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

September 1, 2009

(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___

Consolidated Financial Statements as of

June 30, 2009, December 31 and June 30, 2008

TELEFÓNICA CHILE S.A. AND SUBSIDIARIES

(Translation of financial statements originally issued in Spanish see Note 2)

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ThCh$: Thousands of Chilean pesos

ERNST & YOUNG LTDA.

Report of Independent Auditors
(Translation of a report originally issued in Spanish – see Note 2)

1. We have conducted a review of the interim consolidated financial situation of Telefónica Chile S.A. and subsidiaries as of June 30, 2009 and corresponding interim consolidated comprehensive income statement for the six and three month periods ended June 30, 2009 and 2008, consolidated statement of changes in equity and consolidated cash flow statement for the six month periods ended as of these dates, Management is responsible for the preparation and fair presentation of these interim consolidated financial statements and their corresponding notes as stated in International Accounting Standards ("IAS") 34 "Interim Financial Reporting" described in the International Financial Reporting Standard ("IFRS"). Our responsibility is to issue a report about the interim financial situation based on our review. The attached Ratio Analysis and Significant Events do not form an integral part of these financial statements; therefore, this report does not extend to this information.

2. We have performed our review in accordance with generally accepted auditing standards established in Chile for an interim review of financial information. A review of interim financial situation primarily consists of applying analytical review procedures and inquires of employees responsible for financial and account matters. The scope of our review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Chile the objective of which is to express an opinion on the financial statements, taken as a whole. Consequently, we are in no position to express an opinion on these interim consolidated financial statements.

3. Based on review, we have are not aware of any significant adjustments that should be made to interim consolidated financial mentioned in the first paragraph, in order to conform with IAS 34 "Interim Financial Report" described in the IFRS.

4. Previously we have audited, in conformity with generally accepted auditing standards in Chile, the consolidated financial statements of Telefónica Chile S.A. and subsidiaries as of December 31, 2008 and the consolidated financial statements beginning January 1, 2008 and the corresponding consolidated income statements, statements of changes in equity and cash flow statements for the year ended December 31, 2008 which Management prepared as part of the Company's process of conversion to IFRS.

ERNST & YOUNG LTDA.

/s/ Andrés Marchant V.
Andrés Marchant V.

Santiago, July 22, 2009

TELEFONICA CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
As at June 30, 2009, December 31 and January 1, 2008
(Translation of financial statements originally issued in Spanish see Note 2)

ASSETS	**Notes**	**06.30.2009**	**12.31.2008**	**01.01.2008**
		ThCh$	**ThCh$**	**ThCh$**
CURRENT ASSETS				
Cash and cash equivalents	(7)	99,051,905	71,555,375	73,084,451
Financial assets at fair value with changes in income	(8)	88,049,931	13,228,981	13,273,715
Other current financial assets		64,081	64,081	59,081
Trade and other receivables, net	(9)	140,784,241	172,159,162	192,537,092
Accounts receivable from related companies	(10a)	27,425,993	28,301,797	19,781,435
Inventory , net	(11)	7,354,765	6,920,235	6,953,964
Derivative financial instruments	(12)	8,615,211	3,365,982	131,288
Prepayments		4,705,881	4,522,589	4,831,472
Prepaid taxes	(13c)	25,535,576	26,907,759	18,498,736
Assets of disposal group classified as held for sale	(17)	2,049,964	2,206,275	-
TOTAL CURRENT ASSETS		**403,637,548**	**329,232,236**	**329,151,234**
NON-CURRENT ASSETS				
Other non-current financial assets		4,700,403	3,817,060	3,314,158
Trade and other receivables, net	(9)	15,452,513	14,559,192	13,054,409
Investments in associates	(14)	5,348,739	5,739,831	4,449,217
Intangible assets, net	(15)	46,013,761	49,048,443	57,018,522
Property, plant and equipment, net	(16)	977,965,891	1,011,576,568	1,028,280,547
Deferred tax assets	(13b)	5,983,508	4,170,929	2,085,728
Derivative financial instruments	(12)	12,577,302	36,963,243	-
Prepayments		2,609,584	-	1,597,921
TOTAL NON-CURRENT ASSETS		**1,070,651,701**	**1,125,875,266**	**1,109,800,502**
TOTAL ASSETS		**1,474,289,249**	**1,455,107,502**	**1,438,951,736**

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements

TELEFONICA CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
As at June 30, 2009, December 31 and January 1, 2008
(Translation of financial statements originally issued in Spanish see Note 2)

EQUITY AND LIABILITIES	**Notes**	**06.30.2009**	**12.31.2008**	**01.01.2008**
		ThCh$	**ThCh$**	**ThCh$**
CURRENT LIABILITIES				
Interest-bearing loans	(20)	131,034,164	130,058,223	77,916,022
Trade and other payables	(23)	173,081,804	197,401,651	167,749,765
Accounts payable to related companies	(10b)	40,093,083	40,276,614	33,448,644
Provisions	(24)	7,120,095	7,072,336	16,230,842
Income tax payable		5,431,996	9,663,951	12,969,059
Deferred revenue	(21)	3,404,237	5,034,107	5,223,941
Post employment benefits obligations	(22a)	3,530,611	2,898,105	1,996,786
Derivative financial instruments	(12)	24,522,653	6,253,701	23,464,760
TOTAL CURRENT LIABILITIES		**388,218,643**	**398,658,688**	**338,999,819**
NON-CURRENT LIABILITIES				
Interest-bearing loans	(20)	356,421,918	339,944,454	310,968,960
Deferred tax liabilities	(13b)	64,191,014	64,899,374	87,467,723
Deferred revenue	(21)	4,787,973	3,930,500	4,153,591
Post employment benefits obligations	(22a)	42,878,285	42,464,712	30,838,659
Derivative financial instruments	(12)	12,293,635	470,129	45,373,745
TOTAL NON-CURRENT LIABILITIES		**480,572,825**	**451,709,169**	**478,802,678**
EQUITY				
Issued capital	(18a)	616,364,666	943,227,302	904,735,562
Other capital reserves	(18d)	(33,377,451)	(11,765,133)	(16,639,615)
Retained earnings (accumulated deficit)		22,483,417	(326,862,636)	(267,201,046)
Equity attributable to equity holders of the parent		605,470,632	604,599,533	620,894,901
Minority interests	(18e)	27,149	140,112	254,338
TOTAL EQUITY		**605,497,781**	**604,739,645**	**621,149,239**
TOTAL EQUITY AND LIABILITIES		**1,474,289,249**	**1,455,107,502**	**1,438,951,736**

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements

TELEFONICA CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
For the periods ended June 30, 2009 and 2008
(Translation of financial statements originally issued in Spanish see Note 2)

	Notes	For the period between April 1 and June 30 2009	For the period ended June 30 2009	For the period between April 1 and June 30 2008	For the period ended June 30 2008
STATEMENTS OF COMPREHENSIVE INCOME		**ThCh$**	**ThCh$**	**ThCh$**	**ThCh$**
Revenues	(25a)	169,556,793	344,155,543	180,209,074	357,489,263
Other operating income	(25a)	4,445,963	8,188,776	3,903,932	6,134,477
Employee expenses	(22b)	(25,993,668)	(49,744,118)	(25,327,301)	(47,497,911)
Depreciation and amortization	(15) (16)	(39,729,236)	(80,813,848)	(42,597,351)	(86,992,683)
Other miscellaneous operating expenses	(25a)	(88,980,124)	(181,783,328)	(99,396,168)	(193,177,138)
Net income (loss) due to drop in the non-current assets not held for sale		(1,298,816)	(2,221,540)	451,808	(727,860)
Financial costs, net	(25b)	(5,043,503)	(12,337,132)	(7,012,685)	(13,510,135)
Revenues from financial investments	(25b)	1,276,573	3,178,549	1,378,498	2,880,457
Participation in net income of associates	(14)	157,411	(396,873)	365,009	823,567
Foreign currency exchange differences		(1,898,340)	(646,947)	(2,932,420)	(6,115,196)
Profit before taxes		**12,493,053**	**27,579,082**	**9,042,396**	**19,306,841**
Income taxes	(13d)	(1,648,365)	(5,165,849)	(1,076,341)	(1,558,727)
PROFIT FOR THE YEAR		**10,844,688**	**22,413,233**	**7,966,055**	**17,748,114**
GAIN ATTRIBUTABLE TO HOLDERS OF INSTRUMENTS OF PARTICIPATION IN THE NET EQUITY OF THE CONTROLLER AND MINORITY PARTICIPATION					
Profit attributable to equity holders of the parent		10,930,547	22,483,417	8,063,657	17,925,986
Loss attributable to minority interests	(18e)	(85,859)	(70,184)	(97,602)	(177,872)
PROFIT FOR THE YEAR		**10,844,688**	**22,413,233**	**7,966,055**	**17,748,114**
EARNINGS PER SHARE	(19)				
COMMON SHARES					

Basic profit per share	0.0113	0.0234	0.0083	0.0185
DILUTED COMMON SHARES				
Diluted profit per share	0.0113	0.0234	0.0083	0.0185

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements

TELEFONICA CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
For the periods ended June 30, 2009 and 2008
(Translation of financial statements originally issued in Spanish see Note 2)

	For the period between April 1 and June 30 2009 ThCh$	For the period ended June 30 2009 ThCh$	For the period between April 1 and June 30 2008 ThCh$	For the period ended June 30 2008 ThCh$
STATEMENT OF OTHER COMPREHENSIVE INCOME				
GAIN	**10,844,688**	**22,413,233**	**7,966,055**	**17,748,114**
OTHER INCOME AND EXPENSES WITH A (CHARGE)/CREDIT TO NET EQUITY				
Cash flows hedge	(2,875,289)	1,042,844	2,277,018	1,405,354
Actuarial losses defined as pension plan benefits	-	-	(6,453,549)	(6,453,549)
Other net equity adjustments	3,928	6,583	-	-
Income tax related to components of other income and expenses with a (charge)/credit to net equity	(486,454)	178,424	(709,998)	(858,181)
Total other income and expenses with a (charge)/credit to net equity	**(2,384,907)**	**871,003**	**(3,466,533)**	**(4,190,014)**
TOTAL COMPREHENSIVE INCOME AND EXPENSES	**8,459,781**	**23,284,236**	**4,499,522**	**13,558,100**
INCOME FROM INTEGRAL REVENUES AND EXPENSES ATTRIBUTABLE TO :				
Income from integral revenues and expenses attributable to majority shareholders	8,545,640	23,354,516	4,597,196	13,736,044
Income from integral revenues and expenses attributable to minority participations	(85,859)	(70,280)	(97,674)	(177,944)
TOTAL INCOME FROM INTEGRAL REVENUES AND EXPENSES	**8,459,781**	**23,284,236**	**4,499,522**	**13,558,100**

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements

TELEFONICA CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the periods ended June 30, 2009 and 2008
(Translation of financial statements originally issued in Spanish see Note 2)

	Changes in issued capital	Changes in other reserves			Changes in retained earnings (accumulated deficit)	Total changes in net shareholders equity attributable to holders of equity instruments net of the controller	Changes minorit participati
	Ordinary shares	**Reserves for proposed dividends**	**Unrealized gain or loss on hedge operations**	**Other miscellaneous reserves**			
	ThCh$	**ThCh$**	**ThCh$**	**ThCh$**	**ThCh$**	**ThCh$**	**ThCh$**
At January 1, 2009	**943,227,302**	**-**	**(1,683,880)**	**(10,081,253)**	**(326,862,636)**	**604,599,533**	**140,**
Income from comprehensive revenues and expenses	-	-	865,605	5,494	22,483,417	23,354,516	(70,
Dividends	-	(22,483,417)	-	-	-	(22,483,417)	
Capitalization of IFRS adjustments	(326,862,636)	-	-	-	326,862,636	-	
Other increases (decreases) in net equity	-	-	-	-	-	-	(42,
Changes in equity	**(326,862,636)**	**(22,483,417)**	**865,605**	**5,494**	**349,346,053**	**871,099**	**(112,**
At June 30, 2009	**616,364,666**	**(22,483,417)**	**(818,275)**	**(10,075,759)**	**22,483,417**	**605,470,632**	**27,**
At January 1, 2008	**904,735,562**	**(10,856,131)**	**(1,429,252)**	**(3,799,009)**	**(267,756,269)**	**620,894,901**	**254,**
Income from comprehensive revenues and expenses	-	-	-	-	3,000,854	3,000,854	(177,

