

TELECOMMUNICATIONS CO OF CHILE
Form 6-K
September 03, 2008

**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 3, 2008

(Commission File Number: 001-10579)

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

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

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

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

Form 20-F 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

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

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

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

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COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

for the six-month periods ended

June 30, 2008 and 2007

(CONSOLIDATED)

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

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ThCh\$: Thousands of Chilean pesos.

Report of Independent Auditors

(Translation of a report originally issued in Spanish--See Note 2 (b))

To the Shareholders and Directors of
Compañía de Telecomunicaciones de Chile S.A.:

We have reviewed the consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of income and cash flows for the six-month periods then ended. These interim financial statements and the accompanying notes are the responsibility of the management of Compañía de Telecomunicaciones de Chile S.A.

We conducted our review in accordance with generally accepted auditing standards in Chile. A review of interim financial information consists primarily of applying analytical review procedures and of inquiries of employees responsible for financial and accounting matters. The scope of our review is substantially less than an audit conducted in accordance with generally accepted auditing standards in Chile, the objective of which is expressing an opinion on the financial statements taken as a whole. Consequently, the interim consolidated financial statements as of June 30, 2008 and 2007 have not been audited and therefore we are in no position to express an opinion on these interim financial statements.

Based on our review of the interim consolidated financial statements as of June 30, 2008 and 2007, we are not aware of any significant adjustments that should be made to the financial information in conformity with generally accepted accounting principles in Chile.

Andrés Marchant V.

ERNST & YOUNG LTDA.

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2008 AND 2007

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30,2008)

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

| ASSETS | Notes | 2008 | 2007 | LIABILITIES AND SHAREHOLDERS EQUITY | Notes | 2008 | 2007 |
|---|-------|-------------------------|-------------------------|--|-------|-------------|-------------|
| | | ThCh\$ | ThCh\$ | | | ThCh\$ | ThCh\$ |
| CURRENT ASSETS | | | | CURRENT LIABILITIES | | | |
| | | | | Short-term portion of long-term obligations with banks and financial institutions | | | |
| Cash Time deposits | (33) | 7,087,526 60,346,407 | 6,798,089 20,697,463 | | (14) | 984,845 | 2,076,287 |
| Marketable securities, net | (4) | 4,095,220 | 15,426,016 | Bonds | (16) | 1,996,780 | 2,015,077 |
| Accounts receivable, net | (5) | 161,634,174 | 183,301,384 | | | | |
| Notes receivable, net | (5) | 3,958,485 | 5,141,410 | Current maturities of other long-term obligations | | 18,933 | 17,220 |
| Other receivables | (5) | 5,599,275 | 6,332,412 | Dividends payable | | 1,631,300 | 1,896,114 |
| Accounts receivable from related companies | (6 a) | 20,832,720 | 17,473,654 | Trade accounts payable | (34) | 128,803,747 | 131,234,315 |
| Inventory, net | | 6,446,962 | 8,262,943 | Other accounts payable | (35) | 31,331,440 | 12,575,071 |
| Prepaid taxes | | 31,290,278 | 17,737,337 | Accounts payable to related companies | (6 b) | 39,494,765 | 37,129,230 |
| Prepaid expenses | | 3,198,247 | 4,257,692 | Accruals | (17) | 7,050,301 | 4,361,982 |
| Deferred taxes | (7 b) | 18,749,233 | 14,743,202 | Withholdings | | 12,945,330 | 11,690,498 |
| Other current assets | (8) | 10,220,007 | 8,098,298 | Deferred Revenue Other current liabilities | | 6,391,974 | 4,784,181 |

| | | | | | | | |
|---|-------------|----------------------|----------------------|--|--------------|--------------------|--------------------|
| TOTAL CURRENT ASSETS | | 333,458,534 | 308,269,900 | TOTAL CURRENT LIABILITIES | | 230,649,415 | 207,779,975 |
| PROPERTY, PLANT AND EQUIPMENT | (9) | | | LONG-TERM LIABILITIES | | | |
| Land | | 30,439,342 | 30,691,858 | Obligations with banks and financial institutions | (15) | 335,023,384 | 358,548,917 |
| Buildings and improvements | | 881,006,867 | 879,727,782 | Long-term bonds | (16) | 70,884,479 | 72,348,381 |
| Machinery and equipment | | 3,180,082,191 | 3,097,751,433 | Miscellaneous Receivables | (35) | 40,167,611 | 40,352,101 |
| Other property, plant and equipment | | 376,063,854 | 371,198,366 | Accruals | (17) | 40,689,564 | 39,442,613 |
| Technical revaluation | | 10,442,428 | 10,501,047 | Deferred taxes, net | (7 b) | 45,581,362 | 56,550,483 |
| Accumulated depreciation | | (3,233,641,760) | (3,067,502,499) | Other liabilities | | 3,469,331 | 4,000,609 |
| TOTAL PROPERTY, PLANT AND EQUIPMENT, NET | | 1,244,392,922 | 1,322,367,987 | TOTAL LONG-TERM LIABILITIES | | 535,815,731 | 571,243,104 |
| | | | | MINORITY INTEREST | (19) | 92,584 | 179,094 |
| OTHER LONG-TERM ASSETS | | | | SHAREHOLDERS' EQUITY | | | |
| Investments in related companies | (10) | 9,069,914 | 9,384,695 | Paid-in capital | (20) | 865,492,121 | 915,932,036 |
| Investments in other companies | | 4,632 | 4,632 | Price-level restatement of paid-in capital | | 28,362,886 | 17,774,382 |
| Goodwill, net | (11) | 15,178,538 | 16,740,393 | Other reserves | | (3,202,763) | (2,849,266) |
| | (5) | 17,877,355 | 14,617,508 | Retained earnings | | 3,000,854 | 5,267,846 |

| | | | | | | |
|---|------|----------------------|----------------------|---|----------------------|----------------------|
| Other receivables | | | | | | |
| Intangibles | (12) | 44,813,088 | 43,435,509 | Period earnings: | 3,000,854 | 5,267,846 |
| Accumulated amortization | (12) | (23,345,418) | (17,369,624) | | | |
| Others non-current asset | (13) | 18,761,263 | 17,876,171 | | | |
| TOTAL LONG-TERM ASSETS | | | | TOTAL SHAREHOLDERS' EQUITY | 893,653,098 | 936,124,998 |
| | | 82,359,372 | 84,689,284 | | | |
| TOTAL ASSETS | | 1,660,210,828 | 1,715,327,171 | TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 1,660,210,828 | 1,715,327,171 |

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

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIOD ENDED JUNE 30, 2008 AND 2007**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30, 2008)

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

| | 2008 | 2007 |
|---|--------------------|--------------------|
| OPERATING INCOME: | ThCh\$ | ThCh\$ |
| Sales | 323,811,689 | 321,299,246 |
| Cost of sales | (228,435,227) | (221,552,400) |
| Gross profit | 95,376,462 | 99,746,846 |
| Administrative and selling expenses | (74,554,994) | (71,062,808) |
| OPERATING INCOME | 20,821,468 | 28,684,038 |
| NON-OPERATING INCOME: | | |
| Interest income | 2,941,229 | 2,663,644 |
| Equity participation in income of related companies | (10) 957,990 | 943,456 |
| Other non-operating income | (21a) 2,691,363 | 3,116,524 |
| Amortization of goodwill | (11) (803,201) | (803,201) |
| Interest expense | (13,642,406) | (8,978,220) |
| Other non-operating expenses | (21b) (6,845,578) | (4,886,203) |
| Price-level restatement, net | (22) 9,186,152 | 624,698 |
| Foreign currency translation, net | (23) (458,428) | (278,725) |
| NON-OPERATING LOSS NET | (5,972,879) | (7,598,027) |
| INCOME BEFORE INCOME TAXES AND MINORITY INTEREST | 14,848,589 | 21,086,011 |
| Income taxes | (7d) (12,031,363) | (16,075,464) |
| INCOME BEFORE MINORITY INTEREST | 2,817,226 | 5,010,547 |
| Minority interest | (19) 183,628 | 257,299 |
| NET INCOME | 3,000,854 | 5,267,846 |

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

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE PERIOD ENDED JUNE 30, 2008 AND 2007**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30, 2008)

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

| | 2008 | 2007 |
|--|---------------------|---------------------|
| | ThCh\$ | ThCh\$ |
| NET CASH | | |
| FROM OPERATING ACTIVITIES | 89,490,342 | 113,523,271 |
| Net income | 3,000,854 | 5,267,846 |
| Sale of assets: | (1,691,360) | (306,020) |
| Net income on sale of property, plant and equipment | (1,691,360) | (306,020) |
| Charges (credits) to income that do not represent cash flows: | 116,972,865 | 123,543,746 |
| Depreciation | 103,077,918 | 110,376,168 |
| Amortization of intangibles | 2,908,813 | 3,027,469 |
| Provisions and write offs | 16,816,181 | 10,297,051 |
| Accrued equity participation in income of related companies | | |
| Accrued equity participation in losses of related companies | (957,990) | (943,456) |
| Amortization of goodwill | 803,201 | 803,201 |
| Price-level restatement, net | (9,186,152) | (624,698) |
| Foreign currency translation, net | 458,428 | 278,725 |
| Other credits to income that do not represent cash flows | (111,156) | (278,529) |
| Other charges to income that do not represent cash flows | 3,163,622 | 607,815 |
| Changes in operating assets (increase) decrease: | 9,646,650 | 2,083,726 |
| Trade accounts receivable | 11,805,827 | 2,106,428 |
| Inventory | 622,480 | (4,882,303) |
| Other assets | (2,781,657) | 4,859,601 |
| Changes in operating liabilities increase (decrease): | (38,255,039) | (16,808,728) |
| Accounts payable related to operating activities | (37,662,770) | 12,184,019 |
| Interest payable | (74,924) | (91,507) |
| Income taxes payable, net | 435,216 | (10,746,742) |
| Other accounts payable related to non-operating | | |

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| | | |
|--|------------------|------------------|
| Activities | (578,699) | (11,175,254) |
| V.A.T. and other similar taxes payable | (373,862) | (6,979,244) |
| Net loss from minority interest | (183,628) | (257,299) |

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

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE PERIOD ENDED JUNE 30, 2008 AND 2007**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30, 2008)

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

| | 2008 | 2007 |
|---|---------------------|---------------------|
| | ThCh\$ | ThCh\$ |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | (45,080,239) | (67,129,890) |
| Dividends paid (less) | (5,115,955) | (14,072,707) |
| Capital distribution (less) | (39,243,440) | (53,057,183) |
| Payment of bonds (less) | (720,844) | - |
| NET CASH USED IN INVESTING ACTIVITIES | (65,073,215) | (60,068,219) |
| Sale of property, plant and equipment | 2,785,181 | 1,586,167 |
| Sale of other investments | 4,873,190 | 2,177,179 |
| Acquisition of property, plant and equipment | (59,266,448) | (63,831,565) |
| Other investment activities | (13,465,138) | - |
| NET CASH FLOWS FOR THE PERIOD | (20,663,112) | (13,674,838) |
| EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS | (3,011,671) | (1,501,552) |
| NET DECREASE OF CASH AND CASH EQUIVALENTS | (23,674,783) | (15,176,390) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 81,061,226 | 45,827,769 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 57,386,443 | 30,651,379 |

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

(Translation of a report originally issued in Spanish – see Note 2b to the Financial Statements)
Notes to the Consolidated Financial Statements

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

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

b) Subsidiary companies registered with the Securities Registry:

| SUBSIDIARIES | TAXPAYER No. | Registration Number | Participation (direct & indirect) | |
|--|-----------------|------------------------|--------------------------------------|-----------|
| | | | 2008 % | 2007 % |
| Telefónica Larga Distancia S.A. | 96,551,670-0 | 456 | 99.88 | 99.85 |
| Telefónica Asistencia y Seguridad S.A. | 96,971,150-8 | 863 | 99.99 | 99.99 |

2. Summary of Significant Accounting Policies:

(a) Accounting year:

The consolidated financial statements correspond to the six-month periods ended June 30, 2008 and 2007.

(b) Basis of preparation:

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

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

(c) Basis of presentation:

The consolidated financial statements for 2007 and their notes have been adjusted for comparison purposes by 8.77% in order to allow for comparison with the 2007 consolidated financial statements. For comparison purposes, certain reclassifications have been made to the 2007 consolidated financial statements.

(d) Basis of consolidation:

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

(Translation of a report originally issued in Spanish see Note 2b to the Financial Statements)
Notes to the Consolidated Financial Statements

2. Summary of Significant Accounting Policies, continued:

(d) Basis of consolidation, continued:

Companies included in consolidation:

As of June 30, 2008 and 2007, the consolidated group (The Company) is composed of Compañía de Telecomunicaciones de Chile S.A. and subsidiaries, as follows:

| TAXPAYER No. | Company Name | Ownership Percentage | | | |
|-----------------|--|----------------------|------------------|-------|---------------|
| | | Direct | 2008 Indirect | Total | 2007 Total |
| 96,551,670-0 | Telefónica Larga Distancia S.A. Telefónica Gestión de Servicios Compartidos Chile | 99.88 | - | 99.88 | 99.85 |
| 96,961,230-5 | S.A. | 99.99 | - | 99.99 | 99.99 |
| 74,944,200-k | Fundación Telefónica Chile | 50.00 | - | 50.00 | 50.00 |
| 96,971,150-8 | Telefónica Asistencia y Seguridad S.A. | 99.99 | - | 99.99 | 99.99 |
| 90,430,000-4 | Telefónica Empresas Chile S.A. | 99.99 | - | 99.99 | 99.99 |
| 78,703,410-1 | Telefónica Multimedia Chile S.A. | 99.99 | - | 99.99 | 99.99 |
| 96,834,320-3 | Telefónica Internet Empresas S.A. (1) | - | - | - | 99.99 |
| 96,811,570-7 | Instituto Telefónica Chile S.A. | - | 99.99 | 99.99 | 99.99 |

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

(Translation of a report originally issued in Spanish see Note 2b to the Financial Statements)
Notes to the Consolidated Financial Statements

2. Summary of Significant Accounting Policies, continued:

(e) Price-level restatement:

The consolidated financial statements have been adjusted by applying price-level restatement standards, in accordance with Chilean GAAP in order to reflect the changes in the purchasing power of the currency during both exercises. The accumulated variation in the Chilean Customer Price Index (CPI) as of June 30, 2008 and 2007, for initial balances, is 3.2% and 1.9%, respectively.

(f) Basis of conversion:

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

| YEAR | US\$ | EURO | BRAZILIAN REAL | JPY | UF |
|------|--------|--------|-------------------|------|-----------|
| 2008 | 526.05 | 828.16 | 328.93 | 4.95 | 20,252.71 |
| 2007 | 526.86 | 713.03 | 273.25 | 4.28 | 18,624.17 |

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

(g) Time deposits:

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

(h) Marketable securities:

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

(i) Inventory:

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

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

(j) Allowance for doubtful accounts:

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

(Translation of a report originally issued in Spanish see Note 2b to the Financial Statements)
Notes to the Consolidated Financial Statements

2. Summary of Significant Accounting Policies, continued:

(k) Property, plant and equipment:

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

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

(l) Depreciation of property, plant and equipment:

Depreciation has been calculated and accounted for on the basis of the previously indicated values, through the application of fixed factors determined in accordance with the estimated useful lives of the assets. The Company's average annual financial depreciation rate is approximately 7.98% for 2008 and 8.29% for 2007.

Estimated useful lives are summarized as follows:

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

(m) Leased assets:

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

(n) Intangibles:

i) Rights to underwater cable:

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

ii) Software licenses:

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

(Translation of a report originally issued in Spanish – see Note 2b to the Financial Statements)
Notes to the Consolidated Financial Statements

2. Summary of Significant Accounting Policies, continued:

(o) Investments in related companies:

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

(p) Goodwill:

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

(q) Transactions with repurchase agreements:

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

(r) Bonds and promissory notes payable:

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

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

(s) Current and deferred income taxes:

Income tax is recorded on the basis of taxable net income. Deferred taxes on all temporary differences, tax loss carry forwards that can be realized as future tax benefits, and other events that create differences between the tax and accounting values are recognized in accordance with Technical Bulletins No. 60 and complementary technical bulletins thereto issued by the Chilean Association of Accountants, and with SVS Circular No. 1,466 dated January 27, 2000.

(t) Staff severance indemnities:

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

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

(Translation of a report originally issued in Spanish – see Note 2b to the Financial Statements)
Notes to the Consolidated Financial Statements

2. Summary of Significant Accounting Policies, continued:

(u) Revenue recognition:

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

(v) Foreign currency forwards:

The Company has signed foreign currency hedge future contracts which have been entered into to hedge against changes in the exchange rate of its current obligations in foreign currency.

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

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

(w) Interest rate coverage:

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

(x) Computer software:

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

(y) Cumulative translation adjustment:

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

(z) Statement of cash flows:

For the purposes of preparing the Statement of Cash Flows in accordance with Technical Bulletin No. 50 of the Chilean Association of Accountants and SVS Circular No. 1,312, the Company defines securities under agreements to resell and time deposits with a remaining maturity of less than 90 days as cash equivalents. Cash flows related to the Company's operations and all those not defined as resulting from investing or financing activities are included under Cash Flows from Operating Activities.

2. Summary of Significant Accounting Policies, continued:

(Translation of a report originally issued in Spanish see Note 2b to the Financial Statements)
Notes to the Consolidated Financial Statements

(aa) Correspondents:

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

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

3. Accounting Changes:

a) Accounting Changes:

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

b) Changes in estimations:

Change in the rotation rate actuarial hypothesis:

During the first half of 2008 the Company evaluated the rotation rate used to calculate the staff severance indemnities provision. After concluding the evaluation the Company decided to increase the rotation rate from 2.34% to 5.46%. As a result of this modification in 2008 the Company recorded a deferred tax asset of ThCh\$ 5,356,385 which will be amortized over the period of future permanence of employees entitled to this benefit.

