

TELECOMMUNICATIONS CO OF CHILE  
Form 6-K  
December 10, 2004  
FORM 6-K

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

REPORT OF FOREIGN PRIVATE ISSUER

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

December 10, 2004

Commission File Number: 001-10579

COMPANIA DE TELECOMUNICACIONES DE CHILE S.A.  
(Exact name of registrant as specified in its charter)

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

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

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

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): Yes  No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): Yes  No

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

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

Compañía de Telecomunicaciones de Chile, S.A.

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Item 1

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

for the nine-month periods ended  
September 30, 2004 and 2003  
(CONSOLIDATED)

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COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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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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#### INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Chairman and Members of the Board of Directors  
of Compañía de Telecomunicaciones de Chile S.A.

We have reviewed the accompanying interim consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and subsidiaries as of September 30, 2004 and 2003 and the related interim consolidated statements of income and cash flows for the nine-month periods then ended. These interim consolidated financial statements (including the related notes) are the responsibility of the management of the Company. The accompanying Management's Discussion and Analysis of the Consolidated Financial Statements is not an integral part of these financial statements, and, therefore, this report does not cover this item.

We conducted our reviews in accordance with generally accepted auditing standards in Chile for a review of interim financial information. A review of interim financial information consists principally of applying analytical procedures to the financial statements and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Chile, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review of the interim consolidated financial statements at September 30, 2004 and 2003, we are not aware of any material modifications that are required for them to be in conformity with accounting principles generally accepted in Chile.

The accompanying financial statements have been translated into English for the convenience of readers outside Chile.

/s/ DELOITTE

October 15, 2004

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 SEPTEMBER 30, 2004 AND 2003

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of September 30, 2004)

A S S E T S	Notes	2004 ThCh\$	2003 ThCh\$
<b>CURRENT ASSETS</b>			
Cash		6,559,003	11,253,673
Time deposits	(35)	162,306,466	273,430
Marketable securities, net	(4)	24,347,305	48,290,006
Accounts receivable, net	(5)	171,048,884	216,759,696
Notes receivable, net	(5)	5,256,899	6,061,897
Other receivables	(5)	21,984,549	11,598,711
Due from related companies	(6 a)	25,356,734	19,989,077
Inventories, net		7,106,111	20,038,925
Recoverable taxes		—	21,971,497
Prepaid expenses		4,594,512	8,896,484
Deferred taxes	(7 b)	15,579,256	21,514,392
Other current assets	(8)	211,828,289	36,026,171
<b>TOTAL CURRENT ASSETS</b>		<b>655,968,008</b>	<b>422,673,959</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
	(10)		
Land		26,184,666	28,165,146
Buildings and improvements		188,481,195	189,972,371
Machinery and equipment		3,086,651,531	3,499,145,112
Other property, plant and equipment		251,491,620	387,406,971
Technical revaluation		9,386,693	9,399,467
Less: Accumulated depreciation		2,157,964,021	2,217,152,406
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT, NET</b>		<b>1,404,231,684</b>	<b>1,896,936,661</b>
<b>OTHER LONG-TERM ASSETS</b>			
Investment in related companies	(11)	7,756,394	10,645,697
Investment in other companies		3,928	3,928
Goodwill	(12)	19,618,607	164,060,549
Other receivables	(5)	18,666,057	31,091,715
Intangibles	(13)	34,740,816	36,724,975
Less: Accumulated amortization	(13)	6,181,265	4,098,028
Others	(14)	3,956,892	10,126,546
<b>TOTAL OTHER LONG-TERM ASSETS</b>		<b>78,561,429</b>	<b>248,555,382</b>
<b>TOTAL ASSETS</b>		<b>2,138,761,121</b>	<b>2,568,166,002</b>

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

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2004 AND 2003

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of September 30, 2004)

