

TELECOMMUNICATIONS CO OF CHILE  
Form 6-K  
March 02, 2007

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 6-K**

**REPORT OF FOREIGN ISSUER**  
**PURSUANT TO RULE 13a-16 OR 15d-16 OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

**THROUGH MARCH 01, 2007**

**(Commission File Number: 001-10579)**

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**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)*

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

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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***

December 31, 2006 and 2005

*(CONSOLIDATED)*

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**COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES**

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

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ThCh\$: Thousands of Chilean pesos.

UF : The Unidad de Fomento, or UF, is an inflation-indexed peso-denominated monetary unit in Chile. The daily UF rate is fixed in advance based on the change in the Chilean Consumer Price Index of the previous month.

ThUS\$: Thousands of US dollars.

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**Report of Independent Auditors**

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

Huérfanos 770, 5 Piso  
Santiago, Chile

Teléfono: (56-2) 676 1001  
Fax: (56-2) 676 1010  
Casilla: 2823

**Report of Independent Auditors**

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

1. We have audited the accompanying consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income and of cash flows for the years then ended. These financial statements (and corresponding notes) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The attached Reasoned Analysis is not an integral part of these financial statements; therefore this report does not include it.
2. We conducted our audits in accordance with generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Compañía de Telecomunicaciones de Chile S.A and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles in Chile.

/s/ Andrés Marchant V.  
Andrés Marchant V.  
Santiago, January 24, 2007

**ERNST & YOUNG LTDA.**

## COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2006 AND 2005**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31,2006)

ASSETS	Notes	2006	2005	LIABILITIES	Notes	2006	2005
		ThCh\$	ThCh\$			ThCh\$	ThCh\$
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
				Short-term obligations with banks and financial institutions			
Cash		10,074,960	6,424,238				
Time deposits	(34)	27,543,715	86,753,294	Commercial paper	(15)	2,005,114	1,347,294
Marketable securities, net	(4)	16,263,602	16,078,005	Current maturities of bonds payable	(17 a)	-	58,285,826
Accounts receivable, net	(5)	176,310,318	151,965,200	Current maturities of other long-term obligations	(17 b)	1,839,758	113,712,131
Notes receivable, net	(5)	4,125,379	3,433,457	Dividends payable		11,722	16,862
Other receivables	(5)	10,524,404	12,271,773			1,598,709	1,755,595
Accounts receivable from related companies	(6 a)	17,421,462	14,546,828	Trade accounts payable	(35)	107,216,258	78,087,761
Inventories, net		5,259,293	2,867,731	Other payables	(36)	13,926,967	20,939,772
Recoverable taxes		2,965,213	4,731,578	Accounts payable to related companies	(6 b)	33,007,160	26,408,461
Prepaid expenses		922,191	2,655,976	Accruals	(18)	8,381,697	10,299,309
Deferred taxes	(7 b)	13,932,290	11,930,838	Withholdings		16,586,668	12,584,338
Other current assets	(8)	10,948,558	11,333,038	Unearned income		10,099,258	10,981,319
				Other current liabilities		-	849,241
<b>TOTAL CURRENT</b>		<b>296,291,385</b>	<b>324,991,956</b>	<b>TOTAL CURRENT LIABILITIES</b>		<b>194,673,311</b>	<b>335,267,909</b>

## ASSETS

PROPERTY,  
PLANT AND

## EQUIPMENT

(10)

Land  
Buildings  
and  
improvements  
Machinery  
and equipment  
Other  
property, plant  
and

27,858,064

27,852,723

equipment

316,701,911

264,559,181

Technical  
reevaluation

9,463,656

9,948,548

Accumulated  
depreciation

(2,672,072,073)

(2,490,072,578)

LONG-TERM  
LIABILITIES

Long-term debt  
with banks and

financial  
institutions

(16)

331,380,831

326,873,609

Bonds payable

(17 b)

66,141,943

12,453,342

Other accounts  
payable

28,210,503

26,013,822

Accruals

(18)