(Translation of a report originally issued in Spanish see Note 2b to the Financial Statements)
Notes to the Consolidated Financial Statements

4. Marketable Securities:

The balance of marketable securities is as follows:

| Description | 2008 ThCh\$ | 2007 ThCh\$ |
|-----------------------------------|------------------|-------------------|
| Publicly offered promissory notes | 4,095,220 | 15,426,016 |
| Total | 4,095,220 | 15,426,016 |

Publicly offered promissory notes (Fixed Income)

| Instrument | Date | | Par Value ThCh\$ | Book Value | | Market Value ThCh\$ | Provision ThCh\$ |
|------------|------------|--------------|---------------------|------------------|-----------|------------------------|---------------------|
| | Purchase | Maturity | | Amount ThCh\$ | Rate % | | |
| CERO010708 | Sep 4,2007 | Jul 01,2008 | 609,849 | 622,453 | 2.6% + UF | 622,495 | - |
| | Mar | | | | | | |
| BCP0800708 | 18,2008 | Jul 01,2008 | 2,350,000 | 2,443,484 | 8.00% | 2,443,583 | - |
| | Sep | Sep | | | | | |
| BCU0500908 | 04,2007 | 01,2008 | 1,012,636 | 1,029,283 | 5.00% | 1,047,287 | - |
| | | Total | 3,972,485 | 4,095,220 | | 4,113,365 | - |

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements

5. Current and long-term receivables:

Details of current and long-term receivables are as follows:

| Description | Current | | | | | | | | | Long-term |
|-------------------------|----------------|----------------|----------------------|----------------|----------------|---------------------|--------|----------------|--------|-----------------------|
| | Up to 90 days | | Over 90 up to 1 year | | Subtotal | Total Current (net) | | | | |
| | 2008 ThCh\$ | 2007 ThCh\$ | 2008 ThCh\$ | 2007 ThCh\$ | 2008 ThCh\$ | 2008 ThCh\$ | % | 2007 ThCh\$ | % | |
| Telephone | 248,551,097 | 249,397,366 | 6,022,610 | 5,728,303 | 254,573,707 | 161,634,174 | 100.00 | 183,301,384 | 100.00 | - |
| Finance | 200,004,187 | 199,834,364 | 3,074,434 | 2,583,189 | 203,078,621 | 122,902,381 | 76.04 | 140,937,913 | 76.39 | - |
| | 23,027,728 | 24,222,313 | 18,859 | - | 23,046,587 | 14,704,883 | 9.10 | 17,594,964 | 9.60 | - |
| Installations | 21,475,522 | 19,921,800 | 2,440,664 | 2,602,911 | 23,916,186 | 21,516,393 | 13.31 | 20,587,061 | 11.23 | - |
| | 4,043,660 | 5,418,889 | 488,653 | 542,203 | 4,532,313 | 2,510,517 | 1.55 | 4,181,446 | 2.78 | - |
| for accounts receivable | (92,939,533) | (71,825,374) | - | - | (92,939,533) | - | - | - | - | - |
| for notes receivable | (3,477,576) | (3,800,364) | - | - | (3,477,576) | - | - | - | - | - |
| for accounts receivable | 4,121,833 | 4,338,868 | 1,477,442 | 1,993,544 | 5,599,275 | 5,599,275 | - | 6,332,412 | - | 17,877,355 |
| for accounts receivable | - | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | | 17,877,355 |
| | | | | | | | | | | Long-term receivables |
| | | | | | | | | | | 17,877,355 |

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements

6. Balances and transactions with related entities:**a) Receivables from related parties are as follows:**

| Taxpayer No. | Company | Short-term | | Long-term | |
|-----------------|---|------------|-----------|-----------|--------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| 87,845,500-2 | Telefónica Móviles Chile S.A. | 7,878,635 | 8,807,299 | - | - |
| 96,527,390-5 | Telefónica Internacional Chile S.A. | - | 895 | - | - |
| 96,672,150-2 | Telefónica Móviles Chile Inversiones S.A. | 22,642 | 106,929 | - | - |
| 96,672,160-k | Telefónica Móviles Chile Larga Distancia S.A. | 515,299 | 592,996 | - | - |
| 96,834,230-4 | Terra Networks Chile S.A. | 557,106 | 806,714 | - | - |
| 96,895,220-k | Atento Chile S.A. | 720,957 | 700,716 | - | - |
| 96,910,730-9 | Telefónica International Wholesale Services Chile S.A. | 531,057 | 1,003,064 | - | - |
| 59,083,900-0 | Telefónica Ingeniería de Seguridad S.A. | 25,934 | 8,359 | - | - |
| 96,990,810-7 | Telefónica Móviles Soluciones y Aplicaciones S.A. | 128,536 | 177,131 | - | - |
| Foreign | Telefónica España | 1,092,726 | - | - | - |
| Foreign | Telefónica Móviles España | - | 1,378,771 | - | - |
| Foreign | Telefónica Móviles el Salvador | 475 | - | - | - |
| Foreign | Telefónica Móviles de Argentina | 43,088 | - | - | - |
| Foreign | Telefónica Móviles de Colombia | 47,399 | - | - | - |
| Foreign | Telefónica Celular de Nicaragua | 828 | - | - | - |
| Foreign | Telefónica LD Puerto Rico | 308 | 231,008 | - | - |
| Foreign | Telefónica Data Usa Inc. | 48,935 | 18,921 | - | - |
| Foreign | Telefónica Data España | 33,629 | 73,735 | - | - |
| Foreign | Telefónica Argentina | 2,099,943 | 720,117 | - | - |
| Foreign | Telefónica Soluciones de Informática España | 1,522,632 | 1,656,170 | - | - |
| Foreign | Telefónica International Wholesale Services | 83,210 | 425,864 | - | - |
| Foreign | Telefónica Perú | 778,069 | 563,252 | - | - |
| Foreign | Telefónica Sao Paulo | - | 39,216 | - | - |
| Foreign | Telefónica Guatemala | - | 2,820 | - | - |
| Foreign | Telefónica Multimedia Perú | 76,321 | 68,703 | - | - |
| Foreign | Telefónica S.A. | 102,231 | - | - | - |
| Foreign | Telefónica Internacional | 384,548 | - | - | - |

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| | | | | | |
|---------|--|-------------------|-------------------|---|---|
| Foreign | Telefónica Centroamérica | 19,469 | - | - | - |
| Foreign | Terra Networks Brasil | 17,236 | - | - | - |
| Foreign | Colombia Telecomunicaciones | 26,098 | - | - | - |
| Foreign | Otecel Ecuador | 87,492 | 24,493 | - | - |
| Foreign | Telcel Venezuela | 3,923,254 | 17,364 | - | - |
| Foreign | Atento Colombia | 27,750 | 18,112 | - | - |
| Foreign | Telecomunicaciones Sao Paulo | 2,080 | 31,005 | - | - |
| Foreign | Telefónica Investigación y Desarrollo S.A. | 34,833 | - | - | - |
| | Totals | 20,832,720 | 17,473,654 | - | - |

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements

6. Balances and transactions with related entities, continued:**b) Payables to related parties are as follows:**

| Taxpayer No. | Company | Short-term | | Long-term | |
|--------------|---|----------------|----------------|----------------|----------------|
| | | 2008 ThCh\$ | 2007 ThCh\$ | 2008 ThCh\$ | 2007 ThCh\$ |
| 96,527,390-5 | Telefónica Internacional Chile S.A. | 947,827 | 316,018 | - | - |
| 96,834,230-4 | Terra Networks Chile S.A. | 3,924,371 | 3,682,276 | - | - |
| 96,895,220-k | Atento Chile S.A. | 5,044,941 | 6,402,986 | - | - |
| | Telefónica International Wholesale | | | | |
| 96,910,730-9 | Services Chile S.A. | 9,228,510 | 5,777,039 | - | - |
| 87,845,500-2 | Telefónica Móviles Chile S.A. | 12,786,290 | 17,182,980 | - | - |
| 96,672,150-2 | Telefónica Móviles Chile Inversiones S.A. | 276,901 | - | - | - |
| | Telefónica Móviles Chile Larga Distancia | | | | |
| 96,672,160-k | S.A. | 154,557 | 19,348 | - | - |
| 59,083,900-0 | Telefónica Ingeniería de Seguridad S.A. | 15,164 | 14,638 | - | - |
| Foreign | Telefónica S.A. | 938,555 | - | - | - |
| | Telefónica Gestión de Servicios | | | | |
| Foreign | Compartidos España | 137 | 149 | - | - |
| Foreign | Telefónica Argentina | 1,060,116 | 318,674 | - | - |
| Foreign | Telefónica Perú | 246,960 | 1,189,501 | - | - |
| Foreign | Telefónica Guatemala | 10,114 | 67,095 | - | - |
| Foreign | Telefónica Móvil El Salvador S.A. de C.V. | 28,454 | 32,383 | - | - |
| | Telefónica International Wholesale | | | | |
| Foreign | Services | - | 1,363,713 | - | - |
| Foreign | Otecel S.A. | 6,326 | - | - | - |
| Foreign | Telefónica Puerto Rico | 16,627 | 30,123 | - | - |
| Foreign | Telefónica Investigación y Desarrollo | 816,504 | 558,208 | - | - |
| Foreign | Telecomunicaciones de Sao Paulo | 1,328,625 | 157,584 | - | - |
| Foreign | Televisión Federal S.A. | 12,392 | - | - | - |
| Foreign | Televisión Servicios de Música S.A.U. | 63,513 | - | - | - |
| Foreign | Telefónica Sao Paulo | - | 1,591 | - | - |
| Foreign | Telcel Venezuela | 129,699 | 14,924 | - | - |
| | Telefónica Gestión de Servicios | | | | |
| Foreign | Compartidos Perú S.A.C. | 1,710 | - | - | - |
| Foreign | Colombia Telecomunicaciones | 166,931 | - | - | - |
| Foreign | Media Networks Perú S.A.C. | 11,485 | - | - | - |
| Foreign | Telecomunicaciones Multimedia S.A.C. | 2,278,056 | - | - | - |

| | | | | |
|--------------|-------------------|-------------------|---|---|
| Total | 39,494,765 | 37,129,230 | - | - |
|--------------|-------------------|-------------------|---|---|

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements

6. Balances and transactions with related companies, continued:**c) Transactions (1):**

| Company | RUT | Nature of the Relationship | Transaction Description | 2008 | | 2007 | |
|-------------------------------------|--------------|----------------------------|-------------------------|-------------------------|----------------------------------|--------------------------|----------------------------------|
| | | | | ThCh\$ | (Charge)/Credit to income ThCh\$ | ThCh\$ | (Charge)/Credit to income ThCh\$ |
| Telefónica España | Foreign | Related, Parent Company | Sales Purchases | 913,242 (499,219) | 913,242 (499,219) | - - | - - |
| Telefónica Data Usa Inc. | Foreign | Related, Parent Company | Sales Purchases | 21,032 - | 21,032 - | 2,951 (8,749) | 2,951 (8,749) |
| Telefónica Móviles España S.A. | Foreign | Related, Parent Company | Sales Purchases | - - | - - | 919,861 (219,858) | 919,861 (219,858) |
| Telefónica Internacional Chile S.A. | 96,527,390-5 | Parent Company | Sales Purchases | 4,751 (130,540) | 4,751 (130,540) | 2,188 (322,379) | 2,188 (322,379) |
| Terra Networks Chile S.A. | 96,834,230-4 | Related, Parent Company | Sales Purchases | 453,440 (4,299,738) | 453,440 (4,299,738) | 1,282,206 (5,877,300) | 1,282,206 (5,877,300) |
| Atento Chile S.A. | 96,895,220-k | Sister Association | Sales Purchases | 874,555 (12,005,383) | 874,555 (12,005,383) | 802,255 (11,853,781) | 802,255 (11,853,781) |
| | Foreign | | Sales | 1,399,127 | 1,399,127 | 1,229,780 | 1,229,780 |

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| | | | | | | | |
|---|--------------|-------------------------|-----------|-------------|-------------|-------------|-------------|
| Telefónica Argentina | | Related, Parent Company | Purchases | (1,743,045) | (1,743,045) | (1,151,590) | (1,151,590) |
| Telecomunicaciones de Sao Paulo | Foreign | Related, Parent Company | Sales | - | - | 56,463 | 56,463 |
| | | | Purchases | - | - | (60,261) | (60,261) |
| Telefónica Guatemala | Foreign | Related, Parent Company | Sales | 8,347 | 8,347 | 9,142 | 9,142 |
| | | | Purchases | (16,470) | (16,470) | (73,156) | (73,156) |
| Telefónica Perú | Foreign | Related, Parent Company | Sales | 1,002,208 | 1,002,208 | 754,643 | 754,643 |
| | | | Purchases | (677,115) | (677,115) | (1,735,703) | (1,735,703) |
| Telefónica LD Puerto Rico | Foreign | Related, Parent Company | Sales | 28,162 | 28,162 | 2,391 | 2,391 |
| | | | Purchases | (19,277) | (19,277) | (8,989) | (8,989) |
| Telefónica El Salvador | Foreign | Related, Parent Company | Sales | 1,579 | 1,579 | 4,143 | 4,143 |
| | | | Purchases | (22,693) | (22,693) | (62,332) | (62,332) |
| Telefónica Móviles Chile Larga Distancia S.A. | 96,672,160-k | Related, Parent Company | Sales | 763,156 | 763,156 | 460,565 | 460,565 |
| | | | Purchases | - | - | (657) | (657) |
| Telefónica Móviles Chile Inversiones S.A. | 96,672,150-2 | Related, Parent Company | Sales | 42,762 | 42,762 | 43,652 | 43,652 |
| | | | Purchases | (236,291) | (236,291) | - | - |
| Telefónica International Wholesale Services América | Foreign | Related, Parent Company | Sales | - | - | 96 | 96 |
| | | | Purchases | (671,842) | (671,842) | (674,306) | (674,306) |
| Telefónica Gestión de Serv.Compartidos España | Foreign | Related, Parent Company | Purchases | - | - | (95,887) | (95,887) |

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| | | | | | | | |
|---|--------------|-------------------------------|---|----------------------------|----------------------------|---------------------------|---------------------------|
| | | | Other non-operating income | 10,064 | 10,064 | - | - |
| Telefónica Ingeniería de Seguridad S.A. | 59,083,900-0 | Related, Parent Company | Sales Purchases | 6,449 (22,763) | 6,449 (22,763) | 6,124 (79,731) | 6,124 (79,731) |
| Telefónica Móviles Soluciones y Aplicaciones S.A. | 96,990,810-7 | Related, Parent Company | Sales | 73,923 | 73,923 | 81,143 | 81,143 |
| Telefónica International Wholesale Services USA | Foreign | Related, Parent Company | Purchases | (6,220) | (6,220) | (117) | (117) |
| Telefónica International Wholesale Services Chile S.A. | 96,910,730-9 | Related, Parent Company | Sales Purchases | 577,414 (5,892,463) | 577,414 (5,892,463) | 758,712 (3,518,069) | 758,712 (3,518,069) |
| Telefónica International Wholesale Services Uruguay | Foreign | Related, Parent Company | Sales Purchases | - - | - - | 165 (1,167,892) | 165 (1,167,892) |
| Telefónica Móviles Chile S.A. | 87,845,500-2 | Related, Parent Company | Sales Purchases | 10,053,729 (21,674,956) | 10,053,729 (21,674,956) | 8,421,133 (23,041,357) | 8,421,133 (23,041,357) |
| Telefónica Investigación y Desarrollo S.A. | Foreign | Related, Parent Company | Purchases Other non-operating income | (2,695) - | (2,695) - | (861,992) 12,688 | (861,992) 12,688 |
| Terra Internacional S.A. | Foreign | Related, Parent Company | Sales | (158,779) | (158,779) | - | - |
| Telefónica Mobile Solutions Chile S.A. | 96,942,730-3 | Related, Parent Company | Sales | - | - | 1 | 1 |
| Telefónica S.A. | Foreign | | Purchases | (309,388) | (309,388) | - | - |

| | | | | | | | |
|--------------------------------|---------|-------------------------------|-------|---|---|---------|---------|
| | | Related, Parent Company | | | | | |
| Telefónica Data Corp España | Foreign | Related, Parent Company | Sales | - | - | 164,860 | 164,860 |

(1) Includes all transactions performed with related companies.

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

June 30, 2008 and 2007

(Translation of a report originally issued in Spanish see Note 2b to the Financial Statements)
Notes to the Consolidated Financial Statements**6. Balances and transactions with related companies, continued:**

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

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

7. Current and deferred income taxes:**a) General information:**

As of June 30, 2008 and 2007, the Parent Company recorded a first category income tax provision based on taxable income of ThCh \$36,356,737 and ThCh \$62,747,628 respectively.

In addition, as of June 30, 2008 and 2007, a provision for first category income tax in subsidiaries was recorded based on the subsidiaries' respective taxable income of ThCh\$27,128,241 and ThCh \$25,714,439, respectively.

As of June 30, 2008 and 2007, accumulated tax losses of subsidiaries amount to ThCh\$19,545,365 and ThCh\$9,748,277, respectively.

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

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

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

| Subsidiaries | Retained Taxable Earnings w/15% credit ThCh\$ | Retained Taxable Earnings w/16% credit ThCh\$ | Retained Taxable Earnings w/16.5% credit ThCh\$ | Retained Taxable Earnings w/17% credit ThCh\$ | Retained Taxable Earnings w/o credit ThCh\$ | Amount of credit ThCh\$ |
|------------------------------------|--|--|--|--|---|-------------------------------|
| Telefónica Larga Distancia S.A. | 2,419,590 | 916,709 | 656,259 | 102,799,080 | 3,640,066 | 21,786,480 |
| | - | - | 51 | 45,983,076 | 1,710,511 | 9,418,218 |

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Telefónica Empresas Chile
S.A.

