qualified personnel. Telemergencia is the second largest alarm monitoring company in the domestic market, according to client numbers, with broad coverage at the national level.

In 2007, Telemergencia developed a variety of monitoring plans with value-added services which allow customers choose the plan that best suits their needs. As of December 31, 2007, it had 49,616 customers.

Value-Added Services:

Telefónica Chile markets value-added services to its fixed telephone service customers. Such services include caller ID (incoming and call waiting), voice mail, call waiting, call forwarding, control of outbound traffic to mobile phones, and information and entertainment services (600 and 700 numbers.).

Equipment sales:

In addition, the Company sells advanced telecommunications equipment for the residential, SME and corporate segments. In mid-2007, the Compan began commercializing a new line of telephones for the residential segment that includes eight different high-tech models with modern designs.

Telephone Directories:

Under a business agreement with Impresora y Comercial Publiguías S.A. (Publiguías), which was renewed in August 2006 for five years with the option of further renewal for another two years, Telefónica Chile receives a percentage of the revenues generated by Yellow Page and White Page advertising sales.

Publiguías also prints and distributes telephone directories from the Telefónica Chile customer data base.

Long-Distance Business

Telefónica Larga Distancia, a Telefónica Chile subsidiary, was created through the merger of subsidiaries Telefónica Mundo and Globus 120 on April 30, 2006 and offers products and services over the domestic and international long distance network.

Telefónica Larga Distancia also serves the voice transport and capacity needs of other telecommunications companies, including both intermediate service providers with or without their own networks, mobile companies and Internet Service Providers (ISPs). This makes it possible to achieve a return on long distance network capacity, both domestically and internationally.

The business continues to face major challenges as a result of penetration by the mobile industry, which is replacing long-distance telephone service, given the change in the way that Chileans communicate with one other, relying more and more on e-mail and Internet. Even so, the Company s strategy has been to make installed capacity as profitable as possible and to create innovative product plans that generate traffic, ensure customer loyalty and allow it to lead the industry. In 2007, the Company launched two unlimited minute rate plans aimed at residential customers - Países sin Limites (Unlimited Countries) and Llamadas sin Límites (Unlimited Calls) as well as the Directo a Casa (Directly Home) product, a plan that allows customers to call home at a fixed monthly fee from any public telephone in Telefónica Chile s public telephone network throughout the country.

In 2007,Telefónica Larga Distancia was able to overcome the downward industry trend, positioning itself as market leader and attaining a 41% share of domestic long-distance voice traffic (DLD) and a 41% share of outbound long-distance voice traffic (ILD).

Corporate Communications

The Corporate Communications business area, through the Telefónica Empresas subsidiary, has the mission of providing a comprehensive response to the communications needs of the larger and more complex organizations established in Chile. Telefónica Empresas clients include ministries, public institutions, and both domestic and global corporations and large companies involved in the broadest range of economic activities.

Communications are an essential component in these customers mission-critical processes. For this reason, the services provided by

Telefónica are subject to two constant challenges: growing capacity, availability, and quality standards, and the need for progressive convergence and integration of technologies. By integrating technologies, Telefónica Chile delivers solutions that add value to its clients businesses, meeting their requirements more efficiently.

The primary services provided by Telefónica Empresas include data transmission, mainly through IP technology-based services. In some cases, circuit-based solutions and traditional data network services such as ATM and Frame Relay are provided. PABX-based solutions and videoconferencing are also offered. The Company also provides corporate clients with advanced telephony solutions and private IP telephony and IP Centrex solutions based on a Next Generation Network (NGN) infrastructure.

This is supplemented by the availability of international services tailored to client needs. These services take advantage of Grupo Telefónica s international presence and network, delivering relevant added value for global clients.

In 2007, the Company undertook major projects with public-sector clients (including the Logistics Department of the Chilean National Police, the Defense Department, the National Forest Corporation and the Prison Administration) and private-sector clients (including Farmacias Ahumada, Mapfre Compañía de Seguros Generales de Chile S.A., Construmart S.A., Isapre Banmedica, Johnson s S.A., Compañía Minera Barrick Chile Ltda. and Banco Santander Chile). It is also worth mentioning that Telefónica Empresas has a Data Center where client equipment and information can be housed, helping clients protect business continuity by providing a main or backup storage site.

In 2007, the Data Center received ISO-27001 certification, which contributes to the continuous improvement of associated services. In addition, an additional 200 square meters were made available, which will make it possible to expand the menu of services.

Other Businesses

t-gestiona

Telefónica Gestión de Servicios Compartidos Chile S.A. (t-gestiona), a subsidiary of Telefónica Chile, provides support services to all Company subsidiaries and other Grupo Telefónica companies.

The t-gestiona strategy is focused on positioning itself as a provider of shared services, mainly within Grupo Telefónica. Its services include, without limitation, logistics, e-learning, accounting, insurance, collections, payroll, real estate management and general services.

Fundación Telefónica

Fundación Telefónica is a nonprofit organization whose mission is to develop and channel the community and cultural activities of the Grupo Telefónica companies in Chile.

In its ongoing support of digital literacy in Chile, Fundación Telefónica has not only provided Internet training for teachers, students, community leaders and the disabled; it also continues making efforts to contribute to and improve quality and equal opportunity in Chilean education. Throughout the years, Fundación Telefónica has realized more than 30,000 trainings (1,500 in 2007) to teachers in uses of the Internet, more than 50,000 people (7,000 in 2007) have been introduced to the Internet world, more than 5,000 disabled people (500 in 2007) have improved their potential by their training in new technologies, and more than 20,000 students (18,000 in 2007) have seen how the Internet can help in their school education.

In this sense, educational content in the sciences, technology and mathematics have been developing at its multimedia portal www. educared.cl (which received close to one million visits in 2007). In addition, the Education through Art program, links the exhibits in the Company s exhibition hall to school curricula. The Company also

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continues to promote the Educational Internet project, which has provided free Internet connections to more than 5,500 educational establishments throughout Chile.

In 2007, the Foundation continued its program to support integration of the handicapped. Fundación Telefónica has traveled throughout Chile providing free training to disabled young people, along with teachers and tutors so that they can make use of the SICLA (Alternative Communication System) Software, wich allows through a computer, to communicate with a texto to voice and image to voice convertor. Over 120 institutions have benefited from the donations and training of this, which has allowed more than 1,600 young people with various disabilities to use SICLA from Arica to Punta Arenas, meaning that they can now communicate with their immediate environment.

Another important program of the Foundation is Proniño , a social initiative aimed at eliminating child labor that provides support to vulnerable kids and young people, through integrated scholarships that allows them to continue with their studies. Moreover in the year 2007, the Voluntariado , consisted of about 1,500 people and under the leadership of Fundación Telefónica, arranged varied supporting activities, as well as initiatives for raising funds, which directly beneficiated 7,000 low-income people.

In addition, in 2007, the Fundación Telefónica Arts Gallery presented the exhibit Invención y Travesía by artist Claudio Girola, followed by the collective photo exhibit One Day in Chile, ending the year with the exhibit Desde el Taller by the National Art Award recipient Marta Colvin. As a form of national cultural outreach, the Foundation continued its traveling exhibit ArteNiño by Roberto Edwards, which in 2007 visited the cities of Viña del Mar, Curicó, Talca, and Temuco.

Analysis of Consolidated Results

Operating revenues for 2007 totaled Ch$632.57 billion, a 2% increase compared to 2006. This was mainly due to higher broadband (+54.4%), pay TV (+549.3%) and plans of minutes (+33.4%) revenues, which offset the drop in traditional telephony revenue (fixed charge and variable charge) resulting from lower line traffic and fewer lines in service. In addition, Corporate Communications revenue grew slightly (0.6%) with respect to 2006, while the long-distance business posted a 7.7% drop over the same period, primarily because of lower network rental revenue. The growth in plans of minutes, broadband and television is chiefly due to a strategy for bundling these services under a flexible offer that allows customers to create a service combination that best suits their needs.

Operating costs for 2007 amounted to Ch$564.24 billion, a 6.2% increase compared to 2006. This is mainly due to greater commercial activity in 2007 and to the fact that expenses associated with the television business were incurred for a full 12 months in 2007 as opposed to 6 months in 2006. The new bundled service structure has had a direct impact on the cost structure. The services comprising the multiservice package have additional associated variable costs and commercialization expenses; moreover, these are services which, by nature, generate a lower margin.

As a result, operating income for 2007 totaled Ch$68.34 billion, down 23.0% from 2006, yielding a 10.8% operating margin, compared to a 2006 margin of 14.3% . Meanwhile, EBITDA fell to Ch$ 283.25 billion, a 9% decrease with respect to the previous year. The EBITDA margin for 2007 was 44.8%, compared to a 50.2% margin in 2006.

Non-operating results yielded a deficit of Ch$24.37 billion as of December 31, 2007, compared to a Ch$32.15 billion deficit in 2006. This deficit was mainly due to net financial costs and other non-operating expenses arising from the 2007 personnel restructuring, retirement of obsolete assets, and others.

As of December 31, 2007,Telefónica Chile posted a consolidated net income of Ch$10.86 billion, compared to a Ch$25.08 billion profit as of December 31, 2006.

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Investment and Financing

Investment

In 2007, Telefónica Chile s investments totaled US$291 million.

These investments were chiefly focused on consolidating business growth, basically for broadband and digital television.

In the fixed telecommunications business, investments were used for line commercialization efforts and to maximize the use of installed capacity, focusing on network deployment in areas of real estate development.

The investment plan emphasized initiatives designed to update network infrastructure by replacing old equipment and introducing new generation technologies (IP), with a view to attaining high service quality standards with more stable and flexible platforms.

Additional emphasis was placed on simplifying the processes and systems that support Company operations, thus improving the support tools for the Company s business, technical and administrative management.

A breakdown of investments is shown in the table below:

2007 Investments in Fixed Assets

Business Area	Millions of US$
Primary Projects	
Fixed Telecommunications Services Expansion of external equipment network, line and equipment connection, updating of internal equipment and improvement in service quality	**73**
Broadband services Growth in ADSL access points and increase in bandwidth for ADSL services	**76**
Television Services Equipment for TV signal distribution and reception and entertainment through digital and interactive media	**72**
Corporate Communications Private Services projects, IP Network and terminal equipment for voice and data	**42**
Systems Billing, management, delivery and other computer system services	**19**
Other Other businesses, administrative investments	**9**
Total	**291**

Financing

At December 31, 2007, the Company s financial debt totaled Ch$ 391.43 (equivalent to US$787 million), which meant a Ch$ 1.42 billion (equivalent to US$3 million) reduction in 2007 due to amortization of Series F bonds in April and October 2007.

The sources of financing were operating funds, which allowed the Company to make Ch$ 144.44 billion (equivalente to US$291 million) in investments. In addition, a total of Ch$ 67.42 billion (equivalent to US$136 million) was distributed to shareholders in 2007.

The breakdown of financing activities in 2007 is as follows:

Repayments:

US$3 million to amortize Local Series F Bond (April and October).

Renegotiation of Local Loan with Banco Santander:

On February 2, 2007, the Company renegotiated a bilateral loan in the amount of UF 3,555,000 (US$140 million) with Banco Santander Chile in order to bring the spread down to market levels, from 0.45% to 0.325% . All other loan terms and conditions remained unchanged.

The Company continues to have a healthy debt-to-equity ratio, which reached 0.86 as of December 31, 2007 as compared to 0.79 at year-end 2006. Likewise, the Company s interest coverage ratio (EBITDA/net financial expense) shows positive development, having gone from 18.7 in December 2006 to 24.23 in December 2007.

Foreign Exchange and Interest Rate Risk Management

The Company maintains US dollar-denominated financing, with floating interest rates in certain cases. As a result, Telefónica Chile is exposed to financial risks arising from foreign exchange and/or interest rate fluctuations. For this reason, the Company determines the levels of coverage required for each period based on its exposure.

In 2007, the Company maintained foreign currency coverage for 100% of its financial debt against fluctuations in foreign exchange and financial expenses for the next twelve months. As of December 31, 2007, Telefónica Chile had US$500 million in foreign exchange derivative-hedged dollar- denominated liabilities through cross-currency swaps. At the same time, it maintained interest-rate fluctuation coverage of 60% of the fixed interest rate debt as of year-end 2007. It is important to note that the Company uses derivative financial instruments available on the domestic and international markets for these purposes.

Property, Suppliers, Logistics and Insurance

Property

The property, plant and equipment owned by Telefónica Chile and used in its business activities, such as buildings duly listed in the Real Estate Registry, switching centers, external networks, customer terminal equipment, furniture and office equipment and other business-related items, are distributed throughout Chile.

The Company also operates public and private switching exchange networks, wired circuits, local and long distance fiber optic, radio and microwave circuits.

Suppliers

In 2007, Telefónica Chile s purchases totaled US$792 million (approximately Ch$393.5 billion) and were awarded to 1,211 suppliers.

The Company s top ten suppliers in Chile by volume under contract were as follows: Atento Chile, Consorcio RDTC, Observa Telecom, Telefónica Argentina S.A., Telconsur Ltda., SICE Agencia Chile, Cobra Comunicaciones de Chile S.A., Alcatel Lucent de Chile S.A., TIWS Chile and Siemens Entreprise Ltda..

81% of Telefónica Chile s purchases fall under the market products and services and works category. The rest is distributed among network infrastructure, information systems and, to a lesser extent, advertising and marketing.

Telefónica Chile awards 83% of its purchases to local suppliers.

In the Adquira e-commerce platform, use of electronic auctions to negotiate purchases is on the rise.The volume of purchases made through the Adquira electronic auction system during 2007 reached US$211 million in 116 purchasing processes. This auction system provides greater transparency and objectivity in the purchasing process, gives equal opportunity to all bidding suppliers, and both simplifies and helps to streamline procurement management.

In addition, an e-procurement platform has been implemented to complement the Adquira e-commerce platforms. This platform provides Telefónica Chile with a service that facilitates, streamlines and simplifies the procurement process by automatically sending suppliers requests and purchase orders.

Logistics

Telefónica Chile currently has a Logistics Distribution Center with a storage capacity of 7,000 square meters. In 2007, use of installed capacity was over 90% for the various types of storage, and on several occasions, more space was temporarily needed due to this year s high traffic in materials. In addition, the Company has continued to focus on containing the growth of storage spaces, developing a more efficient approach for handling incoming and outgoing materials, and thus optimizing available space.

Trademarks

In order to distinguish and market their products domestically, the Company and its subsidiaries use various trademarks, which are duly registered with the Ministry of Economy s Industrial Property Department.

Insurance

Pursuant to its risk management policy, the Company decides whether to transfer risks to insurance companies on a case-by-case basis. If it elects to do so, it applies standard coverage available on the market or adapts coverage to the specific risk in particularly complex cases.

The Company s assets are fully insured against physical damage and lost income due to service shutdown. This coverage includes, but is not limited to, the risk of fire and associated risks, earthquake, natural disasters, theft, shipment risk, political risk, cyber risk, employee disloyalty, and domestic transport. The insured amount totals approximately US$ 2.59 billion.

For work performed by independent contractors and outsourced collection centers, overall insurance quotes are requested and coverage is adapted to conform to the contractor s activities.

The Company also has liability insurance for damage/injury to third parties, as well as other insurance covering executives, staff, vehicles, and imports of equipment and materials

Risk Factors

Competition

Telefónica Chile faces stiff competition in all of its business areas and believes that this high level of competition will continue. In order to confront this challenge, the Company continually adapts its business and product strategies, striving to satisfy the demands of current and potential customers.

Regulation of the Telecommunications Sector

Approximately 26% of the Company s 2007 revenues were subject to tariff regulation. The tariff model is reviewed every five years, which may significantly affect the Company s revenues and its ability to compete in the marketplace. The current tariffs are in effect from March 2004 to May 2009. The next tariff-setting process will begin in 2008, starting with the presentation of the technical and economic basis in April 2008.

Technological Changes

The telecommunications industry is subject to rapid and significant technological advances and the introduction of new products and services. It is impossible to predict the effect of such technological changes on the market or on Telefónica Chile, whether the Company will need to make significant investments in the development or implementation of new competitive technologies, or whether these technologies or services will replace or supplement the products and services currently offered by the Company.

Telefónica Chile is constantly evaluating the introduction of new technologies in light of their potential costs and benefits.

Chilean Economy

Since Company operations are located in Chile, they are sensitive to, and depend on, the country s level of economic activity. During periods of slow economic growth, high levels of unemployment and contraction of domestic demand, local and long distance telephone traffic has been affected, and payment delinquency levels have also increased.

Financial Risk

Since the Company maintains a portion of its debt in foreign currency and at floating interest rates, the volatility and fluctuation of the Chilean peso with respect to other currencies, as well as changes in domestic and international interest rates, may affect the Company s earnings. Therefore, Management continuously evaluates its foreign exchange and interest rate risk management policies (see Foreign exchange and interest rate risk coverage management).

Failure of the Telecommunications System

The Company performs maintenance on its networks and internal systems in order to provide continuous and reliable service to its customers. Nevertheless, a failure of the Company s telecommunications system could cause prolonged service interruption and even the loss of customers. Some risks that could affect the Company s networks, systems or infrastructure include: (i) natural disasters such as earthquakes, tsunamis, floods, and fires, among others; (ii) interruption of power supply or scarcity of energy sources; (iii) software or internal computer system flaws; (iv) physical damage to the network or infrastructure, including copper cable theft, which has been a growing problem in recent years due to higher copper prices; and (v) prolonged service interruptions due to the replacement of obsolete equipment, among others. Telefónica Chile cannot guarantee that these measures and safeguards will work satisfactorily in the event of an emergency or in unforeseen circumstances.

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Share Transactions by Directors, Executives and Related Parties

Name	Transaction Date	Series	No. Shares Purchase	No. Shares Sale	Share price Ch$	Total Ch$
Dominique Berthet Edwards	01.16.07	B		22,062	927.3	20,458,093
Guillermo Balut Olguin	09.03.07	B		1,879	1,080.0	2,029,320

Composition of Capital Stock

At December 31, 2007, the Company s capital stock was composed of 957,157,085 fully subscribed and paid-in shares, divided into 873,995,447 Series A and 83,161,638 Series B shares.

Shareholders Meetings

A General Shareholders Meeting of Telefónica Chile was held on April 13, 2007. All items submitted to a vote were approved, including the 2006 Annual Report, Balance Sheet, and Financial Statements, and payment of a final dividend (No. 173) of Ch$13.44234 per share, equal to Ch$12.9 billion, was charged to fiscal-year 2006 profits and was paid on May 16, 2007. At a Special Shareholders Meeting held on the same date, shareholders approved amending Article Five of the corporate bylaws to allow a capital reduction of Ch$48.8 for purposes of distributing additional cash to shareholders. The capital distribution was equal to Ch$51 per share and was paid on June 12, 2007.

The controlling shareholder of Telefónica Chile is the Chilean corporation Telefónica Internacional Chile S.A., which holds a 44.89% interest. The shareholders of Telefónica Internacional Chile S.A. are Telefónica Chile Holding B.V. (99.99%) and Telefónica Internacional Holding B.V. (0.01%), bot 100% controlled by Telefónica S.A. This Spanish telecommunications company is a publicly traded corporation whose shares are listed on various European, American and Asian stock exchanges. Its ownership is quite diluted: the shareholders with the largest stakes are BBVA with 6.4% and La Caixa with 5.4%, but most shareholders own no more than 5% of the capital stock.

