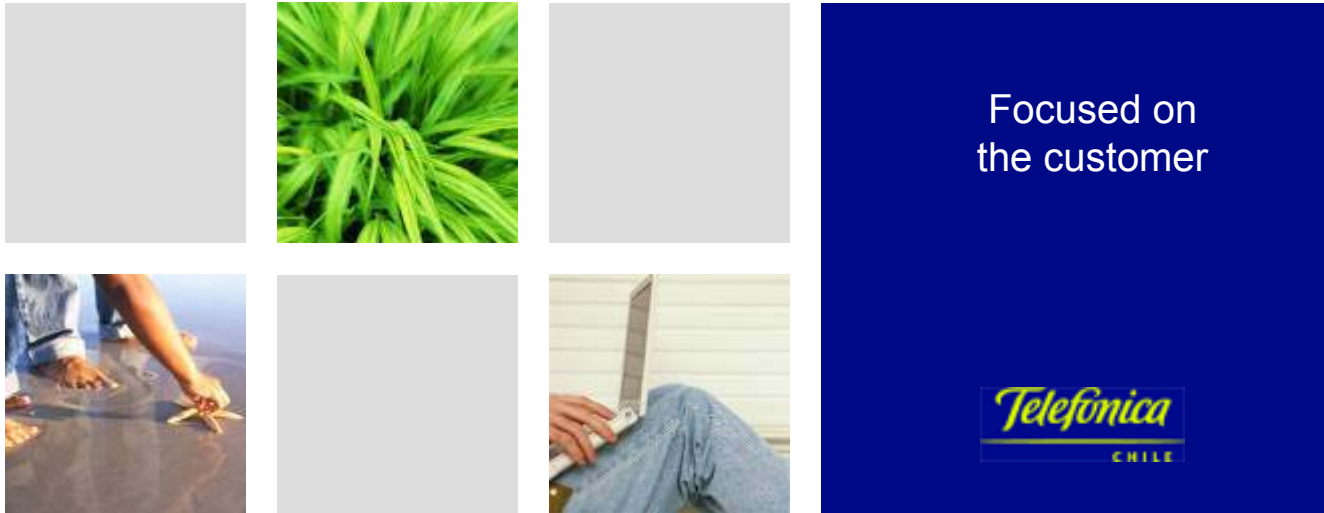


The Race for convergence: Voice, Video, Broadband



Mr. Nicolas Dominguez Staedke
Chief Strategy Officer

Sao Paulo, September 29th, 2006

| Telefónica Chile S.A.

15 years on the NYSE
125 years of history in Chile

Content



Focused on
the customer

- **Understanding convergence and the opportunities in the Chilean market**

- **Telefónica Chile's approach to convergence and results today**



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the customer

Telefonica Chile has strong financial fundamentals

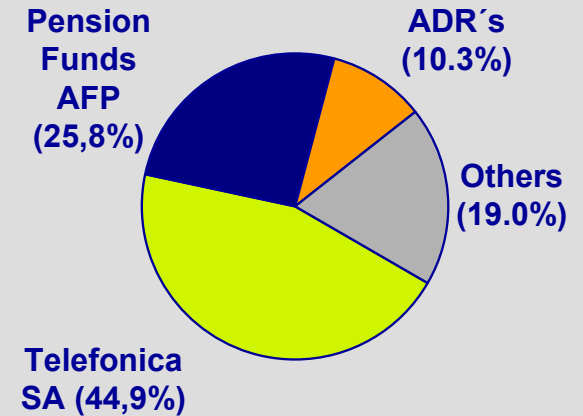
Solid Cash Flow Generation:

- 2005 revenues: US\$1,134 million
- EBITDA: US\$554 million
- Market Capitalization: US\$1,624 million *

Solid Financials:

- Leverage: 0.84 times
- Interest coverage: 13.2 times
- International debt ratings:
 - Fitch: BBB+/Stable Outlook
 - Moody's: Baa1/Stable Outlook

