TELECOMMUNICATIONS CO OF CHILE
Form 20-F
April 28, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to _________

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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)

Republic of Chile
(Jurisdiction of incorporation or organization)

Avenida Providencia 111
Santiago, Chile
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act	
Title of each class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Series A Common Stock	New York Stock Exchange*

*Listed not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Series A Common Stock	873,995,447
Series B Common Stock	83,161,638

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board x Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

TABLE OF CONTENTS

Table of Contents

CERTAIN TERMS AND CONVENTIONS

All references to “Chile” or the “Republic” are references to the Republic of Chile. All references to the “Government” are references to the Government of Chile. Unless otherwise specified, all references to “Telefónica Chile” or the “Company” are references to Compañía de Telecomunicaciones de Chile S.A., a publicly held stock corporation (sociedad anónima abierta) organized under the laws of Chile, and its subsidiaries. All references to “Telefónica” are references to Telefónica S.A., a publicly held stock corporation organized under the laws of the Kingdom of Spain that owned, directly and indirectly, 97.89% of the Company’s ordinary shares at January 31, 2009. All references to “Telefónica Group” are references to Telefónica and its subsidiaries, including Telefónica Chile.

Unless otherwise specified, all references to “$,” “US$,” “U.S. dollars” and “dollars” are to United States dollars, references to “Chilean pesos,” “pesos” or “Ch$” are to Chilean pesos, references to “UF” are to Unidades de Fomento, a daily-indexed Chilean peso-denominated monetary unit that takes into account the effect of the Chilean inflation rate of the previous month, and references to “UTM” are to Unidad Tributaria Mensual, a monthly-indexed Chilean peso-denominated monetary unit that takes into account the effect of the Chilean inflation rate of the month before the previous month. All references to “euros” are to the common currency of the European Union. Unless otherwise specified, all references to “IFRS” are to international financial reporting standards as issued by the International Accounting Standards Board (the “IASB”), all references to “Chilean GAAP” are to generally accepted accounting principles in Chile and all references to “U.S. GAAP” are to generally accepted accounting principles in the United States. All references to the “SVS” or “Chilean Securities and Exchange Commission” are to the Superintendencia de Valores y Seguros de Chile.

PRESENTATION OF FINANCIAL INFORMATION

This Annual Report contains the audited consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and its Subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of income, shareholders’ equity and cash flows for each of the two years in the period ended December 31, 2008 (collectively, the “Audited Consolidated Financial Statements” or “Financial Statements”), which were audited by Ernst & Young Ltda.

Since January 1, 2008, the Company’s consolidated financial statements are and will be prepared in accordance with the International Financial Reporting Standards as published by the IASB.

The Company’s consolidated financial information as of and for the year ended December 31, 2007 included in the Company’s annual consolidated financial statements was restated in accordance with IFRS. See Note 3 to the Audited Consolidated Financial Statements of the Company as of and for the year ended December 31, 2008, included elsewhere in this Annual Report.

As permitted by IFRS, the Company maintained the restatement of adjustments since January 1, 2004, the same date used as the transition date to IFRS by Telefónica, the Company’s parent company.

IFRS differs in certain significant respects from Chilean GAAP. As a result, the Company’s financial information presented under IFRS is not directly comparable to its financial information presented under Chilean GAAP, and readers should avoid such a comparison. Merely for the convenience of the reader, translations of certain amounts into dollars at a specified rate have been included. Unless otherwise specified, or unless the context otherwise requires, the U.S. dollar equivalent for information in Chilean pesos is based on the exchange rate (the “Observed Exchange Rate”) reported by Banco Central de Chile (the “Central Bank”) that is computed, for any date, by averaging the exchange rates of the previous business day’s transactions in Chile’s Mercado Cambiario Formal (the “Formal Exchange Market”). On January 2, 2009, the Central Bank reported that the Observed Exchange Rate with reference to December 31, 2008, the last business day in 2008 for which an exchange rate was reported, was Ch$636.45 per US$1.00. Telefónica Chile does not represent that the Chilean peso or U.S. dollar amounts in this Annual Report actually represent, or could have been or could be converted into, U.S. dollars or Chilean pesos, as the case may be, at the rates indicated, or at any particular rate or at all. See "Item 3. Key Information—Exchange Rates" for information regarding historical rates of exchange in Chile from January 1, 2004. Unless otherwise specified, references to the depreciation or the appreciation of the Chilean peso against the U.S. dollar are in nominal terms (without adjusting for inflation), based on the Observed Exchange Rates for the relevant period.

1

Table of Contents

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

This Annual Report contains certain "forward-looking statements" within the meaning of Section 21E of the Exchange Act. Some of these forward-looking statements include forward-looking phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "intends," "may," "should" or "will continue," or similar expressions or the negatives the other variations on these expressions, or similar terminology, or discussions of strategy, plans or intentions. These statements also include descriptions in connection with, among other things:

- the Company's business development plans and strategies, including its asset growth, cost-saving and financing plans;
- new offerings of services and acquisitions of licenses, and anticipated demand related to such new services and licenses;
- the future impact of competition;
- economic and political developments in Chile;
- the effects of inflation and currency volatility on the Company's financial condition and results of operations;
- the outcome of regulatory proceedings in which the Company is involved, including its litigation with the State of Chile;
- the Company's unionized employees;
- trends affecting the Company's financial condition or results of operations; and
- regulations affecting the Company's business, including tariff decrees, new rulings, concession and licenses.