02.1 Company Profile | **Shareholder Information**

Principal Shareholders

	Millons of Shares (12/31/07)	%	Millons of Shares (12/31/06)	%
Telefónica Internacional Chile S.A.	429.7	44.9%	429.7	44.9%
Citibank N.A. (1)	152.9	16.0%	105.3	11.0%
Chilean Pension Funds	206.5	21.6%	246.0	25.7%
Life Insurance Companies	15.1	1.6%	12.5	1.3%
Foreign Investment Funds	4.7	0.5%	6.5	0.7%
Employees	0.5	0.0%	0.5	0.1%
Other Shareholders	147.9	15.4%	156.7	16.4%
Total Shares	**957.2**	**100.0%**	**957.2**	**100.0%**

(1) Depositary Bank acting on behalf of the Company s ADS holders

Twelve Largest Shareholders at 12/31/07

	Number of Series A Shares	Number of Series B Shares	Total	% Equity Interest
Telefónica Internacional Chile S.A.	387,993,524	41,739,487	429,733,011	44.9%
Citibank N.A.	152,940,551	0	152,940,551	16.0%
AFP Habitat S.A.	57,412,043	5,813,466	63,225,509	6.6%
AFP Provida S.A.	43,931,254	4,626,981	48,558,235	5.1%
Citibank Chile Cta. Terceros CAP XIV Res	41,241,214	0	41,241,214	4.3%
AFP Cuprum S.A.	35,746,439	3,889,307	39,635,746	4.1%
AFP Bansander S.A.	22,882,535	2,295,763	25,178,298	2.6%
AFP Santa Maria S.A.	18,743,421	2,238,363	20,981,784	2.2%
Cía. de Seg de Vida Consorcio Nacional	9,552,472	0	9,552,472	1.0%
AFP Planvital S.A.	8,291,954	627,281	8,919,235	0.9%
Ultra Fondo de Inversion	8,862,923	0	8,862,923	0.9%
Banchile Corredores de Bolsa S.A.	7,172,258	317,123	7,489,381	0.8%
Subtotal	794,770,588	61,547,771	856,318,359	89.5%
Other Shareholders	79,224,859	21,613,867	100,838,726	10.5%
Total	**873,995,447**	**83,161,638**	**957,157,085**	**100.0%**

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Quarterly Traded Volumes and Average Prices

CTC-A

Santiago Stock Exchange	No. of Shares	Ch$ millions	Average Share Price (Ch$)
1Q05	51,401,660	82,900	1,631
2Q05	58,834,672	90,188	1,527
3Q05	60,165,060	91,355	1,521
4Q05	66,740,822	84,468	1,267
1Q06	94,601,621	108,929	1,151
2Q06	194,462,986	208,385	1,072
3Q06	85,489,919	81,049	948
4Q06	177,286,165	181,193	1,022
1Q07	97,181,644	115,102	1,177
2Q07	140,862,541	175,357	1,238
3Q07	54,239,950	61,603	1,155
4Q07	114,637,107	124,297	1,072

CTC-B

Santiago Stock Exchange	No. of Shares	Ch$ millions	Average Share Price (Ch$)
1Q05	1,085,669	1,691	1,537
2Q05	343,492	486	1,442
3Q05	1,111,976	1,583	1,402
4Q05	892,355	1,138	1,149
1Q06	916,998	950	1,151
2Q06	8,586,121	8,601	1,002
3Q06	772,763	651	843
4Q06	4,981,672	4,548	913
1Q07	2,213,497	2,311	1,047
2Q07	384,437	416	1,073
3Q07	476,632	493	1,052
4Q07	1,064,018	1,119	1,029

ADRs

New York Stock Exchange	No. of ADRs	US$ millions	Average ADR Price (US$)
1Q05	12,586,000	142	11.27
2Q05	14,345,600	150	10.50
3Q05	12,397,100	135	11.06
4Q05	16,142,800	154	9.66
1Q06	20,823,800	182	8.75

2Q06	12,445,500	100	8.08
3Q06	10,582,300	74	7.04
4Q06	9,136,600	71	7.74
1Q07	12,257,700	107	8.73
2Q07	10,700,500	100	9.42
3Q07	8,877,300	80	8.92
4Q07	8,100,300	69	8.59

Stock Market Performance

In 2007, the performance of the Chilean markets did not live up to market expectations although, as in the past four years, results were once again positive. The Selected Share Price Index (IPSA) posted a 13.3% return for the year, and the Chilean General Price Index (IGPA) earned 13.8% . However, the stock market s impetus that developed in early 2007 was slowed by the high volatility that took over the world markets in the second half of the year. This situation, triggered by external factors such as the mortgage crisis in the United States, higher-than- expected U.S. inflation and oil prices hitting US$100 per barrel was also influenced by internal factors such as higher-than-expected domestic inflation, lower-than-projected economic growth and a gradual increase in the federal funds rate by the Central Bank of Chile. However, in terms of trade volume, the Santiago Stock Exchange achieved a record, exceeding the previous year s trading volume by 55.8% and reflecting its dynamic performance at certain times during the year.

The combined volume of CTC-A and CTC-B stocks traded in 2007 on the Santiago, Electronic and Valparaíso Stock Exchanges totaled US$1.1 billion, while the prices of both stocks fell over the course of the year. CTC-A closed at Ch$925, 11.9% below its 2006 closing price, while CTC-B dropped 7.5% and closed at Ch$880. In 2007, in addition to distributing dividends, the Company carried out a capital reduction in June in an amount equivalent to Ch$51 per share.The total amount distributed to shareholders in 2007 was US$136 million, i.e. Ch$70.4 per share, which is equivalent to 6.7% of the CTC-A share price as of December 31, 2006.

In the rest of the world, stock markets were generally up. In Latin America, as in other emerging markets, results were positive, showing strength despite the problems with the U.S. economy. In Europe, with fluctuations of differing magnitudes, the stock exchanges remained in positive territory. Results in Asia were mixed, with negative results predominating. The Nikkei closed with an 11.1% loss, while the Chinese index (CSI 300) posted a 161.6% gain. In the United States, the main stock markets closed up, despite late-year corrections due to the mortgage market crisis that fed recession fears. The Dow Jones index rose 6.4%, hitting 13,265. The ADRian index, which measures the price variation in ADRs listed by Chilean companies on the New York Stock Exchange, rose 7.9% in 2007. On the other hand, the price of Telefónica Chile s ADR (1 ADR = 4 CTC-A shares) closed the year at US$7.46, down 7.1% compared to 2006. In 2007, the volume of Telefónica Chile s ADRs traded on the NYSE totaled US$356 million, 16.5% lower than the volume traded the previous year.

ADR holders stake in the company increased from 11.0% as of December 31, 2006 to 16.0% as of 2007 closing, while the equity interest of Chilean Pension Fund Administrators (AFPs) dropped from 25.7% at year-end 2006 to 21.6% at year-end 2007.

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Compañía de Telecomunicaciones de Chile S.A. Dividend Distribution Policy

The following is the Dividend Distribution Policy approved at the General Shareholders Meeting of April 13, 2007.

For fiscal year 2007 and subsequent years, the Board of Directors intends to distribute 100% of net profits generated during the respective year through a interim dividend to be distributed in November of each year and a final dividend to be distributed in May of the following year, which will be submitted for approval at the relevant General Shareholders´ Meeting. In addition, for the following fiscal year, if there is surplus cash once all business-related commitments have been met, the Board of Directors intends to supplement the aforementioned dividends by distributing a portion of these funds, following submittal at the respective Shareholders Meeting for approval.

2. The amount of the provisional November dividend shall be determined each year based on the earnings for the January-September period of such year.

3. The General Dividend Distribution Policy shall be in keeping with the objectives set forth in the Company s Financial Plan, which aims at reducing liabilities.

4. This policy reflects the intent of the Board of Directors, and its fulfillment shall be contingent upon the actual profit and surplus cash earned, as well as on the Company s periodic projections or the presence of certain conditions, as the case may be.

5. Dividend payment procedures shall be as follows: To collect dividends, shareholders may choose one of the following options:

1. Deposit in a checking account held by the shareholder.

2. Deposit in a savings account held by the shareholder.

3. Payment by check or cashier s check sent by certified mail to the shareholder s address of record.

4. Payment by check or cashier s check to be collected at the offices of DCV Registros S.A., the company responsible for managing the stock ledger for Compañía de Telecomunicaciones de Chile S.A., or at a bank designated by DCV Registros S.A. This form of payment will remain effective throughout the term of the respective agreement with DCV Registros S.A. Otherwise, payment by check or cashier s check may be collected at the offices of the Company, located at Avenida Providencia 111, Santiago, or at a bank designated by the Company in due course.

Checking or savings accounts held anywhere in Chile may qualify for these purposes.

It should be noted that the form of payment selected by each shareholder shall be used for all dividend payments, unless the shareholder provides written notice of change and lists a new option.

Shareholders failing to indicate a form of payment shall be paid by check in accordance with Payment Option 4 above.

In the case of bank account deposits, bank verification may be requested for security reasons. If the accounts indicated by shareholders are denied, whether based on a verification procedure or for any other reason, the dividend shall be paid in accordance with Payment Option 4 above.

ADR holders shall be paid through the Depositary Bank, under the provisions of Title I, Chapter XXVI of the Compendio de Normas de Cambios Internacionales (Compendium of International Foreign Exchange Regulations) of the Central Bank of Chile and the Deposit Agreement between Citibank N.A. and Compañía de Telecomunicaciones de Chile S.A.

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Dividend Information

Distributable 2007 Earnings
(In Ch$ as of December 31, 2007)

2007 Fiscal Year Earnings	**10,856,131,271**
Absorption of cumulative deficit (less)	0
Amortization of positive good will (less)	0
Distributable earnings	**10,856,131,271**

Dividends charged to Earnings (In Ch$ as of December 31, 2007)		**Dividends/ Distributable earnings**
Interim dividend No. 174 paid in November 2007	5,806,114,878	53.48%
Final Dividend No. 175 (*) to be paid in 2008 subject to approval at the April 2008 Shareholders Meeting	5,050,016,393	46.52%
Retained earnings for fiscal year 2007	0	0%
Fiscal Year 2007 Earnings	**10,856,131,271**	**100.00%**

(*) The final dividend will be Ch$ 5,050,016,393, equivalent to Ch$ 5.27606 per share. Added to interim dividend No. 174 distributed in November 2007, it represents 100% of the fiscal year 2007 earnings per the dividend policy reported at the April 2007 Shareholders Meeting.

Dividends charged to yearly earnings and other distributions to shareholders paid during the past 5 years
Nominal Chilean pesos per share

	Interim Dividend 1	**Interim Dividend 2**	**Final Dividend**	**Special Dividend**	**Capital Distribution**
Fiscal Year 2003	-	-	3.20	17.50(1)	-
Fiscal Year 2004	131.44	130.00	58.85	394.33(1)	-
Fiscal Year 2005	11.00	-	15.31	50.99(1)	-
Fiscal Year 2006	11.00	-	13.44	-	41.99(3)
Fiscal Year 2007	6.00	-	5.28(2)	-	51.00(4)

(1) Charged to retained earnings.
(2) Final dividend to be submitted for approval at the 2008 Shareholders Meeting, in the amount of Ch$ 5,050,016,393, or Ch$ 5.27606 per share.
(3) At the Special Shareholders Meeting held on April 20, 2006, a capital reduction was approved in the amount of

Ch$40.2 billion, or Ch$41.99991 per share, and was paid on June 15, 2006.
(4) At the Special Shareholders Meeting held on April 13, 2007 , a capital reduction was approved in the amount of Ch$48.8 billion, or Ch$ 51 per share, and was paid on June 12, 2007.

Investment and Financing Policy of Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries for the year 2007.

The Investment and Financing Policy approved at the General Shareholders Meeting of April 13, 2007 is transcribed below:

General Policy

In 2007, Compañía de Telecomunicaciones de Chile S.A. (hereinafter Telefónica Chile or the Company) will focus on investing in all business areas defined in its Bylaws, with particular emphasis on the following objectives:

- Meeting the communications needs of current and prospective customers of the Company and its Subsidiaries by providing telecommunications, information and audiovisual communications services using the range of available technology, provided that the regulatory framework allows adequate profitability for shareholders.

- Expanding the Company s activity domestically and internationally through new business opportunities in markets where its telecommunications knowledge and experience allow it to compete profitably.

- Implementing a modern management strategy aimed at maximizing Company value by innovatively and efficiently organizing employees and resources involved in the operation and development of the telecommunications business.

- Ensuring that invested funds are adequately allocated and olvency indicators are met, consistent with domestic and international economic conditions.

This policy framework is applied to the specific structure of the Telefónica Chile group of companies, with each company independently managing and optimizing its own businesses within the limits of the group s general policies and financial controls, and subject to the decisions of each company s own Board of Directors.

I. Investment Policy

As described in the General Policy, Telefónica Chile will make the necessary investments to achieve its corporate objective, pursuant to its Bylaws and the above-described goals. To this end, the Company s Management has sufficient power and authority to invest in the telecommunications business on the basis of the regulatory framework in effect from time to time, seeking to derive an appropriate level of profitability from its various investment projects in line with technical and economic criteria.

Telefónica Chile will invest in telecommunications-related businesses areas by undertaking projects either directly or through its subsidiaries and, if applicable, by creating and/or acquiring an interest in joint ventures or corporations.

Following is a description of the primary investment projects scheduled by the Telefónica Chile Group for 2007.

1. Areas of Investment

a) Network Infrastructure

Telefónica Chile s network infrastructure comprises fixed telephony, data, long-distance and IP network platforms. These networks include telecommunications systems and equipment as well as associated intangible assets and provide the integrated physical, technological and operational support for the services the Company offers its customers. The associated investments are described below:

Line Plan

In 2007, Telefónica Chile will continue using available installed capacity to expand service, subject to the tariff and regulatory environment. Associated investments involve minor external work aimed at the efficient use of available capacity and internal equipment when demand and the return on such investments so warrant.

Quality of Service

This project includes a variety of work aimed at replacing equipment, supporting the networks, preventive maintenance, corrective maintenance due to accidents and third party damage, and providing and replacing tools to better manage network capacity, thereby ensuring reliability in line with international standards.

Long Distance Voice and Data Network

Investments in this area include the ongoing development of a domestic and international fiber optic network to ensure the quality of long distance communications, and, based on the Multi-Service Network, creating the infrastructure required to support current and future bandwidth needs and maintain current quality-of-service levels.

Corporate Communications

The Company will continue to develop data network projects and implement private networks, according to demand and the requirements of customers, companies and corporations. The Company will also offer integrated solutions based on dedicated and switched communication products and services. It will also continue development of the IP network in order to provide a differentiated service offering.

b) Sale of Lines

These investments are related to the connection of residential lines, line transfers, extensions, annexes, and others.

c) Public Telephony and Terminal Equipment

These investments are necessary to maintain public telephones and purchase basic terminal equipment for the marketing and sale of lines and advanced equipment with new features that provide new services.

d) Interconnections

These investments include interconnections with long distance carriers, fixed telephone companies, mobile telephone companies and Internet service providers (ISPs). They also include investments in the various services related to network unbundling.

e) Process Management Support Information Systems

These investments are necessary to provide Telefónica Chile with the information technology infrastructure required to automate and coordinate its business processes and better serve its customers, in line with the most efficient global practices.

f) Broadband and Internet Expansion

Telefónica Chile will continue to implement broadband technologies through the integration of xDSL platforms and technologies, deployment of wireless developments (Wi-Fi), addition of new services for broadband customers, remote monitoring and security services, among other initiatives.

g) Television and Contents

In 2007,Telefónica Chile will continue developing and investing in the business of television signal distribution and entertainment through digital and interactive media.

h) Other Business

Through its subsidiary T-Empresas, Telefónica Chile will promote web hosting, transaction services, telecommunications outsourcing services and computer services for corporate clients.

i *) Other Investments*

These include investments in office and computer equipment for administrative areas, the improvement of administrative and customer service spaces and other minor investments.

2. Estimated Investment

Telefónica Chile s maximum investment limit will be based on the cost of implementing the projects previously defined under Areas of Investment, within the regulatory framework, in order to allow the Company to meet new customer demand using existing capacity. The investments are expected to ensure an appropriate return for the Company, provide new services as required by corporate customers, maintain high quality-of- service levels, and support operational and administrative management based on the demands of the Company s growing customer base.

The maximum investment in partnerships or corporations, both domestically and internationally, is set at 25% of shareholders equity on the last consolidated quarterly balance sheet filed with the Superintendencia de Valores y Seguros (Chilean Securities Exchange Commission).

3. Investment in Financial Instruments

Investments will also be made in financial assets in order to maximize the yield from cash surpluses and offer adequate protection for Company liabilities denominated in various currencies and subject to variable interest rates. The investment portfolio will be diversified along the lines of liquidity, profitability and issuer risk as determined by Company Management, taking also into consideration the coverage of liabilities.

4. Role in Controlling Areas of Investment

Since its investment projects are primarily related to its own line of business, the Telefónica Chile group of companies has control over the projects various stages of development. Should new business ventures require third-party involvement the Company will enter into appropriate agreements to define the relationship with such third parties.

II.- Financing Policy

In 2007, emphasis will be placed on seeking alternatives to strengthen the Company s financial structure through new financing arrangements and current debt renegotiation.

The financing sources for 2007 investments will be managed in keeping with the Company s long-term Financial Plan. The funding required during 2007 will be obtained internally; through traditional borrowing; from the sale and leasing of real estate and other property, with or without purchase options; from public or private debt instruments, whether convertible or not, in Chile or abroad; through loans from financial institutions; and in the form of supplier credit, securitization of assets and capital contributions, if strategic considerations so warrant. Other financing alternatives available on the local and international financial markets may also be considered if they provide an adequate liability structure and minimize costs.

Internal resources include book depreciation, other amortization and net profits for the period.

The maximum consolidated debt-to-equity ratio (indebtedness) of the Telefónica Chile group of companies may not exceed 1.6. Indebtedness shall be defined as the result of dividing Debt by Equity. Debt shall be defined as total consolidated liabilities, and Equity as the difference between total consolidated assets and consolidated liabilities. All figures used to calculate this ratio shall be computed as of the same date and in constant currency.

The Company will obtain external financing from financial institutions and on the public market, and will finance its subsidiaries as needed.

III.- Management s Authority to Enter into Agreements with Creditors Providing for Guarantees and Restrictions on the Distribution of Dividends

Notwithstanding restrictions provided by law or the Bylaws regarding collateral or security interests securing third party obligations, the Company s management shall not agree to furnish collateral or security interests to secure the obligations of the Company or third parties other than subsidiaries unless such action is approved at a Special Shareholders´ Meeting. These restrictions shall not apply to monetary obligations resulting from balances on the purchase of real estate or other property secured by the assets being purchased.

The Company may agree with creditors to restrict the distribution of dividends only if so approved at a Shareholders Meeting.

IV.- Assets Essential to the Operation of Compañía de Telecomunicaciones de Chile S.A.

Assets essential to the operation of Compañía de Telecomunicaciones de Chile S.A. include all networks and switching centers, primary facilities and equipment in service, including real estate and easements required by these facilities for their operation and protected under the respective licensing decrees. Notwithstanding the foregoing, such assets may be modified or replaced in the event of technical or economic obsolescence.

The essential assets of Compañía de Telecomunicaciones de Chile S.A. additionally include 51% of the capital stock of Telefonica Larga Distancia S.A and Telefónica Empresas Chile S.A., and the assets required to operate such companies, whether owned by such companies or under lease from Compañía de Telecomunicaciones de Chile S.A. and protected under the respective licensing decrees, as well as any assets modifying or replacing the above for reasons of technical or economic obsolescence.

Furthermore, should either of the subsidiaries Telefonica Larga Distancia S.A or Telefónica Empresas Chile S.A. intend to dispose of any or all of the assets indicated in the foregoing paragraph, Compañía de Telecomunicaciones de Chile S.A. shall call a Special Shareholders Meeting to determine its position regarding the sale and the terms thereof.

V. Management s Authority to Execute, Amend or Terminate a Purchase, Sale or Lease Agreement for Goods and Services Required for the Normal Operation of Compañía de Telecomunicaciones de Chile S.A.

In addition to the power and authority vested in it, the Company s management shall, pursuant to its Bylaws, have sufficient power and authority to execute, amend or terminate, within the applicable legal framework, any purchase, sale or lease agreements for goods and services required for the normal operation of the Company, subject to prevailing market conditions for goods or services of the same type, quality, characteristics and condition.

However, Management may not dispose of any assets or ownership rights deemed essential to its operation without prior approval at a Special Shareholders Meeting.