LIABILITIES	Notes	2004 ThCh\$	2003 ThCh\$
<b>CURRENT LIABILITIES</b>			
Short-term debt with banks and financial institutions	(15)	19,333,609	19,505,494
Current maturities of long-term debt	(15)	139,385,177	57,234,238
Commercial paper	(17 a)	34,509,084	10,119,174
Current maturities of bonds payable	(17)	7,099,458	111,713,626
Current maturities of other long-term obligations		31,979	452,848
Dividends payable		124,521,516	170,523
Trade accounts payable	(34)	63,081,389	133,028,051
Notes payable		—	231,086
Other payables		18,062,135	43,565,051
Notes and accounts payable to related companies	(6 b)	31,833,928	20,459,743
Accruals	(18)	6,483,812	9,646,954
Withholdings		11,326,100	9,381,524
Income tax		30,719,607	—
Unearned income		8,182,655	7,836,295
Other current liabilities		1,863,902	2,839,320
<b>TOTAL CURRENT LIABILITIES</b>		<b>496,434,351</b>	<b>426,183,927</b>
<b>LONG-TERM LIABILITIES</b>			
Long-term debt with banks and financial institutions	(16)	243,783,223	377,561,451
Bonds payable	(17)	317,550,159	344,177,678
Other accounts payable		997,413	9,175,189
Notes and accounts payable to related companies	(6 b)	—	23,072,882
Accruals	(18)	19,057,449	19,430,545
Deferred taxes	(7 b)	58,007,428	47,581,286
Other liabilities		4,259,894	4,753,687
<b>TOTAL LONG-TERM LIABILITIES</b>		<b>643,655,566</b>	<b>825,752,718</b>
<b>MINORITY INTEREST</b>	(20)	<b>1,519,738</b>	<b>1,282,682</b>
<b>SHAREHOLDERS' EQUITY</b>			
Paid-in capital		859,490,281	865,435,375
Reserve for monetary correction of equity		16,330,315	10,385,221
Other reserves		(837,209)	60,030
Retained earnings		122,168,079	439,066,049
Retained earnings		50,823,547	429,395,215
Net income for the period		324,372,126	9,670,834
Provisory dividend (less)		253,027,594	—
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>997,151,466</b>	<b>1,314,946,675</b>

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,138,761,121	2,568,166,002
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The accompanying notes 1 to 35 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 NINE MONTH PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of September 30, 2004)

	2004 ThCh\$	2003 ThCh\$
<b>OPERATING RESULTS:</b>		
Operating revenues	556,062,153	615,595,049
Less: Operating costs	355,257,336	396,281,252
Gross profit	200,804,817	219,313,797
Less: Administrative and selling expenses	123,434,625	129,655,758
<b>OPERATING RESULTS</b>	<b>77,370,192</b>	<b>89,658,039</b>
<b>NON-OPERATING RESULTS:</b>		
Interest income	7,136,772	6,047,619
Equity in earnings of equity-method investees (11)	353,666	1,073,260
Other non-operating income (22 a)	471,688,284	11,561,420
Equity in losses of equity-method investees (11)	85,269	423,439
Less: Amortization of goodwill (12)	140,000,015	20,572,392
Less: Interest expense and other	35,533,901	50,220,394
Less: Other non-operating expenses (22 b)	7,787,794	7,235,592
Price-level restatement (23)	(2,275,986)	(415,141)
Foreign exchange gain (24)	13,464,652	1,380,037
<b>NON-OPERATING LOSS, NET</b>	<b>306,960,409</b>	<b>(58,804,622)</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</b>	<b>384,330,601</b>	<b>30,853,417</b>
Income taxes (7 c)	(59,779,033)	(21,077,057)
<b>INCOME BEFORE MINORITY INTEREST</b>	<b>324,551,568</b>	<b>9,776,360</b>
Minority interest (20)	(179,442)	(105,526)
<b>NET INCOME FOR THE PERIOD</b>	<b>324,372,126</b>	<b>9,670,834</b>