Telefónica Gestión Servicios

Compartidos S.A.

Telefónica Chile S.A.

| | | | | | |
|---|---|-----------|-------------|------------|------------|
| - | - | - | 363,456 | 20,314 | 74,443 |
| - | - | 6,327,245 | 167,674,526 | 13,460,068 | 35,593,236 |

| | | | | | | |
|---------------|------------------|----------------|------------------|--------------------|-------------------|-------------------|
| Totals | 2,419,590 | 916,709 | 6,983,555 | 316,820,138 | 18,830,959 | 66,872,377 |
|---------------|------------------|----------------|------------------|--------------------|-------------------|-------------------|

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements, continued

7. Current and deferred income taxes, continued:**b) Deferred taxes:**

As of June 30, 2008 and 2007, the net deferred tax liabilities amounted to ThCh\$26,832,129 and ThCh\$41,807,268, respectively, detailed as follows:

| Description | 2008 | | | | 2007 | | | |
|--|----------------------|---------------------|--------------------------|---------------------|----------------------|---------------------|--------------------------|---------------------|
| | Deferred tax assets | | Deferred tax liabilities | | Deferred tax assets | | Deferred tax liabilities | |
| | Short-term ThCh\$ | Long-term ThCh\$ | Short-term ThCh\$ | Long-term ThCh\$ | Short-term ThCh\$ | Long-term ThCh\$ | Short-term ThCh\$ | Long-term ThCh\$ |
| Allowance for doubtful accounts | 15,947,446 | - | - | - | 11,541,684 | - | - | - |
| Vacation accrual | 487,854 | - | - | - | 480,133 | - | - | - |
| Tax loss benefit | - | 3,322,712 | - | - | - | 1,657,207 | - | - |
| Staff severance indemnities | 176,478 | 2,770 | - | 3,083,358 | - | 628 | - | 4,049,444 |
| Property, plant and equipment | - | 618,838 | - | 135,350,234 | - | 666,262 | - | 149,945,090 |
| Lease assets and liabilities | - | 37,632 | - | 80,213 | - | 40,527 | - | 81,875 |
| Capitalized IPAS value difference | - | 138,558 | - | 215,812 | - | 318,897 | - | 242,367 |
| Deferred charges for capitalized disbursements and sale of | - | - | - | 336,196 | - | 5,194 | - | 254,991 |
| Software development | - | - | - | 3,018,916 | - | - | - | 4,389,886 |
| Incentives provision | - | - | - | - | - | - | - | - |
| Obsolescence provision | - | - | - | - | - | - | - | - |

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| | | | | | | | | |
|---|-------------------|------------------|---------------|--------------------|-------------------|------------------|---------------|--------------------|
| Completion of collective negotiation bonus | - | - | - | 27,614 | - | - | - | 136,845 |
| Other events | 2,161,106 | 1,003,175 | 23,561 | 622,577 | 2,765,709 | 783,700 | 44,328 | 6,953,542 |
| Subtotal | 18,772,884 | 5,123,685 | 23,561 | 142,734,920 | 14,787,526 | 3,472,415 | 44,328 | 166,054,040 |
| Complementary accounts net of accumulated amortization | | (770,736) | - | (92,800,609) | - | (883,363) | - | (106,914,522) |
| Sub-Total | 18,772,884 | 4,352,949 | 23,561 | 49,934,311 | 14,787,526 | 2,589,052 | 44,328 | 59,139,518 |
| Reclassification of taxes | (23,651) | (4,352,949) | (23,561) | (4,352,949) | (44,328) | (2,589,052) | (44,328) | (2,589,052) |
| Total | 18,749,233 | - | - | 45,581,362 | 14,743,198 | - | - | 56,550,466 |

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements, continued

7. Current and deferred income taxes, continued:**c) Income tax reconciliation:**

As of June 30, 2008 and 2007 the reconciliation of tax expense to interest income before taxes is as follows:

| Description | 2008 | | 2007 | |
|--|-------------------|---------------------------|-------------------|---------------------------|
| | Base ThCh\$ | 17% Tax Rate ThCh\$ | Base ThCh\$ | 17% Tax Rate ThCh\$ |
| Income before taxes | 14,848,589 | 2,524,260 | 21,086,011 | 3,584,622 |
| Permanent differences | 10,120,803 | 1,717,341 | 28,039,520 | 4,766,719 |
| Difference in price-level restatement equity valuation and financial and tax investments | 24,182,317 | 4,110,994 | 16,542,778 | 2,812,273 |
| Income from investments in related companies (equity method) | (7,406,361) | (1,259,081) | (4,569,974) | (776,896) |
| Other permanent differences | (6,755,153) | (1,134,572) | 16,066,716 | 2,731,342 |
| Temporary Differences | 38,486,981 | 6,545,983 | 39,336,804 | 6,687,257 |
| Difference in financial and tax depreciation | 19,400,306 | 3,298,052 | 44,127,369 | 7,501,653 |
| Subsidiary tax loss for the period | 19,545,365 | 3,322,712 | - | - |
| Other temporary differences | (458,690) | (74,781) | (4,790,565) | (814,396) |
| Total consolidated first category income tax base | 63,456,373 | 10,787,584 | 88,462,335 | 15,038,598 |
| Tax loss carry forward | 19,545,365 | (3,322,713) | 6,243,066 | (1,061,321) |
| Total consolidated first category tax base | 43,911,008 | (7,464,871) | 82,219,269 | 13,977,277 |

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements, continued

7. Current and deferred income taxes, continued:**d) Income tax detail:**

The current tax expense recorded by the Company in the periods 2008 and 2007 result from the following items:

| Description | 2008 ThCh\$ | 2007 ThCh\$ |
|--|-------------------|-------------------|
| Common tax expense before tax credit (income tax 17%) | 10,787,584 | 15,038,598 |
| Current tax expense (non-deductible expenses Art. 21, 35%) | 12,165 | 41,150 |
| Tax expense adjustment | 1,069,861 | 389,419 |
| Current income tax subtotal | 11,869,610 | 15,469,167 |
| - Current year deferred taxes | (6,545,983) | (6,687,257) |
| - Effect of amortization of complementary accounts for deferred assets and liabilities | 6,707,736 | 7,293,554 |
| Deferred tax subtotal | 161,753 | 606,297 |
| Total income expense tax | 12,031,363 | 16,075,464 |

(Translation of financial statements originally issued in Spanish - See Note 2b)
Notes to the Consolidated Financial Statements, continued

8. Other Current Assets:

Details of other current assets are as follows:

| Description | 2008 ThCh\$ | 2007 ThCh\$ |
|--|-------------------|------------------|
| Fixed income securities purchased with resale agreement (Note 9) | - | 3,155,827 |
| Deferred union contract bonus (1) | 1,440,567 | 1,546,287 |
| Deferred higher bond discount rate (Note 24) | 247,950 | 252,336 |
| Deferred disbursements for placement of bonds (Note 24) | 139,606 | 140,694 |
| Deferred disbursements for foreign financing proceeds (2) | 361,021 | 398,122 |
| Exchange insurance receivable | 3,396,659 | 1,102,377 |
| Unearned income on cash flows coverage | 2,747,567 | - |
| Deferred staff severance indemnities charges (3) | 1,688,910 | 1,316,481 |
| Others | 197,727 | 186,174 |
| Total | 10,220,007 | 8,098,298 |

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

During July and November 2007, subsidiary Telefónica Larga Distancia S.A. negotiated collective agreements with its employees for 26 and 48 months, respectively, granting them, among other benefits, a special negotiation bonus. Those bonuses were paid in one installment in the previously indicated months and are deferred using the straight-line method over the term of the collective agreements. The long-term portion is accounted for in Others (of Other Assets) (Note 13).

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

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

(Translation of financial statements originally issued in Spanish See Note 2b)
Notes to the Consolidated Financial Statements, continued

9. Property, plant and equipment:

Details of property, plant and equipment are as follows:

| Description | 2008 | | 2007 | |
|--|----------------------|----------------------|----------------------|----------------------|
| | Accumulated | Gross prop., | Accumulated | Gross prop., |
| | depreciation | plant and equipment | depreciation | plant and equipment |
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Land | - | 30,439,342 | - | 30,691,858 |
| Building and improvements | 429,286,620 | 881,006,867 | 409,919,193 | 879,727,782 |
| Machinery and equipment | 2,553,031,443 | 3,180,082,191 | 2,428,795,145 | 3,097,751,433 |
| Central office telephone equipment | 1,567,105,472 | 1,788,425,420 | 1,493,109,577 | 1,729,401,080 |
| External building | 720,389,275 | 1,059,033,116 | 685,779,867 | 1,041,331,701 |
| Subscribers equipment | 224,628,110 | 291,307,954 | 209,346,803 | 285,708,684 |
| General equipment | 40,908,586 | 41,315,701 | 40,558,898 | 41,309,968 |
| Other Property, Plant and Equipment | 239,586,894 | 376,063,854 | 216,870,533 | 371,198,366 |
| Office furniture and equipment | 119,665,262 | 127,328,206 | 113,254,292 | 124,716,383 |
| Projects, work in progress and materials | - | 107,247,072 | - | 120,198,380 |
| Leased assets (1) | 85,703 | 557,538 | 76,411 | 557,538 |
| Assets temporarily out of service | 7,763,574 | 7,763,574 | 7,763,576 | 7,763,576 |
| Software | 110,877,308 | 131,860,404 | 94,640,373 | 116,660,066 |
| Other | 1,195,047 | 1,307,060 | 1,135,881 | 1,302,423 |
| Technical revaluation Circular 550 | 11,736,803 | 10,442,428 | 11,917,628 | 10,501,047 |
| Total | 3,233,641,760 | 4,478,034,682 | 3,067,502,499 | 4,389,870,486 |

(1) Corresponds to buildings.

Operating costs include a depreciation charge for the period ended June 30, 2008 and 2007 amounting to ThCh\$101,087,362 and ThCh\$107,030,783, respectively, and administrative and selling expenses with a depreciation charge of ThCh\$1,990,556 and ThCh\$3,345,385 for 2008 and 2007, respectively.

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

(Translation of financial statements originally issued in Spanish See Note 2b)
Notes to the Consolidated Financial Statements, continued

9. Property, plant and equipment, continued:

Details of the item after the technical revaluation are as follows:

| Description | Net Balance ThCh\$ | Accumulated Depreciation ThCh\$ | Gross property, plant and equipment 2008 | Gross property, plant and equipment 2007 |
|---------------------------|--------------------------|---------------------------------------|--|--|
| | | | ThCh\$ | ThCh\$ |
| Land | (526,379) | - | (526,379) | (526,489) |
| Building and improvements | (732,716) | (4,655,145) | (5,387,861) | (5,438,559) |
| Machinery and equipment | (35,280) | 16,391,948 | 16,356,668 | 16,466,095 |
| Total | (1,294,375) | 11,736,803 | 10,442,428 | 10,501,047 |

Depreciation of the technical reappraisal surplus amounted to ThCh\$(70,227) and ThCh\$(36,653) for 2008 and 2007, respectively, Gross property, plant and equipment includes assets that have been fully depreciated in the amount of ThCh\$1,806,741,895 in 2008 and ThCh\$1,613,251,537 in 2007, which include ThCh\$14,217,424 and ThCh\$14,267,012, respectively, from the reappraisals mentioned in Circular No. 550.

10. Investments in related companies:

Details of investments in related companies are as follows:

| Taxpayer No. | Company | Country of origin | Currency controlling the investment | Number of shares | Percentage | | Equity of the companies | |
|-----------------|---------------------------------------|-------------------------|--|------------------------|------------|-----------|-------------------------|----------------|
| | | | | | 2008 % | 2007 % | 2008 ThCh\$ | 2007 ThCh\$ |
| | TBS Celular Participación S.A. (1) | | | | | | | |
| Foreign | (2) | Brazil | Dollar | 48,950,000 | 2.61 | 2.61 | 150,570,267 | 163,258,304 |
| 96,895,220-K | Atento Chile S.A. (2) | Chile | Pesos | 3,209,204 | 28.84 | 28.84 | 17,822,568 | 17,765,784 |

| Taxpayer No. | Company | Net income (loss) of the companies | | Equity in income (loss) of the investment | | Investment value | | Investment book value | |
|-----------------|---------|---------------------------------------|----------------|---|----------------|------------------|----------------|--------------------------|----------------|
| | | 2008 ThCh\$ | 2007 ThCh\$ | 2008 ThCh\$ | 2007 ThCh\$ | 2008 ThCh\$ | 2007 ThCh\$ | 2008 ThCh\$ | 2007 ThCh\$ |

| | | | | | | | | | | |
|--------------|-----------------------------------|-----------|-----------|---------|---------|------------------|------------------|------------------|------------------|--|
| | TBS Celular Participación S.A. | | | | | | | | | |
| Foreign | (1) (2) | 570,854 | 490,646 | 14,899 | 12,805 | 3,929,886 | 4,261,042 | 3,929,886 | 4,261,042 | |
| | Atento Chile S.A. | | | | | | | | | |
| 96,895,220-K | (2) | 3,270,083 | 3,226,945 | 943,091 | 930,651 | 5,140,028 | 5,123,653 | 5,140,028 | 5,123,653 | |
| | Total | | | | | 9,069,914 | 9,384,695 | 9,069,914 | 9,384,695 | |

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

(2) As of June 30, 2008, the value of the investment was calculated on the basis of unaudited financial statements.

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

(Translation of financial statements originally issued in Spanish See Note 2b)
Notes to the Consolidated Financial Statements, continued

11. Goodwill:

Details of goodwill are as follows:

| Taxpayer No. | Company | Year of origin | 2008 | | 2007 | |
|-----------------|-----------------------------------|----------------------|---|----------------------------------|---|----------------------------------|
| | | | Amount amortized in the period ThCh\$ | Balance of Goodwill ThCh\$ | Amount amortized in the period ThCh\$ | Balance of Goodwill ThCh\$ |
| Foreign | TBS Celular Participación S.A. | 2001 | 104,667 | 1,488,898 | 104,667 | 1,642,104 |
| 96,551,670-0 | Telefónica Larga Distancia S.A. | 1998 | 645,758 | 13,423,136 | 645,758 | 14,725,357 |
| 96,834,320-3 | Telefónica Internet Empresas S.A. | 1999 | 52,776 | 266,504 | 52,776 | 372,932 |
| | Total | | 803,201 | 15,178,538 | 803,201 | 16,740,393 |

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

(Translation of financial statements originally issued in Spanish See Note 2b)
Notes to the Consolidated Financial Statements, continued

12. Intangibles:

Details of intangibles are as follows:

| Description | 2008 ThCh\$ | 2007 ThCh\$ |
|--|-------------------|-------------------|
| Underwater cable rights (gross) | 26,235,951 | 26,235,951 |
| Accumulated amortization, previous periods | (6,128,148) | (4,791,448) |
| Amortization for the period | (668,347) | (668,347) |
| Licenses (Software) (gross) | 18,577,137 | 17,199,550 |
| Accumulated amortization, previous periods | (14,308,457) | (9,550,699) |
| Amortization for the period | (2,240,466) | (2,359,122) |
| Total Net Intangibles | 21,467,670 | 26,065,885 |

13. Other non-current assets:

Details of other non-current assets are as follows:

| Description | 2008 ThCh\$ | 2007 ThCh\$ |
|---|-------------------|-------------------|
| Deferred issuance cost for obtaining external financing (Note 8(2)) (1) | 743,134 | 679,549 |
| Deferred union contract bonus (Note 8(1)) | 1,173,495 | 2,613,737 |
| Bond issue expenses (Note 24) | 527,850 | 679,717 |
| Bond discount (Note 24) | 863,757 | 1,111,973 |
| Securities deposits | 137,762 | 150,502 |
| Deferred charge due to change in actuarial estimations (Note 8(3)) (2) | 11,688,077 | 8,273,654 |
| Deferred staff severance indemnities (3) | 3,627,188 | 4,367,039 |
| Total | 18,761,263 | 17,876,171 |

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

(2) In function of the new contractual conditions derived from the organizational evolution experienced by the Company, a series of studies have been carried out which in first instance, in 2004 modified the future permanence of employees variable of the basis for calculating staff severance indemnities. After completing these studies, in 2005 other estimations were incorporated such as the employee rotation rate, employee mortality and future salary increases and for 2006 the rate stated in Note 2 (s) is included. During the first half of 2008 the rate of employee rotation used to calculate staff severance indemnities was evaluated. After this evaluation the Company decided to increase the rotation rate from 2.34% to 5.46%. As a result of this modification, in 2008 the Company recorded a deferred tax asset for the amount of ThCh\$ 5,356,385, which will be amortized over the period of future permanence of employees

entitled to this benefit. All these estimations were determined on the basis of actuarial calculations, as established in Technical Bulletin No. 8 issued by the Chilean Association of Accountants. The short-term portion is presented under Other Current Assets (Note 8).