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BOARD OF DIRECTORS

In accordance with the Company s Bylaws, the Board of Directors is comprised of seven directors and their respective alternates. Six directors and their alternates are elected by holders of Series A shares, and one director and his/her alternate by holders of Series B shares. Alternate directors take part in Board meetings and may only vote in the absence of their respective director. Company Bylaws require that the director and alternate director elected by holders of Series B stock be shareholders in the Company.

If a vacancy occurs on the Board of Directors, the respective alternate director will assume the duties of the vacant directorship for the remainder of the term. Upon any alternate director s resignation, death, or legal disqualification, the Board may appoint a replacement to serve until the next General Shareholders Meeting, where elections shall be held for the entire Board.

The current Board of Directors of Telefónica Chile was elected at the General Shareholders Meeting held April 13, 2007, for a three-year term.

At December 31, 2007, the Board of Directors is made up of the following directors and alternates:

Series A Directors

Chairman
EMILIO GILOLMO LÓPEZ
Tax ID No.: 48,103,811 -1
Bachelor s Degree in Law, Universidad de Madrid, Spain
Bachelor s Degree in Political Science, Universidad de Madrid, Spain

Vice Chairman
NARCÍS SERRA SERRA
Tax ID No.: 48,094,895 -5
Bachelor s Degree in Economics, Universidad de Barcelona, Spain
Ph.D. in Economics, Universidad Autónoma de Barcelona, Spain

ANDRÉS CONCHA RODRÍGUEZ
Tax ID No.: 4,773,967 -5
Commercial Engineer, Universidad de Chile

FERNANDO BUSTAMANTE HUERTA
Tax ID No.: 3,923,309 -6
Accountant-Auditor, Universidad de Chile

PATRICIO ROJAS RAMOS
Tax ID No.: 7,242,296 -1
Economist, Universidad Católica de Chile
Ph.D. in Economics, Massachusetts Institute of Technology, USA

HERNÁN CHEYRE VALENZUELA
Tax ID No.: 6,375,408 -0
Commercial Engineer, Universidad Católica de Chile
Master s Degree in Economics, University of Chicago, USA

Series B Director

MARCO COLODRO HADJES
Tax ID No.: 4,171,576 -6
Economist, Universidad Católica de Chile
Ph.D. in Economics, Université de Paris, France

Series A Alternate Directors

JOSÉ MARÍA ÁLVAREZ-PALLETE LÓPEZ
Tax ID No.: 48,088,631 -3
Bachelor s Degree in Economics, Universidad Complutense de Madrid, Spain

MANUEL ÁLVAREZ TRONGE ZINDER
Tax ID No.: 48,103,713 -1
Attorney-at-law, Universidad de Buenos Aires, Argentina

MARIO VÁSQUEZ MARI
Tax I.D. No.: 48,110,598 -6
Public Accountant, Universidad de Buenos Aires, Argentina

BENJAMÍN HOLMES BIERWIRTH
Tax I.D. No: 4,773,751 -6
Commercial Engineer, Universidad de Chile

CARLOS DÍAZ VERGARA
Tax I.D. No.: 7,033,701 -0
Commercial Engineer, Universidad Católica de Chile
Master s Degree in Economy, University of California (UCLA), USA

Series B Alternate Director

ALFONSO FERRARI HERRERO
Tax I.D. No.:48,078,156 -2
Industrial Engineer, Universidad Politécnica de Madrid, Spain
MBA, Harvard University, USA

Secretary of the Board of Directors

CRISTIÁN ANINAT SALAS
Tax ID No.: 6,284,875 -8
Attorney-at-law, Universidad Católica de Chile

(As of 31 December 2007, there is one vacant Alternate Director position due to the resignation of Mr. Luis Cid Alonso at the November 2007 Board meeting)

Compensation of Directors of Telefónica Chile and Subsidiaries

Each Telefónica Chile director and alternate director receives monthly compensation (fees) equal to 120 UTM (Chilean inflation-adjusted monetary unit, equivalent to Ch$ 34.222 at December 31, 2007) for attending Board meetings, being required to attend at least one meeting per month. The Chairman of the Board of Directors receives twice the compensation paid to each director, while the Vice Chairman receives 1.5 times the compensation of each director. Directors compensation is approved annually at the General Shareholders Meeting, and represents the sole compensation paid to the Directors.

Subsidiaries pay no compensation to their directors.

2007 Board of Directors Expenses

From January 1 to December 31, 2007, the Board of Directors received the following total gross compensation:

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Board of Directors Compensation
Compañía de Telecomunicaciones de Chile S.A.

	Title	Compensation Total 2007 (in Ch$ at 12.31.07)	Compensation Total 2006 (in Ch$ at 12.31.06)
Emilio Gilolmo López (1)	Chairman	98,712,838	61,624,647
Narcís Serra Serra	Vice Chairman	74,121,495	69,332,930
Andrés Concha Rodríguez	Series A Director	49,405,357	34,697,614
Fernando Bustamante Huerta	Series A Director	49,405,357	46,230,196
Patricio Rojas Ramos	Series A Director	49,405,357	46,253,220
Hernán Cheyre Valenzuela	Series A Director	49,405,357	46,253,220
Marco Colodro Hadjes	Series B Director	49,405,357	46,253,220
José María Alvarez-Pallete López	Series A Alternate	49,445,444	38,578,330
Manuel Alvarez Tronge (1)	Series A Alternate	32,986,058	23,119,338
Luis Cid Alonso	Series A Alternate	45,298,717	46,253,220
Benjamín Holmes Bierwirth	Series A Alternate	49,405,357	46,253,220
Carlos Díaz Vergara	Series A Alternate	49,405,357	46,253,220
Mario Vázquez Mari	Series A Alternate	36,901,969	0
Alonso Ferrari Herrero	Series B Alternate	41,156,732	46,221,958
Bruno Philippi Irarrázabal (1)			30,881,790
Juan Ros Brugueras (1)			15,371,307
Guillermo Ansaldo (1)			17,218,528
Manoel Luiz Ferrao de Amorín (1) (2)			11,511,435
Total		**724,460,752**	**672,307,393**

(1) On April 27, 2006 the Board of Directors of Telefónica Chile approved various changes in its makeup. It accepted the resignations tendered by Series A Director and Chairman of the Board Mr. Bruno Philippi. Mr. Emilio Gilolmo López was appointed Series A director and Chairman of the Board. At the same meeting, Series A Alternate Directors Messrs. Juan Carlos Ros a Guillermo Ansaldo resigned and were replaced, respectively, by Messrs. Manuel Alvarez Trongé and Manoel Amorín.

(2) Resigned as Series A alternate director on November 22, 2006.

No additional expenses, such as expenses for representation, travel and meals, royalties and/or any other stipend, were incurred in 2007, with the exception of the cost of the cellular equipment assigned to each Board member.

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Corporate Governance

Directors Committee

Pursuant to Article 50 bis of Law 18,046, all publicly held companies having market capitalization greater than or equal to UF 1,500,000 must appoint a Directors Committee, comprised of three directors, the majority of whom must be independent of the controlling shareholder.

The members of the Directors Committee were elected by the Board of Directors at a meeting held on April 23, 2007 and are as follows:

Director	Alternate
Emilio Gilolmo López	José María Álvarez-Pallete López
Patricio Rojas Ramos*	Benjamín Holmes Bierwirth*
Hernán Cheyre Valenzuela*	Carlos Díaz Vergara *

*Director independent of controlling shareholder.

Directors Committee Budget and Compensation

The 2007 Directors Committee budget and monthly compensation were approved at the General Shareholders´ Meeting held on April 13, 2007. Each director and alternate receives monthly compensation of UF 30, provided he/she has attended at least one meeting during the month. It was also agreed to maintain the operating budget of the Directors Committee at Ch$75,000,000. The Committee made use of approximately Ch$ 57 million of said budget related to consulting fees.

	Title	Compensation Total 2007 (in Ch$ at 12.31.07)	Compensation Total 2006 (in Ch$ at 12.31.06)
Emilio Gilolmo López(1)	Series A Director	7,054,482	3,847,847
Patricio Rojas Ramos	Series A Director	7,061,471	6,598,451
Hernán Cheyre Valenzuela	Series A Director	7,061,471	6,598,451
José María Alvarez-Pallete López	Series A Alternate	0	0
Benjamín Holmes Bierwirth	Series A Alternate	7,061,471	6,598,451
Carlos Díaz Vergara	Series A Alternate	7,061,471	6,598,451
Bruno Philippi Irarrázabal (1)		0	2,201,938
Total		**35,300,366**	**32,443,589**

(1) Mr. Brunno Philippi resigned effective April 27, 2006.The Board of Directors named Mr. Emilio Gilolmo as his replacement

Directors Committee Duties and Activities

As provided by law, the duties of the Directors Committee are: to review the internal and independent auditors reports, balance sheet and other financial statements as presented by management and to issue an opinion prior to their presentation to the shareholders; to suggest independent auditors and risk rating agencies to the Board of Directors for subsequent submittal at Shareholders Meetings; to examine, and report on, the background of any transactions relating to Articles 44 and 89 of the Corporations Act; to review the compensation and bonuses received by the chief executive officer and senior executives; and any other duty entrusted to such Committee under the Bylaws, pursuant to a Shareholders Meeting or by the Board of Directors.

In 2007, the Directors Committee held monthly meetings, reviewing matters within its jurisdiction, including the following transactions, which were subsequently approved by the Board of Directors at the Committee s recommendation:

JANUARY:
a) Extension of agreement with Atento Chile(1)(3) for the corporate segment: Approval was granted to extend an agreement in effect with Atento Chile. Under this arrangement, earlier approved by the Board of Directors, the provider s productivity, quality and capacity levels remain in place while prices have been successfully renegotiated downward by 19%. **b)** Media leasing agreement with Movistar (1): was granted aimed at replacing the outside wiring up to the user s home in certain areas, primarily those affected by wire theft, with a Movistar GSM Last Mile mobile wireless network solution. The Movistar option was selected at a fixed monthly leasing fee of Ch$ 5,000 per active user for 22.3 mErl (220 traffic minutes) mobile network capacity, subject to restrictions as to number of customers and geographical areas.

FEBRUARY:
a) Extension of inbound telesales agreement with Atento Chile(1)(3): Approval was granted to extend the inbound telesales agreement for the residential segment to April 2007, which marks the end of the bidding period for the model of a channel shared with other call centers, in order to avoid jeopardizing current subscriptions or the experience and resources of Atento Chile. **b)** Agreement with Movistar(1) to provide N-Pack: was granted, which consists of a joint offer by Telefónica Chile S.A. and Movistar adding mobile plans to current Telefónica Chile S.A. offers. Under current rules, this offer must be made available to all mobile telephony companies. **c)** Agreement with Movistar(1) for Fixed-Mobile Virtual Private Network (VPN): was granted. Under the agreement, fixed and mobile services associated with a company are bundled through a fixed-mobile virtual private data network at a flat rate based on the quantity of equipment required by the customer. As in the case of the preceding product, this offer must be made available to all other mobile companies. **d)** Internet access agreement with Terra Chile(1): was granted to convert the existing business model into an outsourcing model. The agreement is for a three-year period commencing on January 01, 2007, and provides for volume-based prices ranging from Ch$ 2,000 to Ch$ 950 per customer, depending on the monthly aggregate.

MARCH:
a) Renewal of Casiopea Re(1) asset insurance: was granted to renew the Company s asset insurance for the March 31, 07 March 31, 08 period with Casiopea Re, the reinsurance company of Grupo Telefónica, under a policy issued by Mapfre Seguros Generales. This insurance coverage includes, but is not limited to, the risk of fire, natural disasters, theft and assault, securities remittance and employee disloyalty. The insured amount totals US$ 2.6 billion, including buildings, internal equipment, external facilities (excluding aerial cable), inventory, office furniture and equipment, computer equipment, radio and transmission equipment, and operating revenues. The premium amount is US$

873,986, substantially lower than the average market rate, with a claim limit of US$ 400 million. **b)** Award of Telemergencia Post-Sales and Monitoring Platform Agreement to Atento Chile(1)(3): was granted providing for post-sales and monitoring platforms capable of dealing with more than 32,000 monthly calls and using close to 140 positions, at an annual price of Ch$ 780 million.

MAY:
a) Outbound telesales agreement with Atento Chile (1) (3) for the SME segment: was granted for a one-year outbound telesales agreement with Atento Chile for the SME segment at the same price as the prior year s agreement**b)**Inbound telesales agreement with Atento Chile for the residential segment: In order to maintain operating efficiencies, approval was granted to extend the inbound telesales platform agreement with Atento Chile for the residential segment, maintaining the prices in effect under the current agreement.

JUNE:
Renewal of International Services Agreement with Telefónica International Wholesale Services(1): Approval was granted to renew the current corporate international services agreement between Telefónica Empresas Chile and Telefónica International Wholesale Services Chile (TIWS Chile). Originally entered into in December 2002 for a 24-month period, it has been renewed on two occasions. The agreement addresses the international portions required to provide final international services of the IP/MPLS, Frame Relay, Clear Channel and ATM type, making it possible to provide large local customers the full range of international end-to-end links.

AUGUST:
a) Extension of inbound telemarketing and sales agreement with Atento Chile(1) (3) for the residential segment: Approval was granted for extending until November 30, 2007 the current inbound telemarketing and sales agreement with Atento Chile, while maintaining the prices in effect under the current agreement. **b)** Report on related-party transactions at June 30, 2007: A report was submitted listing the status of existing business relationships among Grupo Telefónica and Telefónica Chile companies and subsidiaries as of June 30 and involving amounts of less than US$ 250,000. The aggregate amount in question is Ch$ 19.7 billion, of which Ch$ 9.1 billion are accounted for by transactions among Grupo Telefónica Chile companies, while Ch$ 10.6 billion involve a potential conflict of interest with the controlling shareholder. **c)** Grupo Telefónica(1) Synergy and Efficiency Projects: Corporate Collaboration Agreement and Regional Network Operation Center project for the Business Segment: Grupo Telefónica synergies include the Regional Network Operation Center (RNOC) project. Approval was granted for a business segment project aimed at enhancing business efficiency and maximizing segment revenues. This will make it possible to develop action in areas such as business offers, customer intelligence and competition, and customer care channels. Approval was also granted for a Framework Agreement for Corporate Collaboration among Grupo Telefónica companies in Peru, Brazil, Colombia and Chile, thus creating a synergy activity incubator that cuts across all segments. The two projects involve an aggregate annual cost of 670,000 euros.

SEPTEMBER:
a) Framework Agreement with Telefonica Ingeniería y Seguridad (TIS)(1): Approval was granted for a Framework Agreement with Telefónica Ingeniería y Seguridad for electronic security systems maintenance and installation. Prices are at market levels. **b)** Merger through absorption of the subsidiary Telefónica Internet Empresas (TIE)(3): In view of the new business model with Terra Chile, approval was given for the dissolution of TIE, which was the Internet access service provider, through the book-value acquisition of 100% of its capital stock by Telefónica Chile.

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OCTOBER:
a) Telefónica Multimedia Chile(3) Agreement with Telefónica Servicios de Música- TSM(1): was granted for Telefónica Servicios de Música to provide 20 thematic audio channels at a fee of US$ 0.18 per subscriber including investment in equipment, thus ensuring flexibility in channel programming and themes. **b)** Payment of sales commissions to Terra Chile(1): was granted for a payment of Ch$ 199 million to Terra Chile in broadband sales commissions for 2006. **c)** Telefónica I+D(1) was awarded new contracts in connection with expansion of Sigres Project: in connection with the growth of the Sigres Project (management platform for new Telefónica Chile services), authorized at previous Board meetings. The contracts, aimed at expanding the platform to accommodate overall growth and the addition of new networks and systems, represent a cost of US$ 4.2 million for the 2007-2009 period. Telefónica I+D acts as the integrator of the project s various business modules, with significant competitive advantages over the other provider. **d)** International Internet Access Agreements with Telefónica International Wholesale(1): Effective January 1, 2007, approval was granted for the following agreements between the subsidiary Telefónica Larga Distancia and Telefónica International Wholesale Services: (i) For international Internet access, allowing interconnection to the company s US backbone by means of a submarine fiber-optic cable system between Valparaiso and Miami, at a price of US$ 7.5 million for 2007 and anywhere from US$ 15.6 million to US$ 21.2 million for 2008, depending on actual usage, these prices being substantially lower than those available from other companies; and (ii) for maintenance, supervision, replacement part management and repair services on Telefónica Larga Distancia s purchased capacity, at an annual price of US$800,000 for 2007 and US$720,000 for 2008.

NOVEMBER:
Award of platforms to Atento Chile(1): for the following customer care platforms for one- and two-year periods: (i) Publiguías directory assistance (platform level 103), (ii) commercial, residential and business customer care (platform levels 105-107); (iii) technical support (platform level 104); (iv) residential and business loyalty development; and (v) business segment inbound telesales, at prices based on volume and traffic flows.

DECEMBER:
a) Award of platforms to Atento Chile(1): for the following platforms for one- and two-year periods: (i) containment and renegotiation; (ii) residential sales confirmation; (iii) business segment sales confirmation; (iv) back office; and (v) web center, with prices based on volume and traffic flows. **b)** Voice business management agreement with Telefónica International Wholesale Services(1): was granted for an international voice agreement between the subsidiary Telefónica Larga Distancia S.A. and Telefónica International Wholesale Services, providing for incoming international traffic termination, outgoing international traffic distribution, and international traffic transit and resale, on the following terms: a fixed annual price ranging from Ch$400 million to Ch$450 million, including the cost of compensation and transferred goods and services, and a variable annual price of Ch$25 million to Ch$80 million, depending on the margin generated by the incoming international traffic business.

(1) Related to Controlling Shareholder
(2) Related to a Director
(3) Subsidiary and/or related company

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Compliance with the Sarbanes-Oxley Act

The Sarbanes-Oxley Act, enacted in July 2002, contains various requirements aimed at protecting shareholders through mechanisms designed to prevent financial fraud and ensure the accuracy, completeness, reliability, intelligibility, and timeliness of information presented to the markets.

Starting in 2006, the Company requires the opinion of its independent auditors on internal control over financial reporting as part of form 20-F filed with the Securities and Exchange Commission (SEC). An Internal Control Assessment was done by the Internal Audit Office. The purpose of this endeavor is to lay a foundation for the opinions required under both the corporate internal regulations and the SEC (Securities and Exchange Commission) and PCAOB (Public Company Accounting Oversight Board) standards. The 20-F 2006 form did not include any observation in the independent auditors opinion on internal control over financial reporting.

The Company has implemented various measures designed to meet the Act s requirements:

Audit Committee:

On July 21, 2005, an Audit Committee was created with three independent members, pursuant to the requirements of the Sarbanes- Oxley Act. Its primary duties relate to independent audits, disclosure of financial statements, and internal audits. At the Board of Directors Meeting held on April 23, 2007, Andrés Concha Rodríguez was appointed as Committee Chairman and Alfonso Ferrari Herrero and Hernán Cheyre Valenzuela were appointed as Committee Members. Mr. Cheyre Valenzuela was also designated as financial expert.

Audit Committee budget and compensation:

Compensation for committee members and the committee s budget for 2007 were approved at the General Shareholders Meeting held on April 13, 2007. Each member receives compensation equal to 15 UF per meeting, with a maximum limit of six meetings per year. In addition, the committee s operating budget was approved in the amount of Ch$37,000,000. In 2007, the Committee did not make use of this budget.

Directors	**Compensation Total 2007 (in Ch$ at 12.31.07)**	**Compensation Total 2006 (in Ch$ at 12.31.06)**
Andrés Concha R.	1,470,530	1,650,146
Hernán Cheyre V.	1,470,530	1,650,146
Alfonso Ferrari H.	588,042	551,354
Total	**3,529,202**	**3,851,646**

Complaint Desk:

he Complaint Desk, created specifically to address matters related to accounting, internal control, and financial reporting, commenced operations in July 2005. An electronic service was set up for this purpose pursuant to the requirements of the Sarbanes-Oxley Act. The Audit Committee receives and is responsible for channeling any complaints submitted.

Policy on Independent Auditor Services:

Telefónica Chile maintains a control policy on Prior approval of services to be rendered by the Independent Auditor. This policy provides criteria for the Company and its subsidiaries when engaging an Independent Auditor to render services other than auditing services, thus ensuring that an Independent Auditor is only engaged for cases that are duly warranted. This policy distinguishes between audit services, non-audit services, and prohibited services.