Income from comprehensive revenues and expenses IFRS adjustments	-	-	1,166,443	(5,356,385)	14,925,132	10,735,190	
Dividends	-	(3,000,854)	-	-	-	(3,000,854)	
Capital reduction	(39,243,440)	-	-	-	-	(39,243,440)	
Other increases (decreases) in net equity	28,160,976	10,856,131	-	-	(30,378,027)	8,639,080	(11,
Changes in shareholders equity	**(11,082,464)**	**7,855,277**	**1,166,443**	**(5,356,385)**	**(12,452,041)**	**(19,869,170)**	**(189,**
At June 30, 2008	**893,653,098**	**(3,000,854)**	**(262,809)**	**(9,155,394)**	**(280,208,310)**	**601,025,731**	**64,**

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements

TELEFONICA CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT
For the periods ended June 30, 2009 and 2008
(Translation of financial statements originally issued in Spanish see Note 2)

	For the periods ended June 30,	
	2009	**2008**
	ThCh$	**ThCh$**
OPERATING ACTIVITIES		
Reconciliation of net income to net operating income:		
Net income	**22,413,233**	**17,748,114**
Participation in net income (loss) of investments in associates	(396,873)	823,567
Other decreases to be reconciled with net operating income	(533,034)	(1,691,360)
Adjustments to be reconciled with operating net income	(136,161)	(2,514,927)
Net operating income	**22,277,072**	**15,233,187**
Non-cash adjustments		
Depreciation	73,523,306	76,991,927
Amortization of intangible assets	7,290,542	10,000,756
Unrealized foreign currency exchange differences	(646,947)	(6,115,196)
Unrealized fair value gain (loss) on financial instruments	834,528	(6,790)
Net income from drop in non-current assets not held for sale	2,221,540	727,860
Provisions	16,698,727	17,422,529
Decreasein deferred tax liabilities	(6,134,824)	(10,307,689)
Other non-cash adjustments	1,762,183	3,230,338
Total non-cash adjustments	**90,730,813**	**102,554,115**
Total net cash flows before changes in working capital	**113,007,885**	**117,965,174**
Working capital adjustments:		
(Increase) decrease in assets		
Inventory	604,302	(180,250)
Trade and other receivables	(14,893,725)	(7,112,841)
Prepayments	183,292	(190,432)
Financial instruments designated as at fair value with changes in income	11,209,639	(9,086,770)
Other assets	4,176,581	3,899,338
(Increase) decrease in assets		
Trade and other payables	(23,788,789)	(29,762,062)
Deferred income	(1,629,870)	(3,346,202)
Taxes payable	(4,231,955)	(1,564,264)
Post employment benefits obligations	632,506	901,307
Other liabilities	2,296,668	5,154,449
Total working capital adjustments, net	**(28,001,529)**	**(15,945,817)**

NET CASH FLOWS FROM OPERATING ACTIVITIES	**85,006,356**	**102,019,357**
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	777,793	2,785,181
Proceeds from sale of other financial assets	27,612,616	15,292,667
Income from dividends classified as from investment	-	433,661
Income from interest received classified as from investment	2,176,577	2,898,203
Payment to purchase investment properties	45,443,156	59,078,797
Other investment disbursements	91,223,927	13,397,490
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(106,100,097)**	**(51,066,575)**
FINANCING ACTIVITIES		
Income from issuance of other financial liabilities	126,801,699	-
Loans paid	(59,115,190)	(709,899)
Payment of income classified as financial	(13,359,038)	(11,713,077)
Payment of dividends by the reporting entity	(5,737,200)	(44,293,456)
NET CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES	**48,590,271**	**(56,716,432)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**27,496,530**	**(5,763,650)**
CASH AND CASH EQUIVALENTS AT JANUARY 1	**71,555,375**	**73,084,451**
CASH AND CASH EQUIVALENTS AT JUNE 30	**99,051,905**	**67,320,801**

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements

TELEFÓNICA CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(Translation of financial statements originally issued in Spanish see Note 2)

1. Corporate information:

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

The Company is an open stock corporation that is registered with the Securities Registry under No. 009 and therefore is subject to supervision by the Chilean Superintendency of Securities and Insurance (SVS)

On April 23, 2009, the Extraordinary Shareholders Meeting agreed to change the name of Compañía de Telecomunicaciones de Chile S.A to Telefónica Chile S.A.

Telefónica Chile S.A. is part of the Telefónica Group. Its parent company is Telefónica Internacional S.A., which is headquartered in Spain.

The consolidated financial statements of Telefónica Chile S.A. for the period ended June 30, 2009 were approved and authorized for issue at the Board of Directors Meeting held on July 22, 2009.

The subsidiary companies registered in the Securities Registry are detailed as follows:

Subsidiary	Taxpayer number	Registration number	Participation percentage (direct and indirect) 06.30.2009 %	12.31.2008 %
Telefónica Larga Distancia S.A.	96,551,670-0	456	99.92	99.89
Telefónica Asistencia y Seguridad S.A. (1)	96,971,150-8	863	-	99.99

(1) On December 31, 2008 Telefónica Chile S.A absorbed subsidiary Telefónica Asistencia y Seguridad S.A, through the acquisition of the participation of Telefónica Gestión de Servicios Compartidos Chile S.A. in that company, equivalent to 0.001%, resulting in ownership of all the shares of that company by Telefónica Chile S.A.

2. Significant accounting principles:

a) Accounting period

The consolidated financial statements (hereinafter, financial statements) cover the following periods: Balance Sheet for the period ended June 30, 2009 and December 31 and January 1, 2008; Statement of Changes in Equity for the periods ended June 30, 2009 and 2008; Comprehensive Income Statement for the intermediate periods from April 1 to June 30, 2009 and 2008 and for the six-month periods ended June 30, 2009 and 2008; and Cash Flow Statement for the six-month periods ended June 30, 2009 and 2008.

b) Basis of presentation

The financial statements for January 1, June 30 and December 31, 2008, and their corresponding notes are shown comparatively in accordance with Note 2a. For the convenience of the reader these financial statements have been translated from Spanish to English.

2. <u>Significant accounting principles</u>, continued

c) Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) "Intermediate Financial Reporting", incorporated in International Financial Reporting Standards (IFRS as issued by the International Accounting Standards Board (IASB). The figures included in the attached financial statements are expressed in thousands of Chilean pesos, which is the Company s functional currency. All values are rounded off in thousands of pesos, unless otherwise indicated.

d) Basis of consolidation

The financial statements of Telefónica Chile S.A. and its subsidiaries include assets and liabilities as of June 30, 2009 and as of January 1, and December 31, 2008, and equity, income and cash flows as of June 30, 2009 and 2008. Balances with related companies, income and expenses and unrealized net income and losses have been eliminated, and the participation of minority investors has been recognized under Minority Participation (Note 18e).

The financial statements of the consolidated companies cover the periods ended on the same date as the individual financial statements of the parent company and have been prepared applying uniform accounting policies.

Minority participations represent the portion of net income or loss and net assets of certain subsidiaries of which the parent company is not the owner. They are presented separately in the consolidated statements of income and in equity, in the consolidated balance sheet, separately from equity.

The companies included in the consolidation are detailed as follows:

		Participation percentage			
Taxpayer no.	**Company name**	**Direct**	**06.30.2009 Indirect**	**Total**	**12.31.2008 Total**
96,551,670-0	Telefónica Larga Distancia S.A.	99.92	-	99.92	99.89
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. (1)	-	-	-	99.99
90,430,000-4	Telefónica Empresas	99.99	-	99.99	99.99

	Chile S.A.				
78,703,410-1	Telefónica Multimedia Chile S.A.	99.99	-	99.99	99.99
96,811,570-7	Instituto Telefónica Chile S.A.	-	99.99	99.99	99.99

(1) On December 31, 2008 Telefónica Chile S.A absorbed subsidiary Telefónica Asistencia y Seguridad S.A, through the acquisition of the participation of Telefónica Gestión de Servicios Compartidos Chile S.A. in that company, equivalent to 0.001%, resulting in ownership of all the shares of that company by Telefónica Chile S.A.

2. Significant accounting principles, continued

d) Basis of consolidation, continued

The summarized financial information as of June 30, 2009 for the companies included in consolidation is detailed as follows:

er	Company name	Participation percentage	Current assets ThCh$	Non-current assets ThCh$	Total assets ThCh$	Current liabilities ThCh$	Non-current liabilities ThCh$	Total liabilities ThCh$	Revenues ThCh$	I T
70-0	Telefónica Larga Distancia S.A.	0.999161950	144,894,449	84,147,826	229,042,275	33,851,456	7,716,062	41,567,518	47,107,280	13
80-5	Telefónica Gestión de Servicios Compartidos Chile S.A.	0.999990000	5,559,100	3,430,242	8,989,342	5,146,856	2,611,479	7,758,335	6,732,020	
00-k	Fundación Telefónica Chile	0.500000000	864,389	-	864,389	1,124,341	-	1,124,341	-	
00-4	Telefónica Empresas Chile S.A.	0.999999998	58,991,044	53,675,994	112,667,038	40,871,591	3,086,988	43,958,579	48,650,692	1
10-1	Telefónica Multimedia Chile S.A.	0.999998000	40,954,008	51,574,605	92,528,613	94,327,169	1,237,197	95,564,366	22,604,836	(4

The summarized financial information as of December 31, 2009 for the companies included in consolidation is detailed as follows:

er	Company name	Participation percentage	Current assets ThCh$	Non-current assets ThCh$	Total assets ThCh$	Current liabilities ThCh$	Non-current liabilities ThCh$	Total liabilities ThCh$	Revenues ThCh$	I T
70-0	Telefónica Larga Distancia S.A.	0.998752960	141,608,594	91,926,088	233,534,682	46,263,443	9,070,279	55,333,722	24,974,990	6
80-5	Telefónica Gestión de Servicios Compartidos Chile S.A.	0.999990000	3,626,281	3,383,920	7,010,201	3,230,641	2,790,528	6,021,169	3,254,098	

00-k	Fundación Telefónica Chile	0.500000000	1,119,355	-	1,119,355	1,216,990	-	1,216,990	2,337	(
00-4	Telefónica Empresas Chile S.A.	0.999999998	53,186,923	57,233,667	110,420,590	38,287,488	3,657,191	41,944,679	23,824,934	3
10-1	Telefónica Multimedia Chile S.A.	0.999998000	38,375,639	51,693,063	90,068,702	86,500,487	612,094	87,112,581	9,304,391	(1

2. Significant accounting principles, continued

e) Foreign currency translation

Assets and liabilities in US$ (United States dollars), euros, Brazilian real, UF (Unidades de Fomento) and JPY (Japanese Yen), have been converted to Chilean pesos using the observed exchange rates at the close of each period, detailed as follows:

Date	US$	EURO	REAL	JPY	UF
06-30-2009	531.76	746.33	270.71	5.52	20,933.02
12-31-2008	636.45	898.81	271.70	7.05	21,452.57
06-30-2008	526.05	828.16	328.93	4.95	20,252.71
01-01-2008	496.89	730.94	280.32	4.41	19,622.66

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

f) Financial assets and liabilities

All purchases and sales of financial assets are recognized at fair value on the negotiation date, which is the date on which the commitment to purchase or sell the asset occurs

i) Financial investments

Marketable financial assets, i.e. investments made in order to obtain short-term yields due to changes in prices, are classified within the category of at fair value with changes in income and are presented as current assets. This category is used for financial assets for which an investment and de-investment strategy is established. All financial assets included in this category are recorded at fair value, which is obtained from observable market data. The resulting gains or losses from variations in their fair value at each period-end are recognized in the income statement whether they are realized or not.

ii) Receivables

Receivables correspond to financial assets with fixed and determinable payments that are not traded in an active market. Trade receivables are recognized for the amount of the invoice and adjusted with an allowance for doubtful accounts.

The allowance is calculated by applying different percentages based on age factors until 100% is reached for debts exceeding 120 days and other specific account analyses.

Short-term trade receivables are not discounted. The Company has determined that the calculation of the amortized cost is the same as the invoiced amount since the transaction has no significant associated costs.

2. <u>Significant accounting principles</u>, continued

f) Financial assets and liabilities, continued

iii) Cash and cash equivalents

Cash and cash equivalents recognized in the financial statements comprise cash and bank checking accounts, time deposits and other very liquid investments with an original maturity of three months or less. These items are recorded at their historical cost, which does not significantly differ from their realization value.

iv) Interest-bearing loans

Financial liabilities are valued at amortized cost using the effective interest rate method. Any difference between the cash received and the reimbursement value is imputed directly to income over the term of the agreement. Financial obligations are presented as non-current liabilities when their expiration term exceeds twelve months.

v) Derivative financial instruments

The Company uses derivative financial instruments to manage exposure to exchange rate and interest rate risks. The Company s objective in maintaining derivatives is to minimize these risks using the most effective method to eliminate or reduce the impact of these exposures.