Ownership Structure *



* as of 08.31.06



Voice

Data &
Internet

Home security &
Demotic

Digital TV &
Interactive
contents



+



+



+



From sole fixed Telephony



To a multiservice provider



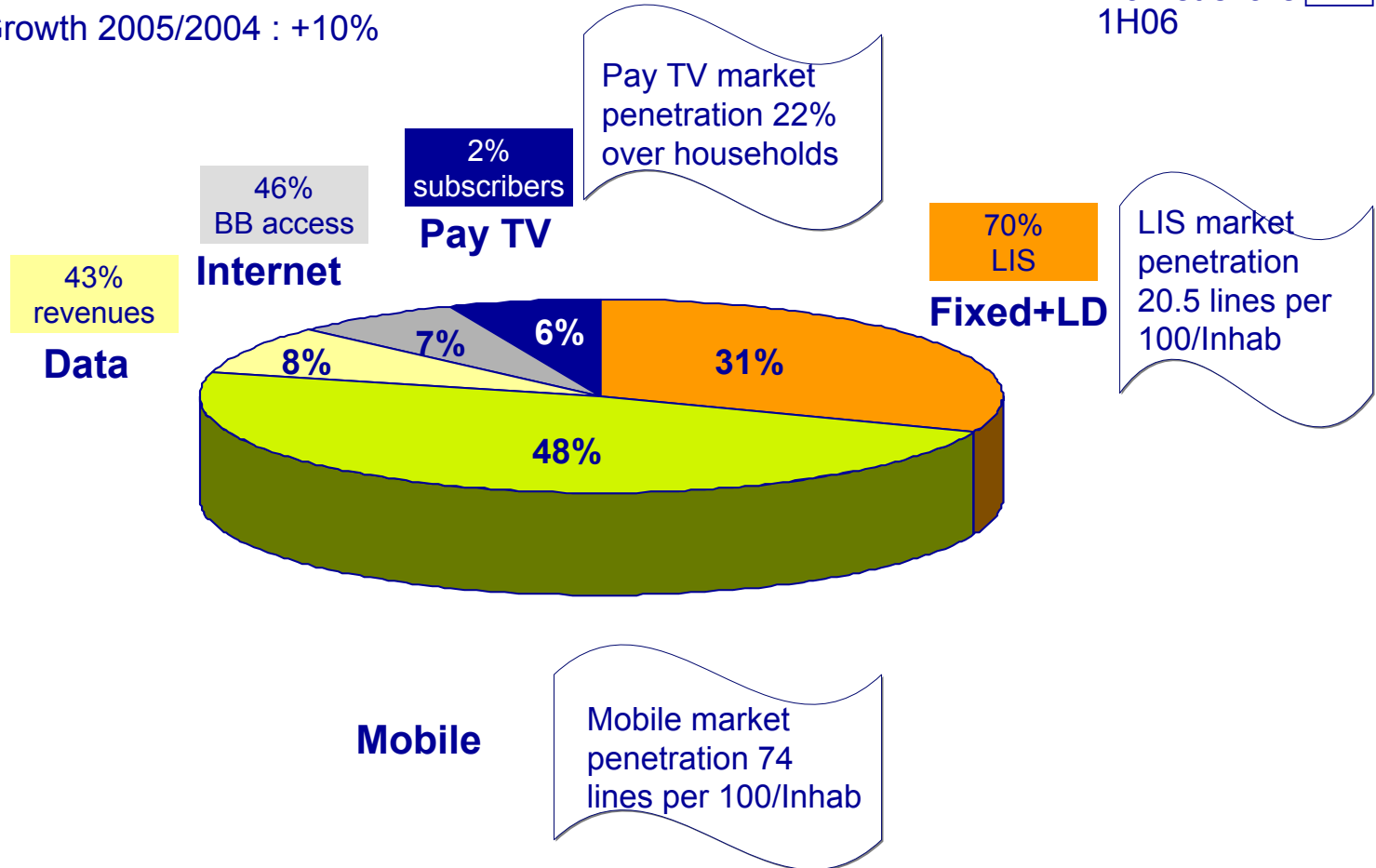
... and is well positioned in the highly competitive Chilean telecom industry