Such statements reflect the Company's current views regarding future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance or achievements that forward-looking statements may express or imply, such as, for example:

- changes in regulations and laws;
- the Company's ability to implement its cost and expenses control plans and its investment program, including its ability to arrange financing where required;
- the nature and extent of future competition and technological development;
- political, economic and demographic developments in Chile; and
- other risks and uncertainties, some of which are described in more detail in "Item 3. Key Information—Risk Factors," "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects."

If one or more of these risks or uncertainties affects future events and circumstances, or if underlying assumptions do not materialize, actual results may vary materially from those described in this Annual Report as anticipated, believed, estimated or expected. The Company has no plans to update any industry information or forward-looking statements set out in this Annual Report and have no obligation to update any such statements.

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents selected financial data as of December 31, 2008 and the previous year. The selected financial data should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto, “Item 5. Operating and Financial Review and Prospects” and other financial information included herein.

Since January 1, 2008, the Company’s consolidated financial statements are and will be prepared in accordance with the International Financial Reporting Standards as published by the International Accounting Standards Board (IASB).

The Company’s consolidated financial information as of and for the year ended December 31, 2007 included in the Company’s annual consolidated financial statements was restated in accordance with IFRS. See Note 3 to the Audited Consolidated Financial Statements of the Company.

As permitted by IFRS, the Company maintained the restatement of adjustments since January 1, 2004, the same date used as the transition date to IFRS by Telefónica, the Company’s parent company.

IFRS differs in certain significant respects from Chilean GAAP. As a result, the Company’s financial information presented under IFRS is not directly comparable to its financial information presented under Chilean GAAP, and readers should avoid such a comparison.

	For the year ended December 31,		
	2007	2008	2008
	(in millions of Chilean pesos for the years ended December 31)		(in millions of U.S. dollars)
Income Statement:			
Revenues	696,300	738,731	1,160.7
Other operating income	9,059	28,131	44.2
Employee expenses	(86,268)	(101,029)	(158.7)
Depreciation and amortization	(181,591)	(167,573)	(263.3)
Other miscellaneous operating expenses	(357,908)	(411,078)	(647.6)

Financial expenses (net)	(11,044)	(27,009)	(42.4)
Participation in profit of associates accounted for using equity method	1,783	1,607	2.5
Foreign currency exchange differences	(29,793)	(7,504)	(11.8)
Profit Before Taxes	40,536	54,276	85.3
Income Taxes	(8,980)	(6,369)	(10.0)
Profit for the Year	31,556	47,907	75.2
Minority Interest	(91)	(69)	(0.1)
Profit attributable to equity holders of instruments of the parent	31,647	47,975	75.4
Earnings per ADS (US$)(1)(3)	0.21	0.31	–
Earnings per Share (Ch$)(1)	33.0	50.1	–
Dividend per Share(2)	19.4	11.3	0.02

3

Table of Contents

	For the year ended December 31, 2007	2008	2008
	(in millions of Chilean pesos for the years ended December 31)		(in millions of U.S. dollars)
Dividends per ADS (US$)(3)	0.12	0.07	–
Weighted Average Number of Shares Outstanding	957,157,085	957,157,085	–
Consolidated Balance Sheet Data:			
Cash and cash and equivalents	73,084	71,555	112.4
Property, plant and equipment	1,028,281	1,011,577	1,589.4
Total Assets	1,463,544	1,485,456	2,333.9
Current liabilities	339,000	398,659	626.4
Non-current liabilities	503,395	482,058	757.4
Net cash flows used in financing activities	68,770	51,499	80.9
Total equity attributable to Shareholders of parent	621,149	604,739	950.2
Consolidated Cash Flow Data:			
Net cash flows from operating activities	228,958	178,137	279.9
Net cash flows used in investing activities	128,237	128,167	201.4
Capital Stock	737,179	697,936	1,096.6
Capital Expenditures (4)	141,304	147,989	232.5

(1) Basic earnings (loss) per share have been computed using the weighted average number of shares outstanding during each period presented.

(2) Dividends paid represents the amount of dividends paid in the periods indicated.

(3) Calculated on the basis that each ADS represents four shares of Series A Common Stock. Dividends represent an amount equal to the interim dividends declared for each year and the final dividend for the preceding year declared in April of each year. See "Item 8. Financial Information—Dividend Policy and Dividends."

(4) Represents the amount disbursed in each year, irrespective of the year in which the investment was made.

The following table presents selected financial data expressed in Chilean pesos as of December 31, 2007 for the three previous years, in accordance with the Consolidated Financial Statements presented to the SEC in the form 20-F for the year 2007, which were prepared in accordance with Chilean GAAP, which differs in certain significant respects from U.S. GAAP. The following selected consolidated financial data was affected by certain changes in the Company's corporate structure during the years presented. In particular, the data for 2004 reflects the divestiture and deconsolidation of the Company's mobile subsidiary Telefónica Móvil pursuant to its sale in July 2004.