Derivative financial instruments are carried at fair value, which normally coincides with the cost, and subsequently the book value is adjusted to fair value, presenting them as financial assets or as financial liabilities depending on whether the fair value is positive or negative, respectively. They are classified as current or non-current depending on whether they mature in less or more than twelve months. Likewise, derivative financial instruments that meet all requirements to be treated as hedge instruments for long-term items are presented as non-current assets or liabilities, according to their terms.

Hedging of the risk associated to the variation of the exchange rate of a firm committed transaction can be treated as a fair value hedge or of a cash flow hedge.

Changes in the fair value of derivatives that have been assigned as and fulfill the requirements to betreated as fair value hedge instruments are recognized in the income statement.

Changes in the fair value of derivatives that meet the requirements of and have been assigned as cash flow hedges, being that they are highly effective, are recognized in shareholders equity. The part considered ineffective is imputed directly to income. When the forecast transaction or the firm commitment are recognized in the accounting records of a non-financial asset or liability, net income or losses accumulated in equity become part of the initial cost of the corresponding asset or liability. On the other hand, net income or losses previously recognized in equity are recognized to income in the same period in which the hedged transaction affects net income.

2. <u>Significant accounting principles</u>, continued

f) Financial assets and liabilities, continued

v) Derivate financial instruments, continued

Initially the Company formally documents the hedge relationship between the derivative and the hedged item as well as the risk management objectives and strategies pursued when establishing the hedge. This documentation includes identification of the hedge instrument, the hedged item or operation and the nature of the hedged risk. Likewise, it states the manner for evaluating its level of effectiveness in compensating the exposure of the hedged element to changes, whether in its fair value or cash flows attributable to the risk being hedged. Evaluation of the effectiveness is prospective and retroactive, both at the beginning of the hedge relationship as well as systematically throughout the period for which it was designated.

The fair value of the derivatives portfolio reflects estimations that are based on calculations made using observable market data, and specific tools for valuation and management of the risk of derivatives widely used by various financial entities.

g) Inventory

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

When cash flows related to inventory purchases are the object of an effective hedge, the corresponding net income or loss accumulated in shareholders equity becomes part of the cost of the inventory acquired.

The value of products that are obsolete, defective or have a slow turnover has been reduced to their possible net realization value, which has been determined on the basis of a study of materials with slow turnover.

h) Assets of disposal group classified as held for sale

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

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

2. <u>Significant accounting principles</u>, continued

i) Impairment of non-current assets

At each period-end the existence of possible impairment of non-current assets other then goodwill is evaluated. Should such indications exist, the Company estimates the recoverable value of the asset, which is the greater of fair value less cost to sell or value in use. Such value in use is determined through discounting estimated future cash flows. When an asset s recoverable value is below its net book value, impairment is considered to exist.

In order to calculate impairment, the Company estimates the profitability of assets assigned to the different cash generating units based on the expected cash flows.

The discount rates used are determined before taxes and are adjusted by the corresponding country risk and business risk. Thus, in 2009 and 2008 the rate used was 12%. No impairment adjustments were made in 2009 and 2008.

j) Leases

Leased assets for which the renter maintains a significant part of the risks and benefits inherent to the rented property are considered operating leases. Payments made under agreements of this nature are charged to the income statement account in a straight-line method over the term of the lease.

Leased assets for which the significant risks and benefits characteristic of the leased property are transferred to the Company are considered financial leases and the asset and the associated debt are recorded at the beginning of the term of the lease for the amount of the fair value of the leased asset or the present value of the minimum agreed installments, whichever is lower. Financial costs are charged to the income statement account over the life of the agreement. Depreciation of these assets is included in total depreciation of the Property, plant and equipment heading. The Company carries out procedures to determine whether an arrangement contains a lease. At 2009 and 2008 period-end, no embedded leases were identified.

k) Income taxes

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

Tax credits and liabilities for the current period and prior periods are measured at the estimated amount recoverable or payable to the tax authorities. The Company uses the tax rates and government regulations current as of each period-end to calculate those amounts, which for 2009 and 2008 is 17%.

The deferred tax amount is obtained from analyzing temporary differences that arise due to differences between the tax and book values of assets and liabilities, mainly allowance for doubtful accounts, depreciation of property, plant and equipment, staff severance indemnities and tax losses. Under Chilean tax regulations tax loss carry forwards can be realized as future tax benefits with no time restrictions.

Under Chilean tax regulations, the tax loss from prior years can be used in the future as a tax benefit without expiration.

2. <u>Significant accounting principles</u>, continued

k) Income taxes, continued

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

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

l) Investment in related companies

The Company s investment in the companies over which it exercises significant influence without exercising control is recorded using the equity method. The investment is recorded initially at cost, and its book value is modified based on the participation in the income of the associated company at each year-end. If it records net income or losses directly in its net equity, the Company also recognizes the participation corresponding to it in those items.

m) Intangibles

The following concepts are classified in this heading:

Goodwill

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

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

Software licenses and rights to use underwater cable

Software licenses and rights to the use of underwater cable are recorded at acquisition or production cost, less accumulated amortization and less any accumulated impairment loss.

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

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

2. Significant accounting principles, continued

m) Intangibles, continued

The Company amortizes intangibles assets on a straight line basis over the following estimated useful lives: 3 years for software licenses and a maximum of 15 years for rights to underwater cable.

n) Property, plant and equipment

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

Acquisition cost includes external costs plus internal costs comprising consumption of warehouse materials, cost of direct labor used in the installation and imputation of indirect costs necessary for the intended use of the asset.

Interest and other financial costs incurred and directly attributable to the acquisition or construction of qualifying assets, may be capitalized. Qualifying assets, under the criteria of the Telefónica Group, are assets that require at least 18 months of preparation for their use or sale. At year-end 2007 and 2008 there are no capitalized interests.

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

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

o) Depreciation of property, plant and equipment

The Company depreciates property, plant and equipment from the moment in which the assets are in a condition to be used, distributing the cost of assets in a straight-line method over the estimated useful lives. The Company s average annual financial depreciation rate is approximately 8.77% for 2009 and 7.79% for 2008.

The estimated useful lives are detailed as follows:

Assets	Minimum life or rate	Maximum life or rate
Buildings and components	40	40
Plant and equipment:		
Central office telephone equipment	7	12
External plant	20	20
Subscribers equipment	2	7
Information technology equipment	4	4
Fixed installations and accessories	7	7
Motor vehicles	7	7
Leasehold improvements	5	5

Estimated residual values, the depreciation methods and useful lives applied are reviewed at each year-end and, if applicable, are adjusted in a prospective manner.

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2. <u>Significant accounting principles</u>, continued

p) Provisions

i) Post-employment benefits

The Company is obligated to pay staff severance indemnities pursuant to collective negotiation agreements, which are provisioned using the method of actuarial value of the accrued cost of the benefit, using an annual discount rate of 4.8% as of June 30, 2009 and of 6% as of March 31, 2008, respectively, as detailed in Note 4, considering estimations such as future permanence, employee mortality rate and future salary increases determined on the basis of actuarial calculations. Discount rates are determined by reference to market interest curves.

ii) Other provisions

Provisions are recognized when the Company has a present legal or constructive obligation, as a consequence of a past event, whose settlement requires an output of resources that is considered probable and can be reliably estimated. That obligation can be legal or implied, derived from, among other factors, regulations, contracts, habitual practices or public commitments that create valid third-party expectations that the Company will assume certain liabilities.

q) Revenues and expenses

Revenues and expenses are recognized in the income statement on an accrual basis, i.e. to the extent that it is probable that economic benefits will flow to the Company and can be reliably measured, regardless of the moment at which the financial payment or financing derived from it is generated.

The Company s revenues are produced mainly by providing the following telecommunications services: traffic, connection charges, monthly fees for the use of the network, interconnection, network and equipment rental, sale of equipment and other services, such as value added services (data or text messaging, among others) or maintenance. Products and services can be sold separately or jointly, in commercial packages.

Income from traffic is based on the call initiation establishment tariff plus tariffs per call, which vary depending on the time consumed by the user, the distance of the call and type of service. Traffic is recorded as income as income as it is used. The amount corresponding to traffic that has been pre-paid and is pending use generates deferred income which is recorded in liabilities. Prepaid cards usually have an expiration period of up to twelve months, and any unused prepaid traffic is recognized directly in income when the card expires, since as of that moment the Company has no remaining obligations to provide the service.

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

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

2. <u>Significant accounting principles</u>, continued

p) Revenues and expenses, continued

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

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

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

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

r) Significant estimates

Below we show the main assumptions, judgments and other relevant sources of uncertainty in the estimations made as of the closing date, which could have a significant effect on the financial statements in the future.

i) Property, plant and equipment and intangible assets

The accounting treatment of investment in property, plant and equipment and other intangible assets considers estimations made to determine the useful lives used to calculate depreciation and amortization.

Determination of useful lives requires estimations regarding expected technological evolution and alternate uses of the assets. The hypothesis regarding the technological framework and its future development implies a significant degree of judgment as the moment and nature of future technological changes are hard to foresee.

ii) Deferred taxes

The Company evaluates the recoverability of deferred tax assets based on estimations of future income. That recoverability depends in the last instance on the Company s capacity to generate taxable income throughout the period in which the deferred tax assets are deductible. The analysis takes into consideration the foreseen schedule for reversal of deferred tax liabilities as well as estimated taxable profits on the basis of internal projections which are updated to reflect the most recent operating trends.

Determination of the adequate classification of tax items depends on various factors including estimation of the time and realization of deferred tax assets and the expected amount of tax payments. Actual income tax collection and payment flows could result in an amount different than the estimations made by the Company as a consequence of changes in government legislation or unforeseen future transactions that could affect tax balances.

2. Significant accounting principles, continued

r) Significant estimates, continued

iii) Provisions

Due to the uncertainties inherent to the estimations necessary to determine the amount of provisions, real disbursements could differ from the amounts originally recognized on the basis of the estimations made.

The amount to be provisioned is determined on the basis of the best estimation of disbursements that will be necessary to cover the corresponding obligation, taking into consideration all the information available as of the closing date, including the opinion of independent experts such as legal advisors and consultants.

iv) Recognition of revenues: Agreements that combine more than one element

Commercial package offers that combine different elements are analyzed to determine whether it is necessary to separate the different elements identified, applying the appropriate revenue recognition criteria in each case. Total income from the package is distributed among its identified elements based upon their respective fair values.

Determination of the fair values of each of the elements identified implies the need to perform complex estimations due to the nature of the business.

A change in the estimation of the relative fair value could affect the distribution of revenues among the components and, as a consequence of this, revenues for future years.

v) Post-employment benefits

The cost of defined benefit post retirement plans as well as the present value of the obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the country with an AA rating. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the specific country. Further details about the assumptions used are given in Note 22.

vi) Financial assets and liabilities

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

2. Significant accounting principles, continuación

s) Methods of consolidation

Consolidation has been carried out by applying the following methods of consolidation: Global integration method for companies over which control is exerted, whether through effective dominion or due to the existence of agreements with the rest of the shareholders.

All balances and transactions between consolidated companies have been eliminated in the consolidation process. Likewise the margins included in the transactions performed by companies that are dependent on other Company companies for goods or services that can be capitalized have been eliminated in the consolidation process.

The consolidated income statement and the consolidated cash flow statement gather, respectively, the revenues and expenses and cash flows of the companies that stop forming part of the Company up to the date on which the participation has been sold or the company has been liquidated.

The value of the participation of minority shareholders in the equity and income of the dependent companies consolidated through global integration is presented under Minority Participations and Income Attributable to Minority Participations , respectively.

s) New IFRS and interpretations of the IFRS Interpretations Committee (IFRIC)

IFRS improvements and modifications, as well as interpretations that have been published in the period are detailed as followed. As of the closing date, these standards are still not in effect, and the Company has not applied any of them in advance.

	Improvements and modifications	**Mandatory application date**
Modification of IFRS 2	Share-based payments	July 1, 2009
Improvement of IFRS 5	Non-current assets held for sale and discontinued operations	January 1, 2010
Improvement of IFRS 8	Operating segments	January 1, 2010
Modification of IAS 1	Financial statement presentation	January 1, 2010
Modification of IAS 7	Statement of cash flows	January 1, 2010
Modification of IAS 17	Rentals	January 1, 2010
Improvement of IAS 36	Impairment of assets	January 1, 2010
Improvement of IAS 38	Intangible assets	July 1, 2009
Modification of IAS 39	Financial instruments: recognition and measurement	January 1, 2010

	Interpretations	**Mandatory application date**

Modification of IFRIC 9	New evaluation of embedded derivatives	July 1, 2009
Modification of IFRIC 16	Hedging net investment in foreign operations	July 1, 2009

3. First-time application of IFRS

Telefónica Chile prepared financial statements in accordance with the generally accepted accounting principles in Chile (Chilean GAAP) up to the year ended December 31, 2008. These financial statements as of June 30, 2009 have been prepared under IFRS comparative to 2008.