Revenue of the industry 2005:
US\$4,439⁽¹⁾ million

Growth 2005/2004 : +10%

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T-Chile market share 1H06

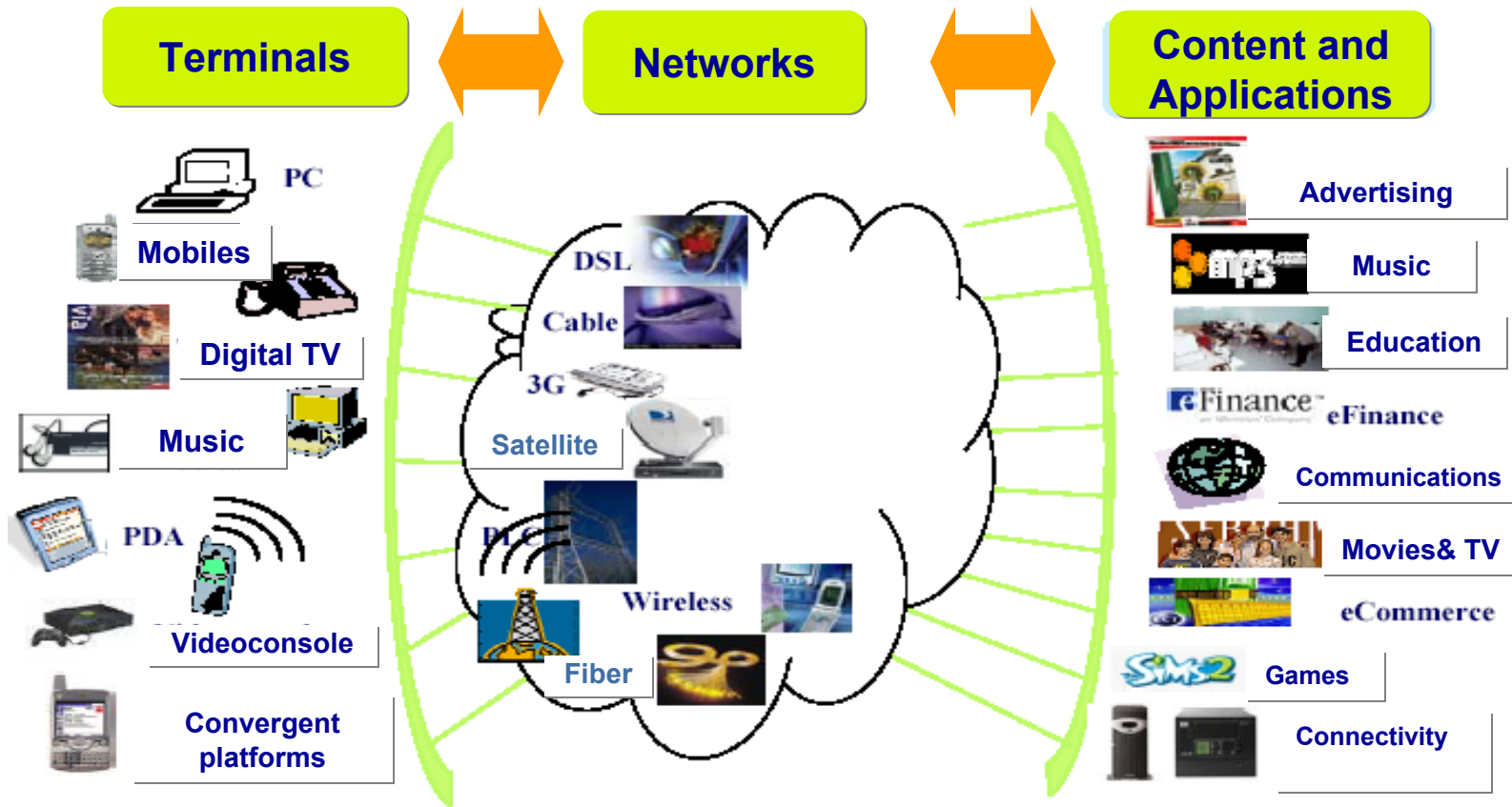


(1): Source: Public filings and Telefónica Chile estimates
 Total revenues include gross mobile interconnections revenues

Convergence of infrastructure and services is a world trend ...



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Service and technology convergence must be developed based on profitable and efficient use of CAPEX and infrastructure



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the customer

... and it is important to understand the different stages in which telecom operators choose to converge

The first step

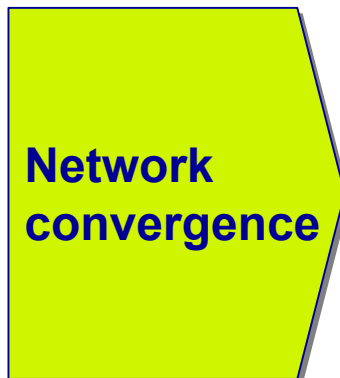


- Bundled services:
 - Double play
 - Triple play
 - Quad play



- Increase customer loyalty
- Maximize use of infrastructure

The next step



- New applications to clients, supported by Integrated networks, terminals, applications and content



- Profit oriented investments
- Efficient use of infrastructure

The commercial convergence has already begun in the Chilean market with double and triple play offers



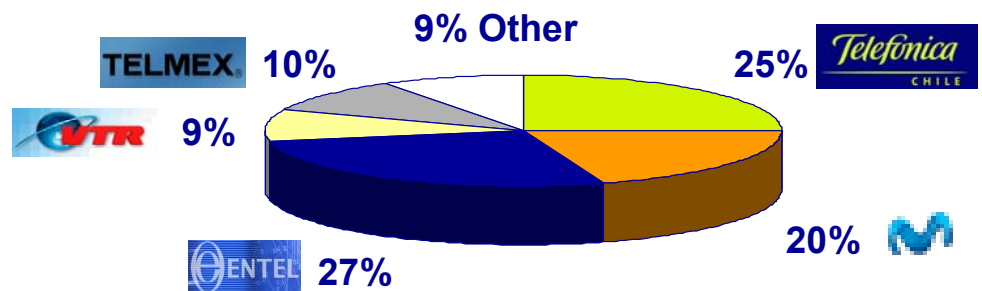
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	Fixed Voice /LD	Broad Band	Pay TV	Data	Mobile
	✓	✓	✓	✓	
	✓	✓	✓		
	✓	✓		✓	✓
	✓			✓	✓
					✓