	2004 (1)	2005	2006
	(in millions of Chilean pesos for the year ended December 31, 2007)		
Statement of Operations Data:			
Chilean GAAP			
Operating Revenues	798,488	636,779	619,917
Operating Costs and Expenses	(504,908)	(409,073)	(400,629)

Administrative and Selling Costs	(180,959)	(132,200)	(130,550)
Operating Results	112,619	95,505	88,738
Interest Income	10,549	8,755	4,765
Interest Expense, Net of Capitalized Interest	(61,406)	(32,350)	(20,922)
Price Level Restatement and Exchange Differences(1)	10,204	3,181	715
Other non-operating income, net(7)	353,258	(10,828)	(16,469)
Income before Income Taxes	425,223	64,264	56,826
Income Taxes	(70,883)	(36,616)	(31,790)
Net Income (loss)	354,019	27,615	25,081
Dividends Paid(2)	720,073	126,916	25,800
Chilean GAAP earnings (loss) per Share(3)	369.87	28.85	26.20
Earnings per ADS(4)	1,479.48	115.40	104.80
Dividends per Share(5)	752.3	13.60	26.95
Dividends per ADS(4)	3,009.22	530.39	107.82
Weighted Average Number of Shares Outstanding	957,157,085	957,157,085	957,157,085

Table of Contents

	2004 (1)	2005	2006
	(in millions of Chilean pesos for the year ended December 31, 2007)		
Statement of Operations Data:			
U.S. GAAP			
Net Income (loss) in accordance with U.S. GAAP	22,788.1	50,042.0	43,705.9
Net income (loss) from continuing operations*	24,209.0	50,042.0	43,705.9
Net income (loss) from discontinuing operations*	(1,420.9)	-	-
Number of Shares	957,157,085	957,157,085	957,157,085
Net Income (loss) in accordance with U.S. GAAP per Share	23.81	52.28	45.66
Net Income (loss) from continuing operations per Share	25.29	52.28	45.66
Net Income (loss) from discontinuing operations per Share	(1.48212)	-	-
Balance Sheet Data:			
Chilean GAAP			
Current Assets	479,776	349,041	315,448
Property, Plant and Equipment, net	1,570,989	1,426,066	1,330,430
Other Assets	101,580	101,229	87,771
Total Assets	2,152,345	1,876,336	1,733,648
Total Long-Term Debt (including Current Maturities)(8)	636,492	550,875	431,308
Total Shareholders' Equity	1,118,843	1,014,943	967,417
U.S. GAAP			
Total Assets	2,157,075	1,876,029	1,744,700
Shareholders' Equity	981,161	882,845	855,992
Paid in Capital	1,000,817	1,000,817	956,821
Other Data:			
Capital Expenditures(6)	92,404	79,024	117,629

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* The Company has revised its amounts previously presented under U.S. GAAP to reclassify its discontinued operations for the sale of Telefónica Móvil de Chile S.A. in 2004. These revised numbers are unaudited. Under Chilean GAAP, the Company is not required to restate or reclassify financial information presented in previous years to reflect significant divestures. For purposes of U.S. GAAP, the Company is required to eliminate the results of operations of certain divested operations from those of its continuing operations in presenting its U.S. GAAP results. See Note 37 to the Audited Consolidated Financial Statements.

(1) The Company has revised its amounts previously presented under U.S. GAAP to reclassify its discontinued operations for the sale of Telefónica Móvil de Chile S.A. in 2004. These revised numbers are unaudited. Under Chilean GAAP, the Company is not required to restate or reclassify financial information presented in previous years to reflect significant divestures. For purposes of U.S. GAAP, the Company is required to eliminate the results of operations of certain divested operations from those of its continuing operations in presenting its U.S. GAAP results.

(2) Dividends paid represents the amount of dividends paid in the periods indicated.

(3) Basic earnings (loss) per share have been computed using the weighted average number of shares outstanding during each period presented.

(4) Calculated on the basis that each ADS represents four shares of Series A Common Stock.

(5) Represents an amount equal to the interim dividends declared for each year and the final dividend for the preceding year declared in April of each year. See "Item 8. Financial Information—Dividend Policy and Dividends."

(6) Represents the amount disbursed in each year, irrespective of the year in which the investment was made.

(7) The Company recorded a non-operating gain associated with the sale of its subsidiary Telefónica Móvil de Chile S.A. to Telefónica Móviles (TEM) in July 2004.

(8) Total Long-Term Debt (including Current Maturities) includes notes and accounts payable to related companies and capital lease obligations.

Exchange Rates

Chile's Ley Orgánica Constitucional del Banco Central de Chile No. 18,840 (the "Central Bank Act"), enacted in 1989, liberalized the rules that govern the purchase and sale of foreign exchange in Chile. Prior to 1989, Chilean law authorized the purchase and sale of foreign exchange only in those cases explicitly authorized by the Central Bank.

The Central Bank Act empowers the Central Bank to determine whether certain purchases and sales of foreign exchange must be carried out in the Formal Exchange Market, a market formed by banks and other institutions authorized by the Central Bank for that purpose. The Central Bank has ruled that certain foreign exchange transactions (including those attendant to foreign investments) may be effected only in the Formal Exchange Market. Banks and other institutions may purchase and sell foreign exchange in the Formal Exchange Market at such rates as they freely determine from time to time. The Central Bank reports an Observed Exchange Rate that is computed, for any date, by averaging the exchange rates of the previous business day's transactions in the Formal Exchange Market.

Since 1989, the Central Bank has also set a reference exchange rate known as the dólar acuerdo ("Reference Exchange Rate") that is reset monthly, taking internal and external inflation into account, and is adjusted daily to reflect variations in the parities between the Chilean peso and each of the U.S. dollar, the euro and the Japanese yen.