The Company has presented financial information to its parent company in Spain under IFRS, for consolidation purposes, since the year ended December 31, 2005, considering January 1, 2004 as the transition date.

Transition of the consolidated financial statements of Telefónica Chile to IFRS has been carried out through the application of IFRS 1: First-time adoption of International Financial Reporting Standards, applying the exemption provided in paragraph 24 a), and considering first-time application adjustments retroactively from the date adopted by the parent company, Telefónica S.A., i.e. January 1, 2004.

IFRS 1 allows first-time adopters certain exemptions from general requirements. The main exceptions applied by Telefónica Chile are detailed as follows:

- IFRS 3: Business Combinations has not been applied to the acquisition of subsidiaries or interest in associates that occurred prior to January 1, 2004.

- IAS 16: Property, plant and equipment and IAS 38: Intangible assets continued to be carried at their respective carrying amounts (deemed cost) under former Chilean GAAP without restating them to fair value at January 1, 2004.

- IAS 19: Actuarial gains and losses accumulated from pensions and other benefits have been recognized directly in retained earnings as of January 1, 2004

- IAS 21: Accumulated foreign currency translation from all foreign operations are considered to be zero as of January 1, 2004

The preparation of our consolidated financial statements under IFRS required a series of modifications in the presentation and valuation of the standards applied by the Company until December 31, 2008, since certain IFRS principles and requirements are substantially different from equivalent local accounting principles.

3. **First-time application of IFRS,** continued

The following is a detailed description of the main differences between the two standards applied by the Company and the impact on equity as of June 30, 2008 and on net income for the intermediate period from April 1 to June 30, 2008,and for the period ended June 30, 2008.

a) Reconciliation of equity under Chilean GAAP and IFRS as of June 30, 2008.

Thousands of Chilean pesos	Equity As of 06.30.08
Equity according to Chilean GAAP	**893,653,098**
Price-level restatement	(216,045,786)
Deferred taxes, complementary accounts	(66,868,846)
Capitalization of interest	(43,283,734)
Minimum dividend	(3,000,854)
Post-employment benefits	(12,540,758)
Deferred taxes due to IFRS adjustments	40,463,866
Goodwill	6,747,724
Other minor items	1,885,596
Minority interests	15,424
Equity according to IFRS	**601,025,730**

b) Reconciliation of net income under Chilean GAAP and IFRS for the intermediate period from April 1 to June 30, 2008 and the six-month period ended June 30, 2008.

Thousands of Chilean pesos	Profit for the period 04.01.08 to 06.30.08	Profit for the period ended 06.30.08
Net income according to Chilean GAAP	**1,956,122**	**3,000,854**
Price-level restatement	(3,942,549)	(1,229,196)
Deferred taxes, complementary accounts	3,433,174	6,709,044
Capitalization of interest	1,934,814	3,872,447
Post-employment benefits	205,650	411,300
Deferred taxes due to IFRS adjustments	3,225,500	3,763,592
Goodwill	413,107	803,201
Other minor items	841,875	600,500
Minority interests	(4,036)	(5,756)
Profit according to IFRS	**8,063,657**	**17,925,986**

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3. First-time application of IFRS, continued

c) Explanations of the main differences

i) Price-level restatement

Chilean GAAP requires that the financial statements be adjusted to reflect the effect of the loss in the purchasing power of the Chilean peso in the financial position and operating income of the reporting entities. The method described below is based on a model that requires calculation of net income or loss due to net inflation attributed to the monetary assets and liabilities exposed to variations in the purchasing power of the local currency. Historical costs of non-monetary assets and liabilities, shareholders equity accounts and income statement accounts have been restated to reflect the variation in the Consumer Price Index (CPI) from the date of acquisition up to year-end. The gain or loss in the purchasing power included in net income or losses reflects the effects of Chilean inflation on the monetary assets and liabilities maintained by the Company.

IFRS does not consider indexation due to inflation in countries that are not hyperinflationary, such as Chile. Therefore, income statement and balance sheet accounts are not restated for inflation purposes, and variations are nominal. The effect of price-level restatement mainly affects assets, depreciation and shareholders equity items. The effects of the application of price-level restatement described above are included in the reconciliation.

ii) Deferred taxes, complementary accounts

As of January 1, 2000, the company records income tax in accordance with current provisions as of that date, recognizing (using the liabilities method) the effect of deferred taxes for temporary differences between the financial and tax base of assets and liabilities. The effects of deferred tax assets and liabilities not recorded prior to January 1, 2000, were recorded as a transition provision for each heading. Those complementary assets or liabilities are amortized against income during the estimated periods of reversal corresponding to underlying temporary differences to which deferred tax assets or liabilities are related. The effects of the complementary accounts described above are included in the reconciliation.

iii) Capitalization of interest

Under Chilean GAAP, all interest on debt directly associated to construction projects is capitalized including interest, price-level restatement, and related foreign currency results. Up to the end of 2002, all the Company s debts were considered to be directly associated with construction projects. Capitalization of interest costs associated with projects under construction is optional when they are incurred on debt that is not directly related to such projects. In 2003 under Chilean GAAP, the Company discontinued capitalization of interest on its construction in progress since it has not incurred new debts that could be associated with such construction and the short-term nature of the items that are currently being included in the category of construction in progress. Under IFRS, capitalization of interest is necessary for interest that could have been avoided if the expense for the associated asset had not been realized. Qualifying assets, under the criteria of the Telefónica Group, are assets that require at

3. <u>First-time application of IFRS</u>, continued

c) Explanations of the main differences, continued

iii) Capitalization of interest, continued

least 18 months of preparation for their use or sale. The effects of the previously described recognized income are included in the reconciliation.

The effects of the application of price-level restatement described in the paragraph i) Property, plant and equipment and their accumulated depreciation are included in the reconciliation.

iv) Minimum dividend

In accordance with the requirements of Law No. 18,046, the Company must distribute a minimum cash dividend equivalent to 30% of net income. Considering the cash situation, projected investment levels and the solid financial indicators for 2005 and following years, on April 14, 2005, the Ordinary Shareholders Meeting modified the dividend distribution policy and agreed to distribute 100% of net income generated during the respective year. For IFRS purposes, it must be accrued to recognize the corresponding decrease in equity as of each balance sheet date. Under the previous regulations, these dividends were not recorded until they had the final approval of the Shareholders Meeting held generally in April of the following year. The effects of the adjustment of these dividends in consolidated equity are shown in the reconciliation.

v) Post-employment benefits

In employment contracts and collective negotiation agreements the Company has committed to making a lump payment to each employee upon termination of his or her employment, whether due to death, termination, resignation, or retirement. Up to November 30, 2004 the Company determined these obligations using the present value method, on the basis of current salaries and an estimation of the average working life of each employee at the end of the year, applying a 7% discount rate.

As of December 2004 the Company changed its estimation method by incorporating certain additional variables through an actuarial valuation. This method uses variables such as personnel turnover ratios, average salary increase, workforce mortality and average years of service as underlying estimations. In previous years, the costs resulting from these changes in estimations were recognized as deferred expenses and amortized over the period of future permanence of the employees. For IFRS purposes, those costs were recognized directly in retained earnings on that date. The effects of amortization of the deferred charges described above are included in the reconciliation.

During 2006, the Company evaluated the interest rate used for actuarial calculations, which resulted in a reduction of the discount rate to 6%. The cost resulting from this additional hypothesis change was deferred and amortized over the period of future permanence of employees. For IFRS purposes, those costs have been adjusted against Other Reserves in Equity.

This adjustment as well as the effects of the amortizations of the deferred described charges previously, they are included in the reconciliation.

3. First-time application of IFRS, continued

c) Explanations of the main differences, continued

vi) Effect of deferred taxes due to IFRS adjustments

Under IFRS, companies must record deferred taxes in accordance with IAS 12 Income Taxes , which requires a focus on assets and liabilities for the accounting and reporting of income tax under the following basic principles: (a) a deferred tax liability or asset is recognized for estimated tax purposes attributable to temporary differences and tax loss carry forwards; (b) measurement of deferred tax assets and liabilities is based on the provisions of the enacted tax law, and the effect of future changes in laws or tax rates are not anticipated; and (c) the measurement of deferred tax assets is only recognized if on the basis of the weight of the available evidence it is probable it will be realized. The effects of deferred tax assets and liabilities adjustments due to conversion are included in the reconciliation.

vii) Goodwill

Since January 1, 2004, assets acquired and liabilities assumed are recorded at fair value, and the surplus of the purchase price of the investment over the fair value is recorded as goodwill. Under the previous standards, resulting goodwill is amortized using the straight-line method over a maximum period of 20 years. The adjustment presented in the reconciliation reverses the effects of amortization of goodwill not accepted under IFRS.

4. Accounting changes

a) Accounting changes

During the periods covered by these consolidated financial statements, accounting principles have been applied consistently.

b) Changes in estimations

i) Turnover rate

During the first half of 2008 the turnover rate used to calculate staff severance indemnities was evaluated. After completing this evaluation, the Company decided to increase the turnover rate from 2.3% to 5.5% . As a result of this modification, in 2008 the Company recorded a charge to equity in the amount of ThCh$5,356,385 presented in Other Miscellaneous Reserves.

4. Accounting changes, continued

b) Changes in estimations, continued

ii) Discount rate

The interest rate used to calculate the current value of staff severance indemnities was evaluated in December 2008. After completing this analysis the Company decided to reduce the discount rate from 6% to 4.8% . As a result of this modification, the Company recorded a net charge to Equity in the amount of ThCh$ 4,004,377 presented in Other Miscellaneous Reserves.

5. Financial information by segments

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

The Company manages and measures the performance of its operations by business segment. The operating segments reported internally are detailedas follows:

a) Fixed telephony

Fixed telephony services include primary services, line connections and installations, value added services, commercialization of handsets and dedicated lines. According to the financial statements, revenue is recognized as the services are rendered or the equipment is sold.

b) Television

Multimedia services include development, installation, maintenance, marketing and operations cable, satellite and regular television using any physical or technical means, including individual paid services or multiple basic channels, special or paid, videos on demand and interactive or multimedia television services. Consistent with the financial statements, revenue is recognized as the services are delivered. The multimedia segment began operating in 2006.

c) Long distance

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

5. Financial information by segments, continued

d) Corporate communications and data

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

e) Other

Includes logistics, personnel and management services as well as social action and cultural activities.