○ Triple and/or double play

Revenue breakdown by operator:

US\$4,439 million (1)



(1): Source: Public filings and Telefónica Chile estimates
Total revenues include gross mobile interconnections revenues



This has driven the market development of services, but there is still a lot of room for growth

Focused on the customer

Strong competition



Mainly focused on high income segments

Penetration of services by segment

Segment	Homes ('000)	Monthly income (US\$)	Fixed line	Internet access	Pay TV	Mobile
ABC1+C2	840	3.400	86%	54%	61%	96%
C3	1,058	1.000	73%	21%	37%	90%
D + E	2,443	500	34%	3%	1%	70%
Total	4,341		54%	17%	22%	80%

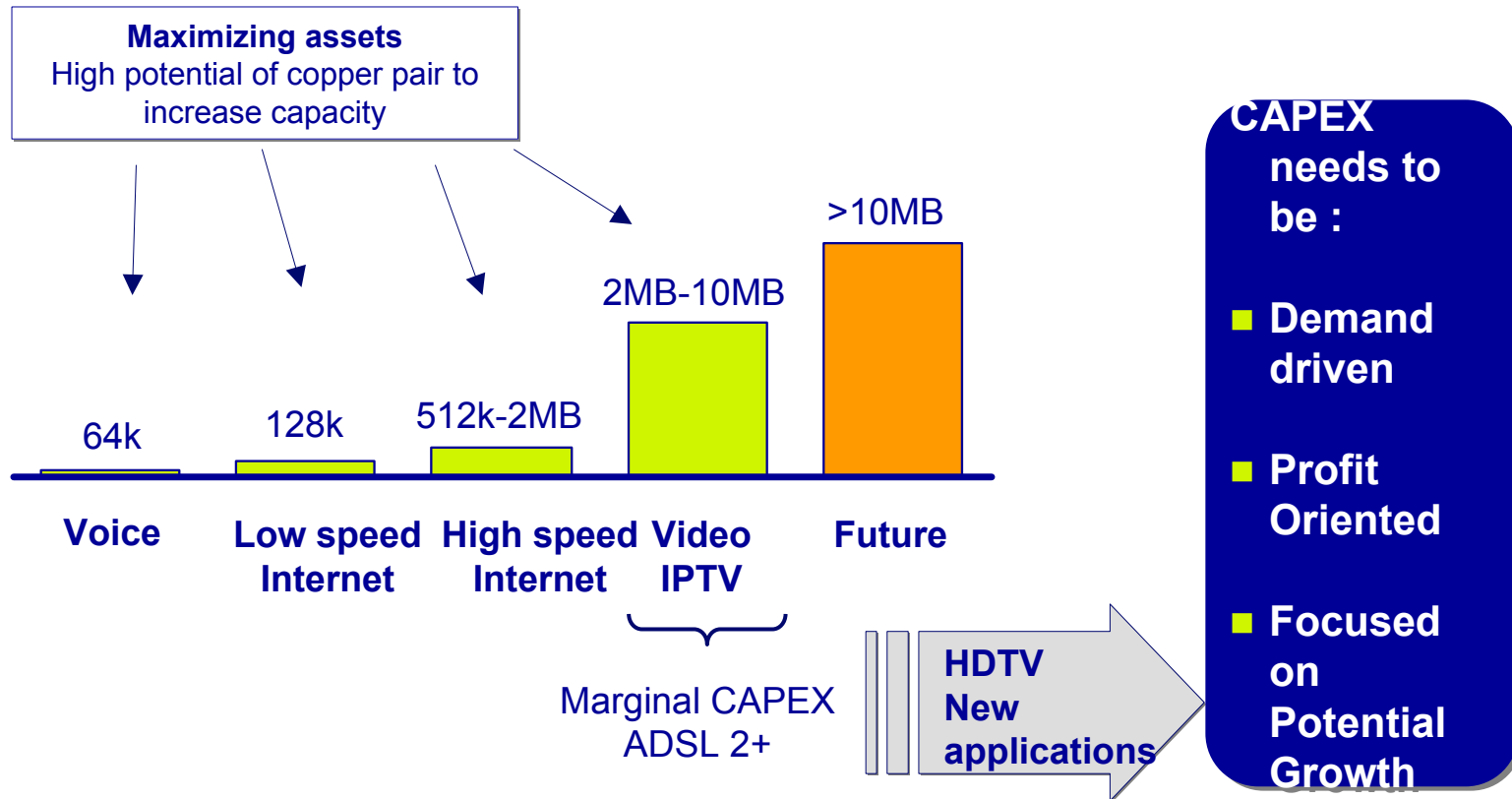
40% of households represent the potential market for "Duos" and "Trios"