The Central Bank Act authorized the Central Bank to carry out its transactions at rates within a specified band set around the Reference Exchange Rate. While the band was in place, the Central Bank generally carried out its transactions at the spot rate. When banks needed to buy or sell U.S. dollars from or to the Central Bank, the Central Bank made such sales at rates as high as the upper limit of the band, and such purchases at rates as low as the lower limit of the band. Banks generally carried out authorized transactions on the Formal Exchange Market at the spot rate, which usually fluctuated within the range of the band.

Table of Contents

In order to keep fluctuations in the average exchange rate within the range of the band, the Central Bank of Chile in the past intervened by buying or selling foreign currency on the formal exchange market. On September 2, 1999, in order to allow for increased exchange rate flexibility, the Central Bank suspended its formal commitment to maintain the exchange rate within a specified band. The Central Bank may, however, still intervene in certain exceptional cases of exchange rate fluctuations to keep the average exchange rate within certain limits, and must inform the market of the reason for its intervention in each such event. Nonetheless, the Central Bank will continue to publish the Reference Exchange Rate as a reference for the market. Purchases and sales of foreign exchange that may be effected outside the Formal Exchange Market can be carried out in the Mercado Cambiario Informal (the "Informal Exchange Market"), a recognized currency market in Chile.

The following table sets forth the high, low, average and year-end Observed Exchange Rates for U.S. dollars for each year beginning with 2004 and for each of the past six months, as reported by the Central Bank. On March 31, 2009, the Observed Exchange Rate was Ch$583.26 per US$1.00.

	Observed Exchange Rates(1) (Ch$ per US$)			
	Low(2)	High(2)	Average(3)	Period-End
Year ended December 31, 2004	557.40	649.45	609.51	557.40
Year ended December 31, 2005	509.70	592.75	559.77	512.50
Year ended December 31, 2006	511.44	549.63	530.28	532.39
Year ended December 31, 2007	493.14	548.67	522.42	496.89
Year ended December 31, 2008	431.22	676.75	522.35	636.45
Month ended October 31, 2008	555.56	676.75	623.79	669.94
Month ended November 30, 2008	629.19	675.57	651.24	664.57
Month ended December 31, 2008	625.59	674.83	647.91	636.45
Month ended January 31, 2009	610.09	643.87	622.09	617.10
Month ended February 28, 2009	583.32	623.87	605.10	599.04
Month ended March 31, 2009	572.39	643.87	606.73	583.26

Source: Central Bank and Reuters Data Base

(1) Reflects nominal pesos at historical values.

(2) Exchange rates are the actual high and low for each period.

(3) Corresponds to daily average rates during the period.

Telefónica Chile does not represent that the Chilean peso or U.S. dollar amounts referred to herein actually represent the amounts that were, could have been or could be converted into U.S. dollars or Chilean pesos, as the case may be, at the rates indicated, at any particular rate or at all.

The Central Bank regulates the international issuance by Chilean companies of non-peso-denominated debt, including, among other things, the repatriation and exchange for pesos of the foreign currency proceeds from such offerings. See "Item 10. Additional Information—Exchange Controls and Other Limitations Affecting Security Holders."

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

The following discussion should be read together with this Form 20-F, including the Audited Consolidated Financial Statements, and the notes thereto.

Table of Contents

Risks Relating to the Company's Business

Regulation may adversely affect revenues in certain of Telefónica Chile's businesses.

Tariff regulation

The Chilean Government has historically regulated local telephony services in Chile. The Comisión Resolutiva Antimonopolios (the "Antitrust Authority", now known as the "Tribunal de Libre Competencia"), a Chilean government agency responsible for making certain determinations relating to competitive conditions in the telecommunications industry, determined that Telefónica Chile is a dominant operator of local telephony in many geographical areas of Chile. As a result, the Company is subject to tariff decrees that regulate certain rates and fees that the Company can charge for such local telephony services in most of the country. In accordance with the telecommunications law, all telecommunications operators are subject to regulation of their access charges (the charge to telecommunications operators for accessing another operator's network) which have been set at different levels depending on the operator. Consequently, costs of accessing different operators' networks differ. Regulatory changes in approved access charge rates may affect the revenues for local telephony and costs of interconnections to other local operators. Similarly, interconnections to local operators represent costs for the long distance and mobile businesses. Despite the above, in January 2009, the Antitrust Authority issued an opinion recognizing that current market conditions do not justify tariff regulation regarding local telephone service (fixed and variable charge), public telephones and line connections. The Chilean telecommunications authority, the Subsecretaría de Telecomunicaciones ("Subtel"), may confirm, modify or reject that opinion and, in any case, the Company can give no assurance that the eventual ruling, if any, will not have a material adverse effect on the results of operations or financial position of the Company.