35,525,488

36,078,910

Deferred taxes  
Other liabilities

(7 b)

55,064,116

59,588,547

3,788,895

4,095,910

TOTAL  
PROPERTY,  
PLANT AND  
EQUIPMENT,  
NET

1,229,591,307

1,327,808,428

TOTAL  
LONG-TERM  
LIABILITIES

520,111,776

465,104,140

MINORITY  
INTEREST

(20)

1,230,287

1,670,081

OTHER  
LONG-TERM  
ASSETS

Investments  
in related  
companies

(11)

8,109,310

7,996,697

Investments  
in other  
companies

4,179

4,179

Goodwill,  
net

(12)

15,954,977

18,838,807

SHAREHOLDERS'  
EQUITY

(21)

Paid-in capital

890,894,953

931,859,276

Other reserves

(3,000,511)

(1,788,017)

Retained earnings

12,866,433

14,940,840

<b>Other receivables</b>	(5)	13,607,076	15,706,980	<b>Net income</b>	23,353,046	25,712,170
<b>Intangibles</b>	(13)	53,232,441	49,902,875	<b>Less: Interim dividend</b>	(10,486,613)	(10,771,330)
<b>Accumulated amortization</b>	(13)	(17,959,777)	(12,093,163)			
<b>Others non-current asset</b>	(14)	17,945,351	13,897,470			
<b>TOTAL LONG-TERM ASSETS</b>		<b>90,893,557</b>	<b>94,253,845</b>	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>900,760,875</b>	<b>945,012,099</b>
<b>TOTAL ASSETS</b>		<b>1,616,776,249</b>	<b>1,747,054,229</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,616,776,249</b>	<b>1,747,054,229</b>

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements

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## COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2006)

	<b>2006</b>	<b>2005</b>
<b>OPERATING INCOME:</b>	<b>ThCh\$</b>	<b>ThCh\$</b>
<b>Operating revenues</b>	577,203,534	592,904,274
<b>Operating costs</b>	(373,024,912)	(380,887,804)
<b>Gross profit</b>	<b>204,178,622</b>	<b>212,016,470</b>
<b>Administrative and selling expenses</b>	(121,554,811)	(123,091,244)
<b>OPERATING INCOME</b>	<b>82,623,811</b>	<b>88,925,226</b>
<b>NON-OPERATING RESULTS:</b>		
<b>Interest income</b>	4,436,559	8,152,458
<b>Equity in earnings of equity-method investees</b>	(11) 1,949,359	1,748,329
<b>Other non-operating income</b>	(22 a) 1,616,867	3,170,833
<b>Equity in losses of equity-method investees</b>	(11) (33,628)	(33,193)
<b>Amortization of goodwill</b>	(12) (2,222,691)	(1,616,816)
<b>Interest expense and other</b>	(19,480,089)	(30,120,752)
<b>Other non-operating expenses</b>	(22 b) (16,644,682)	(13,351,580)
<b>Price-level restatement, net</b>	(23) 500,929	1,985,668
<b>Foreign currency translation, net</b>	(24) 164,889	976,129
<b>NON-OPERATING (LOSS) NET</b>	<b>(29,712,487)</b>	<b>(29,088,924)</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</b>	<b>52,911,324</b>	<b>59,836,302</b>
<b>Income taxes</b>	(7 c) (29,599,897)	(34,093,408)
<b>INCOME BEFORE MINORITY INTEREST</b>	<b>23,311,427</b>	<b>25,742,894</b>
<b>Minority interest</b>	(20) 41,619	(30,724)
<b>NET INCOME</b>	<b>23,353,046</b>	<b>25,712,170</b>



The accompanying notes 1 to 36 are an integral part of these consolidated financial statements

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## COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2006)