Assessment of Internal Control over Financial Reporting:

In 2006, form 20-F for the first time included the independent auditors opinion on internal control over financial reporting, in compliance with international guidelines (Rule SOX, section 404), and there were no remarks on areas needing improvement. Since 2004, the Company has used an Internal Control Assessment Model for financial reporting that was created in coordination with Grupo Telefónica pursuant to current legislation. This model is consistent with internal policies regarding market communications and reporting, and is in compliance with internal policies on record-keeping, communication and oversight of financial and accounting information, among other policies. As in 2006, this model was applied in 2007.

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Code of Ethics and Code of Conduct:

Published in September 2003, the Code of Ethics of Telefónica Chile summarizes and formalizes the principles and values upheld by the Company in its dealings with customers, suppliers, employees, shareholders, and society at large. The full document is available at www.telefonicachile.cl, in the Investor Relations /Corporate Governance section.

In May 2007, to supplement the existing Code of Ethics,Telefónica Chile s Board of Directors approved a Code of Conduct. This is a series of general standards associated with honesty and trust, respect for the law, integrity, human rights and specific principles aimed at ensuring the confidence of customers, professionals, shareholders, suppliers and society in general. Implementation of the code in the rest of Telefónica s group of companies began in the second half of 2007. All workers must be familiar with these principles.

The Ethics Committee assumes the duties, authority and administration of the Code of Conduct Office, which issues ethics directives, conducts process reviews, examines questions, complaints or allegations filed by employees, suppliers or shareholders, and promotes the policies needed for proper observance of the relevant principles.

Loan Policy

Loans to executives are prohibited as of July 2002.

Market Reporting Policy

Effective as of 2005, this policy is designed to determine the actions and controls to be considered when reporting information to the markets, whether such reporting is done pursuant to legal provisions or at the Company s initiative.

Other measures:

Certification of Annual Financial Statements: The Financial Statements contained in the annual report, form 20-F, filed with the Securities and Exchange Commission (SEC) for 2003, 2004, 2005 and 2006 have been certified by the Company s Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer pursuant to the requirements of the Sarbanes-Oxley Act. Moreover, the 20-F 2006 form includes the opinion of the independent auditors (Ernst & Young) on internal control over financial reporting.

Senior Executives

José Molés Valenzuela
Chief Executive Officer
Tax I.D. No.: 14,716,213 -8
Electronics and Automation Engineer, UNED, Spain
MBA, Universidad de Deusto, Spain

Management

Diego Martínez-Caro de la Concha-Castañeda
Director of Management and Resource Control
Tax I.D. No.: 21,647,199 -7
B.A. in Economic Sciences, Universidad Complutense de Madrid, Spain
MBA, Centro de Estudios IESE, Spain

Cristián Aninat Salas
General Counsel
Tax I.D.: 6,284,875 -8
Attorney-at-Law, Universidad Católica de Chile

Isabel Margarita Bravo Collao
Finance Manager
Tax I.D. No.: 7,011,482 -8
Commercial Engineer, Universidad de Santiago de Chile
Master s Degree in Finance, Universidad Adolfo Ibáñez, Chile

Francisco Javier de Miguel del Val
Director of Internal Auditing
Tax I.D. No.: 22,381,649 -5
Attorney-at-Law, Universidad Autónoma de Madrid, Spain

Rubén Sepúlveda Miranda
Director of Human Resources
Tax I.D. No.: 9,673,127 -2
Commercial Engineer, Universidad de Santiago de Chile
Diploma, Strategic HR Management, Universidad Adolfo Ibáñez, Chile
Master s Degree in HR Administration and Management, Universidad de Santiago de Chile

Roberto Muñoz Laporte
Director of Strategic Planning and Corporate Development
Tax I.D. No.: 9,459,242 -9
Industrial Civil Engineer, Universidad de Chile

Francisco Ceresuela Muñoz
Institutional Affairs Manager
Tax I.D. No.: 6,625,135 -7
Attorney-at-Law, Universidad de Chile
Master in Corporate Legal Consulting, Instituto de Empresa, Spain

Business Areas

Rafael Zamora Sanhueza
Director of Corporate Communications
Tax I.D. No.: 9,672,415 -2
Industrial Civil Engineer, Universidad de Chile
Master s Degree in Industrial Engineering, Universidad de Chile

Juan Antonio Etcheverry Duhalde
Director of Residential Services
Tax I.D. No.: 10,065,378.8
Industrial Civil Engineer, Universidad de Chile

Mauricio Monteiro de Azevedo
Director of Small and Medium Enterprises
Tax I.D. No.: 48,113,525 -7
Production Engineer, Universidad Federal de Río de Janeiro, Brazil
MBA University of Michigan, USA

Humberto Soto Velasco
Director of Regulation and Wholesalers
Tax I.D. No.: 7,368,613 -K
Electrical Civil Engineer, Universidad de Chile

Cesar Valdés Morales
Director of Commercial and Administrative Services
Tax I.D. No.: 9,473,722 -2
Industrial Civil Engineer, Universidad Católica de Chile

Manuel Plaza Martín
Director of Network Services
Tax I.D. No.: 22,150,992 -7
Industrial Technical Engineer, Escuela Universitaria de Valladolid, Spain

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Executive Compensation and Incentive Plans

Executive Compensation

Gross compensations and bonuses paid in 2007 to executives of the Company and its subsidiaries, including the Chief Executive Officer and senior management, totaled Ch$6.9 billion (salary plus bonuses). In addition, overall benefits paid to these Company and Subsidiary executives in fiscal-year 2007 totaled Ch$2.7 billion.

Incentive Plan

Telefónica Chile and its subsidiaries have an annual incentive plan for their executives based on the achievement of goals, individual performance, and contribution to Company results.

Human Resources

As of December 31, 2007, Telefónica Chile s personnel included 3,619 permanent employees at the parent company and 672 at subsidiaries, for a consolidated total Company staff of 4,291, broken down as follows:

Staff increased by 17% (from 3,660 to 4,291) in 2007 compared to the previous year, mainly due to enforcement of the direct labor hiring policy resulting from the enactment of the new outsourced Labor Law.

Labor Relations

Collective negotiations with the Telecommunication Workers Union (OITT), involving a total of 309 workers, took place in 2007 and resulted in the definitive inclusion of variable compensation directly linked to business goals.

Intense work was also done throughout the year on labor agendas with each of the unions, covering a significant number of subjects some of them still not included in the collective labor agreements in an effort to handle existing concerns and anticipate potential topics for discussion.

	Parent Company	Subsidiaries	Total 2007	Total 2006	07/06 Change
Management and highly specialized staff	152	42	194	241	-20%
Direct supervisors and specialized staff	335	73	408	483	-16%
Professionals	1,494	375	1,869	1,436	30%
Technicians and operators	1,638	182	1,820	1,500	21%
Total	**3,619**	**672**	**4,291**	**3,660**	**17%**

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Development and Training

In 2007, as part of the Company s strategic plan (Plan AHORA), initiatives were undertaken in two areas to promote leadership in our organization:

1.- Programs designed to develop skills in professionals in charge of staff:

- The Lead Me Workshop, intended to make the organization s leaders conscious of the importance of their role and aware of available management tools. An action plan was also prepared to enhance their skills and support their day-to-day work. The workshop was attended by 465 leaders from all over Chile.

- The Supervision Practices Development Program, intended to provide tools to enable department managers and supervisors to focus on achieving the Company s strategy. The program is based on people management models designed to improve performance and develop teamwork. It was designed and is being implemented in conjunction with the Pontificia Universidad Católica de Chile. Currently, 125 department managers and supervisors are participating.

2.- People management tools that strengthen and promote the role of supervisor as the individual responsible for managing his/her team and for the results of their efforts in line with the Company s strategy, using a people management model known as Personal Development Cycle. The model combines performance management, jurisdictional management and goal management systems.

In addition, training was given throughout 2007 to enhance the technical requirements for the various positions.

Climate and Culture

Activities aimed at promoting worker participation, integration and motivation in the workplace and in society continued in 2007. Thus, Telefónica Chile workers volunteered in community activities, such as building homes for disadvantaged families under the A Roof For Chile program, social initiatives such as Christmas with Meaning, or sponsorship of social institutions, among others. Recreational, sports and cultural events were also held throughout the country.

In the workplace, an organizational climate management model was implemented in 2007 that seeks to systematically improve employee satisfaction and collective results, while striving to promote the development of lateral action aimed at improving the workers quality of life. This model includes, for example, providing preventive health exams and improving the workplace, as well as celebrating days of special significance.

In the Great Place to Work 2007 survey,Telefónica Chile earned a 72% satisfaction rate, up eight percentage points compared to the prior year and rising to the 66 position in the ranking in comparison with 123 in 2006.

(*) Telefónica Chile holds 28.84% of Atento Chile S.A. through the additional equity interest of 1.4% from its subsidiaries Telefonica Larga Distancia and Telefónica Empresas.

Information on Subsidiaries and Affiliates

General Information

Agreements and Contracts: As of December 31, 2007, there are no agreements or contracts with subsidiaries or affiliates that materially affect the operations or financial results of the parent company.

Business Relations with Subsidiaries:The business relationships of the Company s subsidiaries and affiliates, with the exception of t-gestiona, are essentially with third parties other than Telefónica Chile or its subsidiaries and affiliates.

Subsidiaries:

Telefónica Larga Distancia S.A.

Publicly traded corporation, registered with and regulated by the Superintendencia de Valores y Seguros (Chilean Securities and Exchange Commission)

Corporate Purpose:
Setting up, installing, managing, marketing, and developing telecommunications facilities, equipment, systems, and terminals for the provision and operation of telecommunications services. The Company will preferentially focus on meeting the telecommunications needs of financial and social centers of development, rural and remote townships and, in general, all the telecommunications needs of the community. The Company may also provide management and/or management consulting services on telecommunications, information, and communications networks, systems and services, and, in general, fulfill any other purpose that its license allows. The Company may also be a member of organizations, institutions, associations, and study groups of an academic, professional or corporate nature as well as any type of entity directly or indirectly related to the Company s activities. The Company may carry out the activities that comprise its corporate purpose either domestically, at the local or nationwide level, or abroad, whether directly or indirectly and on its own behalf or for third parties, through a minority or majority interest in third parties, regardless whether such corporations or other legal entities have an identical or similar purpose or otherwise.

Board of Directors:

Chairman:	Emilio Gilolmo López (1)
Vice Chairman:	José Molés Valenzuela (3)

Directors:	Juan Antonio Etcheverry Duhalde (4) Humberto Soto Velasco (4) Diego Martínez-Caro de la Concha Castañeda (4) Manuel Plaza Martín (4) Cristián Aninat Salas (4) (5)
Chief Executive Officer:	José González Castillo
Subscribed and paid-in capital:	ch$ 45,712,424,445
Equity interest of Telefónica Chile (direct and indirect):	99.87%
Investment as a proportion of parent company assets:	10.35%

(1) Chairman of the Board of Directors of Telefónica Chile
(2) Director of Telefónica Chile
(3) Chief Executive Officer of Telefónica Chile
(4) Executive of Telefónica Chile
(5) Secretary of the Board of Directors of Telefónica Chile
(6) Executive of the Telefónica Group

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02.3 Company Profile | **Additional Information**

Telefónica Empresas Chile S.A.
(Telefónica Empresas)

Corporate Purpose:
Providing, operating, and commercializing, on its own behalf or for third parties, all manner of telecommunications, information technology, and business process services; establishing and operating telecommunications networks with its own or third-party funds, as well as providing and operating present and future communications and information technology services; the design, installation, preservation, interconnection, management, maintenance, administration, importation, exportation, and leasing, as well as any other activity related to any telecommunications network and information technology; the development, integration, and marketing of equipment and systems to provide telecommunications and information technology services; the sale, promotion, distribution, coordination and management of projects, installation, consulting and marketing services as well as any other service directly or indirectly related to the aforementioned activities; the operation, either by itself or with third parties, of any other business related to telecommunications, telematics, information technologies, television, electronic data interchange and other services related to the transmission of electronic messages, development of content services, outsourcing projects, equipment and systems for the operation of services providing access or connectivity to local, domestic, or international networks through the Internet or other future technologies; training on any aforementioned subject; and the sale of stocks, commercial paper, and securities in general.

Board of Directors:

Chairman:	Emilio Gilolmo López (1)
Vice Chairman:	José Molés Valenzuela (3)
Directors:	Juan Antonio Etcheverry Duhalde (4)
	Cristián Aninat Salas (4) (5)
	Diego Martínez-Caro de la Concha Castañeda (4)
Chief Executive Officer:	Rafael Zamora Sanhueza (4)

Subscribed and paid-in capital:	Ch$ 54,700,030,253
Equity interest of Telefónica Chile (direct and indirect):	99.99%
Investment as a proportion of parent company assets:	4.66%

Telefónica Gestión de Servicios Compartidos Chile S.A.
(t-gestiona)

Corporate Purpose:
Providing management, administration, and advisory services in connection with billing, accounting, tax matters, liquid assets, finance, human resources, real estate management, security, logistics, distribution, passenger and cargo transportation, parcel post, technology, information systems and, in general, any other consulting or advisory service related to the above. The corporate purpose also includes preparing and developing courses, workshops, seminars and/or events related to training in general on any subject, including private security training.

Board of Directors:

Chairman:	José Molés Valenzuela (4)
Directors:	Cristián Aninat Salas (4) (5)
	Rubén Sepúlveda Miranda (4)

	Diego Martínez-Caro de la Concha Castañeda (4) Manuel Plaza Martín (4)
Chief Executive Officer: César Ismael Valdés Morales (4)	
Subscribed and paid-in capital:	Ch$ 1,231,950,323
Equity interest of Telefónica Chile (direct and indirect):	99.99%
Investment as a proportion of parent company assets:	0.10%

Fundación Telefónica Chile

Corporate Purpose:
Contributing to improving the living conditions of the most disadvantaged sectors of society, such as children, the elderly, and the disabled, through the study and development of social and health- related applications of telecommunications; encouraging education and equal opportunity through the application of new information technologies to the learning process; contributing to programs exclusively devoted to information on learning processes; supporting development programs aimed at the most disadvantaged socio- economic groups and organized by prestigious nonprofit institutions well known in the communities where such programs are carried out; and contributing to, conducting, and promoting research, development and the dissemination of information on science, technology, culture, and the arts.

Board of Directors:

Chairman:	Emilio Gilolmo López (1)
Directors:	José Molés Valenzuela (3)
	Arturo Fontaine T.
	David Gallagher P.
	Alberto Etchegaray A.
	Javier Nadal (6)
	Francisco Serrano (6)
	María Antonia Juste (6)
	Oliver Flögel (6)
	María Fernández de Córdoba (6)
	Jorge Martina Aste (6)
Executive Director:	Francisco Aylwin Oyarzún

Subscribed and paid-in capital:	Ch$ 471,521,702
Equity interest of Telefónica Chile (direct and indirect):	50.00%
Investment as a proportion of parent company assets:	-

Telefónica Multimedia Chile S.A.

Corporate Purpose:
Developing, installing, maintaining, marketing, operating, and exploiting, directly or indirectly, cable, satellite, broadband television services, or television services using any physical or technical media, including basic, special or paid individual or multi-channel services, video on demand, and interactive or multimedia television services; providing or marketing, on its own behalf or for third parties, all services related to marketing, advertising, promotion, dissemination, and commercial publicity, in all its forms, in particular, in televised, radio, internet or print media;

developing, marketing and distributing programming and magazines; developing and marketing all types of content; operating in the publishing, graphic arts, and print industry, with the ability to publish, produce, design, print and/or market books, brochures, magazines, newspapers, and any other type of publication, on its own behalf or for third parties; designing, managing, training, and consulting on computer technology, multimedia, networks, information systems, content structuring for the development of innovative capacities and competencies in organizations and for individuals and performing all activities and/or services directly or indirectly necessary for fulfillment of the aforementioned purpose.

Board of Directors:

Chairman:	José Molés Valenzuela (3)
Directors:	Manuel Plaza Martín (4)
	Juan Antonio Etcheverry Duhalde (4)
	Humberto Soto Velasco (4)
	Cristián Aninat Salas (4) (5)
Chief Executive Officer:	Pedro Assael Montaldo (4)

Subscribed and paid-in capital:	Ch$ 21,755,330,754
Equity interest of Telefónica Chile (direct and indirect):	99.99%
Investment as a proportion of parent company assets:	0.91%

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Telefónica Asistencia y Seguridad S.A.
(Telemergencia)

Public company, registered with and regulated by the Superintendencia de Valores y Seguros (Chilean Securities and Exchange Commission)

Corporate Purpose:
Marketing and installing alarm equipment and stations in homes and businesses, providing alarm monitoring service through fixed and wireless communications networks, providing home and business surveillance services by means of mobile response units, and marketing and providing any service related to meeting the needs of homes and businesses, including activities as a provider of private security services.

Board of Directors:

Chairman:	José Molés Valenzuela (3)
Directors:	Cristián Aninat Salas (4) (5)
	Juan Antonio Etcheverry Duhalde (4)
	Diego Martínez-Caro de la Concha Castañeda (4)
	Manuel Plaza Martín (4)

Chief Executive Officer: Daniel Dominguez (4)

Subscribed and paid-in capital:	ch$ 11,727,314,571
Equity interest of Telefónica Chile (direct and indirect):	99.99%
Investment as a proportion of parent company assets:	0.38%

Instituto Telefónica Chile S.A.
(Instituto Telefónica)

Corporate Purpose:

The company s sole purpose shall be to provide training under the terms set forth in Law 19,518, including training in private security matters.

Board of Directors:

Chairman:	José Molés Valenzuela. (3)
Directors:	Diego Martínez-Caro de la Concha Castañeda (4)
	Juan Antonio Etcheverry Duhalde (4)
	Manuel Plaza Martín. (4)
	Cristián Aninat Salas (4) (5),

Chief Executive Officer: Rubén Sepúlveda Miranda (4)

Subscribed and paid-in capital:	Ch$ 537,703,439
Equity interest of Telefónica Chile (direct and indirect):	99.99%
Investment as a proportion of parent company assets:	-

Affiliates:

Atento Chile S.A. (Atento)

Corporate Purpose:

Providing all manner of telemarketing services, including telephone sales, customer service lines, telephone collections and other marketing services, in particular, those provided in call centers or on assisted telephone technology platforms, whether for its own or for third party customers, through service agents or any other present or future technical means, whether proprietary or third-party; establishing, managing and operating customer service centers, whether for its own or for third party customers, through multi-channel platforms; providing management, consulting, and advisory services to customers in connection with all processes related to the management of call centers or customer contact centers; managing, creating, administrating, upgrading, developing, analyzing and segmenting its own or third party databases; and generally taking any action necessary or convenient for achieving its corporate purpose.

Board of Directors:

Chairman:	Pedro Villar Iroumé (6)
Directors:	Ainhoa Santamaría B. (6)
	Emilio Gilolmo López (1)
	Oliver Flögel (6)
	María Fernández de Córdoba M. (6)
Chief Executive Officer:	María Fernández de Córdoba M. (6)

Subscribed and paid-in capital:	Ch$ 14,047,161,783
Equity interest of Telefónica Chile (direct and indirect):	28.84%
Investment as a proportion of parent company assets:	0.25%

Investment in Other Companies:

TBS Celular Participaçoes S.A.
(Brazil)

Primary Activity:

The Company s primary purpose and activity is to hold the shares of Compañía Riograndense de Telecomunicaciones (CRT) acquired through an international bidding process conducted pursuant to Edital (Bidding Terms) COD 04/96, or any other shares that may be offered in the future, and to perform any and all activities related to the management of CRT, as well as to acquire ownership or shareholder interests in other companies in connection with its primary activities.