Tariff regulation may have a significant impact on Company revenues and its ability to compete in the marketplace, as the Company is required to charge the same tariff to all clients in a designated tariff area. See "Item 4. Information on the Company—Business Overview—Licenses and Tariffs." In 2008, approximately 27% of Company revenues (including the regulated items in fixed charge, variable charge, access charges and public telephony) were from regulated business activities. The application of the local service tariffs, defined by Tariff Decree No. 169 for the period from 2004 to 2009, resulted in a minor impact in the 2004 and 2005 financial statements of Telefónica Chile. In contrast, the introduction of Tariff Decree No. 187 in May 1999 resulted in a reduction of approximately 25% in regulated revenues per line in the first year. Since 1999, the Company has sought administrative relief to correct what it believes are certain errors and illegalities in Tariff Decree No. 187. Upon denial of such relief, and having exhausted the administrative recourses available to it, in March 2002, Telefónica Chile filed a civil lawsuit for damages against the State of Chile, which is currently pending.

The Company can give no assurance that future tariff decrees for fixed telephony will not have a material adverse effect on the results of operations or financial position, as such future tariff decrees could cause alterations in demand or traffic volume, or changes in the timing of traffic distribution from more expensive to less expensive time slots.

Other regulations

New regulations or changes in the existing regulatory model may adversely affect the Company's businesses. No assurance can be given that future regulations, if any, will not have a material adverse effect on the Company's results of operations of financial position.

Law No. 18,168 (as amended, and together with the regulations promulgated thereunder, the "Telecommunications Law") also specifies certain causes for which an operator can be sanctioned through penalties or even the termination of its public or intermediate service license, if the operator is in violation of the law or does not comply with the terms and conditions to which the license is subject. If the holder believes that its license has been terminated unlawfully, the holder may appeal the termination in Chilean courts. If a license is terminated, the holder is barred from applying for any license for a period of five years. Any such sanctions could have a material adverse effect on the Company's results of operations or financial position.

Table of Contents

Telefónica Chile faces intense competition.

Telefónica Chile faces intense competition in every aspect of its business, ranging from existing operators to new entrants. In addition, consolidation is leading to greater levels of competition.

In 2004, two leading cable operators merged. The combined company, VTR GlobalCom, currently leads the paid television market and is also a relevant player in broadband and fixed telephony. In the mobile telephony business, Telefónica Móviles ("TEM") acquired Bellsouth in Chile and the mobile subsidiary of Telefónica Chile in 2004. In the same year, competition increased with the entry of new operators, primarily in the long distance and data transmission businesses. The Mexican operator Telmex, a data transmission operator, and América Móvil, a Telmex affiliate, entered the local mobile telephony market by acquiring Smartcom in August 2005. In 2007, Telmex also acquired ZAP, a local satellite television operator. Similarly, in September 2005, the local data transmission operator, GTD, acquired the local fixed operator Manquehue. In 2008, Telmex started building a hybrid fiber coaxial network with voice, broadband and pay television services. Telmex had already entered the residential segment through a bundled offer of telephony, broadband and satellite television. Its telephony and broadband services are provided over WiMax. See "Item 4. Information on the Company—Business Overview Areas—Market and Competition."

In the fixed local telephony market, Telefónica Chile competes with both mobile telephony and other fixed and cable telephony operators, which are not subject to the same tariff regulations as the Company and therefore may compete with different conditions. Partly as a result, the Company's market share has declined. In the corporate communications and data transmission services market, there are eight major operators in the main cities of Chile, three of which have nationwide infrastructure coverage. In the long distance services market, Telefónica Chile competes with numerous other long distance operators and with mobile telephone operators in the domestic long distance market. As a result, the Company has faced intense pricing pressure and a decreasing trend in traffic. Telefónica Chile also faces increasing competition in broadband services and in pay television services as well. The development of new technologies, such as wireless accesses like WiMax or 3G networks, deployed by mobile operators to provide wireless broadband has increased competition in the market. See "Item 4. Information on the Company—Business Overview—Market and Competition." Increased competition or the entrance of new competitors could adversely affect the Company's results of operations, financial condition or prospects.

Changes in technology could affect Telefónica Chile in ways it cannot predict.

The telecommunications industry as a whole has traditionally been, and is likely to continue to be, subject to rapid and significant changes in technology and the related introduction of new products and services. Although the Company believes that for the foreseeable future, existing and developing technologies will not materially adversely affect the viability or competitiveness of its telecommunications business, there can be no assurance as to the effect of such technological changes on the Company or that the Company will not be required to expend substantial financial resources on the development or implementation of new competitive technologies.

New services and technological advances may offer additional opportunities to compete against the Company on the basis of cost, quality or functionality. It may not be practicable or cost-effective for the Company to replace or upgrade its installed technologies in response to competitors' actions. Responding to such change may require the Company to devote substantial financial resources to the development, procurement or implementation of new technologies and to write off obsolete assets relating to its existing technology. If the Company chooses to purchase or invest in the development of new telecommunications technology, there can be no assurance that such new products or services will not serve as a substitute to existing products and services offered by the Company. In the past, the Company has experienced such substitution with the introduction of mobile communications service, which has contributed to the declines in number of fixed lines, volume of traffic and in domestic long distance traffic.

Recent trends seen outside of Chile have shown an increased use of IP technology as a substitute for traditional voice services, which are often provided at lower prices. The Telecommunications Law requires a regulation to be defined for these services to be offered to the public. Additionally, in 2006, Subtel initiated a process of public inquiry for new regulations relating to IP telephony over broadband. After receiving comments from thirty actors during the inquiry process, on June 14, 2008, Rule No. 484 regarding voice over IP services was published in the Official Gazette. Even though, such rule favors the application of regulations similar to those of public telephone

9

Table of Contents

services to voice over IP, use of this technology may serve as a substitute for the Company's local and long distance traffic and increase pricing pressure.