Relevant information regarding Telefónica Chile S.A. and its main subsidiaries, which represent different segments, together with information regarding other subsidiaries is detailed as follows:

For the period ended June 30, 2009	Fixed telephony ThCh$	Long distance ThCh$	Corporate communications and data ThCh$	Television ThCh$	Other ThCh$	Eliminations ThCh$	Total ThCh$
Revenue from external customers	250,140,673	26,716,965	43,842,288	22,604,836	850,781	-	344,155,543
Revenue between segments	37,141,511	19,930,315	4,808,404	-	5,881,239	(67,761,469)	-
Financial income	4,948,266	1,804,017	2,101	3,514	7,767	(3,587,116)	3,178,549
Financial costs	14,146,658	-	346,826	1,380,520	50,244	(3,587,116)	12,337,132
Financial income, net segment	**(9,198,392)**	**1,804,017**	**(344,725)**	**(1,377,006)**	**(42,477)**	**-**	**(9,158,583)**
Depreciation and amortization	59,810,343	5,858,384	7,618,739	7,523,926	2,456	-	80,813,848
Other operating revenues	7,788,041	460,000	-	-	186,525	(245,790)	8,188,776
Significant expense items							
Provisioning	58,903,914	18,916,296	8,839,086	11,199,068	2,242	(25,470,642)	72,389,964
Personnel expenses	42,122,649	339,757	4,699,892	224,046	2,408,037	(50,263)	49,744,118
Traffic provision variation	15,214,637	1,430,537	63,898	-	(12,237)	50,332	16,747,167
	86,775,491	4,962,102	25,760,789	7,210,418	4,193,483	(42,349,181)	86,553,102

Other exterior services							
Other operating expenses	6,558,257	275,484	266,406	1,338,513	63,480	(187,505)	8,314,635
Total significant expense items	**209,574,948**	**25,924,176**	**39,630,071**	**(4,121,146)**	**6,655,005**	**(68,007,259)**	**233,748,986**
Company s participation in the income of associates and joint businesses accounted for using the equity method	9,801,221	(6,468)	(13,211)	-	(8)	(10,178,407)	(396,873)
Income tax expense (income)	3,026,134	2,649,482	258,195	(832,758)	64,796	-	5,165,849
Total other significant non-cash items	(778,212)	(1,380,549)	237,872	1,314,237	29,889	-	(576,763)
Net income (loss)	**22,483,417**	**13,092,238**	**1,023,623**	**(4,121,146)**	**183,692**	**(10,178,407)**	**22,483,417**
Segment assets	1,575,171,277	229,042,275	112,667,038	92,528,613	9,853,731	(544,973,685)	1,474,289,249
Amount in associates and joint businesses accounted for using the equity method	262,340,624	87,167	178,044	-	-	(257,257,096)	5,348,739
Disbursement of non-cash assets of the segment	32,907,081	202,985	4,490,356	7,852,734	-	-	45,443,156
Segment liabilities	969,700,646	41,567,518	43,958,579	95,564,366	8,882,676	(290,882,316)	868,791,469

5. Financial information by segments, continued

For the period ended June 30, 2009	Fixed telephony ThCh$	Long distance ThCh$	Corporate communications and data ThCh$	Television ThCh$	Other ThCh$	Eliminations ThCh$	Total ThCh$
Revenue from external customers	268,617,174	27,134,750	41,850,370	18,754,366	1,132,603	-	357,489,263
Revenue between segments	30,954,919	21,247,544	5,859,780	-	5,360,459	(63,422,702)	-
Financial income	4,640,457	2,423,899	469,616	24,447	3,528	(4,681,490)	2,880,457
Financial costs	16,331,449	-	-	1,815,609	44,567	(4,681,490)	13,510,135
Financial income, net segment	**(11,690,992)**	**2,423,899**	**469,616**	**(1,791,162)**	**(41,039)**	**-**	**(10,629,678)**
Depreciation and amortization	68,275,387	5,356,612	8,153,814	5,204,623	2,247	-	86,992,683
Other operating revenues	4,721,958	25,757	1,554,685	-	-	(167,923)	6,134,477
Significant expense items							
Provisioning	72,368,718	22,194,045	21,507,928	8,702,603	106,478	(40,429,061)	84,450,711
Personnel expenses	41,641,455	501,317	4,633,139	137,815	2,372,472	(1,788,287)	47,497,911
Traffic provision variation	15,661,723	912,200	879,276	(80,376)	36,087	13,619	17,422,529
Other exterior services	86,592,041	4,717,055	6,525,128	5,742,782	4,033,774	(21,212,803)	86,397,977
Other operating expenses	2,854,242	307,478	839,830	1,689,136	117,189	(174,093)	5,633,782
Total significant expense items	**219,118,179**	**28,632,095**	**34,385,301**	**16,191,960**	**6,666,000**	**(63,590,625)**	**241,402,910**
Company s participation in the income of							

associates and joint businesses accounted for using the equity method	18,687,542	13,179	26,918	-	9	(17,904,081)	823,567
Income tax expense (income)	(179,129)	2,244,872	358,413	(894,636)	29,207	-	1,558,727
Total other significant non-cash items	(6,150,178)	174,183	(52,525)	(130,102)	203,762	17,536	(5,937,324)
Net income (loss)	**17,925,986**	**14,785,733**	**6,811,316**	**(3,668,845)**	**(41,660)**	**(17,886,545)**	**17,925,985**
Segment assets	1,569,645,322	207,939,241	112,001,458	67,038,194	6,209,404	(495,336,551)	1,467,497,068
Amount in associates and joint businesses accounted for using the equity method	268,030,305	72,572	171,249	159	-	(261,234,790)	7,039,495
Disbursement of non-cash assets of the segment	16,594,304	1,439,424	3,223,883	6,037,405	-	-	27,295,016
Segment liabilities	909,402,578	43,864,660	34,700,528	54,900,727	4,997,376	(217,597,640)	830,268,229

6. Business combinations

During 2009 and 2008 there have been no business combinations, and there are no significant variations in the consolidation perimeter.

7. Cash and cash equivalents

The composition of cash and cash equivalents for 2009 and 2008 is detailed as follows:

Concept	Currency	06.30.2009 ThCh$	12.31.2008 ThCh$	01.01.2008 ThCh$
Cash				
		63,860	**-**	**-**
	CLP	24,361	-	-
	USD	17,126	-	-
	EUR	22,373	-	-
Banks				
		7,871,773	**11,089,444**	**5,386,166**
	CLP	2,944,235	10,786,008	5,110,789
	USD	4,775,987	285,317	214,225
	EUR	151,551	18,119	61,152
Time deposits		**83,483,960**	**50,928,621**	**67,698,285**
	CLP	83,446,184	50,076,885	66,882,832
	USD	37,776	487,145	483,423
	UF	-	364,591	332,030
Sellback agreements				
		7,632,312	**9,537,310**	**-**
	CLP	5,000,100	6,081,348	-
	USD	2,632,212	3,455,962	-
Total cash and cash equivalents		**99,051,905**	**71,555,375**	**73,084,451**
	CLP	91,414,880	66,944,241	71,993,621
	USD	7,463,101	4,228,424	697,648
	UF	-	364,591	332,030
	EUR	173,924	18,119	61,152

Marketable financial assets are detailed as follows:

a) Cash

Cash corresponds to money held in cash and bank accounts; the book value is the same as the fair value

7. <u>Cash and cash equivalents,</u> continued

b) Time deposits

Time deposits for 2009 and 2008 with original expiration in less than three months are recorded at fair value and detailed as follows:

Placement	Entity	Currency	Original currency principal (thousands)	Annual rate %	Maturity	Local currency principals ThCh$	Accrued interest local currency ThCh$	06.30.2009 Total ThCh$
04-30-09	CHILE	CLP	4,100,000	0.20	07-20-09	4,100,000	16,673	4,116,673
05-07--09	ITAU	CLP	4,000,000	0.14	07-09-09	4,000,000	10,080	4,010,080
05-19-09	CHILE	CLP	3,921,400	0.14	07-20-09	3,921,400	7,685	3,929,085
05-14-09	CORPBANCA	CLP	1,700,000	0.15	07-13-09	1,700,000	3,995	1,703,995
06-17-09	HSBC	CLP	10,000,000	0.09	08-05-09	10,000,000	3,900	10,003,900
06-08--09	CHILE	CLP	2,900,000	0.09	07-23-09	2,900,000	1,914	2,901,914
06-17-09	SANTANDER	CLP	12,000,000	0.10	07-23-09	12,000,000	5,200	12,005,200
06-17-09	CHILE	CLP	10,000,000	0.09	07-23-09	10,000,000	3,900	10,003,900
05-27-09	BBVA	CLP	3,958,500	0.11	07-01-09	3,958,500	4,935	3,963,435
06-18-09	HSBC	CLP	3,100,000	0.09	07-23-09	3,100,000	1,116	3,101,116
06-19-09	CORPBANCA	CLP	2,000,000	0.13	07-24-09	2,000,000	953	2,000,953
06-05-09	SANTANDER	CLP	2,000,000	0.13	07-06-09	4,200,000	4,550	4,204,550
06-23-09	CORPBANCA	CLP	1,700,000	0.12	07-24-09	1,700,000	476	1,700,476
06-03-09	BBVA	CLP	10,500,000	0.11	07-03-09	10,500,000	9,923	10,509,923
06-03-09	BCI	CLP	5,000,000	0.10	07-03-09	5,000,000	4,500	5,004,500
06-08-09	SANTANDER	CLP	2,800,000	0.13	07-08-09	2,800,000	2,669	2,802,669
06-17-09	SANTANDER	CLP	1,379,620	0.04	07-02-09	1,379,619	239	1,379,858
06-15-09	BCI	USD	71,021	0.60	07-15-09	37,767	9	37,776
06-15-09	BCI	CLP	103,909	0.09	07-15-09	103,909	48	103,957
	Total					**83,401,195**	**82,765**	**83,483,960**

Placement	Entity	Currency	Original currency principal (thousands)	Annual rate %	Maturity	Local currency principals ThCh$	Accrued interest local currency ThCh$	12.31.2008 Total ThCh$
12-01-08	SANTANDER	CLP	3,500,000	1.21	01-20-09	6,200,000	45,879	6,245,879
12-02-08	SANTANDER	CLP	3,500,000	1.92	02-20-09	3,500,000	25,037	3,525,037
12-02-08	SANTANDER	CLP	2,000,000	1.92	02-20-09	2,000,000	14,307	2,014,307
12-03-08	BCI	CLP	3,000,000	1.80	02-16-09	3,000,000	20,720	3,020,720

12-03-08	BCI	CLP	2,300,000	1.85	02-18-09	2,300,000	15,885	2,315,885
12-04-08	BBVA	CLP	3,900,000	1.67	02-12-09	3,900,000	25,799	3,925,799
12-05-08	CHILE	CLP	2,450,000	0.70	01-05-09	2,450,000	14,863	2,464,863
12-09-08	BBVA	CLP	2,500,000	0.65	01-07-09	2,500,000	12,742	2,512,742
12-15-08	BCI	CLP	3,600,000	0.70	01-14-09	3,600,000	13,824	3,613,824
12-15-08	CHILE BANK	CLP	600,000	0.69	01-14-09	600,000	2,272	602,272
12-16-08	BOSTON	CLP	3,500,000	0.95	01-26-09	3,500,000	12,425	3,512,425
12-23-08	SANTANDER	CLP	4,500,000	2.22	03-23-09	4,500,000	8,880	4,508,880
12-24-08	BBVA	CLP	2,900,000	0.44	01-12-09	2,900,000	5,007	2,905,007
12-24-08	BCI	CLP	3,000,000	0.36	01-12-09	3,000,000	4,200	3,004,200
12-24-08	SANTANDER	CLP	1,300,000	0.39	01-12-09	1,300,000	1,972	1,301,972
12-30-08	BCI	CLP	600,000	0.12	01-06-09	600,000	120	600,120
12-30-08	BBVA	CLP	3,200,000	0.94	02-09-09	3,200,000	768	3,200,768
12-30-08	CHILE	CLP	700,000	0.68	01-29-09	700,000	163	700,163
12-02-08	BCI	UF	17	0.63	03-03-09	363,858	733	364,591
12-10-08	BCI	CLP	101,511	0.06	01-09-09	101,510	512	102,022
12-10-08	BCI	USD	71	0.20	01-09-09	44,927	64	44,991
12-31-08	CITIBANK NY	USD	695	1.21	01-02-09	442,154	-	442,154
	Total					**50,702,449**	**226,172**	**50,928,621**

7. <u>Cash and cash equivalents,</u> continued

b) Time deposits, continued

Placement	**Entity**	**Currency**	**Original currency principal (thousands)**	**Annual rate %**	**Maturity**	**Local currency principals ThCh$**	**Accrued interest local currency ThCh$**	**01.01.2008 Total ThCh$**
11-12--07	BBVA	CLP	600,000	6.12	01-03-08	600,000	4,998	604,998
11-12--07	BCO SANTANDER	CLP	1,900,000	6.24	01-03-08	1,900,000	16,137	1,916,137
11-13--07	BBVA	CLP	900,000	6.12	01-03-08	900,000	7,344	907,344
11-13--07	BANK BOSTON	CLP	700,000	6.00	01-03-08	700,000	5,600	705,600
11-21--07	CORP BANCA	CLP	6,100,000	6.24	01-21-08	6,100,000	42,293	6,142,293
11-21--07	BCO SANTANDER	CLP	600,000	6.36	01-21-08	600,000	4,240	604,240
11-21--07	BCO SANTANDER	CLP	1,600,000	6.36	01-14-08	1,600,000	11,307	1,611,307
11-22--07	BBVA	CLP	2,300,000	6.18	01-09-08	2,300,000	15,399	2,315,399
11-23--07	BBVA	CLP	1,900,000	6.18	01-10-08	1,900,000	12,394	1,912,394
11-27--07	BBVA	CLP	2,700,000	6.18	01-11-08	2,700,000	15,759	2,715,759
11-28--07	BCO CHILE	CLP	3,400,000	6.36	01-14-08	3,400,000	19,296	3,419,296
11-29--07	BCO CHILE	CLP	3,100,000	6.36	01-02-08	3,100,000	17,526	3,117,526
11-30--07	BCO CHILE	CLP	3,400,000	6.36	01-25-08	3,400,000	18,620	3,418,620
11-30--07	BCI	CLP	1,300,000	6.12	01-21-08	1,300,000	6,851	1,306,851
12-07--07	BCO FALABELLA	CLP	2,100,000	6.06	01-24-08	2,100,000	8,484	2,108,484
12-07--07	BCO SECURITY	CLP	900,000	6.36	01-24-08	900,000	3,816	903,816
12-10--07	BCO SECURITY	CLP	1,500,000	6.36	01-21-08	1,500,000	5,565	1,505,565
12-11--07	CITIBANK NA	CLP	5,100,000	5.88	01-11-08	5,100,000	16,660	5,116,660
12-14--07	BANK BOSTON	CLP	2,600,000	6.96	01-14-08	2,600,000	8,545	2,608,545
12-14--07	CORP BANCA	CLP	1,400,000	6.84	01-14-08	1,400,000	4,522	1,404,522
12-14--07	BCO SECURITY	CLP	600,000	6.72	01-14-08	600,000	1,904	601,904
12-14--07	BCI	CLP	4,900,000	6.6	01-14-08	4,900,000	15,272	4,915,272
12-18--07	BCI	CLP	4,100,000	7.2	02-20-08	4,100,000	10,660	4,110,660
12-26--07	BCO SANTANDER	CLP	1,900,000	7.32	02-20-08	1,900,000	1,932	1,901,932
12-27--07	BCO SANTANDER	CLP	4,500,000	7.2	03-20-08	4,500,000	3,600	4,503,600
12-27--07		CLP	1,400,000	6.96	03-20-08	1,400,000	1,083	1,401,083