- Today 923.000 households have bundled services, but there is still room to grow
- Increase demand for integrated services requires higher infrastructure capacity
- Regulatory adjustments for convergence are needed
- Low density population outside Santiago and large geography of Chile



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To capture this growth opportunity, network investments are required



More sophisticated applications and content need more network adjustments and capacity development



Focused on
the customer

Content

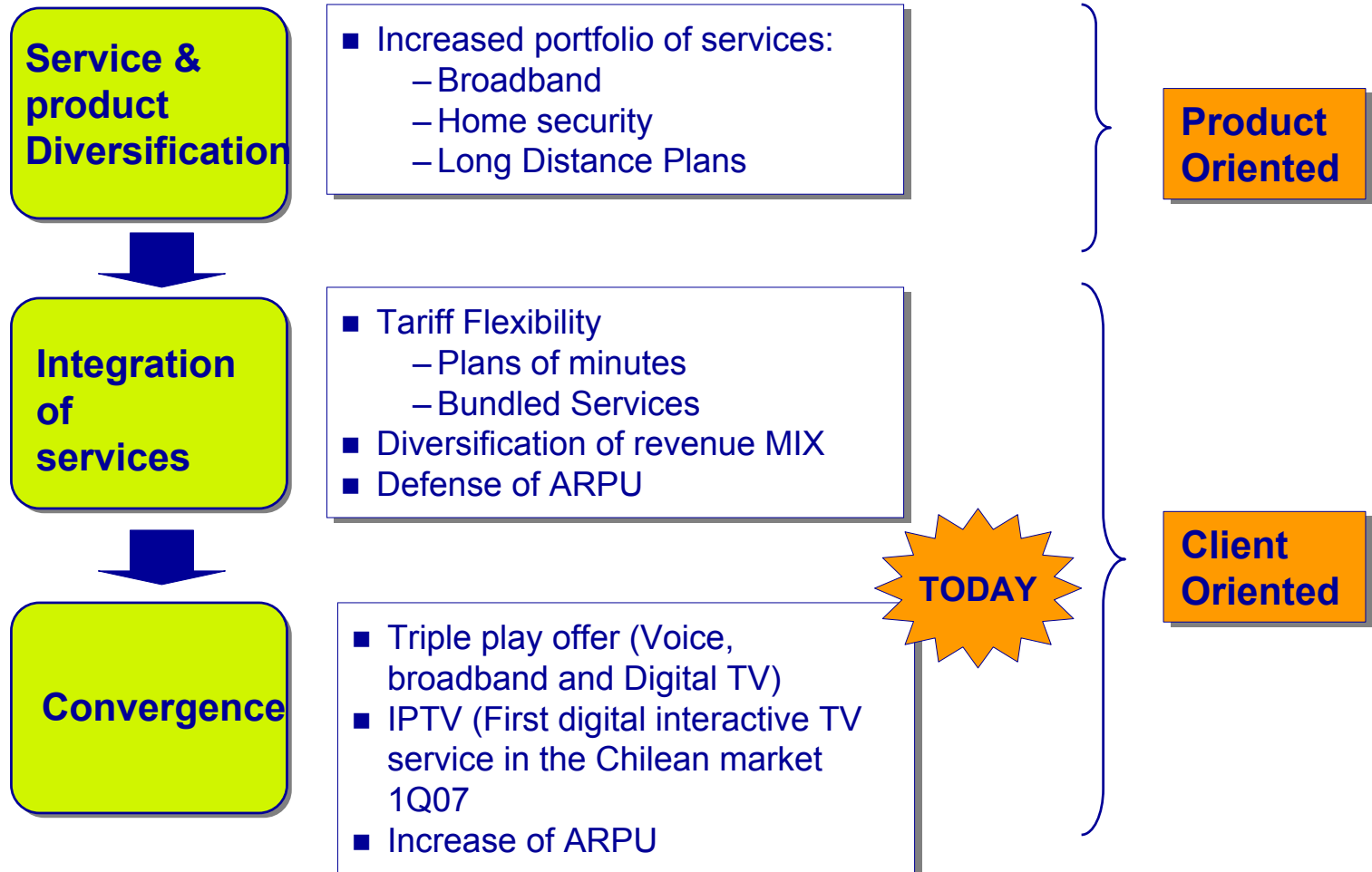
- Understanding convergence and the opportunities in the Chilean market

- **Telefónica Chile's approach to convergence and results today**



Focused on
the customer

Telefónica Chile follows the convergence path of the industry





Business focus on customer segmentation as a leverage to satisfy specific client needs