	<b>2006</b>	<b>2005</b>
	<b>ThCh\$</b>	<b>ThCh\$</b>
<b>NET CASH</b>		
<b>FROM OPERATING ACTIVITIES</b>	<b>234,756,004</b>	<b>226,266,713</b>
Net income	23,353,046	25,712,170
Sales of assets:	(1,036,796)	21,738
Net (income) loss on sale of investments	(1,036,796)	21,738
<b>Charges ( credits ) to income that do not represent cash flows:</b>	<b>232,823,194</b>	<b>233,018,572</b>
Depreciation	204,906,820	200,920,193
Amortization of intangibles	5,024,127	4,847,335
Provisions and write offs	18,834,385	24,902,211
Equity participation in income of equity method investees	(1,949,359)	(1,748,329)
Equity participation in losses of equity method investees	33,628	33,193
Amortization of goodwill	2,222,691	1,616,816
Price-level restatement, net	(500,929)	(1,985,668)
Foreign currency translation, net	(164,889)	(976,129)
Other credits to income that do not represent cash flows	(348,448)	(291,238)
Other charges to income that do not represent cash flows	4,765,168	5,700,188
<b>Changes in operating assets (increase) decrease:</b>	<b>(18,243,150)</b>	<b>66,003,112</b>
Trade accounts receivable	(25,378,648)	(6,020,873)
Inventories	(1,691,020)	2,248,105
Other assets	8,826,518	69,775,880
<b>Changes in operating liabilities increase (decrease):</b>	<b>(2,098,671)</b>	<b>(98,519,603)</b>
Accounts payable related to operating activities	8,120,222	(74,456,219)
Interest payable	1,090,622	1,748,841

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Income taxes payable, net	(16,247,098)	(23,756,730)
Other accounts payable related to non-operating activities	5,574,141	1,727,998
V.A.T. and other similar taxes payable	(636,558)	(3,783,493)
<b>Net (loss) income from minority interest</b>	<b>(41,619)</b>	<b>30,724</b>

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements

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**COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE EXERCISES ENDED DECEMBER 31, 2006 AND 2005**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2006)

	<b>2006</b>	<b>2005</b>
	<b>ThCh\$</b>	<b>ThCh\$</b>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(180,343,675)</b>	<b>(205,394,443)</b>
Obligations with the public	73,366,735	70,465,529
Dividends paid	(24,022,430)	(118,171,643)
Capital distribution	(40,596,288)	-
Loans repaid	-	(35,093,202)
Repayment of obligations with the public	(188,404,582)	(122,595,127)
Other financing activities	(687,110)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(109,463,791)</b>	<b>(88,253,741)</b>
Sales of property, plant and equipment	60,000	1,263,681
Sale of other investments	-	12,143,501
Other investment income	-	26,866
Acquisition of property, plant and equipment	(109,523,791)	(73,579,347)
Investments in related companies	-	(49,591)
Investments in financial instruments	-	(19,146,457)
Other investing activities	-	(8,912,394)
<b>NEGATIVE NET CASH FLOWS FOR THE YEAR</b>	<b>(55,051,462)</b>	<b>(67,381,471)</b>
<b>EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS</b>	<b>(863,534)</b>	<b>(1,574,386)</b>
<b>NET DECREASE OF CASH AND CASH EQUIVALENTS</b>	<b>(55,914,996)</b>	<b>(68,955,857)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>97,262,053</b>	<b>166,217,910</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>41,347,057</b>	<b>97,262,053</b>

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements

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**COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES**

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

**1. Composition of Consolidated Group and Registration with 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 Security and Exchange Commission ( SVS ).

b) Subsidiary companies registered with the Securities Registry:

SUBSIDIARIES	TAXPAYER No.	Registration Number	Participation (direct & indirect)	
			2006 %	2005 %
Telefónica Larga Distancia S.A.	96,551,670-0	456	99.31	99.16
Telefónica Asistencia y Seguridad S.A.	96,971,150-8	863	99.99	99.99

**2. Summary of Significant Accounting Policies:****(a) Accounting period:**

The consolidated financial statements correspond to the years ended December 31, 2006 and 2005.