The accompanying notes 1 to 35 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 FLOWS  
FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of September 30, 2004)

	2004 ThCh\$	2003 ThCh\$
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	166,044,191	203,147,692
Net income for the period	324,372,126	9,670,834
Sales of assets :	(469,320,661)	(3,917,051)
(Gain) on sales of property, plant and equipment	(708,862)	(333,793)
Gain on sales of investments (less)	(468,611,799)	(3,651,096)
Loss on sales of investments	—	67,838
Debits (credits) to income that do not represent cash flows:	333,157,865	246,842,013
Depreciation for the period	181,675,108	203,930,774
Amortization of intangibles	2,068,043	1,392,171
Provisions and write offs	21,005,889	25,176,277
Net income from investments in related companies	(353,666)	(1,073,260)
Loss from investments in related companies	85,269	423,439
Amortization of goodwill	140,000,015	20,572,392
Price-level restatement	2,275,986	415,141
Foreign exchange gain	(13,464,652)	(1,380,037)
Other credits to income that do not represent cash flows	(1,792,247)	(5,141,494)
Other debits to income that do not represent cash flows	1,658,120	2,526,610
Changes in operating assets Increase (decrease)	(8,641,804)	(11,660,562)
Trade accounts receivable	(7,882,210)	(17,250,013)
Inventories	(14,357,672)	(5,211,401)
Other assets	13,598,078	10,800,852
Changes in operating liabilities (Increase) decrease	(13,702,777)	(37,893,068)
Accounts payable related to operating activities	(47,041,298)	(36,125,387)
Interest payable	(7,638,500)	(9,912,521)
Income taxes payable (net)	44,587,987	14,863,279
Other accounts payable related to non-operating activities	(2,546,888)	(3,926,133)
V.A.T. and other similar taxes payable	(1,064,078)	(2,792,306)
Minority interest	179,442	105,526

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

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of September 30, 2004)

	2004 ThCh\$	2003 ThCh\$
NET CASH USED IN FINANCING ACTIVITIES	(615,927,264)	(162,229,263)
Obligations with the public	34,651,890	20,127,715
Other sources of financing	75,405	—
Dividends paid (less)	(507,979,982)	(17,046,511)
Loans repaid (less)	(17,081,823)	(94,565,987)
Obligations with the public repaid (less)	(103,406,742)	(70,744,480)
Repayment of other loans from related companies (less)	(22,186,012)	—
NET CASH USED IN INVESTMENT ACTIVITIES	784,697,981	(40,989,893)
Sales of property, plant and equipment	117,895	645,987
Sales of permanent investments	677,140,975	33,955,503
Sales of other investments	17,233,225	63,451,973
Collection of documented loans to related companies	169,029,504	—
Other investment income	—	209
Acquisition of property, plant and equipment (less)	(70,081,046)	(101,897,557)
Investments in financial instruments (less)	(6,366,573)	(33,929,011)
Other investment activities (less)	(2,375,999)	(3,216,997)
NET CASH FLOWS FOR THE PERIOD	334,814,908	(71,464)
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS	(4,544,382)	(606,052)
NET INCREASE OF CASH AND CASH EQUIVALENTS	330,270,526	(677,516)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	33,963,939	21,647,153
CASH AND CASH EQUIVALENTS AT END OF PERIOD	364,234,465	20,969,637

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



## Notes to the Consolidated Financial Statements

(Translation of financial statements originally issued in Spanish)

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

**a)** The company is an open stock corporation that is registered in the Securities Registry under No. 009 and is therefore subject to supervision by the Chilean Superintendency of Securities and Insurance.

**b)** Subsidiary companies registered with the Securities Registry:

As of September 30, 2004 the following subsidiaries of the Group are registered with the Securities Registry:

Subsidiaries	Taxpayer No.	Registration Number	Participation (direct & indirect)	
			2003 %	2004 %
Telefónica Mundo S.A.	96,551,670-0	456	99.16	99.16
Globus 120 S.A.	96,887,420-9	694	99.99	99.99
Teleemergencia S.A.	96,971,150-8	In process	99.99	99.99(1)

(1)As of the date of presentation of these financial statements, the Company is in the process of registering this Company with the Securities Registry of the Superintendency of Securities and Insurance.