Focused on the customer



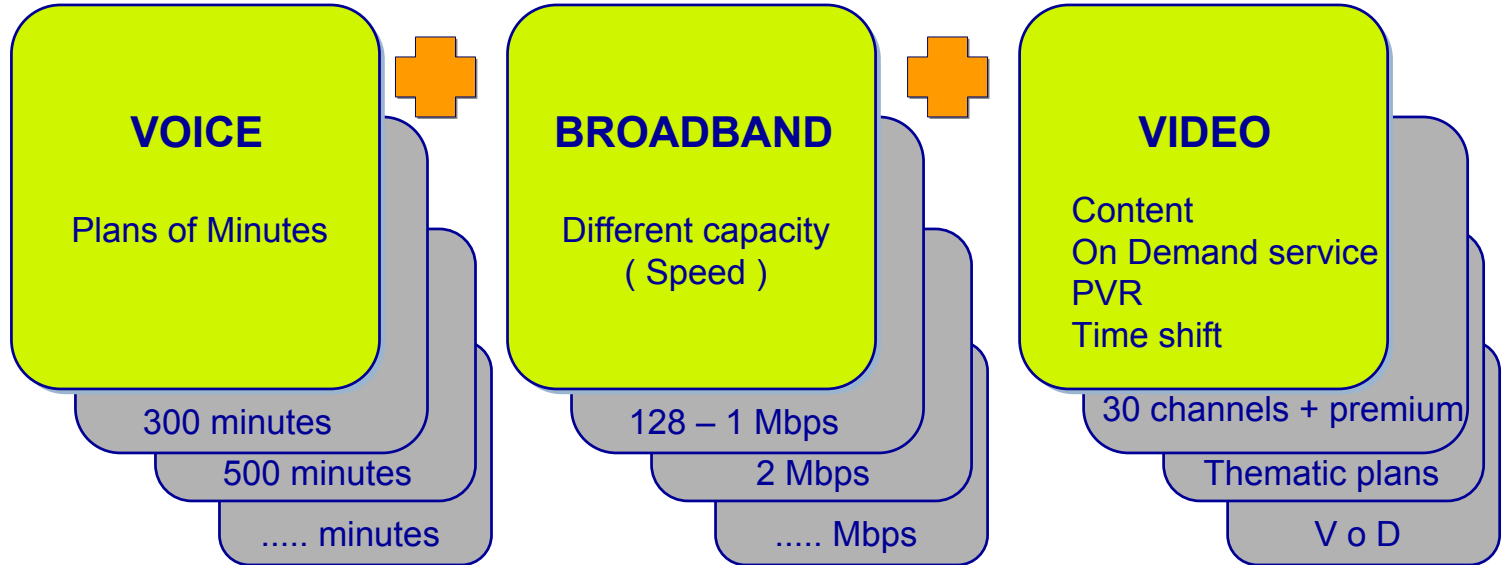
■ Deep Customer knowledge
 ■ Adaptation of service offer to the customer need of payment capacity

■ Quality
 ■ Productivity
 ■ Efficency

... allows the company to offer flexibility to serve specific client niches



Focused on the customer



A shift towards the integration of Telephony, Broadband and Home Entertainment services



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the customer

As part of the convergence strategy, the Company became a triple play provider with the launch of Pay TV in 2006

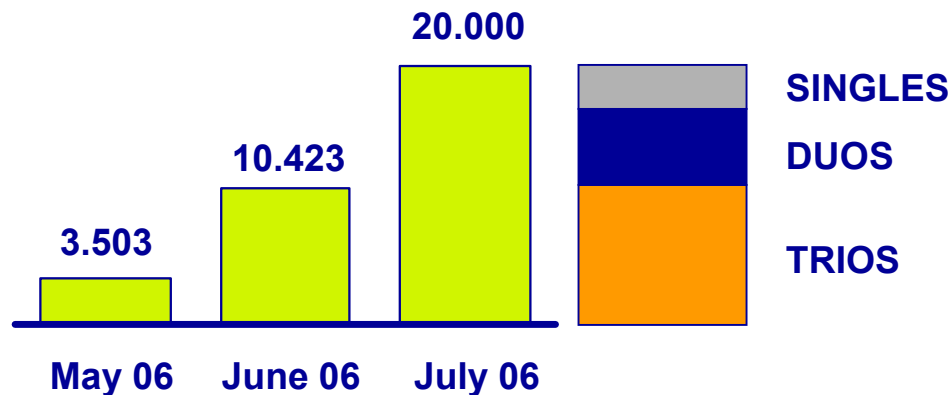


Digital TV (DTH)

- Time-to-market in less than 5 months (industry standard more than 9 months)
- Regional operations optimize CAPEX and OPEX
- Immediate deployment and nationwide coverage
- Attractive service offer of double and triple play, adding TV to its existing voice and BB offer

Successful launch: 2% market share in the first two months of operations

TV Clients (EoP)



70% of TV customers are triple play clients



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Telefonica Chile Digital TV is an innovative and flexible offer in content and pricing



Base Plan:

- 24 pay channels plus 6 local channels
- Antenna, Set-top box and remote control
- On-screen programming guide
- Parental Control
- Program search and alarm
- Access to Pay per view



Ch\$9,900 (US\$18)



Movie-Family-World:

- 3 thematic plans with 10 channels each, among others.