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

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

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

(Translation of financial statements originally issued in Spanish See Note 2b)
Notes to the Consolidated Financial Statements, continued

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

Details of short-term obligations with banks and financial institutions are as follows:

| Taxp.No. | Bank or financial institution | US\$ | | U.F. | | TOTAL | |
|---|--------------------------------------|----------------|------------------|----------------|----------------|----------------|------------------|
| | | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | Current maturities of long-term debt | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| 97,015,000-5 | BANCO SANTANDER SANTIAGO | - | - | 401,161 | 489,056 | 401,161 | 489,056 |
| Foreign | CALYON NEW YORK BRANCH AND OTHERS | 64,467 | 163,611 | - | - | 64,467 | 163,611 |
| 97,008,000-7 | CITIBANK | | 703,585 | - | - | - | 703,585 |
| Foreign | BBVA BANCOMER AND OTHERS | 128,397 | | - | - | 128,397 | - |
| Foreign | BBVA BANCOMER AND OTHERS | 390,820 | 720,035 | - | - | 390,820 | 720,035 |
| | Total | 583,684 | 1,587,231 | 401,161 | 489,056 | 984,845 | 2,076,287 |
| | Outstanding principal | - | - | - | - | - | - |
| | Average annual interest rate | 3.19% | 5.69% | 2.61% | 3.04% | 3.07% | 5.17% |
| Percentage of obligations in foreign currency : 59.27 % in 2008 and 76.45 % in 2007 | | | | | | | |
| Percentage of obligations in local currency : 40.73 % in 2008 and 23.55 % in 2007 | | | | | | | |

(Translation of financial statements originally issued in Spanish - See Note 2b)
Notes to the Consolidated Financial Statements, continued

15. Long-term obligations with banks and financial institutions

Details of long-term obligations with banks and financial institutions are as follows:

| Taxp.No. | Bank or financial institution | Currency Index | Years to maturity for long-term portion | | | Long-term portion as of June 30,2008 | Average annual interest rate | Long-term portion as of March 31,2007 |
|--------------|-------------------------------------|----------------|---|-------------------|-------------------|--------------------------------------|------------------------------|---------------------------------------|
| | | | 1 to 2 | 2 to 3 | 3 to 5 | | | |
| | | | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | % | ThCh\$ |
| | LOANS IN DOLLARS | | | | | | | |
| | CALYON NEW YORK BRANCH AND OTHERS | | | | | | Libor + | |
| Foreign | (1) | US\$ | 105,210,000 | - | - | 105,210,000 | 0.35% | 114,613,335 |
| | BBVA BANCOMER AND OTHERS | | | | | | Libor + | |
| Foreign | (2) | US\$ | - | 78,907,500 | - | 78,907,500 | 0.334% | 85,960,001 |
| 97,008,000-7 | BANCO CITIBANK (3) | US\$ | - | - | - | - | - | 85,960,001 |
| | BBVA BANCOMER AND OTHERS | | | | | | Libor + | |
| Foreign | (3) | US\$ | - | - | 78,907,500 | 78,907,500 | 0.60% | - |
| | SUBTOTAL | | 105,210,000 | 78,907,500 | 78,907,500 | 263,025,000 | 3.19% | 286,533,337 |
| | LOANS IN UNIDADES DE FOMENTO | | | | | | | |
| | BANCO SANTANDER SANTIAGO | | | | | | Tab 360 + | |
| 97,015,000-5 | (4) | UF | 71,998,384 | - | - | 71,998,384 | 0.325% | 72,015,580 |
| | SUBTOTAL | | 71,998,384 | - | - | 71,998,384 | 2.62% | 72,015,580 |
| | TOTAL | | 177,208,384 | 78,907,500 | 78,907,500 | 335,023,384 | 3.07% | 358,548,917 |

| | | | | |
|---|---|-----------------|-----|-----------------|
| Percentage of obligations in foreign currency | : | 78.50 % in 2008 | and | 79.91 % in 2007 |
| Percentage of obligations in local currency | : | 21.50 % in 2008 | and | 20.09 % in 2007 |

(1) In December 2004, the Company renegotiated this loan, extending its due date from February and August 2005 to December 2009; in addition, the Company changed the agent bank, which until then had been Bilbao Viscaya Argentaria Bank.

(2) In November 2005, the Company renegotiated this loan, extending expiry from April 2006, April 2007 and April 2008, to June 2011, in addition to changing the bank agent, which was the ABN Amro Bank.

(3) In June 2008, the Company renegotiated this loan, extending the expiry date from December 2008 to May 2013, in addition to changing the bank agent, which was Citibank and the spread from 0.31 to 0.60.

(4) In April 2005, the Company renegotiated this loan, which allowed it to extend the due date from April 2008 to April 2010. In February 2007 the interest rate was changed from 0.45% to 0.325% .

(Translation of financial statements originally issued in Spanish - See Note 2b)
Notes to the Consolidated Financial Statements, continued

16. Bonds and promissory notes payable:**Bonds**

Details of bonds issued, classified as short and long-term, are as follows:

| Registration number or identification of the instrument | Series | Nominal Amount of issue | Readjustment unit for bond | Nominal annual interest rate | Final Maturity | Frequency | | Par value | |
|---|--------|-------------------------------|----------------------------------|------------------------------------|-------------------|---------------------|---------------|-------------------|-------------------|
| | | | | | | Interest payment | Amortizations | 2008 ThCh\$ | 2009 ThCh\$ |
| Short-term portion of long-term bonds | | | | | | | | | |
| 143,27,06,91 | F | 71,429 | UF | 6.000 | Apr, 2016 | Semi-annual | Semi-annual | 1,589,192 | 1,607,192 |
| 281,20,12,01 | L (1) | - | UF | 3.750 | Oct, 2012 | Semi-annual | Maturity | 407,588 | 407,588 |
| | | | | | | | Total | 1,996,780 | 2,014,780 |
| Long-term bonds | | | | | | | | | |
| 143,27,06,91 | F | 500,000 | UF | 6.000 | Apr, 2016 | Semi-annual | Semi-annual | 10,126,349 | 11,575,349 |
| 281,20,12,01 | L (1) | 3,000,000 | UF | 3.750 | Oct, 2012 | Semi-annual | Maturity | 60,758,130 | 60,772,130 |
| | | | | | | | Total | 70,884,479 | 72,347,479 |

(1) On March 29, 2006, the Company placed bonds in the local market for a nominal amount of UF3,000,000 equivalent to US\$102.1 million (historical) of a series denominated L, which is composed of 6,000 bonds with a value of UF 500 each.

These bonds mature in one installment on October 25, 2012. The annual interest rate amounts to UF + 3.75% and interest is paid semi-annually.

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements, continued

17. Accruals and Write-offs:

Detail of accruals shown in liabilities are as follows:

| | 2008 | 2007 |
|-----------------------------|-------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Current | | |
| Staff severance indemnities | 2,612,556 | 595,360 |
| Vacation | 2,869,722 | 2,824,315 |
| Incentive provision | 3,306,624 | 2,889,972 |
| Other employee benefits (1) | 1,125,411 | 779,543 |
| Employee benefit advances | (2,864,012) | (2,727,208) |
| | Sub-Total | 4,361,982 |
| | 7,050,301 | 4,361,982 |
| Long-term | | |
| Staff severance indemnities | 40,689,564 | 39,442,613 |
| | Total | 43,804,595 |
| | 47,739,865 | 43,804,595 |

(1) Includes provisions as per current union agreement.

During the periods ended as of June 30, 2008 and 2007 write-offs were recorded for the amount of ThCh\$ 6,344 and ThCh\$ 7,072,442, respectively, which were charged against the corresponding provision.

18. Staff severance indemnities:

Details of the charge to income for staff severance indemnities are as follows:

| | 2008 | 2007 |
|---------------------------------|-----------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Beginning balance (1) | 37,506,495 | 39,144,518 |
| Payments for the period | (2,325,078) | (1,161,085) |
| Changes in actuarial hypothesis | 5,356,385 | - |
| Provision increase | 2,764,318 | 2,054,540 |
| | Ending Balance | 40,037,973 |
| | 43,302,120 | 40,037,973 |

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

19. Minority interest:

Minority interest recognizes the portion of equity and net income of subsidiaries owned by third parties. Details for 2008 and 2007 are as follows:

| Subsidiaries | Percentage Minority Interest | | Participation in equity | | Participation in net income (loss) | |
|--|------------------------------------|--------------|----------------------------|----------------|---------------------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | % | % | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Telefónica Larga Distancia S.A. | 0.124 | 0.15 | 235,386 | 256,404 | 13,956 | 15,447 |
| Fundación Telefónica Chile | 50.00 | 50.00 | (142,820) | (77,327) | (197,585) | (272,748) |
| Telefónica Gestión Servicios Compartidos de Chile S.A. | 0.001 | 0.001 | 18 | 17 | 1 | 2 |
| | | Total | 92,584 | 179,094 | (183,628) | (257,299) |

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements, continued

20. Shareholders' equity

During 2008 and 2007, changes to shareholders' equity accounts are as follows:

| | Paid-in capital | Reserve equity indexation | Other reserves | Retained Earnings | Net income | Interim dividend | Total shareholders' equity |
|--|----------------------------|--|---------------------------|------------------------------|-----------------------|-----------------------------|---|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| 2008 | | | | | | | |
| Balances as of December 31, 2007 | 904,735,562 | - | (3,251,980) | - | 10,856,131 | (5,806,115) | 906,533,598 |
| Transfer of 2007 income to retained earnings | - | - | - | 10,856,131 | (10,856,131) | - | - |
| Cumulative translation adjustment | - | - | 153,280 | - | - | - | 153,280 |
| Capital decrease | (39,243,441) | - | - | - | - | - | (39,243,441) |
| Absorption provisional dividends | - | - | - | (5,806,115) | - | 5,806,115 | - |
| Definitive dividend 2007 | - | - | - | (5,050,016) | - | - | (5,050,016) |
| Price-level restatement, net | - | 28,362,886 | (104,063) | - | - | - | 28,258,823 |
| Net income | - | - | - | - | 3,000,854 | - | 3,000,854 |
| Balances as of June 30, 2008 | 865,492,121 | 28,362,886 | (3,202,763) | - | 3,000,854 | - | 893,653,098 |
| 2007 | | | | | | | |
| Balances as of December | 890,894,953 | - | (3,000,511) | - | 23,353,046 | (10,486,613) | 900,760,875 |

| | | | | | | | |
|---|--------------------|-------------------|--------------------|--------------|------------------|------------|--------------------|
| 31, 2006 | | | | | | | |
| Transfer of 2006 income to retained earnings | - | - | - | 23,353,046 | (23,353,046) | - | - |
| Cumulative translation adjustment | - | - | (257,318) | - | - | - | (257,318) |
| Capital decrease | (48,815,012) | - | - | - | - | - | (48,815,012) |
| Absorption provisional dividends | - | - | - | (10,486,613) | - | 10,486,613 | - |
| Definitive dividend 2006 | - | - | - | (12,866,433) | - | - | (12,866,433) |
| Price-level restatement, net | - | 16,341,224 | (44,045) | - | - | - | 16,297,179 |
| Other reserves | - | - | 682,346 | - | - | - | 682,346 |
| Net income | - | - | - | - | 4,843,097 | - | 4,843,097 |
| Balances as of June 30, 2007 | 842,079,941 | 16,341,224 | (2,619,528) | - | 4,843,097 | - | 860,644,734 |
| Restated balances as of June 30, 2008 | 915,932,036 | 17,774,382 | (2,849,266) | - | 5,267,846 | - | 936,124,998 |

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements, continued

20. Shareholders Equity, continued:**(a) Paid-in capital:**

As of June 30, 2008 the Company's paid-in capital is as follows:

Number of shares:

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

Paid-in capital:

| Series | Subscribed Capital ThCh\$ | Paid-in Capital ThCh\$ |
|--------|------------------------------|---------------------------|
| A | 790,294,703 | 790,294,703 |
| B | 75,197,418 | 75,197,418 |

(b) Shareholder distribution:

As indicated in SVS Circular No. 792, the stratification of shareholders by percentage of ownership in the Company as of June 30, 2008 is as follows:

| Type of shareholder | Percentage of Total holdings % | Number of shareholders |
|---|-----------------------------------|------------------------|
| 10% holding or more | 63.01 | 2 |
| Less than 10% holding: | 36.25 | 1,313 |
| Investment equal to or exceeding UF 200 | | |
| Investment under UF 200 | 0.74 | 10,655 |
| Total | 100.00 | 11,970 |
| Controlling company | 44.90 | 1 |

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements, continued

20. Shareholders Equity, continued:

(c) Dividends:

i) Dividend policy:

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

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

ii) Dividend distributed:

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

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

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

On April 14, 2008 the Ordinary Shareholders Meeting approved payment of final dividend No. 175 in the amount of ThCh\$ 5,050,016 (historical), equivalent to Ch\$5.276058 per share with a charge to 2007 net income. The dividend was paid in May 2008.

Additionally, the Extraordinary Shareholders Meeting held on April 14, 2008 approved modification of the Company's bylaws in order to decrease capital by ThCh\$ 39,243,441 (historical), for the purpose of distributing additional cash to the shareholders in 2008. That capital distribution was equivalent to Ch\$41 per share. The dividend was paid in June 2008.

(d) Other reserves:

Other reserves correspond to the net effect of the accumulated adjustment for conversion differences in accordance with Technical Bulletin No. 64 issued by the Chilean Association of Accountants, and the details are as follows:

| Amount | |
|--------|--|
| | |

| Company | | December 31, | Price-level restatement | Net Movement | Balance as of June 30, 2008 |
|--------------|--------------------------------|--------------------|----------------------------|-----------------|--------------------------------------|
| | | 2007 | | | |
| | | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Foreign | TBS Celular Participación S.A. | (3,251,980) | (104,063) | 153,280 | (3,202,763) |
| Total | | (3,251,980) | (104,063) | 153,280 | (3,202,763) |

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements, continued

21. Other Non-Operating Income and Expenses:**(a) Other non-operating income:**

Details of other non-operating income are as follows:

| Other Income | 2008 ThCh\$ | 2007 ThCh\$ |
|---|------------------------|------------------------|
| Administrative services | 18,837 | 1,091,782 |
| Fines levied on suppliers and indemnities | 178,724 | 41 |
| Proceeds from sale of used equipment | 2,282,970 | 1,746,172 |
| Other | 210,832 | 278,529 |
| Total | 2,691,363 | 3,116,524 |

(b) Other non-operating expenses:

Details of other non-operating expenses are as follows:

| Other Expenses | 2008 ThCh\$ | 2007 ThCh\$ |
|------------------------------|------------------------|------------------------|
| Restructuring costs | 2,593,060 | 596,323 |
| Lawsuit and other provisions | 422,849 | 2,081,334 |
| Removal of expired assets | 2,987,828 | 1,228,996 |
| Other | 841,841 | 979,550 |
| Total | 6,845,578 | 4,886,203 |

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements, continued

22. Price-level restatement:

Details of price-level restatement are as follows:

| Assets (Charges) Credits | | Indexation | 2008 ThCh\$ | 2007 ThCh\$ | |
|---|--------------|--------------------------|-------------------|---------------------|---------------------|
| Inventory | | C.P.I. | 2,541 | 881 | |
| Other current assets | | C.P.I. | 139,240 | 32,491 | |
| Other current assets | | U.F. | 681,392 | 330,411 | |
| Short and long-term deferred taxes | | C.P.I. | 3,237,428 | 2,113,022 | |
| Property, plant and equipment | | C.P.I. | 39,583,937 | 26,278,722 | |
| Investments in related companies | | C.P.I. | 350,418 | 153,896 | |
| Goodwill | | C.P.I. | 520,289 | 343,063 | |
| Long-term receivables | | U.F. | 3,570,297 | 733 | |
| Other long-term assets | | C.P.I. | 821,075 | 315,049 | |
| Other long-term assets | | U.F. | 63,783 | 26,548 | |
| Expense accounts | | C.P.I. | 5,098,382 | 3,148,648 | |
| Total Credits | | | 54,068,782 | 32,743,464 | |
| Liabilities | Shareholders | Equity (Charges) Credits | Indexation | 2008 ThCh\$ | 2007 ThCh\$ |
| Short-term obligations | | | U.F. | (2,660,540) | (682,485) |
| Long-term obligations | | | C.P.I. | (2,096) | (22,862) |
| Long-term obligations | | | U.F. | (6,409,638) | (8,919,053) |
| Shareholders equity | | | C.P.I. | (28,258,823) | (17,726,474) |
| Revenue accounts | | | C.P.I. | (7,551,533) | (4,767,892) |
| Total Charges | | | | (44,882,630) | (32,118,766) |
| Gain from Price-level restatement, net | | | | 9,186,152 | 624,698 |

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements, continued

23. Foreign currency translation:

Details of the gain on foreign currency translation are as follows:

| Assets (Charges) Credits | Currency | 2008 ThCh\$ | 2007 ThCh\$ |
|---|----------|--------------------|--------------------|
| Current assets | US\$ | 2,308,282 | 531,997 |
| Current assets | EURO | 61,636 | (7,785) |
| Current assets | REAL | (16,204) | 192,237 |
| Long-term receivables | US\$ | - | 663,173 |
| Total Credits | | 2,353,714 | 1,379,622 |
| Liabilities (Charges) Credits | Currency | 2008 ThCh\$ | 2007 ThCh\$ |
| Short-term obligations | US\$ | (2,129,298) | (545,249) |
| Short-term obligations | EURO | (166,015) | 2,030 |
| Short-term obligations | REAL | - | (36,492) |
| Short-term obligations | JPY | (99) | - |
| Long-term obligations | US\$ | (516,730) | (1,078,636) |
| Total (Charges) | | (2,812,142) | (1,658,347) |
| Foreign currency translation loss, net | | (458,428) | (278,725) |

June 30, 2008 and 2007

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

Notes to the Consolidated Financial Statements, continued

24. Expenses from issuance and placement of shares and debt:

Details of this item are as follows:

| Description | Short-term | | Long-term | |
|------------------------|----------------|----------------|------------------|------------------|
| | 2008 ThCh\$ | 2007 ThCh\$ | 2008 ThCh\$ | 2007 ThCh\$ |
| Bond issuance expenses | 139,606 | 140,694 | 527,850 | 679,717 |
| Discount on debt | 247,950 | 252,336 | 863,757 | 1,111,973 |
| Total | 387,556 | 393,030 | 1,391,607 | 1,791,690 |

The corresponding items are classified as Other Current Assets and Other Long-term Assets, as applicable, and are amortized over the term of the respective obligations.