**(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 Security and Exchange Commission ( 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 No. 45 Section No. 722, issued by the Chilean Association of Accountants.

**(c) Basis of presentation:**

The consolidated financial statements for 2005 and their notes have been adjusted for comparison purposes by 2.1% in order to allow comparison with the 2006 consolidated financial statements. For comparison purposes, certain reclassifications have been made to the 2005 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 recognized under Minority Interest (Note 20).

**2. Summary of Significant Accounting Policies**, continued:**(d) Basis of consolidation**, continued:**Companies included in consolidation:**

As of December 31, 2006, the consolidated group (The Company) is composed of Compañía de Telecomunicaciones de Chile S.A. and the following subsidiaries:

TAXPAYER No.	Company Name	Ownership Percentage			2005 Total
		Direct	2006 Indirect	Total	
96,551,670-0	Telefónica Larga Distancia S.A. Telefónica Gestión de Servicios	99.31	-	99.31	99.16
96,961,230-5	Compartidos Chile S.A.	99.99	-	99.99	99.99
74,944,200-K	Fundación Telefónica Chile	50.00	-	50.00	50.00
96,971,150-8	Telefónica Asistencia y Seguridad S.A.	99.99	-	99.99	99.99
90,430,000-4	Telefónica Empresas CTC Chile S.A.	99.99	-	99.99	99.99
78,703,410-1	Telefónica Multimedia Chile S.A. (1)	99.99	-	99.99	99.99
96,834,320-3	Telefónica Internet Empresas S.A. (2)	99.99	-	99.99	99.99
96,811,570-7	Instituto Telefónica Chile S.A. (5) CTC Equipos y Servicios de	-	99.99	99.99	79.99
96,545,500-0	Telecomunicaciones S.A. (3)	-	-	-	99.99
96,887,420-9	Globus 120 S.A. (4)	-	-	-	99.99

1) On January 26, 2006, Telefónica Internet S.A. sold its entire ownership interest of 449,081 shares to Telefónica Chile for ThCh\$1,624,273 (historical). On that same date, CTC Equipos y Servicios de Telecomunicaciones S.A. sold its entire ownership interest of 1 share to Telefónica Chile S.A. for ThCh\$4.

On April 19, 2006, Tecnonáutica S.A. changed its name to Telefónica Multimedia Chile S.A.

2) On January 26, CTC Equipos y Servicios de Telecomunicaciones S.A. sold its entire ownership interest of 16 shares to Telefónica Chile for ThCh \$132.

On January 27, 2006, Telefónica Empresas CTC Chile sold its entire ownership interest of 215,099 shares to Telefónica Chile for ThCh \$1,468,683 (historical).

3) On March 1, 2006, Telefónica Chile absorbed the subsidiary CTC Equipos y Servicios de Telecomunicaciones S.A. after purchasing 1 share of that company from third parties for ThCh\$11 on February 28, 2006.

4) On April 21, 2006 Telefónica Mundo S.A. absorbed the subsidiary Globus 120 S.A. and subsequently changed its name to Telefónica Larga Distancia S.A.

5) On October 20, 2006, Telefónica Internet Empresas S.A. sold 1,703,999 shares to Telefónica Gestión de Servicios Compartidos Chile S.A. for ThCh\$12,800.

On that same date, Telepeajes de Chile S.A. changed its name to Instituto Telefónica Chile S.A.





**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 December 31, 2006 and 2005, for initial balances, is 2.1% and 3.6%, respectively.

**(f) Basis of conversion:**

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

YEAR	US\$	EURO	BRAZILIAN REAL	JPY	UF
2006	532.39	702.08	249.28	4.47	18,336.38
2005	512.50	606.08	219.35	4.34	17,974.81

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

**(g) Time deposits:**

Time deposits are carried at cost plus adjustments, where applicable, and interest accrued up to each year end.

**(h) Marketable securities:**

Fixed income securities are recorded at their price-level restated acquisition value, plus interest accrued as of each year end using the real rate of interest determined as of the date of purchase, or their market value, whichever is less.