As a result, if the Company chooses to introduce any such new telephony products or services, it can give no assurance that the benefits of such new products and services will not be materially offset by declines in existing products and services offered by the Company or that it will be permitted to participate in that business.

Labor relations may negatively impact Telefónica Chile.

As of December 31, 2008, approximately 60% of the Company's employees were union members. As of December 31, 2008, the Company had collective bargaining agreements in place with 22 unions.

The Company has taken steps to maintain stable labor relations, such as the contracts for periods from three to four years that were signed after a successful collective bargaining process, as well as the agreement between the Company and its employees in order to implement a new model of labor relations, which was designed to encourage a greater degree of participation and to address the interests of workers and management alike. In 2008, a collective labor agreement was signed with the Chilean telecommunications union, SINTELFI, the largest union in terms of representation of Company employees, representing 1,605 employees. The agreement was negotiated in advance of its expiration, and modified the parameters for annual compensation and incentive adjustments, basing them on performance, productivity and alignment with business objectives. As of December 31, 2008, 92.8% of unionized employees have signed three to four year contracts.

However, the Company can provide no assurance that in the future it will be able to successfully negotiate new contracts on favorable terms, or that the unions involved in the negotiations will not choose to implement a labor strike or invoke Article 369 at such time. Article 369 of the Chilean Labor Code allows unions that are renewing labor agreements to freeze the conditions of the previous agreement for a period of 18 months. In addition, new regulations or changes in the existing labor laws may adversely affect the Company's businesses.

Telefónica is the controlling shareholder of Telefónica Chile, and thus may determine the outcome of actions requiring shareholder approval.

As a result of the tender offers launched by Inversiones Telefónica International Holding Limitada in September and December 2008, Telefónica Internacional Chile S.A. increased its ownership of Telefónica Chile's common stock from 44.9% to 97.89%. Telefónica Internacional Chile is a 99.9% owned subsidiary of Telefónica Chile Holding B.V., which in turn is indirectly wholly-owned by Telefónica. Consequently, Telefónica has the ability to determine the outcome of any actions requiring shareholder approval. See "Item 10. Additional Information—Memorandum and Articles of Association—Shareholders' Meetings and Voting Rights." In addition, Telefónica's equity stake in Telefónica Chile allows Telefónica to control the Company's Board of Directors. At the General Annual Shareholders' Meeting held on April 13, 2007, Telefónica elected five of seven members of the Board of Directors.

The Company could be adversely affected if major suppliers fail to provide needed equipment and services on a timely basis.

The Company depends on suppliers for network infrastructure, equipment and services to satisfy its operating needs. Many suppliers rely heavily on labor; therefore, any work stoppage or labor relations problems affecting the Company's suppliers could adversely affect its operations. Suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. If these suppliers fail to deliver products and services on a timely basis that satisfies its customers' demands, the Company could be negatively affected. Similarly, interruptions in the supply of telecommunications equipment for networks could impede network development and expansion.

The Company's historical consolidated financial and operating results may not be indicative of future performance.

The Company has divested subsidiaries in the past years. See "Item 4. Information on the Company—History and Development of the Company—Divestures." In October 2008, the Company sold the assets and customer portfolio of a subsidiary, Telefónica Asistencia y Seguridad S.A., to Prosegur for a total of Ch$15,563 million. In

Table of Contents

July 2004, the Company sold its mobile subsidiary, which provided 29.2% of operating revenues in the year ended December 31, 2003, and generated Ch$13,467 million (historic value) in operating income during the same period. The sale of businesses resulted in the loss of their contributions to the Company's operating results. No assurances can be given that the Company will or will not divest of additional businesses in the future or that such divestitures will or will not affect the Company's results and access to financing. As a result, the Company's historical consolidated financial results for and as of the end of periods ending on or prior to these transactions may not be indicative of its future operating and financial performance.

The Company may not be successful in the development of new businesses or product innovation.

The Company cannot ensure the success of any new services, products or the development of new businesses in the telecommunications market or other markets, or their impact on the Company's results.

Certain considerations related to platforms located in other countries.

The Company operates in Chile and most of its systems and platforms are located within Chile. Nevertheless, the Company also relies on shared platforms within the Telefónica Group, such as SAP accounting support, and other equipment outside Chile in order to provide the pay television service. As a result, the Company cannot assure that volatility or unfavorable economic, political and social conditions outside Chile will not materially affect its ability to provide services.

The Company may not be able to refinance its outstanding indebtedness.

The Company's total financial debt as of December 31, 2008 amounted to Ch$436,388 million, (US$685.7 million), including current maturities, outstanding derivatives and fair value adjustments, with an average maturity of 2.4 years. Although in the past Telefónica Chile has relied substantially on public debt issuances and bank loans to meet its financing requirements, in recent years its main sources of liquidity have been cash flow generated from operations and cash flow resulting from savings associated with the refinancing of certain loans and sale of assets. In 2008, the Company continued with the renegotiation of loans and extending of maturities. As a result, the Company has similar amounts of debt maturing in each of the next five years, the repayments of which are expected to be funded through cash flow generated from operations and refinancings.