25. Cash flows:

Financing and investing activities that do not generate cash flows during the period, but which generate future cash flows are as follows:

a) Financing activities: Financing activities that generate future cash flows are as follows:

| | |
|---|-------------------|
| Obligations with banks and financial institutions | - Notes 14 and 15 |
| Bonds | - Note 16 |

b) Investing activities: Investing activities that generate future cash flows are as follows:

| Description | Maturity | ThCh\$ |
|-------------|----------|-----------|
| BCP | 2008 | 4,095,220 |

c) Cash and cash equivalents:

| Description | 2008 ThCh\$ | 2007 ThCh\$ |
|-------------|----------------|----------------|
|-------------|----------------|----------------|

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| | | |
|-------------------------------|-------------------|-------------------|
| Cash | 7,087,526 | 6,798,089 |
| Time deposits | 50,298,917 | 20,697,463 |
| Other current assets (Note 8) | - | 3,155,827 |
| Total | 57,386,443 | 30,651,379 |

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(Translation of financial statements originally issued in Spanish - See Note 2b)
Notes to the Consolidated Financial Statements, continued

26. Derivative Contracts:

Details of derivative contracts are as follows:

| Type of Derivative | Type of Contract | Description of Contract | | | | | Hedged Item or Transaction | | Value of Hedged Item ThCh\$ | Asset/Liabilities Name |
|--------------------|------------------|-------------------------|------------------------|---------------|------------------------|----------------|----------------------------|------------|-----------------------------|------------------------|
| | | Contract Value | Maturity or Expiration | Specific Item | Purchase Sale Position | Name | Amount | | | |
| S | CCPE | 150,000,000 | III Quarter 2008 | Exchange rate | C | Oblig. in US\$ | 150,000,000 | 78,907,500 | assets liabilities (1) | |
| S | CCPE | 90,000,000 | II Quarter 2011 | Exchange rate | C | Oblig. in US\$ | 90,000,000 | 47,344,500 | assets liabilities (1) | |
| S | CCTE | 50,000,000 | II Quarter 2009 | Exchange rate | C | Oblig. in US\$ | 50,000,000 | 26,302,500 | assets liabilities (1) | |
| S | CCTE | 150,000,000 | IV Quarter 2009 | Exchange rate | C | Oblig. in US\$ | 150,000,000 | 78,907,500 | assets liabilities (1) | |
| S | CCTE | 60,000,000 | II Quarter 2011 | Exchange rate | C | Oblig. in US\$ | 60,000,000 | 31,563,000 | assets liabilities (1) | |
| S | CCTE | 1,635,880 | II Quarter 2009 | Exchange rate | C | Oblig. in US\$ | 1,635,880 | 33,131,008 | assets liabilities (1) | |
| S | CCTE | 3,555,000 | II Quarter 2010 | Exchange rate | C | Oblig. in US\$ | 3,555,000 | 71,998,384 | assets liabilities (1) | |
| S | CCTE | 595,690 | II Quarter 2011 | Exchange rate | C | Oblig. in US\$ | 595,690 | 12,064,344 | assets liabilities (1) | |
| S | CCTE | 2,500,000 | IV Quarter 2012 | Exchange rate | C | Oblig. in US\$ | 2,500,000 | 50,631,775 | assets | |

liabilities (

| | | | | | | | |
|----|------|------------|--------------------------------|---|---------------------------|------------|--------------------|
| FR | CCTE | 21,796,612 | III Quarter Exchange rate 2008 | C | Oblig. in US\$ 21,796,612 | 11,466,107 | assets liabilities |
| FR | CCTE | 15,856,933 | IV Quarter Exchange rate 2008 | C | Oblig. in US\$ 15,856,933 | 8,341,541 | assets liabilities |
| FR | CCTE | 4,953,028 | I Quarter Exchange rate 2009 | C | Oblig. in US\$ 4,953,028 | 2,605,540 | assets liabilities |
| FR | CCTE | 1,119,798 | III Quarter Exchange rate 2008 | C | Oblig. in US\$ 1,119,798 | 368,334 | assets liabilities |
| FR | CCTE | 1,351,996 | IV Quarter Exchange rate 2009 | C | Oblig. in US\$ 1,351,996 | 444,711 | assets liabilities |
| FR | CCTE | 185,018 | I Quarter Exchange rate 2009 | C | Oblig. in US\$ 185,018 | 60,858 | assets liabilities |

Exchange forward contracts expensed during the period (net)

TOTAL

Types of derivatives:

FR: Forward
S : Swap

Type of Contract:

CCPE: Hedge contract for existing transactions
CCTE: Hedge contract for expected transactions
CI: Investment hedge contract

27. Contingencies and restrictions:

a) Lawsuits against the State of Chile:

(i) Having exhausted all administrative remedies aimed at correcting the errors and illegal actions taken in the tariff-setting process of 1999, in March 2002 the Company filed a lawsuit for damages against the Government of Chile for the amount of ThCh\$ 181,038,411, including readjustments and interest, covering past and future damages incurred up to May 2004.

The judicial process is currently at the sentencing stage.

(ii) Telefónica Chile and Telefónica Larga Distancia filed an indemnity suit against the State of Chile, claiming damages caused were due to modification of the telecommunications cable network due to works carried out by highway concessionaries from 1996 to 2000.

The amount of the claimed damages consists of both companies being obligated to pay to transfer their telecommunications networks due to the construction of public works concessioned under the Concessions Law for the amount of:

- a.- Compañía de Telecomunicaciones de Chile S.A.: ThCh\$ 1,929,207 (historical)
- b.- Telefónica Larga Distancia S.A.: ThCh\$ 2,865,209 (historical)

On March 24, 2008, final first instance sentence was notified, rejecting the complaint, without costs.

This sentence is being appealed.

b) Lawsuits:

(i) Voissnet:

On July 12, 2007 Voissnet filed a complaint before the Antitrust Commission (TDLC) against Telefónica Chile for alleged crossed subsidy in the joint commercialization of its broadband and fixed telephony services, taking advantage of its dominant position in those markets. The complaint was notified on August 20, 2007.

Telefónica Chile requested that the complaint be rejected, with costs, mainly in consideration that voice and broadband package offers are due to a competitive dynamic, and it has not incurred any practices that attempt to go against free competition.

As of June 30, 2008 the parties are providing evidence, in conformity with the schedule of events set by the Court.

27. Contingencies and restrictions, continued:

(ii) Complaint filed by VTR Telefónica S.A.:

On June 30, 2000, VTR Telefónica S.A. filed an ordinary lawsuit, claiming payment of Ch\$2,204 million, plus amounts accrued during the lawsuit, for the concept of access charges for the use of its networks. It based its complaint on the differences originated due to the reduction of access charges after Tariff Decree No. 187 came into effect. Telefónica Chile sustained that the access charge tariffs that both parties must pay each other for the reciprocal use of their networks which are regulated by a signed contract that VTR is ignoring. The first instance sentence accepted VTR's complaint and the alleged subsidy compensation by Telefónica Chile. The Company filed an ordinary public motion and appeal that is pending before the Santiago Court of Appeals.

There are two other cases related to the previous judicial process. The first filed by VTR in 2002 before Subtel for alleged non-payment of invoices for access charges set by D.S. 26, to obligate Telefónica Chile to pay those invoices and impose the fines foreseen in the General Telecommunications Law. That case has been suspended by order of the Minister at that time, until there is a sentence in the judicial proceeding filed by VTR in 2000. The other case was filed by Telefónica Chile on June 6, for VTR's non payment of access charges according to the contract signed between the parties and it has been suspended until there is a sentence in the first of the mentioned lawsuits.

On December 21, 2005 Telefónica Chile sued VTR for non payment of automatic reversal of charges services (800-services) for the amount of Ch\$1,500 million, plus sums accrued during the course of the lawsuit. VTR filed a counterclaim for the same concepts, in the amount of Ch\$1,200 million. That judicial process is at the first instance proceeding stage.

On May 8, 2008, Telefónica Chile and VTR signed a transaction by means of which they ended all judicial and administrative conflicts related to reciprocal access charges to be paid between the companies and 800-type services. Both parties will make reciprocal discounts and there is legal compensation for the amounts owed, which resulted in Telefónica Chile paying VTR the sum of Ch\$12,036,787,478. Likewise, on the basis that the transaction produces the indefectible termination of the judicial proceeding in which the proceeding filed before the Ministry of Transportation and Telecommunications is involved, the parties filed a writ requesting the filing and termination of the proceeding without sanction.

(iii) Manquehue Net:

On June 24, 2003, Telefónica Chile filed a forced contract compliance with damage indemnity complaint against Manquehue Net for the amount of ThCh\$3,647,689 in addition to sums accrued during the substantiation of the proceeding. On the same date Manquehue Net filed a complaint regarding compliance with discounts (for the amount of UF 107,000), in addition to a complaint regarding the obligation to perform (signing of 700 number service contract).

On April 11, 2005 the Arbitrator notified first instance sentence accepting the complaint filed by Telefónica Chile condemning Manquehue Net to pay approximately Ch\$ 452 million, and at the same time accepted the complaint filed by Manquehue Net condemning Telefónica Chile to pay UF 47,600.

Telefónica Chile filed ordinary public law motions appealing both sentences, which are currently pending before the Santiago Court of Appeals.

27. Contingencies and restrictions, continued:

(iv) Chilectra y CGE:

In June 2006, Telefónica Chile filed complaints against Chilectra S.A. and Río Maipo (today CGE Distribución), requesting an adjusted refund of the Reimbursable Financial Contributions (AFR) (Aportes Financieros Reembolsables) that the company paid between 1992 and 1998, in virtue of the Electric Law. The amounts to be restored amount to ThCh\$899,658 and ThCh\$117,350, respectively.

(v) Labor lawsuits:

During the normal course of operations, labor lawsuits have been filed against the Company, which to date do not represent significant contingencies.

(vi) Complaint filed by Telmex Servicios Empresariales S.A.:

During the first quarter of 2008, Telmex Servicios Empresariales S.A. filed a complaint before the Antitrust Commission against Telefónica Chile, for alleged affectation of free competition, related to the process of being awarded the concession for local wireless public service of the 3,400 – 3,600 MHz band, requesting condemnation to pay a fine in benefit of the Government in the amount of 18,000 UTA.

The Company answered the complaint within the deadline, requesting rejection of all its parts.

(vii) Empresa Ferrocarriles del Estado de Chile:

Ordinary lawsuit for forced compliance of obligations agreed upon or consented, derived from the Regulation on Railway Crossing, Parallelism and Support, which in addition demanded payment of a sum of no less than UTM 48,298.44, whether for construction or annual passage relating to crossings located on the railway, plus indemnity for material damages and pain and suffering alleged to have been experienced, with adjustments, interest and costs, and notwithstanding the sums accrued during the proceeding.

On March 25, 2008, the final first instance sentencing was passed, fully rejecting the complaint.

(viii) Theoduloz Slier and Ochoa Soriano versus Zalaquett Zalaquett and Telefónica Chile:

Executive lawsuit of commitment to file complaint by Ms. Rodemilia Theoduloz Slier and Matilde Ochoa Soriano against Armando Zalaquett Zalaquett and Telefónica Chile. The commitment to perform the lawsuit will consist of the delivery of 14,468,895 Series A shares of Telefónica Chile whose titleholder is the defendant, Armando Zalaquett Zalaquett.

Telefónica Chile opposed the execution, since Mr. Zalaquett is not a shareholder of the Company. This is currently in process.

27. Contingencies and restrictions, continued:

(ix) Comunicaciones Majojobo Limitada:

Ordinary contract resolution and damage indemnity lawsuit, notified on June 26, 2008, demanding an indemnity payment of Ch\$2,863,047,159 as a consequence of deterioration of its commercial image due to a press report presented by Channel 13 of the Corporación de Televisión de la Universidad Católica de Chile.

This is currently at the defendant answering stage.

(x) Other lawsuits:

During the last quarter of 2007, they were notified of resolutions passed by the Ministry of Transport and Telecommunications, in which fines were applied due to non-compliance with the previous resolutions, which altogether amount to UTM 33,700. Telefónica Chile has filed appeals against those resolutions, which are currently in process and pending sentence. It should be noted that the resolutions consider daily fines, which as of December 31, 2007 are estimated to amount to close to UTM 1,200.

Management and its internal and external legal counsel periodically monitor the evolution of the lawsuits and contingencies affecting the Company during the normal course of its operations, analyzing in each case the possible effects on the financial statements. Based on this analysis and the information available to date, management and its legal counsel believe that it is unlikely that the Company's income and equity will be significantly affected by loss contingencies that could eventually represent significant liabilities in addition to those already recorded in the financial statements.

(c) Financial restrictions

In order to develop its investment plans, the Company has obtained financing both in the domestic market and abroad (Notes 13, 14 and 15) which establish, among other things: clauses on the maximum debt the Company may maintain.

The maximum debt ratio is 1.60.

Non-compliance with these clauses implies that all the obligations assumed in these financing contracts would be considered due and payable.

As of June 30, 2008, the Company complies with all financial restrictions.

(Translation of financial statements originally issued in Spanish - See Note 2b)
Notes to the Consolidated Financial Statements, continued

27. Contingencies and restrictions, continued:**c) Guarantee Deposits:**

Details of guarantee deposits are as follows:

| Creditor of the Guarantee | Debtor | | Type of the Guarantee | Effective | Liberation of Guarantee | | |
|---|----------------------------|----------------|-----------------------|-----------|-------------------------|--------|---------|
| | Company Name | Relation | | Tickets | 2008 | 2009 | 2010 |
| | | | | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Director Reg de Vialidad III Región Atacama | Telefónica Chile S.A. | Parent Company | Deposit | 13,974 | 13,974 | - | - |
| Director Reg de Vialidad VI Región | Telefónica Chile S.A. | Parent Company | Deposit | 50,632 | 50,632 | - | - |
| Director Reg de Vialidad VIII Región | Telefónica Chile S.A. | Parent Company | Deposit | 11,109 | 11,109 | - | - |
| Metro S.A. | Telefónica Chile S.A. | Parent Company | Deposit | 13,792 | - | 13,792 | - |
| Municipalidad de Lo Barnechea | Telefónica Chile S.A. | Parent Company | Deposit | 10,126 | 10,126 | - | - |
| Municipalidad de Providencia | Telefónica Chile S.A. | Parent Company | Deposit | 18,368 | 18,368 | - | - |
| Municipalidad de Santiago | Telefónica Chile S.A. | Parent Company | Deposit | 18,138 | 18,138 | - | - |
| Municipalidad de Vitacura | Telefónica Chile S.A. | Parent Company | Deposit | 40,505 | 40,505 | - | - |
| Serviu Región Metropolitana | Telefónica Chile S.A. | Parent Company | Deposit | 52,309 | 28,223 | 20,298 | 3,788 |
| Serviu VI Región | Telefónica Chile S.A. | Parent Company | Deposit | 10,126 | 10,126 | - | - |
| Subsecretaria de Telecomunicaciones | Telefónica Chile S.A. | Parent Company | Deposit | 860,942 | 736,044 | - | 124,898 |
| Otras garantías | Telefónica Chile S.A. | Parent Company | Deposit | 81,010 | 44,040 | 25,666 | 11,304 |
| Dirección de Compras y Contratación Pública | Telefónica Larga Distancia | Subsidiary | Deposit | 5,000 | 5,000 | - | - |
| Secretaría de Desarrollo Regional | Telefónica Larga Distancia | Subsidiary | Deposit | 1,000 | 1,000 | - | - |
| Cámara de Diputados de Chile | Telefónica Larga Distancia | Subsidiary | Deposit | 17,000 | 17,000 | - | - |
| | | Subsidiary | Deposit | 405 | - | 405 | - |