Subscribed and paid-in capital:	Ch$ 133,559,090,135
Equity interest of Telefónica Chile (direct and indirect):	2.61%
Investment as a proportion of parent company assets:	0.21%

Material Events

Reporting Requirements

In accordance with the provisions of Article 9 and Article 10, subparagraph two, of Law 18,045, the Securities Exchange Act, and of Section II, item B, of General Regulation No. 30 and Circulars Nos. 660, 687 and 1,737 issued by the Chilean Securities and Exchange Commission (SVS), the following are the Material Events reported to the SVS in 2007.

Material Events of Compañía de Telecomunicaciones de Chile S.A.

Notice of General Shareholders Meeting and Proposed Dividend Payment:
On January 25, 2007, the Company Board of Directors agreed as follows:

- To call a General Shareholders Meeting on April 13, 2007 at 12:00 p.m. at Avda. Providencia 111, Providencia.
- Pursuant to the General Dividend Distribution Policy, to submit at the General Shareholders Meeting a proposal to distribute a final dividend against fiscal-year 2006 profits for a total of Ch$12,866,433,152, which is equivalent to Ch$13.44234 per share and which, when added to the interim dividend paid in November 2006, complies with the dividend policy provision calling for 100% distribution of net fiscal year profits.

Reported to the Chilean Securities and Exchange Commission (SVS) on January 25, 2007.

Capital Reduction and Bylaw Amendment
At a meeting held on February 26, 2007, the Board of Directors of Compañía de Telecomunicaciones de Chile S.A. agreed to call a Special Shareholders Meeting, as provided in Articles 10, 57 and 67 of the Corporations Act and Articles 33 and 44 of the Company s Bylaws, on Friday, April 13, 2007, following the General Shareholders Meeting, in the Claudio García Swears Auditorium in the Company s building located on Avda. Providencia, Santiago, in order to present the following matters for the shareholders consideration and determination:

- Carry out a capital reduction of Ch$48,815,011,335 ($51 per share).
- Amend Article Five of the Corporate Bylaws insofar as the capital reduction is concerned.
- Adopt the required resolutions to implement the above changes. In addition, the Board of Directors agreed to amend the current policy of distributing 100% of net fiscal year profits by including the following: In addition, for the following fiscal year and to the extent that surplus cash is available once all business-related commitments have been met, the Board of Directors intends to supplement the aforementioned dividends by distributing a portion of these funds, following submittal at submittal at the respective Shareholders Meeting for approval. Attached is the full text of the new Dividend Policy.

General Dividend Distribution Policy of Compañía de Telecomunicaciones de Chile S.A.
For fiscal year 2007 and subsequent years, the Board of Directors intends to distribute 100% of net profits generated during the respective year through a interim dividend to be distributed in November of each year and a final dividend to be distributed in May of the following year, which will be submitted for approval at the relevant General Shareholders´ Meeting. In addition, for the following fiscal year and to the extent that surplus cash is available once all business-related commitments have been met, the Board of Directors intends to supplement the aforementioned dividends by distributing a portion of these funds, following submittal at the respective Shareholders Meeting for approval.

2.-The amount of the provisional November dividend shall be determined each year based on the earnings for the January-September period of such year.

3.-The General Dividend Distribution Policy shall be in keeping with the objectives set forth in the Company s Financial Plan, which aims at reducing liabilities.

4.-This policy reflects the intent of the Board of Directors, and its fulfillment shall be contingent upon the actual profit and surplus cash earned, as well as on the Company s periodic projections or the presence of certain conditions, as the case may be.

5.- Dividend payment procedures shall be as follows:To collect dividends, shareholders may choose one of the following options:

1.- Deposit in a checking account held by the shareholder.

2.- Deposit in a savings account held by the shareholder.

3.- Payment by check or cashier s check sent by certified mail to the shareholder s address of record.

4.- Payment by check or cashier s check to be collected at the offices of DCV Registros S.A., the company responsible for managing the stock ledger for Compañía de Telecomunicaciones de Chile S.A., or at a bank designated by DCV Registros S.A. This form of payment will remain effective throughout the term of the respective agreement with DCV Registros S.A. Otherwise, payment by check or cashier s check may be collected at the offices of the Company, located at Avenida Providencia 111, Santiago, or at a bank designated by the Company in due course.

Checking or savings accounts held anywhere in Chile may qualify for these purposes.

It should be noted that the form of payment selected by each shareholder shall be used for all dividend payments, unless the shareholder provides written notice of change and lists a new option.

Shareholders failing to indicate a form of payment shall be paid by check in accordance with Payment Option 4 above.

In the case of bank account deposits, bank verification may be requested for security reasons. If the accounts indicated by shareholders are denied, whether based on a verification procedure or for any other reason, the dividend shall be paid in accordance with Payment Option 4 above.

ADR holders shall be paid through the Depositary Bank, under the provisions of Title I, Chapter XXVI of the Compendio de Normas de Cambios Internacionales (Compendium of International Foreign Exchange Regulations) of the Central Bank of Chile and the Deposit Agreement between Citibank N.A. and Compañía de Telecomunicaciones de Chile S.A.

Reported to the Chilean Securities and Exchange Commission (SVS) on February 26, 2007.

Designation of Directors, Dividend Payment and Capital Reduction

1.- At the General Shareholders Meeting held on April 13, 2007, it was agreed as follows:

- To designate the following individuals as Series A Directors:

Director	Alternate
Emilio Gilolmo López	José María Alvarez-Pallete
Narcís Serra Serra	Manuel Alvarez-Tronge
Andrés Concha Rodríguez	Luis Cid Alonso
Fernando Bustamante Huerta	Mario Vásquez
Hernán Cheyre Valenzuela	Carlos Diaz Vergara
Patricio Rojas Ramos	Benjamín Holmes Bierwirth

- To designate the following individuals as Series B Directors:

Director	Alternate

Marco Colodro Hadjes Alfonso Ferrari Herrero

- To distribute 55.10% of the fiscal year profits by paying a final dividend of Ch$ 13.44234 per share, to be paid on May 16, 2007.

2.-At the Special Shareholders Meeting held on April 13, 2007, it was agreed as follows:

- To reduce the capital by Ch$48,815,011,335, maintaining the same number of shares as issued by the Company, which means paying Ch$51 per share, and to authorize the Board of Directors to set the date for payment to shareholders.

- To amend the corporate bylaws pursuant to the foregoing resolutions.

3.- At the Board of Directors Meeting held on April 13, 2007, it was agreed to elect Emilio Gilolmo López and Narcís Serra Serra as Chairman and Vice Chairman of the Company, respectively.

4.- José Moles Valenzuela was also confirmed as Chief Executive Officer. Reported to the Chilean Securities and Exchange Commission (SVS) on April 13, 2007.

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Capital Reduction Payment Date

In accordance with the authority conferred at the Special Shareholders Meeting of April 13, 2007, the Board of Directors agreed as follows:

- To pay the capital reduction of Ch$ 51 per share on June 12, 2007.

Reported to the Chilean Securities and Exchange Commission (SVS) on May 24, 2007.

Interim Dividend Payment

The Board of Directors approved the distribution of an interim dividend N° 174, against net income reached at September 30, 2007, for a total amount of Ch$ 5,742,942,510, equivalent to a gross amount of Ch$ 6.0 per share. The payment date is November 21, 2007.

Reported to the Chilean Securities and Exchange Commission on October 24, 2007.

Director appointed (1) and dissolution of the subsidiary Telefónica Internet Empresas S.A.

At the meeting held on December 20, 2007, the Board of Directors of Compañía de Telecomunicaciones de Chile S.A. (the Company) appointed Mr. Raúl Morodo Leoncio as Alterrnate Director to replace Mr. Luis Cid Alonso, who had resigned. Moreover, the Board informed of the dissolution of the subsidiary Telefónica Internet Empresas S.A. (TIE) after Compañía de Telecomunicaciones de Chile accumulated 100% of its shares, transferring all of TIE s assets and liabilities to the Company, which will be its continuing legal entity.

(1) on January 30, 2008 the Board of Directors agreed to make void the appointment of Mr. Raúl Morodo Leoncio to the position of Alternate Director.

Reported to the Chilean Securities and Exchange Commission on December 20, 2007.

Material Events of Telefónica Larga Distancia S.A.

Designation of Directors and Dividend Payment

1.- At the General Shareholders Meeting held on April 12, 2007, it was agreed as follows:
a) To designate the following individuals as company directors:
- Emilio Gilolmo López
- José Molés Valenzuela
- Julio Covarrubias Fernández
- Diego Martínez-Caro de la Concha-Castañeda
- Humberto Soto Velasco
- Cristian Aninat Salas
- Juan Antonio Etcheverry Duhalde

b) To distribute 30% of the fiscal year profits by paying a dividend of Ch$77.69941 per share, to be paid on May 10, 2007.

2.- At the Board of Directors Meeting held on April 12, 2007, it was agreed to elect Emilio Gilolmo López and José Molés Valenzuela as Chairman and Vice President of the company, respectively.

Reported to the Chilean Securitites and Exchange Commission (SVS) on April 13, 2007.

Telefónica Larga Distancia Director Appointment

At the Board of Directors Meeting held on December 19, 2007, it was agreed to elect Manuel Plaza Martín as director, being the successor of Julio Covarrubias Fernández.

Reported to the Chilean Securitites and Exchange Commission (SVS) on December 21, 2007.

Material Events of Telefonica Asistencia y Seguridad S.A.

Resignation and Designation of Chief Executive Officer of Telefónica Asistencia y Seguridad S.A.

In compliance with the provisions contained in the aforementioned law, and acting as duly authorized by the Board of Directors of Telefónica Asistencia y Seguridad S.A., the Company s Board of Directors has accepted the resignation submitted by the Chief Executive Officer, Raúl Venegas Carulla, and has designated Daniel Domínguez as his replacement as of September 1, 2007.

Reported to the Chilean Securitites and Exchange Commission (SVS) on August 23, 2007.

Resignation and Designation of a Director of Telefónica Asistencia y Seguridad S.A.

On September 25, the Board of Directors accepted the resignation submitted by company director Julio Covarrubias Fernández, designating Manuel Plaza Martín as his replacement.

Reported to the Chilean Securitites and Exchange Commission (SVS) on September 25, 2007.

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Declaration of Responsibility

Pursuant to Securities Markets Law No. 18,045 and General Rule No. 30 issued by the Chilean Securities and Exchange Commission, the undersigned Directors and Chief Executive Officer of Compañía de Telecomunicaciones de Chile S.A. assume responsibility, under oath, for the truthfulness of the information provided in this Annual Report.

/s/ Emilio Gilolmo López Emilio Gilolmo López Tax ID No.: 48.103.811-1 Chairman	/s/ José María Álvarez-Pallete López José María Álvarez-Pallete López Tax ID No.: 48.088.631-3 Alternate Director
/s/ Narcís Serra Serra Narcís Serra Serra Tax ID No.: 48.094.895-5 Vice Chairman	/s/ Manuel Álvarez Tronge Zinder Manuel Álvarez Tronge Zinder Tax ID No.: 48.103.713-1 Alternate Director
/s/ Andrés Concha Rodríguez Andrés Concha Rodríguez Tax ID No.: 4.773.967-5 Director	Vacant
/s/ Fernando Bustamante Huerta Fernando Bustamante Huerta Tax ID No.: 3.923.309-6 Director	/s/ Mario Vásquez Mari Mario Vásquez Mari Tax ID No.: 48.110.598-6 Alternate Director
/s/ Patricio Rojas Ramos Patricio Rojas Ramos Tax ID No.:7.242.296-1 Director	/s/ Benjamín Holmes Bierwirth Benjamín Holmes Bierwirth Tax ID No.:4.773.751-6 Alternate Director
/s/ Hernán Cheyre Valenzuela Hernán Cheyre Valenzuela Tax ID No.:6.375.408-0 Director	/s/ Carlos Díaz Vergara Carlos Díaz Vergara Tax ID No.:7.033.701-0 Alternate Director
/s/ Marco Colodro Hadjes Marco Colodro Hadjes Tax ID No.:4.171.576-6 Director	/s/ Alfonso Ferrari Herrero Alfonso Ferrari Herrero Tax ID No.:48.078.156-2 Alternate Director

/s/ José Molés Valenzuela
José Molés Valenzuela
Tax ID No.: 14.716.213-8
Chief Executive Officer

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ThCh$: Thousands of Chilean pesos.

UF: The Unidad de Fomento, or UF, is an inflation-indexed Chilean peso-denominated monetary unit. The daily UF rate is fixed in advance based on the change in the Chilean Consumer Price Index of the previous month.

ThUS$: Thousands of US dollars

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REPORT OF INDEPENDENT AUDITORS
(Translation of a report originally issued in Spanish - See note 2b)

To the President of the Board, Shareholders and Directors of
Compañia de Telecomunicaciones de Chile S.A.:

We have audited the accompanying consolidated balance sheets of Compañia de Telecomunicaciones de Chile S.A. and subsidiares (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income and of cash flows for the years then ended. These financial statements (and corresponding notes) are the responsability of the Company's management. Our responsability is to express an opinion on these consolidated financial statements based on our audits. The attached Management Analysis is not an integral part of these financial statements; therefore this report does not include it.

We conducted our audits in accordance with generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Compañia de Telecomunicaciones de Chile S.A. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years the ended, in conformity with generally accepted accounting principles in Chile.

ERNEST & YOUNG LTDA.

/s/ Andrés Marchant V.

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Andrés Marchant V.
Santiago, January 30, 2008

Firma miembro de Ernst & Young Global

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03.1 Consolidated Financial Statements | **Consolidated Balance Sheets**

Compañia de Telecomunicaciones de Chile S.A. and Subsidiaries

Consolidated Balance Sheets as of December 31, 2007 and 2006

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31,2007)

(Translation of a report originally issued in spanish see Note 2 to the Financial Statements)

ASSETS	**NOTES**	**2007 ThCh$**	**2006 ThCh$**
CURRENT ASSETS			
Cash		5,353,159	10,820,504
Time deposits	(33)	75,609,049	29,581,950
Marketable securities, net	(4)	5,362,558	17,467,109
Accounts receivable, net	(5)	181,826,597	186,587,858
Notes receivable, net	(5)	4,881,897	4,430,657
Other receivables	(5)	5,803,929	11,303,210
Accounts receivable from related companies	(6 a)	19,781,435	18,710,650
Inventories, net		7,218,684	5,648,481
Prepaid taxes		21,845,495	3,184,639
Prepaid expenses		3,492,775	4,189,368
Deferred taxes	(7 b)	17,226,097	14,963,279
Other current assets	(8)	4,175,462	8,559,816
TOTAL CURRENT ASSETS		**352,577,137**	**315,447,521**
PROPERTY, PLANT AND EQUIPMENT	(9)		
Land		29,744,443	29,919,561
Buildings and improvements		852,551,445	843,210,563
Machinery and equipment		3,065,876,269	2,982,147,724
Other property, plant and equipment		344,140,734	340,137,852
Technical revaluation		10,118,600	10,163,967
Accumulated depreciation		(3,045,120,220)	(2,875,149,446)
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET		**1,257,311,271**	**1,330,430,221**
OTHER LONG-TERM ASSETS			
Investments in related companies	(10)	8,190,303	8,709,399
Investments in other companies		4,488	4,488
Goodwill, net	(11)	15,406,849	17,135,645
Other receivables	(5)	13,722,632	14,614,000
Intangibles	(12)	42,675,057	41,978,446
Accumulated amortization	(12)	(19,802,756)	(13,944,761)

Others non-current asset	(13)	14,830,760	19,273,307
TOTAL LONG-TERM ASSETS		**75,027,333**	**87,770,524**
TOTAL ASSETS		**1,684,915,741**	**1,733,648,266**

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

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Compañia de Telecomunicaciones de Chile S.A. and Subsidiaries
Consolidated Balance Sheets as of December 31, 2007 and 2006
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31,2007)
(Translation of a report originally issued in spanish see Note 2 to the Financial Statements)

LIABILITIES AND SHAREHOLDERS EQUITY	NOTES	2007 ThCh$	2006 ThCh$
CURRENT LIABILITIES			
Short-term obligations with banks and financial institutions	(14)	76,325,196	2,153,492
Public promissory notes	(16)	1,951,326	1,975,900
Current maturities of other long-term obligations		17,558	12,589
Dividends payable		1,681,019	1,717,013
Trade accounts payable	(34)	162,430,403	124,143,916
Other accounts payable	(35)	28,654,539	14,957,563
Accounts payable to related companies	(6 b)	33,448,640	35,449,690
Accruals	(17)	10,631,725	9,001,943
Withholdings		12,913,264	15,343,881
Deferred Revenue		5,744,198	8,077,179
TOTAL CURRENT LIABILITIES		**333,797,868**	**212,833,166**
LONG-TERM LIABILITIES			
Long-term debt with banks and financial institutions	(15)	243,670,056	355,903,012
Bonds and promissory notes payable	(16)	69,380,114	71,036,447
Other accounts payable	(35)	45,373,745	30,298,080
Accruals	(17)	35,348,623	38,154,374
Deferred taxes, net	(7 b)	46,954,910	52,615,406
Other liabilities		3,575,788	4,069,273
TOTAL LONG-TERM LIABILITIES		**444,303,236**	**552,076,592**
MINORITY INTEREST	**(19)**	**281,039**	**1,321,328**
SHAREHOLDERS EQUITY			
Paid-in capital	(20)	904,735,562	956,821,180
Other reserves		(3,251,980)	(3,222,549)
Retained earnings		5,050,016	13,818,549
Net income		10,856,131	25,081,171
Less: Interim dividend		(5,806,115)	(11,262,622)

TOTAL SHAREHOLDERS EQUITY	**906,533,598**	**967,417,180**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**1,684,915,741**	**1,733,648,266**

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

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Compañia de Telecomunicaciones de Chile S.A. and Subsidiaries
Consolidated Statements of Income for the Years Ended December 31, 2007 and 2006
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2007)
(Translation of a report originally issued in spanish see Note 2 to the Financial Statements)

OPERATING INCOME:		**2007 ThCh$**	**2006 ThCh$**
Operating revenues		632,572,010	619,916,596
Operating costs		(423,273,930)	(400,628,756)
Gross profit		**209,298,080**	**219,287,840**
Administrative and selling expenses		(140,963,787)	(130,549,867)
OPERATING INCOME		**68,334,293**	**88,737,973**
NON-OPERATING RESULTS:			
Interest income		7,173,446	4,764,864
Equity participation in income of related companies	(10)	1,887,587	2,093,612
Other non-operating income	(21a)	4,987,557	1,736,515
Equity losses in income of related companies	(10)	-	(36,117)
Amortization of goodwill	(11)	(1,569,490)	(2,387,170)
Interest expense		(18,910,021)	(20,921,616)
Other non-operating expenses	(21b)	(19,337,124)	(18,115,018)
Price-level restatement, net	(22)	1,753,709	537,997
Foreign currency translation, net	(23)	(360,433)	177,091
NON-OPERATING (LOSS) NET		**(24,374,769)**	**(32,149,842)**
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST		**43,959,524**	**56,588,131**
Income taxes	(7c)	(33,213,722)	(31,551,659)
INCOME BEFORE MINORITY INTEREST		**10,745,802**	**25,036,472**
Minority interest	(19)	110,329	44,699

NET INCOME	**10,856,131**	**25,081,171**

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

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Compañia de Telecomunicaciones de Chile S.A and Subsidiaries
Consolidated Statements of Cash Flow for the Years Ended December 31, 2007 and 2006
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2007
(Translation of a report originally issued in spanish see Note 2 to the Financial Statements)