12-27--07	BCO FALABELLA BCI	CLP	100,000	6.72	03-20-08	100,000	75	100,075
12-28--07	BANK BOSTON	CLP	3,000,000	7.08	02-01-08	3,000,000	1,770	3,001,770
12-28--07	BANK BOSTON	CLP	2,000,000	7.08	02-12-08	2,000,000	1,180	2,001,180
12-26--07	CITIBANK NY	USD	700	3.85	01-04-08	347,823	186	348,009
12-04--07	BCI	UF	17	1.2	03-04-08	331,731	299	332,030
12-10--07	BCI	USD	159	5.23	01-09-08	78,990	241	79,231
12-10--07	BCI	USD	113	5.23	01-09-08	56,013	170	56,183
	Total					**67,414,557**	**283,728**	**67,698,285**

7. Cash and cash equivalents, continued

c) Sellback agreements

Public offer promissory notes, corresponding to financial instruments issued by the State, are recorded at fair value and for 2009 and 2008 are detailed as follows:

Code	Dates		Counterpart	Original currency	Subscription value ThCh$	Annual rate	Final value	Instrument identification	Accounting value ThCh$
	Beginning	Ending				%			06.30.2009
CRV	06-25-09	07-01-09	BCI	CLP	1,000,000	0.06	1,000,000	BCP0600414	1,000,000
CRV	06-30-09	07-01-09	BCI	CLP	4,000,000	0.06	4,000,000	PDBC090825	4,000,000
CRV	06-30-09	07-01-09	BCI	USD	2,307,425	0.30	2,307,425	BCP0801113	2,307,425
CRV	06-30-09	07-01-09	BCI	USD	324,887	0.30	324,787	BCP0800614	324,887
			Total		**7,632,312**		**7,632,212**		**7,632,312**

Code	Dates		Counterpart	Original currency	Subscription value ThCh$	Annual rate	Final value	Instrument identification	Accounting value ThCh$
	Beginning	Ending				%			12.31.2008
CRV	12-22-08	01-05-09	HSBC	CLP	3,400,000	0.27	3,406,426	BCU0300510	3,406,426
CRV	12-30-08	01-06-09	HSBC	USD	3,455,924	0.01	3,455,962	BCU0500910	3,455,962
BCP0600109	12-05-08	01-02-09	Banco Central	CLP	2,662,554	0.45	2,674,922	BCP0600109	2,674,922
			Total		**9,518,478**		**9,537,310**		**9,537,310**

On January 1, 2008 the company did not register balances for these transactions.

8. Financial assets at fair value with changes in incomes

Marketable financial assets are detailed as follows:

Concept	06.30.2009 ThCh$	12.31.2008 ThCh$	01.01.2008 ThCh$
Chilean Central Bank promissory notes	17,482,907	13,228,981	5,362,952
Time deposits	70,567,024	-	7,910,763
Total	**88,049,931**	**13,228,981**	**13,273,715**

Marketable financial investments current as of June 30, 2009 are detailed as follows:

Instrument	Date		Par value	Accounting value		Effect on income	Market value
	Purchase	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
BCP0800709	07-14-08	07-01-09	1,000,000	1,039,970	8.00%	29,227	1,039,970
BCP0800709	09-25-08	07-01-09	740,000	769,578	8.00%	21,627	769,578
BCP0600809	09-26-08	08-03-09	1,000,000	1,028,409	6.00%	17,461	1,028,409
BCP0600809	12-03-08	08-03-09	2,500,000	2,571,022	6.00%	43,654	2,571,022
BCP0600210	04-04-09	02-01-10	2,000,000	2,099,374	6.00%	17,633	2,099,374
PDBC061009	06-04-09	10-06-09	4,982,358	4,986,057	0.09%	3,699	4,986,057
PDBC150909	05-04-09	09-15-09	4,979,980	4,988,497	0.09%	8,516	4,988,497
ESTADO	06-01-09	11-30-09	5,600,000	5,607,037	0.13%	7,037	5,607,037
CHILE	06-01-09	11-30-09	10,000,000	10,013,533	0.14%	13,533	10,013,533
RABOBANK	06-01-09	11-30-09	2,000,000	2,002,127	0.11%	2,127	2,002,127
ESTADO	06-02-09	11-30-09	6,000,000	6,007,840	0.14%	7,840	6,007,840
HSBC	06-02-09	11-30-09	10,000,000	10,014,000	0.15%	14,000	10,014,000
SANTANDER	02-11-09	08-10-09	3,400,000	3,472,465	0.46%	72,465	3,472,465
CHILE	05-20-09	11-16-09	6,000,000	6,009,840	0.12%	9,840	6,009,840
ESTADO	05-20-09	11-16-09	3,000,000	3,004,510	0.11%	4,510	3,004,510
BCI	06-11-09	12-07-09	1,200,000	1,200,836	0.11%	836	1,200,836
SANTANDER	06-11-09	12-07-09	5,000,000	5,004,750	0.15%	4,750	5,004,750
SANTANDER	06-15-09	12-07-09	3,900,000	3,902,535	0.13%	2,535	3,902,535
SANTANDER	06-15-09	12-07-09	3,500,000	3,502,275	0.13%	2,275	3,502,275
SANTANDER	06-16-09	12-07-09	2,750,000	2,751,540	0.12%	1,540	2,751,540
SANTANDER	05-08-09	08-06-09	2,700,000	2,707,632	0.16%	7,632	2,707,632
CORPBANCA	05-08-09	08-06-09	2,000,000	2,005,653	0.16%	5,653	2,005,653
ESTADO	06-25-09	09-23-09	2,998,499	3,000,040	3.70%	1,541	3,000,040
BCI	06-02-09	09-01-09	360,271	360,411	0.50%	140	360,411
	Total		**87,611,108**	**88,049,931**		**300,071**	**88,049,931**

8. <u>Financial assets at fair value with changes in incomes,</u> continued

Marketable financial investments current as of December 31, 2008 are detailed as follows:

Instrument	Date		Par value	Accounting value		Effect on income	Market value
	Purchase	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
BCP0600109	09-03-08	01-02-09	2,500,000	2,574,183	6.00%	74,592	2,574,183
BCP0600109	09-26-08	01-02-09	72,100	72,077	6.00%	2,151	72,077
BCP0800709	07-14-08	07-01-09	1,000,000	1,044,021	8.00%	39,783	1,044,021
BCP0800709	09-25-08	07-01-09	769,600	772,575	8.00%	30,617	772,575
BCP0600809	09-26-08	08-03-09	1,040,000	1,019,967	6.00%	25,774	1,019,967
BCP0600809	12-03-08	08-03-09	2,500,000	2,552,145	6.00%	61,957	2,552,145
PDBC020209	10-09-08	12-02-09	2,734,108	2,781,255	7.48%	47,147	2,781,255
PDBC080609	09-24-08	06-08-09	2,358,986	2,412,758	8.37%	53,772	2,412,758
	Total as of December 31, 2008		**12,974,794**	**13,228,981**		**335,793**	**13,228,981**

Instrument	Date		Par value	Accounting value		Effect on income	Market value
	Purchase	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
CERO010508	09-04-07	05-01-08	2,703,102	2,723,704	2.6% + UF	21,578	2,723,704
CERO010508	09-04-07	05-01-08	242,294	244,187	2.6% + UF	1,956	244,187
CERO010708	09-04-07	07-01-08	590,877	595,418	2.6% + UF	4,803	595,418
BCU0500308	10-17-07	03-01-08	1,766,039	1,799,643	5.00%	29,433	1,799,643
BBVA	10-24-07	02-21-08	2,130,236	2,141,503	2.80%	11,268	2,141,503
HSBC	10-26-07	02-25-08	1,824,613	1,832,139	2.25%	7,526	1,832,139
HSBC	11-02-07	03-12-08	1,516,774	1,522,615	2.35%	5,841	1,522,615
CITIBANK NA	12-13-07	06-10-08	2,411,130	2,414,506	2.80%	3,376	2,414,506
	Total as of January 1, 2008		**13,185,065**	**13,273,715**		**85,781**	**13,273,715**

For the periods ended June 30, 2009, December 31 and January 1, 2008, the effect on income is ThCh$300,071, ThCh$335,793 and ThCh$85,781, respectively.

9. <u>Trade receivables and other receivables</u>

a) Current receivables are detailed as follows:

ncept	06.30.2009 Current			12.31.2008 Current			01.01.2008 Current		
	Gross value ThCh$	**Allowance for doubtful accounts ThCh$**	**Net value ThCh$**	**Gross value ThCh$**	**Allowance for doubtful accounts ThCh$**	**Net value ThCh$**	**Gross value ThCh$**	**Allowance for doubtful accounts ThCh$**	**Net va ThCh**
e vables	263,633,506	(135,125,845)	128,507,661	280,344,390	(118,644,649)	161,699,741	266,197,278	(79,496,119)	186,701
ellaneous vables	12,276,580	-	12,276,580	10,459,421	-	10,459,421	5,835,933	-	5,835
tal	**275,910,086**	**(135,125,845)**	**140,784,241**	**290,803,811**	**(118,644,649)**	**172,159,162**	**272,033,211**	**(79,496,119)**	**192,537**

b) Non-current receivables are detailed as follows:

Concept	06.30.2009 Non-current			12.31.2008 Non-current			01.01.2008 Non-current		
	Gross value ThCh$	**Allowance for doubtful accounts ThCh$**	**Net value ThCh$**	**Gross value ThCh$**	**Allowance for doubtful accounts ThCh$**	**Net value ThCh$**	**Gross value ThCh$**	**Allowance for doubtful accounts ThCh$**	**Net value ThCh$**
Trade receivables	6,093,428	-	6,093,428	6,046,424	-	6,046,424	3,650,874	-	3,650,874
Miscellaneous receivables	9,359,085	-	9,359,085	8,512,768	-	8,512,768	9,403,535	-	9,403,535
Total	**15,452,513**	**-**	**15,452,513**	**14,559,192**	**-**	**14,559,192**	**13,054,409**	**-**	**13,054,409**

Income related to non-current trade receivables which are received in a deferred manner is treated as stated in the deferred income note.