Ch\$2,600 (US\$5)

Premium Movies:

- 12 combinations of channels, among others:



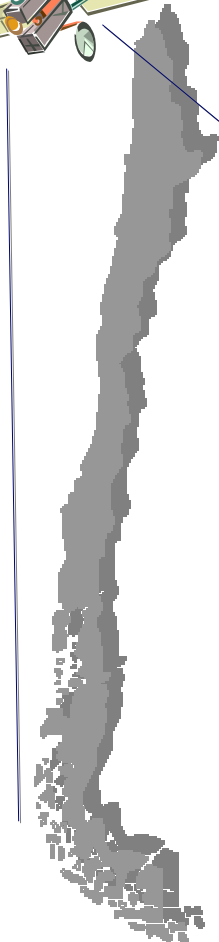
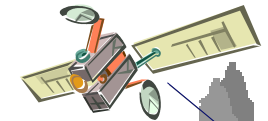
Ch\$3,900-Ch\$6,900 (US\$7-13)

Sports:

- 2 premium sports channels



Ch\$4,990 (US\$9)



Solid Customer Base: 2,3 million fixed telephony customers

110.000 ADSL customers



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the customer

... and the development of the IPTV service is underway



IPTV service

Deployment

- Focus on high-end customers
- Profit oriented growth
- Unique service using the latest IP technology with key benefits for our customers:
 - Interactive content services
 - Digital quality
 - Flexible offer
- Based on Telefónica Spain Imagenio service know-how
- Increased network capacity will be deployed mainly in targeted areas with marginal network CAPEX

Features

- Video on Demand
- Time shift
- Pay Per View
- Personal Video Recorder

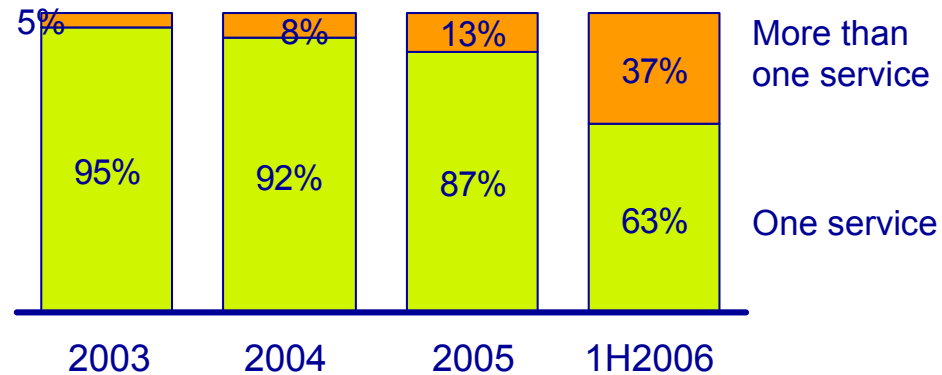
Digital Satellite TV + IPTV expand the market of multi-service customers

The integration and convergence strategy is already showing results ...

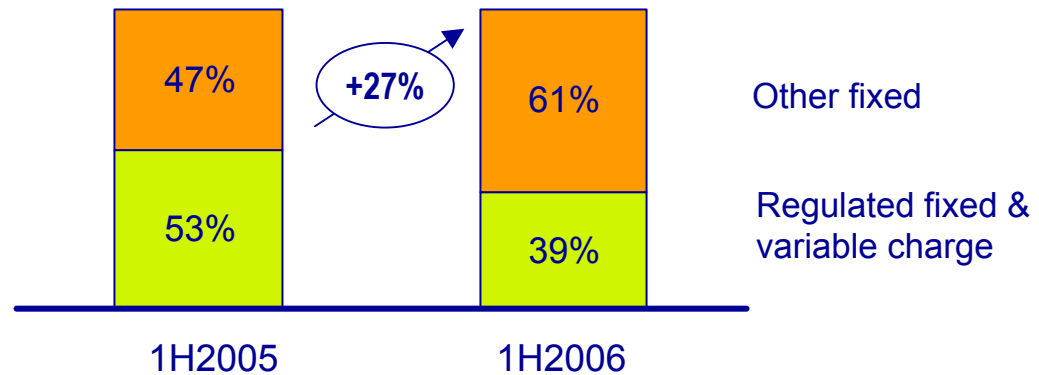


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Bundled services
(% customers)



Fixed telecom revenue mix



- Increased customer loyalty and reduced churn
(Churn traditional clients = 1.44% vs. bundled clients = 0.66%)
- ARPU defense
- Revenue mix diversification