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| | | | | | | | |
|---|-----------------|------------|---------|---------|---------|---------|---------|
| Servicio Nacional de Pesca | Telefónica | | | | | | |
| Subsecretaría de Telecomunicaciones | Larga Distancia | Subsidiary | Deposit | 412,214 | - | 412,214 | - |
| Director Regional de Vialidad XII Región | Telefónica | | | | | | |
| Otros | Larga Distancia | Subsidiary | Deposit | 111,957 | 111,957 | - | - |
| | Telefónica | | | | | | |
| | Larga Distancia | Subsidiary | Deposit | 73 | - | - | 73 |
| Servicio de Salud Metropolitano Occidente | Telefónica | | | | | | |
| Ministerio del Interior | Empresas | Subsidiary | Deposit | 139,066 | 60,000 | 79,066 | - |
| Ministerio de Vivienda y Urbanismo | Telefónica | | | | | | |
| Universidad de Concepción | Empresas | Subsidiary | Deposit | 125,000 | 125,000 | - | - |
| Universidad de los Andes | Telefónica | | | | | | |
| Servicio de Salud Metropolitano Oriente | Empresas | Subsidiary | Deposit | 40,505 | 40,505 | - | - |
| Instituto de Normalización Provisional | Telefónica | | | | | | |
| Empresa de Transporte de Pasajeros Metro S.A. | Empresas | Subsidiary | Deposit | 121,516 | - | - | 121,516 |
| Estado Mayor de la Defensa Nacional | Telefónica | | | | | | |
| Dirección Nacional de Gendarmería de Chile | Empresas | Subsidiary | Deposit | 480,000 | 480,000 | - | - |
| Subsecretaria de Educación | Telefónica | | | | | | |
| Subsecretaría de Redes Asistenciales | Empresas | Subsidiary | Deposit | 111,992 | - | 111,992 | - |
| Scl Terminal Aéreo Santiago | Telefónica | | | | | | |
| Sociedad Concesionaria | Empresas | Subsidiary | Deposit | 101,885 | 500 | 101,385 | - |
| Servicio de Salud Metropolitano Sur | Telefónica | | | | | | |
| Servicio de Salud Metropolitano Central | Empresas | Subsidiary | Deposit | 101,264 | 101,264 | - | - |
| Servicio de Salud De Viña del Mar-Quillota | Telefónica | | | | | | |
| Corporación Administrativa del | Empresas | Subsidiary | Deposit | 287,486 | 287,486 | - | - |
| | Telefónica | | | | | | |
| | Empresas | Subsidiary | Deposit | 88,577 | - | - | 88,577 |
| | Telefónica | | | | | | |
| | Empresas | Subsidiary | Deposit | 80,000 | - | - | 80,000 |
| | Telefónica | | | | | | |
| | Empresas | Subsidiary | Deposit | 90,048 | - | 90,048 | - |
| | Telefónica | | | | | | |
| | Empresas | Subsidiary | Deposit | 87,249 | - | 87,249 | - |
| | Telefónica | | | | | | |
| | Empresas | Subsidiary | Deposit | 47,827 | - | 47,827 | - |
| | Telefónica | | | | | | |
| | Empresas | Subsidiary | Deposit | 68,541 | - | 68,541 | - |
| | Telefónica | | | | | | |
| | Empresas | Subsidiary | Deposit | 68,711 | - | 68,711 | - |
| | Telefónica | | | | | | |
| | Empresas | Subsidiary | Deposit | 154,406 | 30,000 | 66,947 | 57,459 |

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| | | | | | | | |
|---------------------|----------------|------------|---------|------------------|------------------|------------------|----------------|
| Poder Judicial | Telefónica | | | | | | |
| Banco Estado | Empresas | Subsidiary | Deposit | 50,000 | 50,000 | - | - |
| Servicio Agrícola y | Telefónica | | | | | | |
| Ganadero | Empresas | Subsidiary | Deposit | 47,813 | 43,134 | - | 4,679 |
| Otras Garantías | Telefónica | | | | | | |
| | Empresas | Subsidiary | Deposit | 1,091,391 | 239,381 | 776,954 | 75,056 |
| Atento Chile S.A. | Telefónica | | | | | | |
| | Gestión | | | | | | |
| | Ss.Compartidos | Subsidiary | Deposit | 54,682 | - | 54,682 | - |
| Atento Chile S.A. | Telefónica | | | | | | |
| | Gestión | | | | | | |
| | Ss.Compartidos | Subsidiary | Deposit | 466 | 466 | - | - |
| Total | | | | 5,167,105 | 2,573,978 | 2,025,777 | 567,350 |

(Translation of financial statements originally issued in Spanish - See Note 2b)
Notes to the Consolidated Financial Statements, continued

28. Third party guarantees:

The Company has not received any guarantees from third parties.

29. Chilean and Foreign Currency:

A summary of the assets in Chilean and foreign currency is as follows:

| Description | Currency | 2008 ThCh\$ | 2007 ThCh\$ |
|--|------------------|----------------------|----------------------|
| Total current assets : | | 333,458,534 | 308,269,900 |
| Cash | Non-indexed Ch\$ | 6,039,699 | 4,517,160 |
| | US\$ | 1,023,801 | 2,232,673 |
| | Euros | 24,026 | 48,256 |
| Time deposits | Indexed Ch\$ | 19,042,968 | 341,839 |
| | Non-indexed Ch\$ | 40,000,038 | 9,375,692 |
| | US\$ | 1,303,401 | 10,979,932 |
| Marketable securities | Non-indexed Ch\$ | 2,443,484 | - |
| | Indexed Ch\$ | 1,651,736 | - |
| | US\$ | - | 15,426,016 |
| Notes and accounts receivable (1) | Indexed Ch\$ | 235,548 | - |
| | Non-indexed Ch\$ | 169,328,453 | 193,026,857 |
| | US\$ | 1,570,024 | 1,690,518 |
| | Euros | 57,909 | 57,831 |
| Accounts receivable from related companies | Non-indexed Ch\$ | 13,964,923 | 12,740,738 |
| | US\$ | 6,867,797 | 4,732,916 |
| Other current assets (2) | Indexed Ch\$ | 10,209,642 | 17,066,347 |
| | Non-indexed Ch\$ | 57,868,791 | 34,497,953 |
| | US\$ | 1,754,573 | 1,310,321 |
| | Reales | 71,721 | 224,851 |
| Total property, plant and equipment : | | 1,244,392,922 | 1,322,367,987 |
| Property, plant and equipment and accumulated Depreciation | Indexed Ch\$ | 1,244,392,922 | 1,322,367,987 |
| Total other long-term assets | | 82,359,372 | 84,689,284 |
| Investment in related companies | Indexed Ch\$ | 9,069,914 | 9,384,695 |
| Investment in other companies | Indexed Ch\$ | 4,632 | 4,632 |
| Goodwill | Indexed Ch\$ | 15,178,538 | 16,740,393 |
| Other long-term assets (3) | Indexed Ch\$ | 33,888,082 | 30,572,260 |
| | Non-indexed Ch\$ | 24,218,206 | 27,987,304 |
| Total assets | | 1,660,210,828 | 1,715,327,171 |

| | | | |
|-----------------------------|---------------------|----------------------|----------------------|
| Subtotal by currency | Indexed Ch\$ | 1,333,673,982 | 1,396,478,153 |
| | Non-indexed | | |
| | Ch\$ | 313,863,594 | 282,145,704 |
| | US\$ | 12,519,596 | 36,372,376 |
| | Euros | 81,935 | 106,087 |
| | Reales | 71,721 | 224,851 |

(1) Includes the following balance sheet accounts: Trade Accounts Receivable, Notes Receivable and Miscellaneous Accounts Receivable.

(2) Includes the following balance sheet accounts: Inventories, Recoverable Taxes, Prepaid Expenses, Deferred Taxes and Other Current Assets.

(3) Includes the following balance sheet accounts: Long-term Debtors, Intangibles, Accumulated amortization and Others.

(Translation of financial statements originally issued in Spanish See Note 2b)
Notes to the Consolidated Financial Statements, continued

29. Chilean and Foreign Currency, continued:

A summary of the current liabilities in Chilean and foreign currency is as follows:

| Description | Currency | Up to 90 days | | | | 90 days up to 1 year | | | |
|---|---------------------|------------------|------------------------------------|------------------|------------------------------------|----------------------|------------------------------------|------------------|------------------------------------|
| | | 2008 | | 2007 | | 2008 | | 2007 | |
| | | Amount ThCh\$ | Average annual interest % | Amount ThCh\$ | Average annual interest % | Amount ThCh\$ | Average annual interest % | Amount ThCh\$ | Average annual interest % |
| Short-term portion of obligations with banks and financial institutions | Indexed Ch\$ | 401,161 | 2.61 | - | - | - | - | 489,056 | 3.04 |
| | US\$ | 583,684 | 3.19 | 1,587,231 | 5.69 | - | - | - | - |
| Bonds and promissory notes payable (Bonds payable) | Indexed Ch\$ | 1,996,780 | 4.11 | 2,015,077 | 4.15 | - | - | - | - |
| Long-term obligations maturing within a year | Indexed Ch\$ | 6,595 | 8.10 | 4,305 | 8.10 | 12,338 | 8.10 | 12,915 | 8.10 |
| Accounts payable to related companies | Indexed Ch\$ | 967,998 | - | - | - | - | - | - | - |
| | Non-indexed Ch\$ | 34,178,060 | - | 33,556,821 | - | - | - | - | - |
| | US\$ | 3,024,269 | - | 3,572,409 | - | - | - | - | - |
| | Euros | 1,324,438 | - | - | - | - | - | - | - |
| | Indexed Ch\$ | 24,194,713 | - | 1,406,845 | - | - | - | - | - |

Other current liabilities (4)

| | | | | | | | | | |
|----------------------------------|--------------------|--------------------|----------|--------------------|----------|----------------|----------|------------------|----------|
| | Non-indexed | | | | | | | | |
| | Ch\$ | 144,156,756 | - | 153,179,504 | - | 50,901 | - | 1,021,772 | - |
| | US\$ | 18,527,528 | - | 10,756,513 | - | 315,500 | - | - | - |
| | Euros | 544,768 | - | - | - | - | - | - | - |
| | Yenes | 895 | - | - | - | - | - | - | - |
| | Reales | 363,031 | - | 177,527 | - | - | - | - | - |
| Total current liabilities | | 230,270,676 | - | 206,256,232 | - | 378,739 | - | 1,523,743 | - |
| Subtotal by currency | Indexed | | | | | | | | |
| | Ch\$ | 27,567,247 | | 3,426,227 | | 12,338 | | 501,971 | |
| | Non-indexed | | | | | | | | |
| | Ch\$ | 178,334,816 | | 186,736,325 | | 50,901 | | 1,021,772 | |
| | US\$ | 22,135,481 | | 15,916,153 | | 315,500 | | - | |
| | Euros | 1,869,206 | | - | | - | | - | |
| | Yenes | 895 | | - | | - | | - | |
| | Reales | 363,031 | | 177,527 | | - | | - | |

(4) Includes the following balance sheet accounts: Dividends payable, Trade accounts payable, Miscellaneous accounts payable, Accruals, Withholdings, Unearned Income and Other current liabilities.

(Translation of financial statements originally issued in Spanish - See Note 2b)
Notes to the Consolidated Financial Statements, continued

29. Chilean and Foreign Currency, continued:

A summary of the long-term liabilities in Chilean and foreign currency for 2008 is as follows :

| Description | Currency | 1 to 3 years | | 3 to 5 years | | 5 to 10 years | | Over 10 years | |
|--|-------------------------|--------------------|--------------------------------|--------------------|--------------------------------|-------------------|--------------------------------|-------------------|--------------------------------|
| | | ThCh\$ | Average Annual interest Rate % | ThCh\$ | Average annual interest Rate % | ThCh\$ | Average annual interest Rate % | ThCh\$ | Average annual interest Rate % |
| LONG TERM LIABILITIES | | | | | | | | | |
| Obligation with banks and financial institutions | Indexed Ch\$ | 71,998,384 | 2.62 | - | - | - | - | - | - |
| | US\$ | 184,117,500 | 3.17 | 78,907,500 | 3.25 | - | - | - | - |
| Bonds and promissory notes payable | Indexed Ch\$ | 3,797,381 | 6.00 | 64,555,511 | 3.88 | 2,531,587 | 6.00 | - | - |
| Other long-term liabilities (5) | Indexed Ch\$ | 6,522,695 | - | 12,037,184 | - | 12,622,959 | - | 68,599,583 | - |
| | Non-indexed Ch\$ | 20,005,403 | - | 2,656,653 | - | 1,478,867 | - | 5,984,524 | - |
| TOTAL PASIVO LARGO PLAZO | | 286,441,363 | | 158,156,848 | | 16,633,413 | | 74,587,107 | |
| Subtotal by currency | Indexed Ch\$ | 82,318,460 | | 76,592,695 | | 15,154,546 | | 68,599,583 | |
| | Non-indexed Ch\$ | 20,005,403 | | 2,656,653 | | 1,478,867 | | 5,984,524 | |
| | US\$ | 184,117,500 | | 78,907,500 | | - | | - | |

A summary of the long-term liabilities in Chilean and foreign currency for 2007 is as follows :

| RUBROS | 1 to 3 years | | 3 to 5 years | | 5 to 10 years | | Over 10 years | |
|--|------------------|--------------------------------|--------------|--------------------------------|---------------|--------------------------------|---------------|--------------------------------|
| | ThCh\$ | Average Annual interest Rate % | ThCh\$ | Average annual interest Rate % | ThCh\$ | Average annual interest Rate % | ThCh\$ | Average annual interest Rate % |
| LONG-TERM LIABILITIES | | | | | | | | |
| Obligation with banks and financial institutions | Indexed Ch\$ | 72,015,579 | 3.18 | - | - | - | - | - |
| | US\$ | 200,573,337 | 5.69 | 85,960,001 | 5.69 | - | - | - |
| Bonds and promissory notes payable | Indexed Ch\$ | 2,893,935 | 6.00 | 2,893,935 | 6.00 | 66,560,511 | 3.95 | - |
| Other long-term liabilities (5) | Indexed Ch\$ | 39,517,977 | - | 5,831,884 | - | 11,570,881 | - | 76,701,593 |
| | Non-indexed Ch\$ | 442,633 | - | 425,914 | - | 869,090 | - | 4,985,834 |
| T O T A L LONG-TERM LIABILITIES | | 315,443,461 | | 95,111,734 | | 79,000,482 | | 81,687,427 |
| Subtotal by currency | Indexed Ch\$ | 114,427,491 | | 8,725,819 | | 78,131,392 | | 76,701,593 |
| | Non-indexed Ch\$ | 442,633 | | 425,914 | | 869,090 | | 4,985,834 |
| | US\$ | 200,573,337 | | 85,960,001 | | - | | - |
| | | | | | | | | |

(5) Includes the following balance sheet accounts: Accounts payable to related companies, Miscellaneous accounts payable, Accruals, Deferred long-term taxes, Other long-term liabilities.

(Translation of financial statements originally issued in Spanish See Note 2b)
Notes to the Consolidated Financial Statements, continued

30. Sanctions:

Neither the Company nor its Directors and Managers have been sanctioned by the SVS or any other administrative authority during 2008 or 2007.

31. Subsequent events:

In the period from July 1 to July 22, 2008, there have been no significant subsequent events that affect the interim consolidated financial statements.

32. Environment:

In the opinion of Management and the Company's in-house legal counsel, because the nature of the Company's operations do not directly or indirectly affect the environment, as of the closing date of these consolidated financial statements, no resources have been set aside nor have any payments been made for non-compliance with municipal ordinances or to other supervising organizations.

33. Time deposits:

Details of time deposits are as follows:

| Placement | Institution | Currency | Principal ThCh\$ | Rate % | Maturity | Principal ThCh\$ | Accrued interest | 2008 ThCh\$ |
|-----------|------------------|----------|---------------------|-----------|-----------|---------------------|---------------------|----------------|
| 30-May-08 | BCI BCO | CH\$ | 4,800,000 | 6.84 | 21-Jul-08 | 4,800,000 | 28,272 | 4,828,272 |
| 30-May-08 | SANTANDER | CH\$ | 2,200,000 | 7.08 | 21-Jul-08 | 2,200,000 | 13,413 | 2,213,413 |
| 30-Jun-08 | HSBC | CH\$ | 3,400,000 | 6.96 | 30-Jul-08 | 3,400,000 | - | 3,400,000 |
| 10-Jun-08 | BCO CHILE BCO | CH\$ | 6,300,000 | 7.20 | 11-Ago-08 | 6,300,000 | 25,200 | 6,325,200 |
| 12-Jun-08 | SANTANDER BCO | CH\$ | 2,400,000 | 7.32 | 11-Ago-08 | 2,400,000 | 8,784 | 2,408,784 |
| 13-Jun-08 | SANTANDER | CH\$ | 900,000 | 7.32 | 11-Ago-08 | 900,000 | 3,111 | 903,111 |
| 13-Jun-08 | BBVA | CH\$ | 1,600,000 | 7.26 | 11-Ago-08 | 1,600,000 | 5,485 | 1,605,485 |
| 16-Jun-08 | BCO CHILE | CH\$ | 900,000 | 7.20 | 11-Ago-08 | 900,000 | 2,520 | 902,520 |
| 17-Jun-08 | BBVA | CH\$ | 700,000 | 7.26 | 11-Ago-08 | 700,000 | 1,835 | 701,835 |
| 18-Jun-08 | BBVA | CH\$ | 3,000,000 | 7.20 | 11-Ago-08 | 3,000,000 | 7,200 | 3,007,200 |
| 19-Jun-08 | BBVA | CH\$ | 1,000,000 | 7.26 | 11-Ago-08 | 1,000,000 | 2,218 | 1,002,218 |
| 26-Jun-08 | BCO CHILE BCO | CH\$ | 2,500,000 | 7.20 | 11-Ago-08 | 2,500,000 | 2,000 | 2,502,000 |
| 30-Jun-08 | SANTANDER | CH\$ | 5,400,000 | 7.32 | 11-Ago-08 | 5,400,000 | - | 5,400,000 |
| 30-Jun-08 | HSBC | CH\$ | 2,800,000 | 6.96 | 11-Ago-08 | 2,800,000 | - | 2,800,000 |
| 30-Jun-08 | HSBC | CH\$ | 600,000 | 6.96 | 11-Ago-08 | 600,000 | - | 600,000 |
| 30-Jun-08 | BCI | CH\$ | 1,400,000 | 6.72 | 11-Ago-08 | 1,400,000 | - | 1,400,000 |
| 07-May-08 | BBVA | UF | 145 | 0.90 | 11-Ago-08 | 2,937,574 | 3,966 | 2,941,540 |
| 03-Jun-08 | BCI | UF | 17 | 0.10 | 02-Sep-08 | 343,446 | | 343,446 |

