

Telecommunications

Telefónica del Sur

Quiñenco

73.7%



Telsur





Telefónica del Sur is the principal provider of telecommunications services in the south of Chile, with more than 270,000 clients distributed among its varied product offerings. It operates between Chile's 8th and 11th Regions, which cover the cities of Concepción, Temuco, Valdivia, Osorno, Puerto Montt, Castro and Coyhaique.

Telefónica del Sur has made it a key priority to remain on the cutting edge of product and service innovation. During the past several years, the company has significantly expanded its service network, transforming itself into a telecommunications operator that, apart from its traditional fixed line service, offers Internet (ISP), tele-security, wireless voice and data services for businesses

and other specialized services like data transmission, hosting and call centers.

Aimed at providing the highest quality services possible to its clients, Telefónica del Sur began to transform its network in 2006, with the initiation of the FTTC project (fiber-to-the-curb), which is designed to increase network capacity by widening broad band services to incorporate TVoIP, high speed games and on-line videoconferencing. In addition, the company offers tele-security and Centrex IP services, oriented to companies whose functioning revolves around Internet protocol.

Thanks to strategic alliances forged with a number of telecom operators, Telefónica del Sur has been able to further penetrate its market by offering a greater range of products

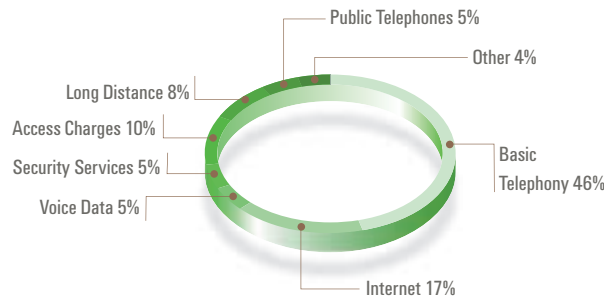
and services. The alliance with Direct TV to launch what is now known as "five play", a bundling of five different services, including fixed-line telephony with PHS capacities, wide band internet, satellite television and telesecurity services, was enthusiastically welcomed by the public. Telefonica del Sur was recently awarded the Effie prize for best new product launch, attesting to the success "five play" has had among its many consumers.

2006 Results

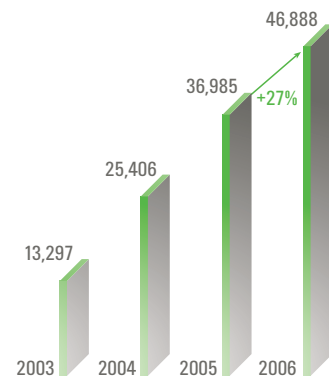
Telefónica del Sur's revenues reached Ch\$56,042 million in 2006, up slightly from the Ch\$55,873 million reported in 2005. Although the overall sales level in 2006 remained



2006 SALES COMPOSITION
MCh\$56,042



WIDE BAND CLIENTS



Market Shares	2005	2006
Concepción	13%	13%
Temuco	45%	48%
10 th region	81%	84%
11 th region	88%	88%

relatively constant compared to 2005, the growing importance of Internet, security services and data services in Telsur's revenue mix is clearly seen. These services grew by 10.4% during 2006, more than offsetting the decline in long distance, public telephones, access charges and other traditional services. Revenue from fixed line telephony remained in line with that of 2005, reversing the industry trend, thanks to the successful introduction of a wireless fixed line telephone which allows the user mobility to roam freely among the city with no interference of service (PHS).

Internet revenue jumped by 12.0% to Ch\$9,643 million in 2006. The strong growth in this area was due to a 26.8% increase

in the number of wide band clients. Likewise, revenue from security and data services experienced rapid growth in 2006, increasing by 11.8% and 4.0%, respectively.

Operating profits fell by 8.4% to Ch\$12,147 million, mainly as a result of higher marketing and sales expenses associated with the launching of the PHS telephone earlier in the year.

Non-operating losses decreased from Ch\$2,991 million in 2005 to Ch\$2,155 million in 2006. The improvement in non-operating results was primarily due to a 26.8% reduction in interest expense as a result of a debt restructuring carried out in 2004 and 2005, lower interest rates and a lower indebtedness level. In addition, price-level restatement losses were almost reduced to zero

as a consequence of the lower inflation rate.

Net profit in 2006 increased slightly to Ch\$7,855 million. The improvement in bottom line results for the year was attributable to the aforementioned improvement in non-operating results and a lower tax burden.