**2. Significant Accounting Principles:**

**(a)** Accounting period:

The interim consolidated financial statements cover the nine-month periods ended September 30, 2004 and 2003.

**(b)** Basis of preparations:

These interim consolidated financial statements (hereinafter the financial statements) have been prepared in accordance with Generally Accepted Accounting Principles in Chile and standards set forth by the Chilean Superintendency of Securities and Insurance.

In the event of discrepancies between Generally Accepted Accounting Principles in Chile issued by the Chilean Accountants Association and the standards set forth by the Chilean Superintendency of Securities and Insurance, the standards set forth by the Superintendency shall prevail for the Company.

The Company's financial statements as of and for the nine-month periods ended September 30, and as of and for the year ended December 31, 2003, are prepared in order to be reviewed and audited respectively, in accordance with current legal regulations. With respect to the quarterly financial statements as of March and September, the Company voluntarily submits these to an interim financial information review performed in accordance with the 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 interim consolidated financial statements as of and for the nine-month period ended September 30, 2003 and their notes have been adjusted for comparison purposes by 1.7% in order to allow comparison with the interim consolidated financial statements as of and for the nine-month period ended September 30, 2003. For comparison purposes, there have been certain non-significant reclassifications made to the 2003 financial statements.

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

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

2. Significant Accounting Principles, continued:

(d) Basis of consolidation:

These interim consolidated financial statements include the assets, liabilities, income and cash flows of the Parent Company and subsidiaries. Significant inter company transactions have been eliminated and the participation of minority investors has been recognized under Minority Interest (See Note 20).

Companies included in consolidation:

As of September 30, 2004 the consolidated group (The Company) is composed of Compañía de Telecomunicaciones de Chile S.A. and the following subsidiaries:

Taxpayer No.	Company Name	Participation Percentage			2003 Total
		Direct	2004 Indirect	Total	
79.727.230-2	CTC Isapre S.A. (1)	—	—	—	99.99
96.545.500-0	CTC Equipos y Servicios de Telecomunicaciones S.A.	99.99	—	99.99	99.99
96.551.670-0	Telefónica Mundo S.A.	99.16	—	99.16	99.16
96.961.230-5	Telefonica Gestión de Servicios Compartidos Chile S.A.	99.90	0.09	99.99	99.99
96.786.140-5	Telefónica Móvil S.A. (2)	99.99	—	99.99	99.99
74.944.200-1	Fundación Telefónica Chile	50.00	—	50.00	50.00
96.887.420-9	Globus 120 S.A.	99.99	—	99.99	99.99
96.971.150-8	Teleemergencia S.A.	99.67	0.32	99.99	99.99
90.430.000-4	Telefónica Empresas CTC Chile S.A.	99.99	—	99.99	99.99
90.184.000-8	Comunicaciones Mundiales S.A. (3)	—	—	—	99.66
96.834.320-3	Telefónica Internet Empresas S.A. (4)	—	99.99	99.99	99.99
96.811.570-7	Administradora de Telepeajes de Chile S.A. (5)	—	79.99	79.99	79.99
78.703.410-1	Tecnonáutica S.A.	—	99.99	99.99	99.99
96.934.950-7	Portal de Pagos e Información S.A. (6)	—	—	—	99.99
96.893.540-2	Infochile S.A. (5)	—	—	—	99.99

1) On September 1, 2003, Telefónica CTC Chile S.A., sold 100% of its participation in this subsidiary for UF 9,175, this transaction resulted in Telefónica CTC Chile recognizing a loss on sale of subsidiary of ThCh\$ 66,705.