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| | | | | | | | | |
|-----------|--------------|-----|-------|------|-----------|-------------------|----------------|-------------------|
| 13-Mar-08 | BANKBOSTON | UF | 182 | 0.27 | 09-Sep-08 | 3,686,662 | 3,014 | 3,689,676 |
| 28-May-08 | BCO CHILE | UF | 100 | 0.50 | 25-Sep-08 | 2,019,890 | 926 | 2,020,816 |
| 20-May-08 | BCO CHILE | UF | 62 | 0.80 | 14-Nov-08 | 1,263,732 | 1,152 | 1,264,884 |
| | BCO | | | | | | | |
| 03-Jun-08 | SANTANDER | UF | 169 | 0.60 | 01-Dic-08 | 3,431,161 | 1,544 | 3,432,705 |
| | BCO | | | | | | | |
| 04-Jun-08 | SANTANDER | UF | 184 | 0.70 | 01-Dic-08 | 3,733,429 | 1,888 | 3,735,317 |
| 05-Jun-08 | BCO CHILE | UF | 80 | 0.30 | 01-Dic-08 | 1,614,248 | 336 | 1,614,584 |
| 09-Jun-08 | BCI | USD | 162 | 4.24 | 09-Jul-08 | 85,478 | - | 85,478 |
| 09-Jun-08 | BCI | USD | 115 | 4.24 | 09-Jul-08 | 60,614 | - | 60,614 |
| 30-Jun-08 | CITIBANK | USD | 2,200 | 1.83 | 02-Jul-08 | 1,157,309 | - | 1,157,309 |
| | Total | | | | | 60,233,543 | 112,864 | 60,346,407 |

(Translation of financial statements originally issued in Spanish - See Note 2b)
Notes to the Consolidated Financial Statements, continued

34. Accounts payable:

Details of the accounts payable balance are as follows:

| Description | 2008 ThCh\$ | 2007 ThCh\$ |
|--|--------------------|--------------------|
| Suppliers | | |
| Chilean | 114,273,413 | 114,626,446 |
| Foreign | 9,292,747 | 8,989,855 |
| Provision for works-in-progress | 5,237,587 | 7,618,014 |
| Total | 128,803,747 | 131,234,315 |

35. Other accounts payable:

Details of other accounts payable are as follows:

| Description | 2008 ThCh\$ | 2007 ThCh\$ |
|--------------------------------------|-------------------|-------------------|
| Exchange insurance contract payables | 22,870,064 | 341,311 |
| Billing on behalf of third parties | 5,063,953 | 7,456,532 |
| Accrued supports | 779,502 | 913,323 |
| Carrier service | 2,564,836 | 3,806,594 |
| Others | 53,085 | 57,311 |
| Sub Total | 31,331,440 | 12,575,071 |

| Description | 2008 ThCh\$ | 2007 ThCh\$ |
|---------------------------------------|-------------------|-------------------|
| Exchange insurance contract creditors | 40,167,611 | 40,352,101 |
| Sub Total | 40,167,611 | 40,352,101 |
| Total | 71,499,051 | 52,927,172 |

Antonio José Coronet

José Molés Valenzuela

Accountant Manager

General Manager

***REASONED ANALYSIS OF THE
CONSOLIDATED FINANCIAL STATEMENTS
For the six-month period ended June 30, 2008 and 2007***

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

The Reasoned Analysis is a complementary report to the financial statements and notes, and therefore must be read in conjunction with the Consolidated Financial Statements.

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1. HIGHLIGHTS

Capital Decrease

Telefónica Chile

On April 14, 2008 the Ordinary Shareholders Meeting agreed to the following:

- a) Distribution of 46.52% of net income for the year, through payment of a final dividend of Ch\$5.276058 per share, which will be paid on May 14, 2008.
- b) Decreasing stock capital by ThCh\$39,243,441 maintaining the same amount of shares issued by the Company, which means paying Ch\$ 41 per share, empowering the Board of Directors to set the date of payment to the shareholders.
- c) Modifying the Company Bylaws in reference to the previous agreements.

Appointment of Directors

Telefónica Larga Distancia

The Ordinary Shareholders Meeting held on April 11, 2008, agreed to appoint the following Company directors:

- Emilio Gilolmo López
- José Molés Valenzuela
- Manuel Plaza Martin
- Juan Antonio Etcheverry Duhalde
- Humberto Soto Velasco
- Fernando García Muñoz
- Cristián Aninat Salas

Telefónica Chile

On April 23, 2008, the Board of Directors agreed to appoint Mr. Andrés Concha Rodríguez as regular director and Mr. Raúl Morodo Leoncio as deputy director.

Telefónica Asistencia y Seguridad

The Ordinary Shareholders Meeting held on April 29, 2008, agreed to appoint the following Company directors:

- José Molés Valenzuela
 - Fernando García Muñoz
 - Juan Antonio Etcheverry Duhalde
 - Manuel Plaza Martin
 - Cristian Aninat Salas
-

Dividends Policy**Telefónica Chile**

The Ordinary Shareholders Meeting held on April 14, 2008 agreed to distribute 2007 net income through payment of a final dividend of Ch\$5.276058 per share. In accordance with current dividends policy, this dividend, added to interim dividend No. 174, in the amount of Ch\$5,742,942,510 (historical), equivalent to Ch\$6 per share, paid on November 21, 2007 equals 100% of net income generated during 2007.

On May 22, 2008 the Board of Directors agreed to pay the capital distribution as of June 13, 2008, which amounts to Ch\$41 per share.

Telefónica Larga Distancia

The Ordinary Shareholders Meeting held on April 11, 2008 agreed to distribute 30% of 2007 net income through payment of a dividend of Ch\$105.10171 per share that will be paid on May 15, 2008.

Relevant Industry Aspects

The most relevant event of the first half of the year was the strong development of a new Internet connection service, Mobile Broadband, a product that is offered using 3G technologies by the three current mobile operators: Movistar, Entel and Claro. This product launch has had an impact on customers that value connectivity in movement and has also reached customer segments without access to fixed broadband.

The integrated services offer is increasingly intense, generating a new point of competition between the different sector operators, with their own services or in alliances with third parties. In this manner, in the residential area, almost all fixed services operators already have packet service offers (voice, broadband and TV). A similar situation is profiled in the medium and small industry sector with voice and broadband plan offers, while in the corporate area operators offer integrated solutions that allow companies to consolidate their IP networks to transmit voice and data and facilitate integration toward business processes based on information technologies. In a transversal manner, mobile communications have become massive in the country's social and corporate classes.

At a national level a competition model was maintained that is based on network infrastructure using mainly ADSL, coaxial, fiber optics and wireless technologies (3G, WiMax, PHS).

2. VOLUME STATISTICS, STATEMENTS OF INCOME AND RESULTS BY BUSINESS AREA**TABLE No. 1****VOLUME STATISTICS**

| DESCRIPTION | JUNE 2007 | JUNE 2008 | VARIATION | |
|----------------------------------|--------------|--------------|-----------|---------|
| | | | Q | % |
| Lines in Service at Period End | 2,181,717 | 2,148,055 | (33,662) | -1.54% |
| Normal | 633,468 | 499,114 | (134,354) | -21.21% |
| Plans | 1,185,976 | 1,303,265 | 117,289 | 9.89% |
| Prepayment | 362,273 | 345,676 | (16,597) | -4.58% |
| Broadband | 574,464 | 675,349 | 100,885 | 17.56% |
| DLD Traffic (thousands) | 270,881 | 279,357 | 8,476 | 3.13% |
| Outgoing ILD Traffic (thousands) | 35,758 | 39,821 | 4,063 | 11.36% |
| Dedicated IP (1) | 13,921 | 18,095 | 4,174 | 29.98% |
| Digital Television | 171,386 | 240,801 | 69,415 | 40.50% |

(1) Does not include Citynet network.

TABLE No.2
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIOD ENDED AS OF JUNE 30, 2008 AND 2007
(Figures in millions of Chilean pesos as of 06.30.2008)

| DESCRIPTION | Jan-Jun 2007 | Jan-Dec 2007 | Jan-Jun 2008 | VARIATION (2008/2007) | |
|--|-----------------|-----------------|-----------------|-----------------------|---------------|
| | | | | MCh\$ | % |
| OPERATING INCOME | | | | | |
| VOICE, FIXED NETWORK AND | | | | | |
| COMPLEMENTARY | 188,789 | 375,105 | 176,446 | (12,343) | -6.5% |
| Telephony (Voice) | 120,818 | 239,249 | 112,717 | (8,101) | -6.7% |
| Fixed income | 29,152 | 54,080 | 20,466 | (8,686) | -29.8% |
| Variable income | 27,104 | 51,495 | 23,115 | (3,989) | -14.7% |
| Minutes plans (flexibility) | 64,562 | 133,674 | 69,136 | 4,574 | 7.1% |
| Access Charges and Interconnections | 27,046 | 54,530 | 27,177 | 131 | 0.5% |
| Domestic long distance | 4,067 | 7,712 | 3,162 | (905) | -22.3% |
| International long distance | 947 | 1,796 | 770 | (177) | -18.7% |
| Other interconnection services | 22,032 | 45,022 | 23,245 | 1,213 | 5.5% |
| Complementary Services | 40,925 | 81,326 | 36,552 | (4,373) | -10.7% |
| Advertising in telephone books | 938 | 3,349 | 713 | (225) | -24.0% |
| Switchboard and dedicated ISP | 1,068 | 1,581 | 515 | (553) | -51.8% |
| Teleemergencia | 4,576 | 8,385 | 3,625 | (951) | -20.8% |
| Public telephones | 4,677 | 8,709 | 3,234 | (1,443) | -30.9% |
| Inside installations | 15,580 | 30,006 | 12,957 | (2,623) | -16.8% |
| Equipment sales | 1,318 | 4,481 | 2,449 | 1,131 | 85.8% |
| Connections and other installations | 1,145 | 2,694 | 1,974 | 829 | 72.4% |
| Value added services | 7,595 | 15,341 | 7,574 | (21) | -0.3% |
| Other basic telephone services | 4,028 | 6,780 | 3,511 | (517) | -12.8% |
| BROADBAND | 49,435 | 104,884 | 56,920 | 7,485 | 15.1% |
| TELEVISION | 10,975 | 27,406 | 19,331 | 8,356 | 76.1% |
| LONG DISTANCE | 30,216 | 60,306 | 27,619 | (2,597) | -8.6% |
| Domestic long distance | 11,318 | 21,933 | 9,606 | (1,712) | -15.1% |
| International service | 13,456 | 27,087 | 12,944 | (512) | -3.8% |
| Media and circuit rental | 5,442 | 11,286 | 5,069 | (373) | -6.9% |
| CORPORATE COMMUNICATIONS | 40,819 | 84,888 | 42,344 | 1,525 | 3.7% |
| Handsets | 5,906 | 12,580 | 5,540 | (366) | -6.2% |
| Complementary services | 7,082 | 14,469 | 7,004 | (78) | -1.1% |
| Data services | 15,073 | 30,228 | 15,806 | 733 | 4.9% |
| Circuits and others | 12,758 | 27,611 | 13,994 | 1,236 | 9.7% |
| OTHER BUSINESSES (3) | 1,065 | 2,487 | 1,152 | 87 | 8.2% |

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| | | | | | |
|--|----------------|-----------------|----------------|----------------|---------------|
| TOTAL OPERATING INCOME | 321,299 | 655,076 | 323,812 | 2,513 | 0.8% |
| Payroll | 43,900 | 53,390 | 43,088 | (812) | -1.8% |
| Depreciation | 112,735 | 210,440 | 105,318 | (7,417) | -6.6% |
| Other Operating Costs | 135,980 | 172,988 | 154,585 | 18,605 | 13.7% |
| TOTAL OPERATING COSTS | 292,615 | 436,818 | 302,991 | 10,376 | 3.5% |
| OPERATING INCOME | 28,684 | 72,782 | 20,821 | (7,863) | -27.4% |
| Financial Income | 2,664 | 5,141 | 2,941 | 277 | 10.4% |
| Other Non-operating Income | 3,116 | 5,148 | 2,691 | (425) | -13.6% |
| Income from Investment in Related Companies | | | | | |
| (4) | 943 | 1,947 | 958 | 15 | 1.6% |
| Financial Expenses | (8,978) | (19,515) | (13,642) | (4,664) | 51.9% |
| Amortization of Goodwill | (803) | (1,618) | (803) | 0 | 0.0% |
| Other Non-operating Expenses | (4,886) | (19,956) | (6,846) | (1,960) | 40.1% |
| Price-level Restatement and Foreign Currency | | | | | |
| Translation | 346 | 1,438 | 8,728 | 8,382 | 2422.5% |
| NON-OPERATING INCOME | (7,598) | (27,415) | (5,973) | 1,625 | -21.4% |
| INCOME BEFORE INCOME TAXES | 21,086 | 45,367 | 14,848 | (6,238) | -29.6% |
| Current and Deferred Income Taxes | (16,075) | (34,277) | (12,031) | 4,044 | -25.2% |
| Minority Interest | 257 | 114 | 184 | (73) | -28.4% |
| NET INCOME (5) | 5,268 | 11,204 | 3,001 | (2,267) | -43.0% |

(1) Due to accounting consolidation does not include Telefónica Larga Distancia.

(2) Includes the income of T-gestiona, Instituto Telefónica and Fundación.

(3) Amortization of the underwater cable is presented in other operating costs.

(4) For comparative analysis purposes, the participation in income of investments in related companies is presented net (net income/losses).

(5) For comparison purposes certain reclassifications of 2007 income have been performed.

3. ANALYSIS OF INCOME FOR THE PERIOD

EVOLUTION OF THE STRUCTURE OF OPERATING INCOME AND COSTS

Operating income

The new income structure has been evolving coherently with the strategy of voice, broadband and television packages, through a flexible offer where the customer creates the combination of services that best accommodates his/her needs. In this manner, the Company has managed to go from a single-service business line to a multi-service business line.

This is evident if we analyze the evolution of income in the period from January to June 2008 in relation to the period from January to June 2007, where we can clearly appreciate that the flexibility and packages of multiple services offered by the Company have allowed it to offset the drop in income from traditional telephone business and achieve an 0.8% increase in comparison to the 2007 period.

As we will comment in Operating Income, the increase in income from flexible plans, broadband and television, has reverted the downward tendency of previous years and offset the drop in income from traditional telephone services (fixed and variable charge) and in the long distance business.

The above is reflected in the following graph, where one can see the growth in the contribution of product packages, which is highly coincidental with the Company's new business strategy.

Operating Costs

The new structure of services has had a direct effect on the structure of costs. The services included in the multiservice offer have two fundamental characteristics. On the one hand they have associated variable costs and commercialization expenses, which are added to the Company's fixed costs and on the other, they are services that due to their nature, in general, generate lower margins. Although this has caused an increase in the Company's operating costs, it is expected that in time these will stabilize.

3.1 OPERATING INCOME

As of June 30, 2008, operating income reached Ch\$20,821 million, which represents a 27.4% decrease in respect to the same period in 2007.

A. Operating Revenue

Operating revenue for the 2008 period amounted to Ch\$ 323,812 million, with a growth of 0.8% in respect to the same period in 2007, where it reached Ch\$321,299 million.

The Company's strategy, focused on the change in the business structure, has strengthened the growth of Broadband and Television, which in conjunction with Flexible Plans, has neutralized the decrease in revenues from traditional fixed telephone and long distance businesses.

i. Revenue from Voice and Complementary Services: This revenue shows a 6.7% decrease in respect to the same period in 2007, mainly due to the following:

Telephony (Voice) Service represents 34.8% of consolidated income and shows a 6.7% decrease in respect to the previous period, originated by:

- **Fixed income**, corresponding to the monthly fixed network connection charge, shows a 29.8% drop which is explained mainly by the migration of customers to flexible plans.
- **Variable income**, decreased by 14.7% showing the effect of lower income derived from the downturn in traffic per line and the migration of customers to flexible plans.
- **Flexible plan**, the growth of customers in Flexible Plans, leveraged by migration from traditional telephony and the capture of new customers increased by 7.1% in respect to the previous year.

Access charges and interconnections, represent 8.4% of consolidated income and increased by 0.5%, due mainly to the 5.5% increase, equivalent to Ch\$1,213 million in *other interconnection services*, highlighted by the increase in media rental services, information services, unbundling services and fixed-fixed access charges. This effect is partially offset by the 22.3% and 18.7% decrease in income from *domestic and international long distance* access charges.

Complementary services represent 11.3% of consolidated income and show a 10.7% decrease, equivalent to Ch\$4,373 million mainly explained by the net effect between:

- The decrease in interior revenue, which is mainly due to the drop in average lines in service, decrease in income from public telephony, advertising in telephone books, security services and switchboard and dedicated ISP.

- The increase in revenue from equipment sales and connections and other installations.

ii. ***Broadband***: Has shown a sustained growth in the last years reaching Ch\$ 56,920 million in the 2008 period, with a 15.1% growth in respect to the same period in 2007 mainly due to the 17.56% increase in the customer base.

iii. ***Television***: Two years after the launching of TV service, revenues represent 6% of operating income and amount to Ch\$19,331. In the same period in 2007, revenue from this service amounted to Ch\$ 10,975 million. The growth in the customer base is 40.5% in respect to the previous year.

iv. ***Long distance***: Revenues from these services decreased by 8.6% in comparison to 2007, due to a 15.1% decrease in income from DLD due mainly to lower average income and a 6.9% decrease in media and circuit rental.

It should be noted that although revenues for the concept of long distance services have decreased, the amount of minutes appraised has increased, which is mainly due to the increase in Multicarrier Hired income, which does not necessarily imply a direct correlation between revenue and minutes appraised.

v. ***Corporate communications***: This business revenue shows a 3.7% increase in respect to the 2007 period, mainly due to a 9.7% increase in income from data circuits and 4.9% in data services.

vi. ***Other businesses***: This revenue shows an 8.2% increase mainly due to the increase in the income of T-Gestiona in respect to the previous period.