	2007 M$	2006 M$
NET CASH FROM OPERATING ACTIVITIES	244,284,535	250,578,218
Net income	**10,856,131**	**25,081,171**
Sales of assets:	**(1,905,371)**	**(396,704)**
Net income on sale of investments	(1,905,371)	(396,704)
Charges (credits) to income that do not represent cash flows:	**246,209,884**	**250,052,108**
Depreciation	210,353,615	220,669,273
Amortization of intangibles	5,857,995	4,796,564
Provisions and write offs	19,569,673	20,228,129
Accrued equity participation in income of related companies	(1,887,587)	(2,093,612)
Accrued equity participation in losses of related companies	-	36,117
Amortization of goodwill	1,569,490	2,387,170
Price-level restatement, net	(1,753,709)	(537,998)
Foreign currency translation, net	360,433	(177,091)
Other credits to income that do not represent cash flows	(785,309)	(374,233)
Other charges to income that do not represent cash flows	12,925,283	5,117,789
Changes in operating assets (increase) decrease:	**(43,709,022)**	**(21,859,685)**
Trade accounts receivable	(16,706,618)	(27,256,668)
Inventories	(1,821,980)	(1,816,155)
Other assets	(25,180,424)	7,213,138
Changes in operating liabilities increase (decrease):	**32,943,242**	**(2,253,973)**
Accounts payable related to operating activities	49,531,176	8,721,118
Interest payable	(415,329)	1,171,328
Income taxes payable, net	(5,192,496)	(17,449,383)
Other accounts payable related to non-operating activities	(6,039,546)	5,986,627
V.A.T. and other similar taxes payable	(4,940,563)	(683,663)
Net loss from minority interest	**(110,329)**	**(44,699)**

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

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Compañia de Telecomunicaciones de Chile S.A. and Subsidiaries
Consolidated Statements of Cash Flow for the Years Ended December 31, 2007 and 2006
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2007)
(Translation of a report originally issued in spanish see Note 2 to the Financial Statements)

	2007 ThCh$	2006 ThCh$
NET CASH USED IN FINANCING ACTIVITIES	**(72,243,407)**	**(193,689,107)**
Bonds and promissory notes payable	-	78,795,873
Dividends paid	(19,433,564)	(25,800,090)
Capital distribution	(51,445,179)	(43,600,413)
Repayment of bonds and promissory notes payable	(1,364,664)	(202,346,521)
Other sources of financing	-	(737,956)
NET CASH USED IN INVESTING ACTIVITIES	**(133,799,074)**	**(116,014,385)**
Sales of property, plant and equipment	2,182,633	1,614,167
Sale of other investments	16,284,344	-
Acquisition of property, plant and equipment	(144,654,384)	(117,628,552)
	(7.611.667)	-
NET CASH FLOWS FOR THE YEAR	**38,242,054**	**(59,125,274)**
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS	**(4,101,089)**	**(927,436)**
NET DECREASE OF CASH AND CASH EQUIVALENTS	**34,140,965**	**(60,052,710)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**44,406,737**	**104,459,447**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**78,547,702**	**44,406,737**

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

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Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries
Notes to the Consolidated Financial Statements
(Translation of a report originally issued in spanish see Note 2b to the Financial Statements)

1. Composition of Consolidated Group and Registration in the Securities Registry:

a) Compañía de Telecomunicaciones de Chile (Telefónica Chile, the Parent Company when referred to on anindividualbasis or the Company when referred in conjunction with its subsidiaries) is a publicly-held corporation that is registered in the Securities Registry under No. 009 and is therefore subject to supervision by the Chilean Security and Exchange Commission (SVS).

b) Subsidiary companies registered with the Securities Registry:

			Participation (direct & indirect)	
Subsidiaries	**TAXPAYER No.**	**Registration Number**	**2007 %**	**2006 %**
Telefónica Larga Distancia S.A.	96,551,670-0	456	99.87	99.31
Telefónica Asistencia y Seguridad S.A.	96,971,150-8	863	99.99	99.99

2. Summary of Significant Accounting Policies:

(a) Accounting year:

The financial statements correspond to the years ended December 31, 2007 and 2006.

(b) Basis of preparation:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Chile (Chilean GAAP) and standards set forth by the Chilean Superintendency of Securities Insurance (SVS). In the event of any discrepancies in these regulations, SVS regulations supersede Chilean GAAP. Certain accounting practices applied by the Company that conform to Chilean GAAP may not conform to generally accepted accounting principles in the United States (US GAAP) or International Financial Reporting Standards (IFRS). For the convenience of the reader, these financial statements have been translated from Spanish to English.

The Company s consolidated financial statements as of June 30 and December 31 of each year are prepared in order to be reviewed and audited, respectively, in accordance with current legal regulations. The Company voluntarily submits the quarterly financial statements as of March 31 and September 30 to an interim financial information review performed in accordance with regulations established for this type of review, described in Generally Accepted Auditing Standard No. 45 Section No. 722, issued by the Chilean Association of Accountants.

(c) Basis of presentation:

The consolidated financial statements for 2006 and their notes have been adjusted for comparison purposes by 7.4% in order to allow for comparison with the 2007 consolidated financial statements. For comparison purposes, certain reclassifications have been made to the 2006 consolidated financial statements.

(d) Basis of consolidation:

These consolidated financial statements include the assets, liabilities, income and cash flows of the Parent Company and subsidiaries. Significant intercompany transactions have been eliminated, and the participation of minority investors has been recorded under Minority Interest (Note 19).

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Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries
Notes to the Consolidated Financial Statements
(Translation of a report originally issued in spanish see Note 2b to the Financial Statements)

2. Summary of Significant Accounting Policies, continued:

(d) Basis of consolidation, continued:

Companies included in consolidation:

As of December 31, 2007, the consolidated group (The Company) is composed of Compañía de Telecomunicaciones de Chile S.A. and the following subsidiaries:

		Ownership Percentage			
				2007	2006
TAXPAYER No.	**Company Name**	**Direct**	**Indirect**	**Total**	**Total**
96,551,670-0	Telefónica Larga Distancia S.A.	99.87		99.87	99.31
96,961,230-5	Telefónica Gestión de Servicios Compartidos Chile S.A.	99.99	-	99.99	99.99
74,944,200-k	Fundación Telefónica Chile	50.00	-	50.00	50.00
96,971,150-8	Telefónica Asistencia y Seguridad S.A.	99.99	-	99.99	99.99
90,430,000-4	Telefónica Empresas Chile S.A.	99.99	-	99.99	99.99
78,703,410-1	Telefónica Multimedia Chile S.A. (1)	99.99	-	99.99	99.99
96,834,320-3	Telefónica Internet Empresas S.A. (2) (3)	-	-	-	99.99
96,811,570-7	Instituto Telefónica Chile S.A. (4)	-	99.99	99.99	99.99

1) On January 26, 2006, CTC Equipos y Servicios de Telecomunicaciones S.A. sold its entire ownership interest of 1 share to Telefónica Chile S.A. for ThCh $4, corresponding to its participation in that company.

On April 19, 2006, Tecnonáutica S.A. changed its name to Telefónica Multimedia Chile S.A.

2) On January 26, 2006 CTC Equipos y Servicios de Telecomunicaciones S.A. sold its entire ownership interest of 16 shares to Telefónica Chile for ThCh $132 (historical), corresponding to its participation in that company.

On January 27, 2006, Telefónica Empresas Chile sold its entire ownership interest of 215,099 shares to Telefónica Chile for ThCh $1,468,683 (historical), corresponding to its participation in that company.

3) On October 1, 2007 Telefónica Chile dissolved subsidiary Telefónica Internet Empresas S.A. by acquiring all the participation held by third parties, equivalent to 0.0005%, thus gathering all the stock of that company in Telefónica Chile.

4) On October 20, 2006, Telefónica Internet Empresas S.A. sold to Telefónica Gestión de Servicios Compartidos Chile S.A. 1,703,999 shares of that Company for ThCh $12,800 (historical).

On that same date, Telepeajes de Chile S.A. changed its name to Instituto Telefónica Chile S.A..

2. Summary of Significant Accounting Policies, continued:

(e) Price-level restatement:

The consolidated financial statements have been adjusted by applying price-level restatement standards, in accordance with Chilean GAAP, in order to reflect the changes in the purchasing power of the currency during both exercises. The accumulated variation in the Chilean Customer Price Index (CPI) as of December 31, 2007 and 2006, for initial balances, is 7.4% and 2.1%, respectively.

(f) Basis of conversion:

Assets and liabilities in US$ (United States dollars), Euros, Brazilian Reales, Yen (JPY), UF (Unidad de Fomento) have been converted to pesos at the exchange rates as of each year end, as follows:

Año	US$	Euro	Brazilian Real	JPY	UF
2007	496.89	730.94	280.32	4.41	19,622.66
2006	532.39	702.08	249.28	4.47	18,336.38

Foreign currency translation differences resulting from the application of this Standard are credited or debited to income for the year.

(g) Time deposits:

Time deposits are carried at cost plus UF indexation adjustments, where applicable, and accrued interest as of year end.

(h) Marketable securities:

Fixed income securities and shares are recorded at their price-level restated cost plus interest accrued as of each year end using either the actual interest yield determined at the purchase date or market value, whichever is less.

(i) Inventory:

Depending on the nature of respective items, equipment held for sale is carried at the lesser of either its price-level restated acquisition or development cost or at its market value.

Inventory that is expected to be used within twelve months of their acquisition are classified as current assets. Their cost is price-level restated. The obsolescence provision has been determined on the basis of an analysis of materials with slow turnover.

(j) Allowance for doubtful accounts:

The allowance for doubtful accounts is estimated on the basis of the aging of such accounts, up to 100% of accounts outstanding for more than 120 days and 180 days in the case of large customers (corporations).

(k) Property, plant and equipment:

Property, plant and equipment are carried at their price-level restated acquisition or construction cost.

Property, plant and equipment acquired up through December 31, 1979 are carried at their appraisal value, as stipulated in Article 140 of D.F.L. No. 4. Some assets subsequently acquired were subject to a technical revaluation of their appraisal value recorded as of September 30, 1986, as authorized in SVS Circular No. 550. All these values have been price-level restated.

(l) Depreciation of property, plant and equipment:

Depreciation has been calculated and recorded on a straight-line basis over the estimated useful lives of the assets. The average annual financial depreciation rate of the Company is approximately 8.09% .

Estimated useful lives are summarized as follows:

Assets	Range of years
Building	40
Switchboard telephone equip.	7 to 12
Subscriber equipment	2 to 4
External plant	20 to 40
Office furniture and equip.	4 to 10
Software	3
Others	4 to 10

(m) Leased assets:

Leased assets with a purchase option, where the contracts satisfy the characteristics of a financial lease, are recorded in a manner similar to the acquisition of property, plant and equipment, recognizing the full obligation and interest on an accrual basis. These assets are not legally owned by the Company; therefore, until the Company exercises the purchase option, such assets cannot be freely disposed of.

2. Summary of Significant Accounting Policies, continued:

(n) Intangibles:

i) Rights to underwater cable:

Rights to underwater cable correspond to the rights acquired by the Company for the use of an underwater cable to transmit voice and data. These rights are amortized over the term of the respective contracts, with a maximum of 25 years (Note 12).

ii) Software licenses:

Software licenses are valued at their price-level restated acquisition cost. Amortization is calculated using the straight-line method over their estimated useful life, which does not exceed 3 years (Note 12).

ñ) Investments in related companies:

These investments are accounted for under the equity method, which recognizes the investor s share of income on an accrual basis. For investments abroad, the valuation methodology as defined in Technical Bulletin No. 64 is applied. Investments in countries deemed to be unstable and whose activities are not an extension of the operations of the Parent Company are controlled in US dollars.

(o) Goodwill:

This account corresponds to the differences originating from adopting the equity method and adjusting the cost of investments, or from the realization of new acquisitions. Goodwill and negative goodwill amortization years have been determined taking into consideration aspects such as the nature and characteristics of the business and the estimated year of return on the investment (Note 11).

(p) Transactions with repurchase agreements:

Purchases of financial instruments that include repurchase agreements are recorded as fixed rate instruments and are classified as Other Current Assets (Note 8).

(q) Bonds and promissory notes payable:

Bonds payable are recorded under liabilities at the par value of the issued bonds (Note 16). The difference between par and placement value, determined on the basis of the actual interest rate for the transaction, is deferred and amortized over the term of the respective bond (Notes 8 and 13).

Costs directly related to the placement of these obligations are deferred and amortized over the term of the respective liability (Notes 8 and 13).

(r) Current and deferred income taxes:

Income tax is recorded on the basis of taxable net income. Deferred taxes on all temporary differences, tax loss carry forwards that can be realized as future tax benefits, and other events that create differences between the tax and accounting values are recognized in accordance with Technical Bulletins No. 60 and complementary technical bulletins there to issued by the Chilean Association of Accountants, and with SVS Circular No. 1,466 dated January

27, 2000.

(s) Staff severance indemnities:

For employees who qualify for this benefit, the Company s staff severance indemnities obligation is provided for by applying the present value method to the projected benefit obligation using an annual discount rate of 6%, taking into consideration assumptions concerning the future service year of the employees, mortality rate of employees and salary increases used as the basis of actuarial calculations.

Costs for past services of employees resulting from changes in assumptions used as the actuarial bases, are deferred and amortized over average of the employees future service years (Notes 8 and 13).

(t) Revenue recognition:

The Company s revenues are recognized on an accrual basis in accordance with Chilean GAAP. Since billing dates are different from the accounting close date, as of the date of preparation of these consolidated financial statements provisions have been established for services provided and not billed, which are determined on the basis of contracts, traffic, prices and current conditions for the year. These amounts are recorded under Trade Accounts Receivable.

(u) Foreign currency forwards:

The Company has entered into short-term forward contracts to purchase foreign currency.These contracts are hedging liabilities in foreign currency against changes in exchange rates.

These instruments are valued in accordance with Technical Bulletin No. 57 of the Chilean Association of Accountants.

The rights and obligations acquired are detailed in Note 26,being reflected in the balance sheet as only the net right or obligation at year end and classified according to the maturity of each contract under Other Current Assets or Other Payables, as applicable.

2. Summary of Significant Accounting Policies, continued:

(v) Interest rate coverage:

Interest on loans for which associated interest rate swaps have been entered into is recorded recognizing the effect of those contracts on the interest rate established in such loans. The rights and obligations acquired there in are shown under Other Payables or under Other Current Assets, as applicable (Note 26).

(w) Computer software:

The cost of software purchased is deferred and amortized using the straight-line method over a maximum period of three years and classified as other property, plant and equipment.

(x) Cumulative translation adjustment:

In this shareholders equity reserve account, the Company recognizes the difference between the variation in the exchange rate and the consumer price index (C.P.I.) originated in the restatement of its investment abroad and its goodwill, which are controlled in United States dollars. The balance of this account is recognized as income in the same year in which the net income or loss is recognized on the total or partial disposal of these investments.

(y) Statement of cash flows:

For the purposes of preparing the Statement of Cash Flows in accordance with Technical Bulletin No. 50 of the Chilean Association of Accountants and SVS Circular No. 1,312, the Company defines securities under agreements to resell and time deposits with a remaining maturity of less than 90 days as cash equivalents.

Cash flows related to the Company s operations and all those not defined as resulting from investing or financing activities are included under Cash Flows from Operating Activities .

(z) Correspondents:

The Company has agreements with foreign counterparties to set the conditions that regulate international traffic, determining the payments for each counterparty based on fixed rates for the net exchange of traffic.

The receivables/payables related to these agreements are recorded on an accrual basis, recognizing the costs and income for the year in which these are incurred, recording the net receivable and payable for each counterparty where the legal right to offset exists under Accounts Receivable or Accounts Payable, as applicable.

3. Accounting Changes:

(a) During the years covered in these interim consolidated financial statements, the accounting principles have been consistently applied.

(b) Change in estimations:

Homologation of useful lives of assets:

In January 2007, due to the technological evolution, the Company modified the useful lives of software, databases and licenses, reducing them from 4 years to 3 years and equipment at customers, reducing them from 6 and 10 years to 4 years. The effect of this change generated a greater charge to income as of December 31, 2007 in the amount of ThCh $ 8,789,021.

4. Marketable Securities:

The balance of marketable securities is as follows:

Description	2007 ThCh$	2006 ThCh$
Publicly offered promissory notes	5,362,558	17,467,109
Total	5,362,558	17,467,109

Publicly offered promissory notes (Fixed Income)

	Date		Book Value				
Instrument	Purchase	Maturity	Par Value ThCh$	Amount ThCh$	Rate %	Market Value ThCh$	Provision ThCh$
CERO010508	04-Sep-07	01-May-08	2,703,102	2,723,704	2.6% + UF	2,723,704	(976)
CERO010508	04-Sep-07	01-May-08	242,294	244,187	2.6% + UF	244,187	(63)
CERO010708	04-Sep-07	01-Jul-08	590,877	595,418	2.6% + UF	595,418	(262)
BCU0500308	17-Oct-07	01-Mar-08	1,766,039	1,799,249	5%	1,799,643	-
Total			**5,302,312**	**5,362,558**		**5,362,952**	**(1,301)**

(1) The book value is presented net of the provision.

5. Current and long-term receivables:

The detail of current and long-term receivables is as follows:

Description	Up to 90 days		Over 90 up to 1 year		Current Subtotal	Total Current (net)			
	2007 ThCh$	2006 ThCh$	2007 ThCh$	2006 ThCh$	2007 ThCh$	2007 ThCh$	%	2006 ThCh$	%
Accounts receivable	**252,212,674**	**250,225,596**	**6,017,917**	**3,406,488**	**258,230,591**	**181,826,597**	**100.00**	**186,587,858**	**100.00**
Fixed telephone service	204,297,506	198,468,840	3,025,869	304,753	207,323,375	141,923,292	78.05	142,435,081	76.34
Long distance	23,574,040	24,383,082	-	-	23,574,040	16,151,063	8.88	17,514,589	9.39
Communications corporate	20,173,164	22,390,595	2,729,270	2,789,889	22,902,434	21,110,891	11.61	23,394,065	12.54
Other	4,167,964	4,983,079	262,778	311,846	4,430,742	2,641,351	1.45	3,244,123	1.73
Allowance for doubtful accounts	(76,403,994)	(67,044,226)	-	-	(76,403,994)	-		-	
Notes receivable	**5,130,716**	**8,941,969**	**2,943,307**	**237,523**	**8,074,023**	**4,881,897**		**4,430,657**	

Allowance for doubtful notes	(3,192,126)	(4,748,835)	-	-	(3,192,126)	-	-
Miscellaneous accounts receivable	**3,981,150**	**8,110,417**	**1,822,779**	**3,192,793**	**5,803,929**	**5,803,929**	**11,303,210**
Allowance for doubtful accounts	-	-	-	-	-	-	-
Long-term receivables							

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6. Balances and transactions with related entities:

a) Receivables from related parties are as follows:

Taxpayer No,	Company	2007 ThCh$	Short term 2006 ThCh$	2007 ThCh$	Long term 2006 ThCh$
87,845,500-2	Telefónica Móviles Chile S.A.	7,077,477	9,838,480	-	-
96,672,150-2	Telefónica Móviles Chile Inversiones S.A.	17,141	57,301	-	-
96,672,160-k	Telefónica Móviles Chile Larga Distancia S.A.	363,601	354,967	-	-
96,834,230-4	Terra Networks Chile S.A.	422,519	2,033,937	-	-
96,895,220-k	Atento Chile S.A.	508,723	513,360	-	-
96,910,730-9	Telefónica International Wholesale Services Chile S.A.	695,086	525,884	-	-
59,083,900-0	Telefónica Ingeniería de Seguridad S.A.	18,656	11,793	-	-
96,990,810-7	Telefónica Móviles Soluciones y Aplicaciones S.A.	120,104	147,018	-	-
Foreign	Telefónica España	1,953,904	754,292	-	-
Foreign	Telefónica Móviles S.A.	81,607	-	-	-
Foreign	Telefónica Móviles el Salvador	2,154	-	-	-
Foreign	Telefónica Móviles de Argentina	43,088	-	-	-
Foreign	Telefónica Móviles de Panamá	10,772	-	-	-
Foreign	Telefónica Móviles de Perú	32,316	-	-	-
Foreign	Telefónica Móviles de Colombia	47,397	-	-	-
Foreign	Telefónica Celular de Nicaragua	1,140	-	-	-
Foreign	Telefónica LD Puerto Rico	-	228,099	-	-
Foreign	Telefónica Data Usa Inc.	24,242	38,702	-	-
Foreign	Telefónica Data España	33,629	-	-	-
Foreign	Telefónica Argentina	2,692,563	1,718,539	-	-
Foreign	Telefónica Soluciones de Informática España	1,522,632	1,635,305	-	-
Foreign	Telefónica International Wholesale Services	83,210	420,606	-	-
Foreign	Telefónica Gestión de Servicios Compartidos España	-	12,033	-	-
Foreign	Telefónica Perú	551,127	420,334	-	-
Foreign	Telefónica Sao Paulo	187,435	-	-	-
Foreign	Telefónica Multimedia Perú	77,829	-	-	-
Foreign	Telefónica S.A.	102,231	-	-	-
Foreign	Telefónica Internacional S.A.U.	427,305	-	-	-
Foreign	Telefónica Centroamérica	19,390	-	-	-
Foreign	Terra Networks Brasil	17,236	-	-	-
Foreign	Telefónica Servicios Comerciales Perú S.A.C	2,154	-	-	-
Foreign	Telefónica Investigación y Desarrollo	103,341	-	-	-
Foreign	Fundación Telefónica Perú	2,154	-	-	-

Foreign	Fundación Telefónica Brasil	2,154	-	-	-
Foreign	Telefónica Gestión de Servicios Compartidos Perú S.A.C.	2,154	-	-	-
Foreign	Media Networks Perú S.A.C.	2,154	-	-	-
Foreign	Colombia Telecomunicaciones	149,515	-	-	-
Foreign	Otecel Ecuador	75,847	-	-	-
Foreign	Telcel Venezuela	2,278,654	-	-	-
Foreign	Atento Colombia	5,093	-	-	-
Foreign	Vivo Brasil	23,701	-	-	-
Total		**19,781,435**	**18,710,650**	-	-

There have been charges and credits recorded to current accounts with these companies for the invoicing of sales of materials, equipment and services.