Due to recent turmoil in global credit markets and the continued decline in the global economy, the Company may not be able to refinance its debt at terms that are as favorable as those from which the Company previously benefited, at terms that are acceptable to the Company or at all. Refinancing of debt or increased levels of debt could have negative effects that include: difficulties in obtaining future financing; reductions in credit ratings issued by rating agencies; restrictions on cash flows or operations imposed by lenders; higher rates; and reduced flexibility to take advantage of or pursue other business opportunities. For these reasons, among others, if current economic conditions persist or decline, the Company's operating results and financial condition, as well as its ability to service debt and pay other obligations, could be adversely affected.

A system failure could cause delays or interruptions of service, which could cause us to lose customers.

To provide effective service, the Company will need to continue to provide its customers with reliable service over its network. Some of the risks to the Company's network and infrastructure include:

- physical damage to access lines and networks;

- power surges or outages;
- software defects;
- disruptions beyond the Company’s control; and
- disruptions due to changes in obsolete equipment.

The Company’s operations also rely on a stable supply of utilities. Given recent instability of those supplies, including the supply of gas from Argentina and electricity rationing in Chile, the Company can not ensure that future

Table of Contents

supply instability or interruptions will not impair its ability to procure required utility services in the future, which could adversely impact its operations.

Prolonged service interruptions could affect the Company’s business. The Company relies heavily on its network equipment, telecommunications providers, data and software to support all of its functions. The Company relies on its networks and the networks of others for substantially all of its revenues. The Company is able to deliver services only to the extent that it can protect its network systems against damage from power or telecommunications failures, computer viruses, natural disasters, unauthorized access, theft of copper wires from external networks and other disruptions. While the Company endeavors to provide for failures in the network by providing backup systems and procedures, it cannot guarantee that these backup systems and procedures will operate satisfactorily in an emergency. Should the Company experience a prolonged failure, it could seriously jeopardize its ability to continue operations. In particular, should a significant service interruption occur, its customers may choose a different provider and its reputation may be damaged, reducing its attractiveness to new customers.

The Company may not be successful in currently pending legal proceedings.

The Company is a party to lawsuits and other legal proceedings in the ordinary course of its businesses, some of which have been pending for several years. An adverse outcome in, or any settlement of, these or other lawsuits could result in significant costs and negatively impact the Company’s financial results. See “Item 8. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings.”

Risks Relating to Chile

A downturn in the Chilean economy may adversely affect Telefónica Chile.

Nearly all of Telefónica Chile’s customers are Chilean companies or individuals, and substantially all of Telefónica Chile’s operations are located in Chile. For these reasons, the results of the Company’s operations and its financial condition are sensitive to, and dependent upon, the level of economic activity in Chile. Historically, growth in the Chilean telecommunications industry has been tied to the state of Chile’s economy, particularly levels of consumer spending and demand.

Unfavorable general economic conditions, such as a recession or economic slowdown in Chile, could negatively affect the affordability of and demand for some of the Company’s products and services. In difficult economic conditions, consumers may seek to reduce discretionary spending by forgoing purchases of the Company’s products, electing to use fewer higher-margin services or obtaining products and services under lower-cost programs offered by other companies. Similarly, under these conditions the business customers that the Company serves may delay purchasing decisions, delay full implementation of service offerings or reduce their use of services. Furthermore, adverse economic conditions may lead to an increased number of the Company’s consumer and business customers that are unable to pay for services. If any of these events were to occur, it could have a negative effect on the Company’s results of operations.

The Company can give no assurance that Chile’s economy will continue to grow in the future, nor can it give assurances that future developments in or affecting the Chilean economy will not impair its ability to proceed with its business plan or materially adversely affect its business, financial condition or results of operations.

Developments in other emerging markets or in the global telecommunications market may adversely affect Telefónica Chile.

Developments in the global telecommunications market and in other emerging markets, particularly in Latin America, may adversely affect the market for Telefónica Chile's securities and the availability of foreign capital in Chile. The Company cannot predict whether events in other markets will adversely affect the price of, or market for, its securities.

Unfavorable general economic conditions, including the current recession in the United States and the recent financial crisis affecting the global banking system and financial markets, have caused a decrease in the amount of foreign capital invested in emerging markets, including Chile and Latin America. In turn, this has caused securities markets in many emerging markets, including Chile and Latin America, to decrease in value and has led to depreciation of emerging market currencies compared to the U.S. dollar. The Company cannot give any assurance

Table of Contents

that negative developments in Latin America or other emerging markets will not occur or that such negative developments would not adversely affect the securities markets in which the Company's securities trade or affect the Company's access to sources of financing.

An increase in inflation may adversely affect Telefónica Chile.

Chile has experienced high levels of inflation in the past. High levels of inflation in Chile could adversely affect the Chilean economy and Telefónica Chile's financial condition and results of operations. The rate of inflation as measured by changes in the Chilean consumer price index in the years 2004, 2005, 2006, 2007 and 2008 was 2.4%, 3.7%, 2.6%, 7.8% and 7.1% respectively. Over the past two years, inflation has exceeded the Central Bank's target range. Generally, high levels of inflation will adversely affect the Company's financial condition to the extent that, during any given period:

- the Company's average domestic inflation-indexed liabilities exceed its average domestic inflation-indexed assets;

- the Company's average monetary assets exceed its average monetary liabilities; or

- the Company is unable to transfer increased inflation-indexed costs such as labor and supplies to customers.

Any significant increase in the level of inflation in the future may adversely affect the performance of the Chilean economy and the operating results of the Company.