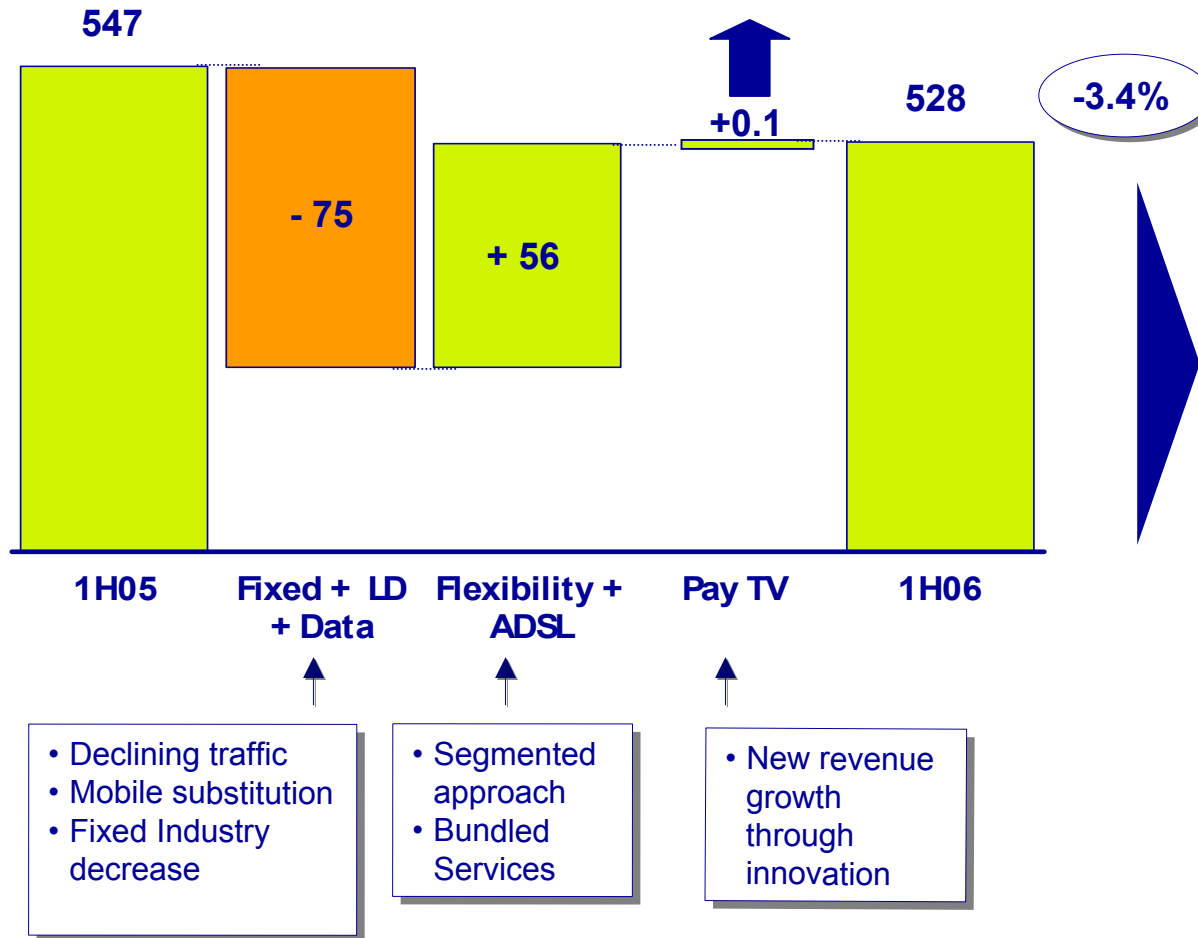
... and is expected to strengthen revenue stream



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Revenues for the 1st Half '06 (Real US\$ million)

○ % H-o-H



▪ Future revenues from pay TV will contribute additional revenues

- Declining traffic
- Mobile substitution
- Fixed Industry decrease

- Segmented approach
- Bundled Services

- New revenue growth through innovation

2005 figures adjusted for inflation

Telefónica Chile S.A.



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In summary ...

- Telecom operators can follow two steps when converging TV, Broadband and Voice services: Commercial and Network convergence.
- Commercial convergence is less CAPEX intensive than network convergence, but limits the degrees of service innovation and hence the competitive position of a company
- Although 20% of the households in Chile already have chosen a convergent offer through double and triple play services, there is still room for growth for convergent services offers.
- Telefónica Chile has followed the convergent path through profitable network investment using existing capacities and targeting specific customer segments.
- The Company successfully launched Digital TV (DTH) and is developing the IPTV service based on the Spanish Imagenio service.
- Results of the segmented convergence strategy are already visible

Telefónica

CHILE