B. Operating Costs

Operating costs for the period reached Ch\$302,991 million, increasing by 3.5% in relation to the 2007 period. This is mainly explained by: i) costs generated by the new business model for Internet access with Terra, for ADSL customers; ii) the purchase of content for the television business; and iii) a 13.7% increase in other operating costs, explained by the increase in uncollectability due to the increase in customer debt overdue in excess of 120 days and the increase in costs for the concept of media rental.

3.2 NON-OPERATING INCOME

Non-operating Income obtained in the period ended June 30, 2008 shows a deficit of Ch\$5,973 million, which implied a 21.4% decrease, in respect to the previous period. The most significant effects are generated by:

a) *Financial income* shows a 10.4% increase mainly due to greater volume of funds destined transitorily to financial investments.

b) *Other non-operating income* amounted to Ch\$ 2,691 million, figure which is lower than the Ch\$ 3,116 million reached in 2007. This is mainly because in the 2007 period greater income was obtained from management services.

c) *Financial expenses* increased by 51.9% in 2008, associated mainly to nominalization of the Company debt, which changed from dollar/UF to dollar/peso, which implies a higher interest rate assumed for the respective insurance contracts at a nominal rate in Chilean pesos. This is framed within the hedge policy that limits exposure of the debt to the high volatility of the UF and inflation.

d) *Other non-operating expenses* amounted to Ch\$ 6,846 million, figure that is higher than the Ch\$ 4,886 million reached in the 2007 period. This is mainly due to higher restructuring expenses and withdrawal of out of service property, plant and equipment, effect that is partially compensated by lower expenses related to lawsuits and others.

e) *Price-level restatement* in the 2008 period shows net income of Ch\$ 8,728 million, mainly due to the variations experienced in the CPI, Unidad de Fomento and exchange rate.

3.3 NET INCOME FOR THE PERIOD

Net results as of June 30, 2008 reached net income of Ch\$ 3,001 million, whereas in the 2007 period net income was Ch\$ 5,268 million. The lower income obtained in 2008 is derived from lower operating income, which decreased by 27.4%, basically due to a 3.5% increase in operating costs, effect that is partially offset by the 21.4% decrease in non-operating deficit and 25.2% less income tax.

3.4 RESULTS BY BUSINESS AREA

1. Local Telephone Business: Recorded net income of Ch\$ 3,001 million as of June 30, 2008, in comparison to net income of Ch\$ 5,268 million in the 2007 period. This is due to higher operating costs, which increased by 4.19% in relation to the 2007 period, generated by an increase in the cost of goods and services. The latter explained by the concept of allowance for doubtful accounts mainly due to the increased customer overdue debt in excess of 120 days, effect that is partially offset by the 2.11% increase in operating income in relation to the 2007 period. On the other hand, administration and selling expenses increased by 8.69% generated mainly by an increase in payroll and goods and services which increased by 21.26% and 9.34% respectively, effect that is partially offset by lower non-operating deficit, which increased by 28.55%, due to the effect of price-level restatement, a 5.81% improvement in financial income and a 2.33% increase in net income from investment in related companies, effect partially offset by 46.62% higher financial expenses and a 58.85% greater deficit in other non-operating income.

2. Corporate Communications Business: This business contributed net income of Ch\$ 4,406 million in the period, a 29% increase in relation to 2007 which shows net income of Ch\$ 3,412 million, mainly due to greater operating income due to the 2.46% increase in operating income and the 5.14% decrease in operating costs, effect that is partially offset by the 23.62% increase in administration and selling expenses in comparison to the 2007 period.

3. Long Distance Business: As of June 30, 2008 presented net income of Ch\$ 11,228 million, higher than the net income reached in the 2007 period in the amount of Ch\$ 10,462 million. This variation is produced mainly by greater operating income, which was influenced by the 0.98% increase in operating income in relation to 2007, and in turn the 1.17% and 4.65% decrease in operating costs and administration and selling expenses, respectively, effect that is partially offset by the 10.76% decrease in non-operating income, which is mainly due to greater losses related to price-level restatement and foreign currency translation.

4. Other businesses: These businesses mainly include the services of Instituto Telefónica, T-Gestiona and Fundación. As a whole these businesses generated net income of Ch\$ 1,152 million, higher than the Ch\$1,065 million net income obtained in the 2007 period.

4. STATEMENTS OF CASH FLOWS

TABLE No. 3
CONSOLIDATED CASH FLOWS
(Figures in millions of Chilean pesos as of 06.30.2008)

| DESCRIPTION | JAN-JUN | JAN-DEC | JAN-JUN | VARIATION | |
|---|-----------------|---------------|-----------------|---------------|--------------|
| | 2007 | 2007 | 2008 | MCh\$ | % |
| Cash and cash equivalents at beginning of year | 45,828 | 46,194 | 81,061 | 35,233 | 76.9% |
| Cash flows from operating activities | 113,523 | 254,119 | 89,490 | (24,033) | -21.2% |
| Cash flows from financing activities | (67,130) | (75,152) | (45,080) | 22,050 | -32.9% |
| Cash flows from investing activities | (60,068) | (139,185) | (65,073) | (5,005) | 8.3% |
| Effect of inflation on cash and cash equivalents | (1,502) | (4,266) | (3,012) | (1,510) | 100.5% |
| Cash and cash equivalents at end of year | 30,651 | 81,710 | 57,386 | 26,735 | 87.2% |
| Net change in cash and cash equivalents for the year | | | | | |
| | (15,177) | 35,515 | (23,675) | 8,498 | N.A. |

The negative variation of Ch\$23,675 million in cash and cash equivalents in the cash flows for the 2008 period, compared to the negative variation of Ch\$ 15,177 million in the 2007 period, showed an increase mainly related to a deficit in cash flows from operating activities for the present period, which showed a deficit of 21.2% in relation to the same period in 2007 mainly due to the lower depreciation charge to income, higher credit to income due to the effect of price-level restatement and payments made to suppliers.

5. FINANCIAL INDICATORS

TABLE No.4
CONSOLIDATED FINANCIAL INDICATORS

| DESCRIPTION | JAN-JUN 2007 | JAN-DEC 2007 | JAN-JUN 2008 |
|---|-----------------|-----------------|-----------------|
| LIQUIDITY RATIO | | | |
| <u>Current Liquidity</u> (Current Assets/Current Liabilities) | 1.48 | 1.06 | 1.45 |
| <u>Acid Ratio</u> (Most liquid assets /Current Liabilities) | 0.20 | 0.26 | 0.31 |
| DEBT RATIOS | | | |
| <u>Debt Ratio</u> (Demand Liabilities/Shareholders Equity) | 0.83 | 0.86 | 0.86 |
| <u>Long-term Debt Ratio</u> (Long-term Liabilities/Demand Liabilities) | 0.73 | 0.57 | 0.70 |
| <u>Financial Expenses Coverage</u> (Income before Taxes and Interest / Financial expenses) | 2.91 | 3.60 | 1.87 |
| PROFITABILITY AND NET INCOME PER SHARE RATIO | | | |
| <u>Gross Margin</u> (Operating Income/Operating Revenues) | 8.57% | 14.87% | 6.43% |
| <u>Operating Profitability</u> (Operating Income/Net Property, Plant and Equipment ⁽¹⁾) | 2.0% | 5.29% | 1.6% |
| <u>Net Income Per Share</u> (Net Income / Average number of shares paid each year) | \$ 5.1 | \$11.23 | \$1.1 |
| <u>Return on Equity</u> (Net Income /Average Shareholders Equity) | 0.54% | 1.15% | 0.33% |
| <u>Profitability of Assets</u> (Net Income /Average Assets) | 0.30% | 0.63% | 0.18% |
| <u>Operating Assets Yield</u> (Operating Income /Average Operating income (2)) | 2.04% | 5.30% | 2.24% |
| <u>Return on Dividends</u> | 10.8% | 7.65% | 9.24% |

(Dividends paid /Market Price per Share)

ACTIVITY INDICATORS

| | | | |
|--|-----------------|-----------------|-----------------|
| <u>Total Assets</u> | MCh\$ 1,715,327 | MCh\$ 1,738,833 | MCh\$ 1,660,211 |
| <u>Sale of Assets</u> | - | MCh\$ 138 | - |
| <u>Investments in other companies and property, plant & equipment</u> | MCh\$ 27,933 | MCh\$ 149,064 | MCh\$ 27,331 |
| <u>Inventory Turnover (times)</u> (Cost of Sales/Average Inventory) | 1.45 | 1.65 | 1.80 |
| <u>Days in Inventory</u> (Average Inventory /Cost of Sales times 360 days) | 248.21 | 218.41 | 200.21 |

(1) Figures at the beginning of the period, restated**(2) Property, plant and equipment are considered operating assets**

The previous table shows the following:

The current liquidity index shows a decrease due to an 11% increase in current liabilities, due to the increase in miscellaneous payables related to exchange insurance contracts signed during the present year, which increased accounts payable by 14.1%, whereas current assets only increased by 5.0% .

The debt ratio shows an increase explained by the 4.5% decrease in shareholders equity, mainly due to the stock capital decrease and distribution of dividends, activities performed in 2007 and 2008, for the purpose of distributing cash surpluses to the shareholders.

6. EXPLANATION OF THE MAIN DIFFERENCES BETWEEN MARKET OR ECONOMIC VALUE AND THE BOOK VALUE OF THE COMPANY S ASSETS

Due to market inaccuracies regarding the capital assets of the sector, there is no economic or market value that can be compared to the respective accounting values. However, there are certain buildings with a book value equal to zero or close to zero, which have a market value, which compared to the book value is not significant in respect to the Company s assets taken as a whole.

In relation to other assets, such as marketable securities (shares and promissory notes) with referential market values, the corresponding provisions have been established when the market value is less than the book value.

7. ANALYSIS OF MARKETS, COMPETITION AND RELATIVE PARTICIPATION

Synthesis of Market Evolution

It is estimated that fixed lines in service reached approximately 3,345 million lines in June 2008, which represents a 1% increase in respect to as of June 2007. Long-distance consumption dropped 8.7% in DLD and 3.2% in ILD accumulated in comparison to the same period the previous year.

The broadband market recorded a 19% increase in respect to the same period in 2007, reaching 1,373 thousand accesses.

Telefónica Chile offers the service of DTH (direct to home) satellite television, which during June 2008 grew 16% in comparison to June 2007 and reaches a quota of 17.8% .

Relative Participation

The following table shows the relative market share of Telefónica Chile as of June 30, 2008:

| Business | Market Share | Market Penetration | Telefonica Chile's position in the Market |
|-----------------------------|---------------------|-----------------------------------|--|
| Fixed Telephony | 64% | 20.0 lines / 100 inhabitants | 1 |
| Domestic long distance | 45% | 79 minutes / inhabitants per year | 1 |
| International long distance | 43% | 10 minutes / inhabitants per year | 1 |
| Corporate communications | 42% | Ch\$ 209,816 million (*) | 1 |
| Broadband | 49% | 1,373 thousand connections | 1 |
| Security Services | 17% | 271 thousand connections | 2 |
| Pay TV | 18% | 1,356 thousand accesses | 2 |

(*) Corresponds to Corporate Services for December 2007

8. ANALYSIS OF MARKET RISK

Financial Risk Coverage

With the attractive foreign interest rates in certain periods, the Company has obtained financing abroad, denominated mainly in dollars and in certain cases at a floating interest rate. For this reason the Company faces two types of financial risks, the risk of exchange rate fluctuations and the risk of interest rate fluctuations.

Financial risk due to foreign currency fluctuations

The Company has exchange rate coverage instruments, the purpose of which is to reduce the negative impact of the dollar fluctuations on its results. The percentage of interest bearing debt exposure is defined and continuously reviewed, basically considering the volatility of the exchange rate, its trend, and the cost and availability of hedging instruments for different terms.

The main hedging instruments used are cross currency swaps, dollar/UF and dollar/pesos foreign exchange insurance.

As of June 30, 2008, the interest bearing debt in original currency expressed in United States dollars was US\$ 777.3 million, including US\$ 501.1 million in financial liabilities denominated in dollars and US\$ 276.2 million of debt in unidades de fomento. In this manner US\$ 501.1 million correspond to debt exposed directly to the variations of the dollar.

Simultaneously, the Company holds cross currency swaps, dollar/peso exchange insurance and assets denominated in dollars that resulted, as of the end of the first half of 2008, in close to 0% exposure to foreign exchange.

Financial risk due to floating interest rate fluctuations

The policy for hedging interest rates seeks the long-term efficiency of financial expenses. This considers fixing interest rates to the extent that these are low and allow floating rates when the levels are high.

As of June 30, 2008 the Company ended with an exposure of 86% local floating interest rate exposure.

Regulatory Framework

1. Tariff System

Request to review the current qualification of local telephone services offered to the public subject to tariff setting

According to Law 18,168 (General Telecommunications Law), the prices of public telecommunications services and of intermediate telecommunications services are freely established by operators, unless there is an express qualification from the Antitrust Commission (formerly the Antitrust Resolutive Commission), stating that the conditions existing in the market are not adequate to guarantee a freedom of prices regime. In this case, the maximum tariffs for certain telecommunications services must be subject to tariff regulation.

As of January 30, 2008, the Ministry of Transportation and Telecommunications requested that the Antitrust Commission review the qualification of telecommunications services for the 2009 - 2014 period, for which it is considered that the market conditions are not adequate to guarantee a free tariff regime. The Ministry of Transportation and Telecommunications considers that the domestic telecommunications market conditions merit reviewing current qualifications.

On February 7, 2008 the Antitrust Commission published in the Official Gazette the resolution through which the procedure contemplated in article 31 of Decree Law 211/73 began, considering the request for a report from the Ministry of Transportation and Telecommunications about the fixed telephone services regime to be presented. On the basis of that resolution, the Antitrust Commission notified the National Economic Attorney General's Office, hereinafter the FNE (Fiscalía Nacional Económica), and the country's telecommunications companies, in order for them to contribute information.

The National Economic Attorney General's Office issued its report to the Antitrust Commission, rejecting tariff freedom, in opposition to what was proposed by the Undersecretary of Telecommunications, sustaining that there is no Fixed Mobile substitution, and that the freedom increases risks against competition and proposes to reinforce anti-competition measures. Telecommunications companies presented their opinion to the Antitrust Commission, rejecting tariff freedom for Telefónica Chile.

The Antitrust Commission will set the date for public hearings in reference to the request to review the qualification of telecommunication services for the 2009 - 2014 period.

Setting of local telephone service tariffs to the public of Telefónica Chile

The Undersecretary of Telecommunications published the notice of registration of third party participation in the process of setting the tariffs of Telefónica Chile. The deadline for any third party to register is 10 consecutive days starting on the publication date (April 1, 2008).

On May 30, 2008, the Undersecretary of Telecommunications sent to Telefónica Chile the Preliminary Technical Economic Bases. Analyzing what is proposed in those preliminary bases, Telefónica Chile decided to formulate controversies without requiring the formation of an Experts Commission. On June 4, 2008, Telefónica Chile sent its controversies to the Undersecretary.

On June 9, 2008, Subtel dictated Exempt Resolution No. 562 which defines the Final Technical Economic Bases that will govern the tariff process of Telefónica Chile.

Telefónica Chile will begin activities to perform a Tariff Study that will be presented next November 7, 2008.

Tariff setting for mobile telephone companies

On February 15, 2008, the Undersecretary of Telecommunications notified Mobile Companies of the Final Technical Economic Bases to which they must adhere to carry out the Tariff Study that will set the tariffs and access charges and other interconnection services that will be in force for the 2009 – 2014 period

2. Modification of the Regulatory Framework

2.1. Bill that creates a Panel of Experts.

The object of this project is to create a panel of experts, of a technical nature, integrated by seven professionals who will be in charge of resolving litigations and disagreements between the company and the regulator, for the purpose of reducing judicialization of various regulatory processes in the telecommunications sector.

The project is at the first constitutional stage in the Senate.

2.2. Bill: Network Neutrality.

The project that consecrates neutrality of the network is at the second constitutional process in the Senate. On November 6, 2007 Telefónica Chile submitted the report requested by the Senate's Public Works, Transportation and Telecommunications Commission and subsequently the mentioned commission approved the bill with modifications.

2.3. Public consultations carried out by the Undersecretary of Communications for the purpose of modifying the current regulatory framework

Modification of the concession regime: The purpose of the project submitted for consultation is to modify the Law to adjust to the technological progress reached at a worldwide level which propitiates convergence of networks and services so that network operators and service providers can have a regime without bureaucratic procedures to begin their services, replacing the current regime with a registration system, except when private use of the radio-electric spectrum is required. In addition there is differentiation between network operators and service operators, the separation of local DLD and the DLD multicarrier is eliminated, it is only maintained for ILD; the freedom to freely define the service zone is modified by establishing that the service zones originally registered in the registry cannot be decreased; Broadband is qualified as a telecommunications service, which enables the application of a series of regulations; sanctions are increased by increasing fines, the deadline for attending to supply requests is reduced from 2 years to 6 months. The Undersecretary of Telecommunications has stated that it will hold a 2nd public consultation on the matter.

Creation of the Superintendency of Telecommunications: The purpose of the project submitted for consultation is to modify the Law by separating competencies related to dictating telecommunications policies from the activities of supervision and preventive punitive control of the operation of the market. The preliminary project is being analyzed by Subtel.

2.4. Regulation of public voice service over the Internet.

Decree No. 484, published in the Official Gazette on June 14, 2008, approved the mentioned regulation. The regulation will become effective in 6 months. The main provisions establish among other aspects that a concession is required to provide service, obligatory interconnections, a single service zone that encompasses all the national territory, a-geographic numeration and other obligations that future concessionaries must fulfill.

2.5. Terrestrial Digital Television Standard

To date the technical standard has not been dictated.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 3, 2008

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A.

By: /s/ Isabel Margarita Bravo C.

Name: Isabel Margarita Bravo C.
Title: Financial Director

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.