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6. Balances and transactions with related entities, continued:

b) Payables to related parties are as follows:

		Short term		Long term	
		2007	**2006**	**2007**	**2006**
Taxpayer No,	**Company**	**ThCh$**	**ThCh$**	**ThCh$**	**ThCh$**
96,527,390-5	Telefónica Internacional Chile S.A.	612,227	307,216	-	-
96,834,230-4	Terra Networks Chile S.A.	2,407,011	5,731,227	-	-
96,895,220-k	Atento Chile S.A.	3,243,699	3,554,431	-	-
96,910,730-9	Telefónica International Wholesale Services Chile S.A.	7,702,499	4,461,451	-	-
87,845,500-2	Telefónica Móviles Chile S.A.	14,005,843	18,383,480	-	-
96,672,160-k	Telefónica Móviles Chile Larga Distancia S.A.	43,766	5,095	-	-
59,083,900-0	Telefónica Ingeniería de Seguridad S.A.	1,584	1,249	-	-
Foreign	Telefónica S.A.	482,788	-	-	-
Foreign	Telefónica Gestión de Servicios Compartidos España	68,201	33,720	-	-
Foreign	Telefónica Argentina	1,016,503	608,973	-	-
Foreign	Telefónica Perú	188,173	459,122	-	-
Foreign	Telefónica Guatemala	1,971	27,144	-	-
Foreign	Telefónica Móvil El Salvador S.A. de C.V.	7,643	32,065	-	-
Foreign	Telefónica International Wholesale Services	-	1,024,882	-	-
Foreign	Telefónica Puerto Rico	20,234	9,348	-	-
Foreign	Telefónica Investigación y Desarrollo	1,270,040	620,764	-	-
Foreign	Telecomunicaciones de Sao Paulo	832,847	-	-	-
Foreign	Telefónica Sao Paulo	-	29,999	-	-
Foreign	Televisión Federal S.A.	9,084	-	-	-
Foreign	Televisión Servicios de Música S.A.U.	33,546	-	-	-
Foreign	Telefónica Gestión de Servicios Compartidos Perú S.A.C.	927	-	-	-
Foreign	Colombia Telecomunicaciones	145,963	-	-	-
Foreign	Media Networks Perú S.A.C.	15,910	-	-	-
Foreign	Telecomunicaciones Multimedia S.A.C.	1,331,194	-	-	-
Foreign	Telefónica Móviles S.A.	-	121,565	-	-
Foreign	Telefónica Data España	6,987	37,959	-	-
Total		**33,448,640**	**35,449,690**	**-**	**-**

As per Article No, 89 of the Corporations Law, all of these transactions are carried out under normal market conditions.

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6. Balances and transactions with related companies, continued:

c) Transactions (1):

Company	Tax No,	Nature of Relationship	Description of transaction	2007 ThCh$		2006 ThCh$	
Telefónica España	Foreign	Relationship with parent Company	Sales	1,758,332	1,758,332	957,298	957,298
			Cost	(550,303)	(550,303)	(486,592)	(486,592)
Telefónica Data Usa Inc,	Foreign	Relationship with parent Company	Sales	8,576	8,576	37,785	37,785
			Cost	(8,488)	(8,488)	-	-
Telefónica Internacional Chile S.A.	96,527,390-5	Subsidiary	Sales	10,718	10,718	-	-
			Cost	(567,447)	(567,447)	(623,681)	(623,681)
Terra Networks Chile S.A.	96,834,230-4	Relationship with parent Company	Sales	1,735,411	1,735,411	6,559,804	6,559,804
			Cost	(11,247,873)	(11,247,873)	(746,327)	(746,327)
Atento Chile S.A.	96,895,220-k	Related Company	Sales	1,582,458	1,582,458	1,315,588	1,315,588
			Cost	(23,419,536)	(23,419,536)	(18,359,992)	(18,359,992)
Telefónica Argentina	Foreign	Relationship with parent Company	Sales	2,142,666	2,142,666	1,951,235	1,951,235
			Cost	(2,836,132)	(2,836,132)	(2,025,071)	(2,025,071)
Telecomunicaciones de Sao Paulo	Foreign	Relationship with parent Company	Sales	52,498	52,498	307,867	307,867
			Cost	(55,953)	(55,953)	(180,171)	(180,171)
Telefónica Guatemala	Foreign	Relationship with parent Company	Sales	17,520	17,520	25,244	25,244
			Cost	(86,656)	(86,656)	(57,429)	(57,429)
Telefónica Perú	Foreign	Relationship with parent Company	Sales	1,484,105	1,484,105	1,104,207	1,104,207
			Cost	(1,455,048)	(1,455,048)	(800,611)	(800,611)
Telefónica LD Puerto Rico	Foreign	Relationship with parent Company	Sales	9,023	9,023	11,737	11,737
			Cost	(35,069)	(35,069)	(22,639)	(22,639)
Telefónica El Salvador	Foreign	Relationship with parent Company	Sales	7,255	7,255	10,090	10,090
			Cost	(76,828)	(76,828)	(45,781)	(45,781)
	96,672,160-k		Sales	977,000	977,000	676,465	676,465

Telefónica Móviles Chile Larga Distancia S.A.		Relationship with parent Company	Cost	(836)	(836)	(8,797,458)	(8,797,458)
			Other non-operationg expense	(425)	(425)	-	-
Telefónica International Wholesale Services España	Foreign	Relationship with parent Company	Sales	31,072	31,072	-	-
			Cost	(94,994)	(94,994)	-	-
Telefónica Móviles Chile Inversiones S.A.	96,672,150-2	Relationship with parent Company	Sales	76,703	76,703	-	-
Telefónica Internacional Wholesale Services América	Foreign	Relationship with parent Company	Sales	88	88	-	-
			Cost	(1,337,357)	(1,337,357)	-	-
Telefónica Gestión de Serv,Compartidos España	Foreign	Relationship with parent Company	Sales	539	539	-	-
			Cost	(245,584)	(245,584)	(9,226)	(9,226)
			Other non-operating income	-	-	147	147
Telefónica Ingeniería de Seguridad S.A.	59,083,900-0	Relationship with parent Company	Sales	9,919	9,919	111,974	111,974
			Cost	(118,709)	(118,709)	(30,153)	(30,153)
Telefónica Móviles Soluciones y Aplicaciones S.A.	96,990,810-7	Relationship with parent Company	Sales	224,091	224,091	69,928	69,928
			Cost	(258)	(258)	-	-
Telefónica International Wholesale Services USA	Foreign	Relationship with parent Company	Cost	(113)	(113)	-	-
Telefónica International Wholesale Services Chile S.A.	96,910,730-9	Relationship with parent Company	Sales	1,326,055	1,326,055	1,374,689	1,374,689
			Cost	(8,244,974)	(8,244,974)	(5,509,396)	(5,509,396)
Telefónica Móviles Chile S.A.	87,845,500-2	Relationship with parent Company	Sales	17,623,412	17,623,412	15,182,235	15,182,235
			Cost	(44,712,504)	(44,712,504)	(45,300,627)	(45,300,627)
Telefónica Investigación y Desarrollo	Foreign	Relationship with parent Company	Cost	(1,913,242)	(1,913,242)	-	-
	96,942,730-3		Sales	1	1	-	-

Telefónica Mobile Solutions Chile S.A.		Relationship with parent Company					
Terra Networks Inc,	Foreign	Relationship with parent Company	Sales	-	-	88	88
Telefónica International S.A.U	Foreign	Relationship with parent Company	Sales	163,746	163,746	-	-
			Other non-operating income	43,840	43,840	-	-
Telefónica S.A.	Foreign	Relationship with parent Company	Sales	973	973	-	-
			Cost	(597,367)	(597,367)	-	-
Telefónica Data Corp España	Foreign	Relationship with parent Company	Sales	48,116	48,116	-	-
			Other non-operating income	111,592	111,592	-	-

(1) Includes all transactions performed with related companies.

The conditions of the agreement related to intercompany transactions between the Company and it equity-method investees and it mercantile current account are both short and long-term, denominated in US-dollars and accrue interest at a variable rate adjusted to market rates (US$ + Market Spread). In the case of Sales and Services Rendered, these mature in the short-term (less than a year) and the maturity terms for each case varies based on the related transactions.

6. Balances and transactions with related companies, continued:

The intercompany account with Telefónica Internacional Chile S.A. includes short-term and long-term contractual terms denominated in US dollars, accruing interest at a variable rate adjusted to market rates (US$ + Market Spread).

Items recorded under Sales and Services Rendered have a short-term character (maturity of less than a year); individual terms for each transaction vary based on related transactions.

7. Current and deferred income taxes:

a) General information:

As of December 31, 2007 and 2006, the Parent Company recorded a first category income tax provision based on taxable income of ThCh $127,912,163 y ThCh $152,534,513 respectively.

In addition, as of December 31,2007 and 2006,a provision for first category income tax in subsidiaries was recorded based on the subsidiaries respective taxable income of ThCh $51,560,518 and ThCh $56,084,314, respectively.

As of December 31,2007 and 2006, accumulated tax losses of subsidiaries amount to ThCh $11,266,288 and ThCh $6,813,706, respectively.

According to current legislation, tax years eventually subject to review by the fiscal authority, contemplate most of the taxes that affect the Company s operations and transactions generated from 2004 to date.

In the normal development of its operations,the company is subject to the regulation and oversight of the Chilean Internal Revenue Service; therefore differences could arise in the application of criteria used to determine taxes, Management believes, based on the information available to date, that there are no significant additional liabilities to those already recorded for that concept in the financial statements.

The companies in the group with positive Retained Taxable Earnings and their associated credits are as follows:

Subsidiaries	**Retained Taxable Earnings w/15% credit ThCh$**	**Retained Taxable Earnings w/16% credit ThCh$**	**Retained Taxable Earnings w/16,5% credit ThCh$**	**Retained Taxable Earnings w/17% credit ThCh$**	**Retained Taxable Earnings w/o credit ThCh$**	**Amount of credit ThCh$**
Telefónica Larga Distancia S.A.	2,344,563	888,284	635,910	91,530,393	6,138,889	19,455,764
Telefónica Empresas Chile S.A.	-	-	50	36,995,689	2,959,594	7,577,431
Telefónica Gestión Servicios Compartidos S.A.	-	-	-	260,411,640	53,988,606	53,337,252
Telefónica Chile S.A.	-	-	5,615,869	170,756,786	22,459,220	36,083,952
Total	**2,344,563**	**888,284**	**6,251,829**	**559,694,508**	**85,546,309**	**116,454,399**

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7. Current and deferred income taxes, continued:

b) Deferred taxes:

As of December 31, 2007 and 2006, the net deferred tax liabilities amounted to ThCh $29,728,813 and ThCh $37,652,127, respectively, detailed as follows:

	2007				2006			
	Deferred tax assets		Deferred tax liabilities		Deferred tax assets		Deferred tax liabilities	
Description	**Short-term ThCh$**	**Long-term ThCh$**	**Short-term ThCh$**	**Long-term ThCh$**	**Short-term ThCh$**	**Long-term ThCh$**	**Short-term ThCh$**	**Long-term ThCh$**
Allowance for doubtful accounts	12,311,103	-	-	-	10,825,955	-	-	-
Vacation provision	746,301	-	-	-	786,468	-	-	-
Tax benefits for tax losses	-	1,915,269	-	-	-	1,158,330	-	-
Staff severance indemnities	114,141	1,057	-	3,658,696	-	-	-	4,190,359
Leased assets and liabilities	-	616,140	-	137,954,340	-	710,165	-	155,340,918
Property, plant and equipment	-	37,833	-	78,511	-	22,021	-	226,414
Difference in amount of capitalized staff severance	-	223,012	-	124,928	-	402,269	-	414,349
Deferred charge on sale of assets	-	-	-	196,336	-	4,406	-	280,136
Development software	-	-	-	3,416,628	-	-	-	4,244,841
Incentive provision	268,128	-	-	-	244,821	-	-	-
Obsolescence provision	343,855	-	-	-	-	-	-	-
Collective negotiation bonus	-	-	-	98,492	-	-	-	149,053
Other	3,476,307	836,338	33,738	732,606	3,171,702	1,218,151	65,667	1,095,441
Subtotal	17,259,835	3,629,649	33,738	146,260,537	15,028,946	3,515,342	65,667	165,941,511

Complementary accounts net of accumulated amortization	-	(794,792)	-	(96,470,770)	-	(927,243)	-	(110,738,006)
Subtotal	17,259,835	2,834,857	33,738	49,789,767	15,028,946	2,588,099	65,667	55,203,505
Tax reclassification	(33,738)	(2,834,857)	(33,738)	(2,834,857)	(65,667)	(2,588,099)	(65,667)	(2,588,099)
Total	17,226,097	-	-	46,954,910	14,963,279	-	-	52,615,406

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7. Current and deferred income taxes, continued:

c) Income tax detail:

The current tax expense recorded by the Company for the years 2007 and 2006 resulted from the following items:

Description	2007 ThCh$	2006 ThCh$
Common tax expense before tax credit (income tax 17%)	30,510,356	35,465,201
Current tax expense (article 21 single tax at 35%)	110,025	56,368
Tax expense adjustment	356,270	(363,002)
Current income tax subtotal	30,976,651	35,158,567
Current year deferred taxes	(11,897,714)	(18,423,900)
Tax benefits from tax loss carry forwards	-	(20,916)
Effect of amortization of complementary accounts for deferred assets and liabilities	14,134,785	14,837,908
Deferred tax subtotal	2,237,071	(3,606,908)
Total income expense tax	33,213,722	31,551,659

8. Other Current Assets:

The detail of other current assets is as follows:

Description	2007 ThCh$	2006 ThCh$
Fixed income securities purchased with resale agreement (note 9)	-	4,004,283
Deferred union contract bonus (1)	1,341,033	1,514,774
Deferred higher bond discount rate (note 24)	242,292	247,484
Deferred disbursements for placement of bonds (note 24)	135,766	137,307
Deferred disbursements for foreign financing proceeds (2)	370,987	445,846
Exchange insurance receivable	131,288	678,377
	444,604	-
Deferred staff severance indemnities charges (3)	1,210,332	1,299,897
	129,896	-
Others	169,264	231,848
Total	**4,175,462**	**8,559,816**

(1) Between May and September 2006, the Company negotiated a 38-month and 48-month union contract with a number of its employees, granting them, among other benefits, a signing bonus,That bonus was paid between July and December 2006, The total benefit of ThCh $4,918,946 (historical), is amortized using the straight-line method over the term of the union agreement, The long-term portion is recorded under Others (in Other non-current assets) (Note 13).

During July 2005 and July 2007, subsidiary Telefónica Larga Distancia negotiated collective agreements with its employees for 30 and 26 months, respectively.

(2) This amount corresponds to the cost (net of amortization) of the mandatory reserve paid to the Central Bank of Chile and disbursements incurred for foreign loans obtained by the Company to finance its investment plan, The long-term portion is recorded under Others (in Other Assets) (Note 13).

(3) Corresponds to the short-term portion to be amortized due to changes in the actuarial hypothesis and to the concept of loans to employees,The long-term portion is recorded under Others (in Other Assets) (Note 13).

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9. Property, plant and equipment:

The detail of property, plant and equipment is as follows:

	2007		2006	
Description	**Accumulated depreciation ThCh$**	**Gross prop,, plant and equipment ThCh$**	**Accumulated depreciation ThCh$**	**Gross prop,, plant and equipment ThCh$**
Land	**-**	**29,744,443**	**-**	**29,919,561**
Building and improvements	**405,573,286**	**852,551,445**	**381,681,521**	**843,210,563**
Machinery and equipment	**2,406,891,104**	**3,065,876,269**	**2,282,627,205**	**2,982,147,724**
Central office telephone equipment	1,482,350,700	1,711,858,038	1,407,086,547	1,658,729,619
External building	680,637,077	1,024,267,155	648,199,138	1,015,979,173
Subscribers equipment	204,433,232	288,780,649	188,118,876	267,562,206
General equipment	39,470,095	40,970,427	39,222,644	39,876,726
Other Property, Plant and Equipment	**221,232,132**	**344,140,734**	**199,214,579**	**340,137,852**
Office furniture and equipment	113,084,714	122,846,214	105,182,050	121,407,730
Projects, work in progress and materials	-	88,276,565	-	99,842,042
Leased assets (1)	78,544	540,250	69,539	540,250
Assets temporarily out of service	7,200,635	7,200,635	7,522,843	7,522,843
Software	99,413,902	123,688,332	84,322,472	108,097,247
Other	1,454,337	1,588,738	2,117,675	2,727,740
Technical revaluation Circular 550	**11,423,698**	**10,118,600**	**11,626,141**	**10,163,967**
Total	**3,045,120,220**	**4,302,431,491**	**2,875,149,446**	**4,205,579,667**

(1) Corresponds to buildings,

Operating costs include a depreciation charge for the years ended September 30,2007 and 2006 amounting toThCh $203,915,388 andThCh$214,750,209, respectively, and administrative and selling expenses with a depreciation charge of ThCh $6,438,227 and ThCh $4,974,189 for 2007 and 2006, respectively, Assets temporarily out of service mainly consist of telephone equipment under repair, and incurred depreciation amounting to ThCh$944,875 in 2006, which is classified as Other non-operating expenses (Note 21b).

During the normal course of its operations, the Company monitors new and existing assets, and their depreciation rates, and homologues them to the technological evolution and the development of the markets in which it competes.

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9. Property, plant and equipment, continued:

The detail of item after the technical revaluation is as follows:

Description	Net Balance ThCh$	Accumulated Depreciation ThCh$	Gross property plant and ,equipment 2007 ThCh$	Gross property, plant and equipment 2006 ThCh$
Land	(510,164)	-	(510,164)	(555,464)
Building and improvements	(747,706)	(4,471,325)	(5,219,031)	(5,330,407)
Machinery and equipment	(47,228)	15,895,023	15,847,795	16,049,838
Total	**(1,305,098)**	**11,423,698**	**10,118,600**	**10,163,967**

Depreciation of the technical reappraisal surplus amounted to ThCh $(75,800) and ThCh$(24,117) for 2007 and 2006, respectively.
Gross property,plant and equipment includes assets that have been fully depreciated in the amount of ThCh $1,641,731,055 in 2007 and ThCh $1,453,458,129 in 2006, which include ThCh $14,104,851 and ThCh $14,114,069, respectively, from the reappraisals mentioned in Circular No, 550.