**(i) Inventories:**

Equipment held for sale is carried at price-level restated acquisition or development cost or market value, whichever is less.

Inventories estimated to be used during the next twelve months are classified as current assets and their cost is price-level restated. The obsolescence provision has been determined on the basis of a survey of materials with slow turnover.

**(j) Allowance for doubtful accounts:**

Different percentages are applied when calculating the allowance for doubtful accounts, depending on the aging of such accounts. The allowance for debts exceeding 120 days, or 180 days in the case of large customers (corporations), is for 100% of the amount receivable.



**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 to December 31, 1979 are carried at their appraisal value, as stipulated in Article 140 of D.F.L. No. 4, and those acquired subsequently are carried at their acquisition value, except for those assets which are carried at the 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 recorded on a straight-line basis over the estimated useful lives of the assets. The average annual financial depreciation rate of the Company is approximately 8.21% .

**(m) Leased assets:**

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

**(n) Intangibles:**

**i) Rights to underwater cable:**

Corresponds to the rights acquired by the Company for the use of an underwater cable to transmit voice and data. This right is amortized over the term of the respective contracts, with a maximum of 25 years.

**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 4 years.

**(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 applied is that defined in Technical Bulletin No. 64. These investments are controlled in dollars, since they are in countries deemed to be unstable and their activities are not an extension of the Company's operations.

**(p) Goodwill:**

This account corresponds to the valuation differences that are created when adjusting the cost of the investments, adopting the equity method or making a new purchase. Goodwill and negative goodwill amortization periods have been determined considering aspects such as the nature and characteristics of the business and the estimated period of return of the investment (Note 12).

**2. Summary of Significant Accounting Policies**, continued:

**(q) Transactions with repurchase agreements:**

Purchases of securities under agreement to resell are recorded as fixed rate securities and are classified under Other Current Assets (Note 8).

**(r) Obligations with the public:**

- Bonds payable are presented in liabilities at the par value of the issued bonds (note 17b). The difference between the par and placement value, determined on the basis of the designated interest rate for the transaction, is deferred and amortized using the straight-line method over the term of the respective bond (Notes 8 and 14).
- Commercial paper is presented in liabilities at its placement value, plus accrued interest (Note 17a).

Costs directly related to the placement of these obligations are deferred and amortized using the straight-line method over the term of the respective liability.

**(s) Current and deferred income taxes:**

Income tax is recorded on the basis of taxable net income. Deferred taxes on all temporary differences, usable tax loss carry forwards, and other events that create differences between the tax and accounting values are recognized in accordance with Technical Bulletins No. 60 and its modifications issued by the Chilean Association of Accountants and as established by 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 of the obligation using an annual discount rate of 6%, considering estimates such as the future service period of the employee, mortality rate of employees and salary increases determined on the basis of actuarial calculations.

Costs for past services of the employees produced by changes in the actuarial bases are deferred and amortized over average periods of employees' future service periods (Notes 8 and 14).

**(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 years. These amounts are recorded under Trade Accounts Receivable.

**2. Summary of Significant Accounting Policies, continued:**

**(v) Foreign currency forwards:**

The Company has entered into foreign currency investment and hedging futures. The latter have been purchased to cover the foreign exchange variations for the Company's current foreign currency obligations.

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 27, reflecting in the balance sheet only the net right or obligation at period end, 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 (Note 27).

**(x) Computer software:**

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

**(y) Cumulative translation adjustment:**

The Company recognizes in this equity reserve account the difference between exchange rate fluctuations and the Consumer Price Index (C.P.I.) due to from restating its investments abroad. These investments are controlled in United States dollars. The balance in this account is credited (or charged) to income in the same period in which the net income or loss on the total or partial disposal of these investments is recognized.

**(z) Statement of cash flows:**

For the purposes of preparing the Statement of Cash Flows according to Technical Bulletin No. 50 of the Chilean Association of Accountants and SVS Circular No.1,312, the Company defines cash equivalents as securities under agreements to resell and time deposits maturing in less than 90 days.