9. <u>Trade receivables and other receivables</u>, continued

c) The composition of trade receivables with overdue balances, not collected and not provisioned based on the expiration date is detailed as follows:

Concept	06.30.2009					12.31.2008				
	Less than 3 months	**3 to 6 months**	**6 to 12 months**	**Greater than 12 months**	**Total**	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**Greater than 12 months**	
Trade receivables	66,807,775	2,775,108	601,036	285,498	70,469,417	76,201,002	2,761,408	1,030,988	165,837	80
Total	**66,807,775**	**2,775,108**	**601,036**	**285,498**	**70,469,417**	**76,201,002**	**2,761,408**	**1,030,988**	**165,837**	**80**

d) Movements of allowance for doubtful accounts are detailed as follows:

Movement	06.30.2009 ThCh$	12.31.2008 ThCh$
Beginning balance	**118,644,649**	**79,496,119**
Provision	16,481,196	47,155,117
Write-off	-	(8,006,587)
Movement sub-totals	**16,481,196**	**39,148,530**
Ending balance	**135,125,845**	**118,644,649**

10. Accounts receivable from and payable to related companies

a) Current receivables for transactions of sales:

Name	Taxpayer no.	Nature of the relationship	Transaction origin	Currency	Expiration	06.30.2009 ThCh$	12.31.2008 ThCh$	01.01.20 ThCh
Telefónica Ingeniería de Seguridad S.A.	59,083,900-0	Relationship with Parent Company	Provision of services	CLP	60 Days	51,859	42,806	18,
Telefónica Móviles Chile S.A.	87,845,500-2	Relationship with Parent Company	Provision of services	CLP	60 Days	8,542,899	8,111,836	7,077,
Telefónica Internacional Chile S.A.	96,527,390-5	Parent Company	Provision of services	CLP	60 Days	3,024	22,136	
Telefónica Móviles Chile Inversiones S.A.	96,672,150-2	Relationship with Parent Company	Provision of services	CLP	60 Days	46,435	22,136	17,
Telefónica Móviles Chile Larga Distancia S.A.	96,672,160-k	Relationship with Parent Company	Provision of services	CLP	60 Days	287,088	396,609	363,
Terra Networks Chile S.A.	96,834,230-4	Relationship with Parent Company	Provision of services	CLP	60 Days	577,976	353,783	422,
Atento Chile S.A.	96,895,220-k	Associate	Provision of services	CLP	60 Days	798,682	527,937	508,
Telefónica International Wholesale Services Chile S.A.	96,910,730-9	Relationship with Parent Company	Provision of services	CLP	60 Days	1,436,244	923,581	695,
Telefónica Móviles Soluciones y Aplicaciones S.A.	96,990,810-7	Relationship with Parent Company	Provision of services	CLP	60 Days	115,550	146,837	120,
Atento Colombia S.A.	Foreign	Relationship with Parent Company	Provision of services	CLP	60 Days	37,103	35,930	5,
Colombia Telecomunicaciones S.A.E.S.P.(Telecom.)	Foreign	Relationship with Parent Company	Provision of services	USD	60 Days	635,689	338,853	149,
Otecel S.A.	Foreign	Relationship with Parent Company	Provision of services	USD	60 Days	58,938	103,341	75,
Telefónica Argentina	Foreign	Relationship with Parent Company	Provision of services	USD	180 Days	2,596,106	3,653,283	2,692,
Telefónica Data Corp	Foreign	Relationship with Parent Company	Provision of services	EUR	60 Days	33,629	33,629	33,

Telefónica USA Inc.	Foreign	Relationship with Parent Company	Provision of services	USD	60 Days	61,110	56,231	24,
Telefónica de España S.A.U.	Foreign	Relationship with Parent Company	Provision of services	EUR	180 Days	2,662,615	2,531,621	1,953,
Telefónica Factoring	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	432,415	-	
Telefónica Perú	Foreign	Relationship with Parent Company	Provision of services	USD	180 Days	1,922,604	3,292,271	551,
Telefónica Internacional S.A.U. - España	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	215,648	408,212	427,
Telefónica Móviles de Argentina	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	43,088	43,088	43,
Telefónica Móviles de Colombia	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	711	852	47,
Telefónica Móviles El Salvador	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	2,923	840	2,
Telefónica Móviles Guatemala	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	14,153	13,375	19,
Telefónica Sol.Inf.Com.España	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	1,522,632	1,522,632	1,522,
Telcel Venezuela	Foreign	Relationship with Parent Company	Provision of services	USD	180 Days	4,967,111	5,191,572	2,278,
Telefónica Celular de Nicaragua	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	767	-	1,
Telefónica I + D - España	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	-	115,369	103,
Telefónica Multimedia S.A.C. Perú	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	77,014	90,065	77,
Telefónica S.A.	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	118,761	124,039	102,
Telecomunicaciones Sao Paulo	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	55,019	88,323	187,
Terra Brasil	Foreign	Relationship with Parent Company	Provision of services	CLP	90 Days	17,236	17,236	17,

Telefónica International Wholesale Services España	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	83,210	83,210	83,
Telefónica Larga Distancia Puerto Rico	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	7,754	10,164	
Vivo Brasil	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	-	-	23,
Fundación Telefónica Brasil	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	-	-	2,
Fundación Telefónica Perú	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	-	-	2,
Media Networks Perú S.A.C.	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	-	-	2,
Telefónica Móviles España	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	-	-	81,
Telefónica Móviles de Panamá	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	-	-	10,
Telefónica Móviles Perú	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	-	-	32,
Telefónica Servicios Comerciales S.A.C.	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	-	-	2,
Telefónica Gestión de Servicios Compartidos Perú	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	-	-	2,
Total						**27,425,993**	**28,301,797**	**19,781,**

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Name	Taxpayer No	Nature of the relationship	Transaction origin	Currency	Expiration	06.30.2009 ThCh$	12.31.2008 ThCh$	01.01. ThC
Telefónica Ingeniería de Seguridad S.A.	59,083,900-0	Relationship with Parent Company	Provision of services	CLP	60 Days	150,985	112,000	1
Telefónica Móviles Chile S.A.	87,845,500-2	Relationship with Parent Company	Provision of services	CLP	60 Days	8,950,822	10,956,223	14,005
Telefónica Internacional Chile S.A.	96,527,390-5	Parent Company	Provision of services	CLP	60 Days	644,316	439,956	612
Telefónica Móviles Chile Inversiones S.A.	96,672,150-2	Relationship with Parent Company	Provision of services	CLP	60 Days	60,686	94,590	
Telefónica Móviles Chile Larga Distancia S.A.	96,672,160-k	Relationship with Parent Company	Provision of services	CLP	60 Days	247,367	189,570	43
Terra Networks Chile S.A.	96,834,230-4	Relationship with Parent Company	Provision of services	CLP	60 Days	2,553,469	3,152,262	2,407
Atento Chile S.A.	96,895,220-k	Associate	Provision of services	CLP	60 Days	4,840,605	3,912,051	3,243
Telefónica International Wholesale Services Chile S.A.	96,910,730-9	Relationship with Parent Company	Provision of services	CLP	60 Days	10,169,476	8,834,478	7,702
Colombia Telecomunicaciones S.A.E.S.P.(Telecom.)	Foreign	Relationship with Parent Company	Provision of services	USD	60 Days	339,805	296,803	145
Media Networks Perú	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	842,193	7,489	15
Otecel S.A.	Foreign	Relationship with Parent Company	Provision of services	USD	60 Days	13,070	18,372	
Telefónica Argentina S.A.	Foreign	Relationship with Parent Company	Provision of services	USD	180 Days	2,466,271	2,599,853	1,016
Telefónica de España S.A.U	Foreign	Relationship with Parent Company	Provision of services	EUR	180 Days	1,453,202	1,125,292	6
Telefónica Perú	Foreign	Relationship with Parent Company	Provision of services	USD	180 Days	1,314,002	2,105,468	188
Telefónica Gestión de Servicios Compartidos España	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	-	137	68
	Foreign			USD	90 Days	95,335	64,990	7

Telefónica Móviles El Salvador		Relationship with Parent Company	Provision of services					
Telefónica Móviles Guatemala	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	-	38,444	1
Telefónica Servicios Audiovisuales	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	3,306	-	
Telcel Venezuela	Foreign	Relationship with Parent Company	Provision of services	USD	180 Days	22,129	76,814	
Telefónica USA Inc.	Foreign	Relationship with Parent Company	Provision of services	USD	60 Days	-	3,829	
Televisión Federal Telefe - Argentina	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	18,058	14,260	9
Telefónica Gestión de Servicios Compartidos Perú	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	1,727	2,068	
Telefónica I + D España	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	839,300	2,016,069	1,270
Telefónica Internacional S.A.U. - España	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	152,742	178,772	
Telefónica Multimedia S.A.C. Perú	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	739,523	708,939	1,331
Telefónica S.A.	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	277,449	597,576	482
Telefónica Servicios de Música -España	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	146,894	113,510	33
Telecomunicaciones Sao Paulo	Foreign	Relationship with Parent Company	Provision of services	EUR	90 Days	3,423,176	2,580,330	832
Tevefe	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	-	18,360	
Telefónica Larga Distancia Puerto Rico	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	69,728	18,109	20
Antares	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	8,948	-	
Atento Perú	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	136,549	-	

Telefónica Compras Electrónicas	Foreign	Relationship with Parent Company	Provision of services	USD	90 Days	111,950	-	
Total						**40,093,083**	**40,276,614**	**33,448**

10. Accounts receivable from and payable to related companies, continued

b) Current payables for purchase transactions:

10. Accounts receivable from and payable to related companies, continued

c) Transactions:

Company	Taxpayer No	Nature of the relationship	Transaction	06.30.2009 ThCh$	06.30.2008 ThCh$
Telefónica Ingeniería Seguridad	59,083,900-0	Relationship with Parent Company	Sale	11,359	7,266
			Costs	(114,046)	(22,269)
Telefónica Móviles Chile S.A.	87,845,500-2	Relationship with Parent Company	Sale	12,568,206	9,945,429
			Costs	(15,166,054)	(21,125,274)
Terra Networks Chile S.A.	93,834,230-4	Relationship with Parent Company	Sale	963,243	450,788
			Costs	(3,631,712)	(4,219,542)
Telefónica Internacional Chile S.A.	96,527,390-5	Parent Company	Sale	4,245	4,668
			Costs	(423,976)	(102,711)
Telefónica Móviles Chile Inversiones S.A.	96,672,150-2	Relationship with Parent Company	Sale	20,897	42,163
			Costs	(408,401)	(229,358)
Telefónica Móviles Chile Larga Distancia S.A.	96,672,160-k	Relationship with Parent Company	Sale	721,718	749,911
Telefónica International Wholesale Services Chile	96,910,730-9	Relationship with Parent Company	Sale	714,040	559,837
			Costs	(7,531,478)	(5,299,884)
			Financial costs	(45,973)	(54,771)
Atento Chile	96,895,220-k	Associate	Sale	563,851	924,197
			Costs	(10,312,135)	(11,791,012)
Telefónica Móviles Soluciones y Aplicaciones S.A.	96,990,810-7	Relationship with Parent Company	Sale	77,839	74,970
Antares	Foreign	Relationship with Parent Company	Costs	(10,325)	-
Atento Colombia	Foreign	Relationship with Parent Company	Sale	985	20,687
Atento Perú	Foreign	Relationship with Parent Company	Costs	(150,215)	-
Hispasat	Foreign	Relationship with Parent Company	Costs	(254,193)	-
Media Network Latam Sac	Foreign	Relationship with Parent Company	Costs	(849,776)	(18,492)
Otecel S.A.	Foreign	Relationship with Parent Company	Sale	100,285	119,534
			Costs	(41,599)	(14,709)
Telefónica Argentina	Foreign	Relationship with Parent Company	Sale	905,697	999,583
			Costs	(2,127,915)	(1,308,426)
Telefónica Móviles Guatemala	Foreign		Sale	3,182	7,186

		Relationship with Parent Company	Costs	-	(14,378)
Telefónica Móviles Perú	Foreign	Relationship with Parent Company	Sale	3,366	-
Telefónica España	Foreign	Relationship with Parent Company	Sale	503,588	645,658
			Costs	(479,675)	(188,439)
Telefónica I+D España	Foreign	Relationship with Parent Company	Sale	-	34,838
			Costs	(129,791)	-
Telefónica Internacional	Foreign	Relationship with Parent Company	Sale	109,954	-
			Costs	(5,531)	(156,908)
Telefónica Móviles El Salvador	Foreign	Relationship with Parent Company	Sale	2,183	1,299
			Costs	(117,849)	(19,350)
Telefónica Multimedia Sac Peru	Foreign	Relationship with Parent Company	Costs	-	(759,724)
Telefónica Peru	Foreign	Relationship with Parent Company	Sale	951,504	818,855
			Costs	(396,132)	(541,574)
Telefónica Servicios de Música	Foreign	Relationship with Parent Company	Costs	(170,486)	(234,056)
Telefónica Telecom, Colombia	Foreign	Relationship with Parent Company	Sale	463,800	63,088
			Costs	(53,419)	(57,103)
Telefónica USA Inc.	Foreign	Relationship with Parent Company	Sale	4,096	20,750
Telcel Venezuela	Foreign	Relationship with Parent Company	Sale	645,372	2,020,929
			Costs	(19,726)	(153,012)
Televisión Federal Telefe - Argentina	Foreign	Relationship with Parent Company	Costs	(13,960)	(16,221)
Telefonica S.A.	Foreign	Relationship with Parent Company	Sale	2,119	-
			Costs	-	(278,196)
Telecomunicaciones de Sao Paulo	Foreign	Relationship with Parent Company	Sale	57,282	58,591
			Costs	(908,038)	(441,613)
Tevefe Comercializacion	Foreign	Relationship with Parent Company	Sale	10,423	-
Telefonica Compras Electrónica	Foreign	Relationship with Parent Company	Costs	(115,206)	-
Telefónica International Wholesale Services America	Foreign	Relationship with Parent Company	Costs	-	(660,240)
Telefónica International Wholesale Services España	Foreign	Relationship with Parent Company	Costs	-	(6,128)
Telefónica Larga Distancia Puerto Rico	Foreign	Relationship with Parent Company	Sale	7,954	22,073
			Costs	(58,146)	(12,600)

Article 89 of the Corporations Law requires that a company s transactions with related companies (defined as entities belonging to the same group of companies) be on similar terms as those normally prevailing in the market.