Currency devaluations and foreign exchange fluctuations may adversely affect Telefónica Chile.

Volatility of the value of the Chilean peso against the U.S. dollar could adversely affect the Company's financial condition and results of operations. In 2004, 2005 and 2007, the peso recorded a nominal appreciation against the U.S. dollar of 6.1%, 8.1% and 6.7%, versus the prior year. However, in 2006 and 2008 the peso experienced a nominal depreciation of 3.9% and 28.1%, respectively.

The main driver of exchange rate volatility in the past years was the significant devaluations in other Latin American countries, mainly Brazil, as well as general uncertainty and trade imbalances in global markets. In 2007, Chilean peso appreciation was driven by improvement in Chilean economic indicators and record commodities prices, together with weakness in the U.S. dollar. More recently, the primary driver of exchange rate volatility has been the substantial appreciation of the U.S. dollar relative to emerging markets currencies, including the Chilean peso. The value of the Chilean peso against the U.S. dollar may continue to fluctuate significantly in the future. See "Item 3. Key Information—Selected Financial Data—Exchange Rates."

Historically, a significant portion of the Company's indebtedness has been denominated in U.S. dollars, while a substantial part of its revenues and operating expenses has been denominated in pesos. If the peso's value declines against the dollar, Telefónica Chile will need more pesos to repay the same amount of dollar-denominated debt. As a result, fluctuations in the Chilean peso to U.S. dollar exchange rate may affect the Company's financial condition and results of operations. As of December 31, 2008, 67.8% of the Company's interest-bearing debt was denominated in U.S. dollars and was fully hedged against exchange rate variations between the peso and the U.S. dollar through financial instruments such as forward exchange agreements and cross-currency swaps. The remainder of the Company's interest-bearing debt is UF- or peso-denominated and therefore not subject to exchange rate risk. The Company's hedging policy against foreign exchange fluctuations is disclosed in "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Risk of Variations in Foreign Currency Exchange Rates."

Risks Relating to the Company's ADSs

The relative illiquidity and volatility of Chilean securities markets and the decreased liquidity of the Company's common stock could adversely affect the price of the Company's ADSs and common stock.

Chilean securities markets are substantially smaller and less liquid than the major securities markets in the United States. In addition, Chilean securities markets may be affected materially by developments in other emerging markets, particularly in other countries in South America. Since the completion of the tender offers launched by

Table of Contents

Telefónica Internacional Holding Limitada, the liquidity of the Company's common stock in the Chilean market has markedly decreased. The relatively low liquidity of the Chilean market and the low liquidity of the Company's common stock may impair the ability of holders of ADSs to sell shares of the Company's common stock withdrawn from the ADS program into the Chilean market in the amount and at the price and time they wish to do so.

The termination of the deposit agreement relating to the Company's ADSs may impair ADS holders' ability to transfer their ADSs, delay ADS holders' receipt of any dividends and result in the cancellation of the ADSs and the subsequent sale of the securities underlying the ADSs.

The Company has directed Citibank, N.A., as depositary, (the "Depositary") to terminate the deposit agreement relating to the Company's ADSs. Upon effectiveness of the termination, which the Company expects to occur on or about May 7, 2009 (the "Termination Date"), the Depositary will cease to provide certain services, including the registration of transfer of Telefónica Chile's ADSs, and it will suspend the distribution of dividends to the holders of the ADSs. Existing ADS holders may exchange their ADSs for the underlying Series A Common Stock of the Company at any time until the expiration of a 60-day period commencing on the Termination Date. In addition, after the expiration of such 60-day period, the Depositary may, and intends to, sell the securities underlying the ADSs and may thereafter hold the net proceeds of any such sale, together with any other cash then held by it under the deposit agreement, in an unsegregated account, without liability for interest, for the pro rata benefit of the holders of the ADSs. The Company cannot guarantee that such termination will not impair ADS holders' ability to transfer their ADSs when and if they choose to do so, will not delay the receipt of any dividends or that the sale of any securities underlying the ADSs will occur in a manner that maximizes the price obtained for such securities. See "Item 9. The Offer and Listing—Offer and Listing Details—Common Stock Prices and Related Matters" for more information.

The delisting of the Company's ADS' from the NYSE and the Company's expected deregistration with the SEC may reduce the liquidity of the market for the Company's ADSs.

Effective February 19, 2009, the Company's ADSs have been delisted from the New York Stock Exchange. Following the delisting and the termination of the deposit agreement, the Company will deregister with the U.S. Securities and Exchange Commission (the "SEC") if it becomes eligible to do so under the SEC's rules. The company hopes to do so in or around October 2009. If it is able to deregister with the SEC, the Company will no longer be required to file annual or periodic reports with the SEC, and investors will have to rely on its filings with the SVS and the Chilean Stock Exchanges, which are made in the Spanish language, for information. As a result, there can be no assurance that a liquid market for the Company's ADSs exists now or will exist in the future. See See "Item 9. The Offer and Listing—Offer and Listing Details—Common Stock Prices and Related Matters" for more information.

Controls on foreign investment and repatriation of investments in Chile may adversely impact the Company's ADS holders' ability to obtain and dispose of the shares of the Company's common stock underlying its ADRs.

Equity investments in Chile by persons who are not Chilean residents are generally subject to exchange control regulations that restrict