Cash flows related to the Company's line of business and all cash flows not defined as from investing or financing activities are included under Cash Flows from Operating Activities.

**(z) Correspondents:**

The Company currently has agreements with foreign correspondents, which set the conditions that regulate international traffic. The correspondents are charged or paid according to net traffic receivable/payable and the rates set in each agreement.

This receivable/payable is recorded on an accrual basis; the costs and income for the exercise are recognized on an accrual basis, and the net balances receivable and payable of each correspondent are recorded under Trade Accounts Receivable or Accounts Payable, as applicable.



**3. Accounting Changes:**

**a) Accounting changes**

During the years covered in these consolidated financial statements, there have been no changes to the accounting principles used.

**b) Change in estimate**

**i) Changes in actuarial hypotheses discount rate**

During the first quarter of 2006 an evaluation was performed of the market interest rate used to calculate the current value of staff severance indemnities. After completing this analysis, the Company decided to reduce the discount rate from 7% to 6%. As a result of these modifications, the Company recorded deferred tax assets of ThCh\$ 2,797,402 (historical) in 2006, which will be amortized over the future years of service of the employees that qualify for this benefit.

**ii) Change in estimation of international traffic**

During 2005, subsidiary Telefónica Larga Distancia S.A. surveyed correspondents, in order to implement an automated system to measure, value and determine international traffic provisions. This work allowed optimization of information regarding values pending billing and/or payment for the concept of international traffic.

This new methodology generated a change in the estimation of provisions and purging of real net balances of accounts receivable and payable to correspondents, which altogether resulted in adjustments to these accounts of ThCh\$8,960,168 (historical) during the second half of 2005.



**4. Marketable Securities:**

The balance of marketable securities is as follows:

Description	2006 ThCh\$	2005 ThCh\$
Publicly offered promissory notes	16,263,602	16,078,005
<b>Total</b>	<b>16,263,602</b>	<b>16,078,005</b>

**Publicly offered promissory notes (Fixed Income)**

Instrument	Date		Par	Book Value		Market	Provision
	Purchase	Maturity	Value ThCh\$	Amount ThCh\$	Rate %	Value ThCh\$	ThCh\$
BCD0500907	Dec-04	Sep-07	2,661,950	2,700,997	5%	2,700,997	(23,428)
BCD0500907	Aug-05	Sep-07	1,863,365	1,890,698	5%	1,890,698	(8,812)
BCD0500907	Sep-05	Sep-07	2,129,560	2,160,798	5%	2,160,798	(15,612)
BCD0500907	Sep-05	Sep-07	2,661,950	2,700,997	5%	2,700,997	(19,309)
BCD0500907	Sep-05	Sep-07	2,661,950	2,700,997	5%	2,700,997	(18,521)
BCD0500907	Sep-05	Sep-07	532,390	540,199	5%	540,199	(3,837)
BCD0500907	Sep-05	Sep-07	532,390	540,199	5%	540,199	(3,693)
BCD0500907	Sep-05	Sep-07	1,064,780	1,080,399	5%	1,080,399	(7,160)
	<b>Sub-Total</b>		<b>14,108,335</b>	<b>14,315,284</b>		<b>14,315,284</b>	<b>(100,372)</b>
BCU500909	Nov-05	Sep-09	1,833,638	1,948,318	5%	1,963,051	-
	<b>Sub-Total</b>		<b>1,833,638</b>	<b>1,948,318</b>		<b>1,963,051</b>	-
	<b>Total</b>		<b>15,941,973</b>	<b>16,263,602</b>		<b>16,278,335</b>	<b>(100,372)</b>

**5. Current and long-term receivables:**

The detail of current and long-term receivables is as follows:

Description	Current									
	Up to 90 days		Over 90 up to 1 year		Subtotal	Total Current (net)				
	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2006 ThCh\$	%	2005 ThCh\$	%	
<b>Trade accounts receivable</b>	<b>235,563,333</b>	<b>206,386,671</b>	<b>3,171,776</b>	<b>5,324,584</b>	<b>238,735,109</b>	<b>176,310,318</b>	<b>100.0</b>	<b>151,965,200</b>	<b>100.0</b>	
Fixed telephony service	187,372,685	158,807,008	283,755	1,680,374	187,656,440	135,199,724	76.68	111,732,638	73.5	
Long distance	22,703,056	24,278,493	-	-	22,703,056	16,307,812	9.25	16,540,377	10.8	
Communications corporate	20,847,854	19,258,931	2,597,662	3,316,522	23,445,516	21,782,183	12.36	20,276,385	13.3	
Other	4,639,738	4,042,239	290,359	327,688	4,930,097	3,020,599	1.71	3,415,800	2.2	
Allowance for doubtful accounts	(62,424,791)	(59,746,055)	-	-	(62,424,791)	-	-	-	-	
<b>Notes receivable</b>	<b>8,325,856</b>	<b>8,189,387</b>	<b>221,157</b>	<b>105,348</b>	<b>8,547,013</b>	<b>4,125,379</b>		<b>3,433,457</b>		
Allowance for doubtful notes	(4,421,634)	(4,861,278)	-	-	(4,421,634)	-	-	-	-	
<b>Miscellaneous accounts receivable</b>	<b>7,551,599</b>	<b>8,944,237</b>	<b>2,972,805</b>	<b>3,327,536</b>	<b>10,524,404</b>	<b>10,524,404</b>		<b>12,271,773</b>		
Allowance for doubtful accounts	-	-	-	-	-	-	-	-	-	
									<b>Long-term receivables</b>	

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

Taxpayer No.	Company	Short-term		Long-term	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
87,845,500-2	Telefónica Móviles Chile S.A.	702,422	-	-	-
96,672,150-2	Telefónica Móviles Chile Inversiones S.A.	53,353	-	-	-
96,672,160-k	Telefónica Móviles Chile Larga Distancia S.A.	330,509	1,173,710	-	-
96,834,230-4	Terra Networks Chile S.A.	1,893,796	1,137,399	-	-
96,895,220-k	Atento Chile S.A.	477,989	418,619	-	-
96,910,730-9	Telefónica International Wholesale Services Chile S.A.	489,650	106,387	-	-
96,786,140-5	Telefónica Móvil de Chile S.A.	8,458,174	6,635,631	-	-
59,083,900-0	Telefónica Ingeniería de Seguridad S.A.	10,980	1,926	-	-
96,990,810-7	Telefónica Móviles Soluciones y Aplicaciones S.A.	136,888	184,992	-	-
Foreign	Telefónica España	702,320	819,149	-	-
Foreign	Telefónica LD Puerto Rico	212,383	-	-	-
Foreign	Telefónica Data Usa Inc.	36,035	27,237	-	-
Foreign	Telefónica Data España	-	357,121	-	-
Foreign	Telefónica Argentina	1,600,129	1,847,521	-	-
Foreign	Telefónica Soluciones de Informática España S.A.	1,522,632	-	-	-
Foreign	Telefónica WholeSale International Services	391,626	459,420	-	-
Foreign	Telefónica Gestión de Servicios Compartidos España	11,204	11,437	-	-
Foreign	Telefónica Perú	391,372	-	-	-
Foreign	Telefónica Procesos Tec. de Información	-	1,366,279	-	-
	<b>Total</b>	<b>17,421,462</b>	<b>14,546,828</b>	<b>-</b>	<b>-</b>

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

**b) Payables to related parties are as follows:**

Taxpayer No.	Company	Short-term		Long-term	
		2006	2005	2006	2005

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		<b>ThCh\$</b>	<b>ThCh\$</b>	<b>ThCh\$</b>	<b>ThCh\$</b>
96.990.810-7	Telefónica Móviles Soluciones y Aplicaciones S.A.	-	1.301	-	-
96.527.390-5	Telefónica Internacional Chile S.A.	286.048			