10. <u>Accounts receivable from and payable to related companies</u>, continued

c) Transactions, continued

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

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

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

d) Salaries and benefits received by the Company s key employees are detailed as follows:

Concept	04.01.09 to 06.30.09 ThCh$	06.30.2009 ThCh$	04.01.08 al 06.30.08 ThCh$	06.30.2008 ThCh$
Salaries	1,579,511	4,503,378	1,619,440	5,195,421
Post-employment benefits	750,384	881,031	208,867	440,172
Total	**2,329,895**	**5,384,409**	**1,828,307**	**5,635,593**

11. <u>Inventory</u>

Inventory is detailed as follows:

Concept	06.30.2009 ThCh$	12.31.2008 ThCh$	01.01.2008 ThCh$
Merchandise	10,244,177	9,639,875	8,976,644
Obsolescence provision	(2,889,412)	(2,719,640)	(2,022,680)
Total	**7,354,765**	**6,920,235**	**6,953,964**

12. Derivative financial instruments

Current derivative financial instruments are detailed as follows:

Concept	06.30.2009 Assets ThCh$	06.30.2009 Liabilities ThCh$	12.31.2008 Assets ThCh$	12.31.2008 Liabilities ThCh$	01.01.2008 Assets ThCh$	01.01.2008 Liabilities ThCh$
Cash flow hedge derivatives	-	1,299,514	66,928	2,658,139	3,835	1,433,087
Interest rate hedge derivatives	-	828,429	-	2,663,504	94,228	570,947
Exchange rate hedge derivatives	8,615,211	22,394,710	3,299,054	932,058	33,225	21,460,726
Total	**8,615,211**	**24,522,653**	**3,365,982**	**6,253,701**	**131,288**	**23,464,760**

Non-current derivative financial instruments are detailed as follows:

Concept	06.30.2009 Assets ThCh$	06.30.2009 Liabilities ThCh$	12.31.2008 Assets ThCh$	12.31.2008 Liabilities ThCh$	01.01.2008 Assets ThCh$	01.01.2008 Liabilities ThCh$
Exchange rate hedge derivatives	12,577,302	12,293,635	36,963,243	470,129	-	45,373,745
Total	**12,577,302**	**12,293,635**	**36,963,243**	**470,129**	**-**	**45,373,745**

13. Income tax

a) General information

As of June 30, 2009 and 2008 the Parent Company has established a first category (corporate) income tax provision, since it has a positive taxable base of ThCh$66,752,865 and ThCh$63,456,382, respectively.

The above figures correspond to income of the Parent Company which has a positive taxable base of ThCh$47,362,521 and of subsidiaries in the amount of ThCh$19,390,344, for June 2009; and ThCh$36,356,737 and ThCh$27,099,645 respectively, for June 2008.

As of June 30, 2009 and December 31, 2008, the tax losses accumulated by subsidiaries amount to ThCh$33,194,337 and ThCh$24,534,879 respectively.

According to current legislation, tax years subject to possible review by the fiscal authority consider transactions generated from 2006 to date for most of the taxes to which the Company s operations are subject.

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

Management estimates, on the basis of information available to date, that there are no significant additional liabilities that have not been recorded for this concept in the financial statements.

13. Income tax, continued

a) General information, continued

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

Subsidiaries	Taxable net income with credit 15% ThCh$	Taxable net income with credit 16% ThCh$	Taxable net income with credit 16.5% ThCh$	Taxable net income with credit 17% ThCh$	Taxable net income without credit ThCh$	Total credit ThCh$
Telefónica Larga Distancia S.A.	2,554,184	967,703	692,765	139,255,922	3,806,869	29,294,214
Telefónica Empresas Chile S.A.	-	-	54	34,786,094	240,632	7,124,865
Telefónica Gestión de Servicios Compartidos Chile S.A.	-	-	-	855,743	18,267	175,272
Telefónica Chile S.A.	114	-	6,699,031	295,178,931	10,683,676	61,782,030
Total	**2,554,298**	**967,703**	**7,391,850**	**470,076,690**	**14,749,444**	**98,376,381**

b) Deferred taxes

As of June 30, 2009 and January 1 and December 31, 2008, accumulated balances of temporary differences generated net deferred tax liabilities in the amount of ThCh$58,207,506 and ThCh$60,728,445 and ThCh$85,381,995, respectively, and are detailed as follows:

Concept	06.30.2009		12.31.2008		01.01.2008	
	Assets ThCh$	Liabilities ThCh$	Assets ThCh$	Liabilities ThCh$	Assets ThCh$	Liabilities ThCh$
Allowance for doubtful accounts	22,906,934	-	19,428,286	-	11,425,854	-
Vacation provision	819,244	-	1,493,407	-	1,215,427	-
Staff severance indemnities	329,048	166,181	-	2,425,168	-	3,648,950
Amortization and depreciation of assets	1,117,801	91,366,469	-	92,822,682	-	104,001,485
Tax loss carry-forward	5,643,037	-	4,170,929	-	2,085,728	-
Deferred revenue	454,641	5,883	-	-	-	-
Other events	3,273,856	1,213,534	9,426,783	-	11,951,319	4,409,888
Sub-total	**34,544,561**	**92,752,067**	**34,519,405**	**95,247,850**	**26,678,328**	**112,060,323**

Reclassificatión	**(28,561,053)**	**(28,561,053)**	**(30,348,476)**	**(30,348,476)**	**(24,592,600)**	**(24,592,600)**
Total	**5,983,508**	**64,191,014**	**4,170,929**	**64,899,374**	**2,085,728**	**87,467,723**

c) Current prepaid taxes

As of June 30, 2009, December 31 and January 1, 2008, the current tax balances receivable are detailed as follows:

Concept	**06.30.2009 ThCh$**	**12.31.2008 ThCh$**	**01.01.2008 ThCh$**
Prepaid tax installments on retained earnings	10,009,951	10,303,741	10,150,785
Monthly prepaid tax installments	10,207,179	9,467,341	2,120,355
Sence tax credit	706,849	706,849	663,237
Remaining VAT credit	3,992,596	6,024,053	5,340,140
Other	619,001	405,775	224,219
Total	**25,535,576**	**26,907,759**	**18,498,736**

13. Income tax, continued

d) Income tax reconciliation

As of June 30, 2009 and 2008 the reconciliation of tax expenses is detailed as follows:

	04.01.09 to 06.30.09		**06.30.2009**		**04.01.08 to 06.30.08**		**06.30.2008**	
Concept	**Taxable base ThCh$**	**17% Income tax rate ThCh$**	**Taxable base ThCh$**	**17% Income tax rate ThCh$**	**Taxable base ThCh$**	**17% Income tax rate ThCh$**	**Taxable base ThCh$**	**17% Income tax rate ThCh$**
Starting with financial income before taxes								
Profit before taxes	**12,493,053**	**2,123,819**	**27,579,082**	**4,688,444**	**9,042,396**	**1,537,207**	**19,306,841**	**3,282,163**
Permanent differences	**(2,796,785)**	**(475,454)**	**2,808,265**	**477,405**	**(2,710,980)**	**(460,866)**	**(10,137,857)**	**(1,723,436)**
Price-level restatement of equity	-	-	-	-	(9,631,194)	(1,637,303)	(12,938,661)	(2,199,572)
Price-level restatement of investments	-	-	-	-	6,446,635	1,095,928	5,391,809	916,608
Income from investments in related companies	2,535,508	431,036	3,089,792	525,265	800,412	136,070	341,854	58,115
Resolution of prior year uncertainties (1)	1,700,883	289,150	3,485,678	592,565	(1,259,334)	(214,087)	(2,621,593)	(445,671)
Prior year income tax deficit/(surplus)	(622,649)	(105,850)	(622,649)	(105,850)	6,583,921	1,119,267	6,293,300	1,069,861
Single article 21 tax adjustment	344,337	58,537	344,337	58,537	41,355	7,030	71,555	12,164
Other (2)	(6,754,864)	(1,148,327)	(3,488,893)	(593,112)	(5,692,775)	(967,771)	(6,676,121)	(1,134,941)
Total tax expense of companies	**9,696,268**	**1,648,365**	**30,387,347**	**5,165,849**	**6,331,416**	**1,076,341**	**9,168,984**	**1,558,727**

Starting from taxable income and deferred taxes calculated on the basis of temporary differences:				
Income Tax 17%	5,957,133	11,347,987	5,477,668	10,787,585
35% Single Tax	58,537	58,537	7,030	12,164
Prior current year deficit/(surplus)	(105,851)	(105,851)	1,119,267	1,069,861
Income tax expense	**5,909,819**	**11,300,673**	**6,603,965**	**11,869,610**
Deferred income tax expense	**(4,261,454)**	**(6,134,824)**	**(5,527,624)**	**(10,310,883)**
Total corporate tax expense	**1,648,365**	**5,165,849**	**1,076,341**	**1,558,727**
Effective rate	**13.2%**	**18.7%**	**11.9%**	**8.1%**

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

(2) The Other item includes adjustments for the concept of fines, 6% property, plant and equipment credit, and provisions for fines, among others.

14. <u>Investment in associates</u>

Associated companies as well as the Company s shares of their summary financial information for 2009 and 2008 are detailed as follows:

Taxpayer No	Name	Investment balance 06.30.2009	Participation percentage	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Ordinary revenues	Ord exp
96.895.220-k	Atento Chile S.A.	5,348,739	28.84	20,614,521	4,406,817	6,345,459	18,675,879	15,310,834	17,1

Taxpayer No	Name	Investment balance 12.31.2008	Participation percentage	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Ordinary revenues	Ord exp
96.895.220-k	Atento Chile S.A.	5,739,831	28.84	24,083,266	4,964,682	9,027,260	20,020,688	51,513,543	44,2

Taxpayer No	Name	Investment balance 01.01.2008	Participation percentage	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Ordinary revenues	Ord exp
96.895.220-k	Atento Chile S.A.	4,449,217	28.84	19,696,096	6,218,468	10,414,945	15,499,619	48,551,106	40,1

During 2009 and 2008, the Company held investment in associated company Atento Chile S.A. with 28.84% participation. The country of origin is Chile, its functional currency is the Chilean peso and its main activity is Call Center Services .

As of June 30, 2009, the value of the investment was calculated on the basis of unaudited financial statements.

14. Investment in associates, continued

The movement of participations in associated companies during 2009 and 2008 is detailed as follows:

Movement	06.30.2009 Atento Chile S.A. ThCh$	12.31.2008 Atento Chile S.A. ThCh$
Beginning balance	**5,739,831**	**4,449,217**
Participation in common profits	(396,873)	1,552,194
Dividends received	-	(433,661)
Other increase	5,781	172,081
Movement sub-total	**(391,092)**	**1,290,614**
Ending balance	**5,348,739**	**5,739,831**

15. Intangibles

Intangibles are detailed as follows:

Movement	06.30.2009 ThCh$	12.31.2008 ThCh$	01.01.2008 ThCh$
Goodwill	16,704,516	16,704,516	16,704,516
Other intangible assets	29,309,245	32,343,927	40,314,006
Total	**46,013,761**	**49,048,443**	**57,018,522**

a) Goodwill movement for 2009 and 2008 is detailed as follows:

Taxpayer no.	Company	12.31.2008 ThCh$	Additions ThCh$	Eliminations ThCh$	06.30.2009 ThCh$
96,551,670-0	Telefónica Larga Distancia S.A.	16,045,361	-	-	16,045,361
96,811,570-7	Instituto Telefónica Chile S.A.	38,923	-	-	38,923
96,834,320-3	Telefónica Internet Empresas S.A.	620,232	-	-	620,232