10. Investments in related companies:

The detail of investments in related companies is as follows:

Taxpayer No,	Company	Country of origin	Currency controlling the investment	Number of shares	Percentage participation 2007 %	Percentage participation 2006 %	Equity of the companies 2007 ThCh$	Equity of the companies 2006 ThCh$
Foreign	TBS Celular Participación S.A. (1) (2)	Brazil	Dollar	48,950,000	2.61	2.61	141,684,646	162,404,153
96,895,220-K	Atento Chile S.A. (2)	Chile	Pesos	3,209,204	28.84	28.84	15,576,745	15,501,566

Taxpayer No,	Company	Net income (loss) of the companies 2007 ThCh$	Net income (loss) of the companies 2006 ThCh$	Equity in income (loss) of the investment 2007 ThCh$	Equity in income (loss) of the investment 2006 ThCh$	Investment value 2007 ThCh$	Investment value 2006 ThCh$	Investment book value 2007 ThCh$	Investment book value 2006 ThCh$

Foreign	TBS Celular Participación S.A. (1) (2)	553,387	(1,383,767)	14,444	(36,117)	3,697,969	4,238,747	3,697,969	4,238,747
96,895,220-K	Atento Chile S.A. (2)	6,494,949	7,259,403	1,873,143	2,093,612	4,492,334	4,470,652	4,492,334	4,470,652
Total						**8,190,303**	**8,709,399**	**8,190,303**	**8,709,399**

(1) The company records its investment in TBS Celular Participación S.A. using the equity method since it exercises significant influence through the Telefónica group to which it belongs, as established in paragraph N° 4 of Circular No, 1,179 issued by the Superintendency of Securities and Insurance and ratified in Title II of Circular No, 1,697, Although Telefónica Chile only has a 2.61 % direct participation in TBS Celular Participaciónes S.A., its Parent Company, Telefónica S.A., Spain, directly and indirectly has a percentage exceeding 20% ownership of the capital stock of that Company.

(2) As of December 31, 2007, the value of the investment was calculated on the basis of unaudited financial statements.

As of the date of these financial statements, there are no liabilities for hedge instruments assigned to foreign investments.

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11. Goodwill:

The detail of goodwill is as follows:

Taxpayer No,	Company	Year of origin	2007 Amount amortized in the year ThCh$	2007 Balance of Goodwill ThCh$	2006 Amount amortized in the year ThCh$	2006 Balance of Goodwill ThCh$
Foreign	TBS Celular Participación S.A.	2001	204,525	1,464,820	204,525	1,828,651
96,551,670-0	Telefónica Larga Distancia S.A.	1998	1,261,838	13,632,649	1,261,838	14,894,487
78,703,410-1	Telefónica Multimedia Chile S.A. (1)	1998	-	-	817,680	-
96,834,320-3	Telefónica Internet Empresas S.A.(2)	1999	103,127	309,380	103,127	412,507
Total			**1,569,490**	**15,406,849**	**2,387,170**	**17,135,645**

(1) On January 26, 2006, the Board of Directors of Telefónica Internet Empresas S.A.agreed to sell the shares of Telefónica Multimedia Chile S.A.(formerly Tecnonáutica S.A.) to Telefónica Chile S.A.This sale was carried out at book value, not considering in the price the amount corresponding to Goodwill, which meant recognizing in income, in an extraordinary manner, amortization of the full balance of Goodwill as of that date.

(2) On January 27, 2006 Telefónica Empresas CTC Chile sold to Telefónica Chile S.A. 215,099 shares at ThCh $1,468,683 (historical), which corresponded to its participation in this company. On January 26 CTC Equipos y Servicios de Telecomunicaciones sold to Telefónica Chile S.A. 16 shares at ThCh $132 (historical), which corresponded to its participation in this company.

Goodwill amortization years have been determined taking into account aspects such as the nature and characteristics of the business and estimated year of return on investment.

12. Intangibles:

The detail of intangibles is as follows:

Description	2007 ThCh$	2006 ThCh$
Underwater cable rights (gross)	25,422,433	25,423,077
Accumulated amortization, previous exercises	(4,642,881)	(3,342,388)
Amortization for the year	(1,295,247)	(1,300,493)
Licenses (Software) (gross)	17,252,624	16,555,369

Accumulated amortization, previous exercises	(9,301,880)	(5,805,809)
Amortization for the year	(4,562,748)	(3,496,071)
Total Net Intangibles	**22,872,301**	**28,033,685**

13. Other non-current assets:

The detail of other non-current assets is as follows:

Description	2007 ThCh$	2006 ThCh$
Deferred issuance cost for obtaining external financing (note 8(2)) (1)	434,297	774,389
Deferred union contract bonus (note 8(1))	1,700,445	3,303,886
Bond issue expenses (note 25)	584,850	735,070
Bond discount (note 25)	956,502	1,203,109
Securities deposits	138,366	125,450
Deferred charge due to change in actuarial estimations (note 8(3)) (2)	7,195,245	8,611,164
Deferred staff severance indemnities (3)	3,821,055	4,520,239
Total	**14,830,760**	**19,273,307**

(1) This amount corresponds to the cost (net of amortizations) of the disbursements incurred for foreign loans obtained by the Company to finance its investment plan,The short-term portion is presented under Other Current Assets (Note 8).

(2) With the implementation of new contractual conditions derived from the organizational changes in the Company, there have been a series of studies that allowed, with primary effect in 2004, the modification in the calculation basis for staff severance indemnities of the variable for future service life of employees, After concluding these studies, in 2005, other changes in estimates were incorporated, such as personnel fluctuation rate, mortality of employees and future salary increases for the year 2006, which includes the rate mentioned in Note 2 (s) for 2006, all determined on the basis of actuarial calculations, as established in Technical Bulletin No, 8 of the Chilean Association of Accountants, The short-term portion is recorded under Other Current Assets (Note 8).

The difference generated as a result of changes in the actuarial estimates constitutes actuarial gains or losses, which are deferred and amortized over the estimated average remaining future service life of the employees that will receive the benefit (see Note 2s).

(3) In conformity with the union agreements between the Company and its employees, loans were granted to employees, the amounts and conditions of which were based on, among other considerations, the accrued balances of staff severance indemnities at the date of the grant, The short-term portion is recorded under Other Current Assets (Note 8).

The staff severance indemnities provision has been recorded in part at its current value,deferring and amortizing this effect over the years of average remaining future service life of employees that subscribe to the benefit, The loan is presented under Other Long-term Receivables.

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14. Short-term obligations with banks and financial institutions:

The detail of short-term obligations with banks and financial institutions is as follows

Taxp,No,	Bank or financial institution	US$ 2007 ThCh$	US$ 2006 ThCh$	U.F. 2007 ThCh$	U.F. 2006 ThCh$	Total 2007 ThCh$	Total 2006 ThCh$
	Current maturities of long-term debt						
97,015,000-5	BANCO SANTANDER SANTIAGO	-	-	479,881	479,331	479,881	479,331
Foreign	CALYON NEW YORK BRANCH AND OTHERS	145,202	181,543	-	-	145,202	181,543
97,008,000-7	CITIBANK (2)	75,094,002	704,342	-	-	75,094,002	704,342
Foreign	BBVA BANCOMER AND OTHERS	606,111	788,276	-	-	606,111	788,276
Total		**75,845,315**	**1,674,161**	**479,881**	**479,331**	**76,325,196**	**2,153,492**
	Outstanding principal	74,533,500	-	-	-	-	-
	Average annual interest rate	5.23%	5.70%	3.18%	3.16%	4.78%	5.20%

Percentage of obligations in foreign currency: 99.37 % for 2007 and 77.74 % for 2006
Percentage of obligations in local currency: 0.63 % for 2007 and 22.26 % for 2006

15. Long-term obligations with banks and financial institutions:

Long-term obligations with banks and financial institutions:

Taxp,No,	Bank or financial institution	Currency Or Indexation Index	Years to maturity for long-term portion 1 to 2 ThCh$	2 to 3 ThCh$	3 to 5 ThCh$	Long-term portion as of Dec. 31, 2007 ThCh$	Average annual interest rate %	Long-term portion as of Dec. 31, 2006 ThCh$

	Loans in Dollars							
Foreign	CALYON NEW YORK BRANCH AND OTHERS (1)	US$	99,378,000	-	-	99,378,000	Libor + 0.35%	114,357,372
Foreign	BBVA BANCOMER AND OTHERS (3)	US$	-	-	74,533,500	74,533,500	Libor + 0.334%	85,768,029
97,008,000-7	BANCO CITIBANK (2)	US$	-	-	-	-	Libor + 0.31%	85,768,029
	Subtotal		**99,378,000**	**-**	**74,533,500**	**173,911,500**	**5.23%**	**285,893,430**
	Loans in Unidades de Fomento							
97,015,000-5	BANCO SANTANDER SANTIAGO (4)	UF	-	69,758,556	-	69,758,556	Tab 360 + 0.325%	70,009,582
	Subtotal		**-**	**69,758,556**	**-**	**69,758,556**	**3,18%**	**70,009,582**
	Total		**99,378,000**	**69,758,556**	**74,533,500**	**243,670,056**	**4.78%**	**355,903,012**

Percentage of obligations in foreign currency: 71.37 % for 2007 and 80.33 % for 2006 Percentage of obligations in local currency: 28.63 % for 2007 and 19.67 % for 2006

(1) In December 2004, the Company renegotiated this loan, extending its due date from February and August 2005 to December 2009; in addition, the Company changed the agent bank, which until then had been Bilbao Viscaya Argentaria Bank.
(2) In May 2005, the Company renegotiated this loan, extending its due date from April 2006 and April 2007 to December 2008; in addition, the Companychaned the agent bank, which until then had been the ABN Amro Bank.
(3) In November 2005, the Company renegotiated this loan, extending its due date from April 2006, April 2007 and April 2008 to June 2011; in addition, the Company changed the agent bank, which until then had been the ABN Amro Bank.
(4) In April 2005, the Company renegotiated this loan, which allowed it to extend the due date from April 2008 to April 2010, In February 2007 the interest rate was changed from 0.45% to 0.325% .

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16. Bonds and promissory notes payable:

Bonds

The detail of bonds issued, classified as short and long-term, is as follows:

Registration number or identification of the instrument	Series	Nominal Amount of issue	Readjustment unit for bond	Nominal annual interest rate	Final maturity	Frequency Interest payment	Amortizations	Par value 2007 ThCh$	2006 ThCh$
Short-term portion of long-term bonds									
143,27,06,91	F	71,429	UF	6.000	Apr, 2016	Semi-annual	Semi-annual	1,802,616	1,573,473
281,20,12,01	L(1)	-	UF	3.750	Oct, 2012	Semi-annual	Maturity	148,710	402,427
							Total	**1,951,326**	**1,975,900**
Long-term bonds									
143,27,06,91	F	535,714	UF	6.000	Apr, 2016	Semi-annual	Semi-annual	10,512,134	11,956,630
281,20,12,01	L(1)	3,000,000	UF	3.750	Oct, 2012	Semi-annual	Maturity	58,867,980	59,079,817
							Total	**69,380,114**	**71,036,447**

(1) On March 29, 2006, the Company placed bonds in the local market for a nominal amount of UF3,000,000 equivalent to US$102.1 million (historical) of a series denominated L, which is composed of 6,000 bonds with a value of UF 500 each.
These bonds mature in one installment on October 25, 2012, The annual interest rate amounts to UF + 3.75% and interest is paid semi-annually, There is a redemption option as of October 25, 2007.

17. Accruals and Write-offs:

The detail of accruals shown in liabilities is as follows:

Current	**2007 ThCh$**	**2006 ThCh$**
Staff severance indemnities	2,157,872	497,031
Vacation	4,389,997	4,626,284
	5,837,336	5,094,213
Other employee benefits (1)	1,197,904	378,508
Employee benefit advances	(2,951,384)	(1,594,093)
Subtotal	**10,631,725**	**9,001,943**
Long-term		
Staff severance indemnities	35,348,623	38,154,374
Total	**45,980,348**	**47,156,317**

(1) Includes provisions as per current union agreement.

During the year, there were bad debt write-offs of ThCh$6,854,823 in 2007 and ThCh$15,542,845 in 2006, which were charged against the respective allowance for doubtful accounts.

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18. Staff severance indemnities:

The detail of the charge to income for staff severance indemnities is as follows:

	2007 ThCh$	2006 ThCh$
Beginning balance (1)	35,988,273	38,463,548
Payments for the year	(2,812,082)	(6,340,125)
Changes in actuarial hypotheses	-	3,004,409
Provision increase	4,330,304	3,523,573
Ending Balance	**37,506,495**	**38,651,405**

(1) The previous year is shown restated for comparative purposes.

19. Minority interest:

Minority interest recognizes the portion of equity and net income of subsidiaries owned by third parties,The detail for 2007 and 2006 is as follows:

	Percentage Minority Interest		Participation in equity		Participation in net income (loss)	
Subsidiaries	**2007 %**	**2006 %**	**2007 ThCh$**	**2006 ThCh$**	**2007 ThCh$**	**2006 ThCh$**
Instituto Telefónica Chile S.A.	-	-	-	-	-	(50,721)
Telefónica Larga Distancia S.A.	0.13	0.69	227,956	1,131,952	25,964	112,645
Fundación Telefónica Chile	50.00	50.00	53,067	189,361	(136,294)	(106,622)
Telefónica Gestión Servicios Compartidos de Chile S.A.	0.001	0.001	16	15	1	(1)
Total			**281,039**	**1,321,328**	**(110,329)**	**(44,699)**

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20. Shareholders equity:

During the 2007 and 2006, changes to shareholders equity accounts are as follows:

	Paid-in capital ThCh$	Other reserves ThCh$	Retained earnings ThCh$	Net income ThCh$	Interim dividend ThCh$	Total shareholders´ equity ThCh$
2007						
Balances as of December 31, 2006	890,894,953	(3,000,511)	-	23,353,046	(10,486,613)	900,760,875
Transfer of 2006 income to retained earnings	-	-	23,353,046	(23,353,046)	-	-
Cumulative translation adjustment	-	(762,270)	-	-	-	(762,270)
Capital decrease	(48,815,012)	-	-	-	-	(48,815,012)
Absorption of interim dividends	-	-	(10,486,613)	-	10,486,613	-
2006 final dividends	-	-	(12,866,433)	-	-	(12,866,433)
Interim dividends	-	-	-	-	(5,742,943)	(5,742,943)
Price-level restatement, net	62,655,621	(171,545)	-	-	(63,172)	62,420,904
Other reserves	-	682,346	-	-	-	682,346
Net income	-	-	-	10,856,131	-	10,856,131
Balances as of December 31, 2007	**904,735,562**	**(3,251,980)**	**-**	**10,856,131**	**(5,806,115)**	**906,533,598**
2006						
Balances as of December 31, 2005	912,692,729	(1,751,241)	-	25,183,320	(10,549,786)	925,575,022
Transfer of 2005 income to retained earnings	-	-	25,183,320	(25,183,320)	-	-
Cumulative translation adjustment	-	(530,149)	-	-	-	(530,149)
Capital decrease	(40,200,514)	-	-	-	-	(40,200,514)
Absorption of interim dividends	-	-	(10,528,728)	-	10,528,728	-
2005 final dividends	-	-	(14,654,592)	-	-	(14,654,592)
Interim dividends	-	-	-	-	(10,528,728)	(10,528,728)
Price-level restatement, net	18,402,738	(44,867)	-	-	63,173	18,421,044
Other reserves	-	(674,254)	-	-	-	(674,254)
Net income	-	-	-	23,353,046	-	23,353,046
Balances as of December 31, 2006	**890,894,953**	**(3,000,511)**	**-**	**23,353,046**	**(10,486,613)**	**900,760,875**
Restated balances as of December 31, 2007	**956,821,180**	**(3,222,549)**	**-**	**25,081,171**	**(11,262,622)**	**967,417,180**

20. Shareholders Equity, continued:

(a) Paid-in capital:

As of December 31, 2007 the Company s paid-in capital is as follows:

NUMBER OF SHARES:

Series	Nº, of subscribed shares	Nº, of paid shares	Nº, of shares with voting rights
A	873,995,447	873,995,447	873,995,447
B	83,161,638	83,161,638	83,161,638

PAID-IN CAPITAL:

Series	Subscribed Capital ThCh$	Paid-in Capital ThCh$
A	826,128,516	826,128,516
B	78,607,046	78,607,046

(b) Shareholder distribution:

As indicated in SVS Circular No,792, the stratification of shareholders by percentage of ownership in the Company as of December 31, 2007 is as follows:

Type of shareholder	Percentage of Total holdings %	Number of shareholders
10% holding or more	60.87	2
Less than 10% holding:		
Investment equal to or exceeding UF 200	38.39	1,381
Investment under UF 200	0.74	10,706
Total	**100.00**	**12,089**
Controlling company	44.90	1

(c) Dividends:

i) Dividend policy:

In accordance with Law No,18,046, unless otherwise decided at the Shareholders Meeting by unanimous vote of the outstanding shares, when there is net income, at least 30% must be allocated in dividend payments.

Taking into consideration the cash situation, the levels of projected investment and the solid financial indicators for 2005 and future years, on April 14, 2005, the Ordinary Shareholders Meeting modified the dividend distribution policy reported at the Ordinary Shareholders Meeting of April 2004, and agreed to distribute 100% of net income generated during the respective year by means of an interim dividend in November of each year and a final dividend in May of the following year.

20. Shareholders Equity, continued:

(c) Dividends, continued:

ii) Dividend distributed:

On April 20, 2006, modification of the Company bylaws was approved in order to decrease capital by ThCh$40,200,514 (historical), for the purpose of distributing additional cash to the shareholders in 2006. That distribution was equivalent to Ch$42 per share and Ch$168 per ADR.

On October 26, 2006, the Board of Directors agreed to pay interim dividend No. 172, in the amount of ThCh$10,528,728 (historical), equivalent to Ch$11 per share.

On April 13, 2007, the Ordinary Shareholders Meeting approved payment of final dividend No.173, in the amount of ThCh$12,866,433 (historical), equivalent to Ch$13.44234 per share, with a charge to 2006 net income. The dividend was paid on May 15, 2007.

Additionally, the Extraordinary Shareholders Meeting held on April 13, 2007, approved modification of the company bylaws in order to decrease capital by ThCh$48,815,012 (historical), in order to distribute additional cash to the shareholders in 2007. The capital distribution was equivalent to Ch$51 per share.

On October 24, 2007, the Board of Directors agreed to pay interim dividend No. 174 of Ch$6 per share, equivalent to ThCh$ 5,742,943 (historical), with a charge to net income generated by the Company as of September 30, 2007.

(d) Other reserves:

Other Reserves include the participation of the reserve established byTelefónica Larga Distancia S.A.for the acquisition of the shares of dissident minority shareholders and the net effect of the adjustment for conversion differences as established in Technical Bulletin No. 64 of the Chilean Association of Accountants, the detail of which is as follows:

	Company	Amount December 31, 2006 ThCh$	Price-level restatement ThCh$	Net Movement ThCh$	Balance as of Dec. 31, 2007 ThCh$
96,551,670-0	Telefónica Larga Distancia S.A.	(682,346)	-	682,346	-
Foreign	TBS Celular Participación S.A.	(2,318,165)	(171,545)	(762,270)	(3,251,980)
Total		**(3,000,511)**	**(171,545)**	**(79,924)**	**(3,251,980)**

21. Other Non-Operating Income and Expenses:

(a) Other non-operating income:

The detail of other non-operating income is as follows:

Other Income	**2007 ThCh$**	**2006 ThCh$**
Administrative services	1,519,944	200,804
Fines levied on suppliers and indemnities	434,148	135,178
Proceeds from sale of used equipment	2,194,015	651,041
Real estate rental	85,923	375,260
Other	753,527	374,232
Total	**4,987,557**	**1,736,515**

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21. Other Non-Operating Income and Expenses, continued:

(b) Other non-operating expenses:

The detail of other non-operating expenses is as follows:

Other Expenses	**2007 ThCh$**	**2006 ThCh$**
Restructuring costs (1)	3,522,374	10,234,114
Lawsuit and other provisions	6,224,095	2,208,607
	5,915,253	4,349,792
Extraordinary payment to contractors	3,140,175	818,590
Other	535,227	503,915
Total	**19,337,124**	**18,115,018**

22. Price-level restatement:

The