2) On July 23, 2004, Telefónica CTC Chile sold 100% of its participation in Telefónica Móvil Chile S.A.. This transaction meant a disbursement on the part of Telefónica Móviles S.A. (purchaser) of US\$ 1,058

million, which were paid on July 28, 2004. For Telefónica CTC Chile this transaction meant recognizing a net of tax gain of US\$ 470 million after extraordinary amortization of the balance of goodwill on this investment as of June 2004 (see Note 12c).

3)The Extraordinary Shareholders' Meeting of Telefónica Empresas CTC Chile, held on December 9, 2003, approved the absorption by incorporation of subsidiary Comunicaciones Mundiales S.A.

4)On June 19, 2003, Infoera S.A. changed its name to Telefónica Internet Empresas S.A.

5)On December 1, 2003, the Board of Telefónica Empresas CTC Chile S.A. approved the sale of its shareholding in that company as of that date, to its subsidiary Telefónica Internet Empresas S.A.

6)By means of public deeds dated December 1, 2003 and December 31, 2003, the Boards of Portal de Pagos e Información S.A. and Infochile S.A. recorded the absorption of these companies by Tecnonáutica S.A.

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

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

### 2. Significant Accounting Principles, continued:

#### (e) Price-level restatement:

The interim consolidated financial statements have been adjusted by applying price-level restatement standards, in accordance with generally accepted accounting principles in Chile, in order to reflect the changes in the purchasing power of the currency during the nine-month periods ended September 30, 2004 and 2003. The accumulated variation in the CPI as of September 30, 2004 and 2003, for opening balances, is 1.9% and 1.2%, respectively.

#### (f) Basis of conversion:

Assets and liabilities in US\$ (United States dollars), Euros, and UF (Unidad de Fomento), have been converted to pesos at the exchange rates as of:

Year	US\$	Euro	UF
September 30, 2004	608.90	757.34	17,190.78
September 30, 2003	660.97	770.81	16,946.03

Foreign exchange gains/losses, are credited or debited to income for the period.

#### (g) Time deposits:

Time deposits are carried at cost, price-level restated (if necessary), plus accrued interest.

#### (h) Marketable securities:

Fixed income securities are carried at price-level restated cost or market value, whichever is less.

Investments in mutual funds are carried at market value at each period end. Investments in shares are shown at the

lower of their price-level restated cost or market.

(i) Inventories:

Equipment, is carried at price-level restated purchase or development cost or at market value, whichever is less.

Inventories with an estimated turnover period of less than 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) Subsidies on sale of cellular telephones:

This amount represents the difference between the cost at which the cellular equipment of Telefónica Móvil de Chile S.A. is purchased from suppliers and the price at which it is sold to customer.

The amount of subsidy both for prepayment customers as well as for customers with contracts, with the exception of accommodation contracts, is charged to income when the equipment is sold.

The amount of commission on the sale of equipment under the prepayment, contract and accommodation contract arrangements is fully charged to income at the time of the sale or signing of the accommodation contract.

(k) Accommodation Contracts:

The cost of this equipment made available under accommodation contracts is capitalized as property, plant and equipment and depreciated over 24 months from the date the contract is signed. The initial depreciation charge is recorded during the month the contract is signed.

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

2. Significant Accounting Principles, continued:

Effective June 1, 2002, a revised policy of customer loyalty was implemented, consisting of changing equipment out under accommodation contracts after only 18 months. Therefore, as of this date, depreciation on any phones made available under this policy has been charged to income over 18 months and any additionally required depreciation for early cancellation of contracts has been provided.

Effective September 2003, the Company changed the manner of marketing equipment under accommodation contracts for that of equipment rental, by means of which the equipment is provided for use during an agreed upon period of time, while the Company maintains ownership of the equipment.

As of September 30, 2004 and 2003, the capitalized cost of this equipment is ThCh\$ 19,495,227, while accumulated depreciation is ThCh\$ 14,361,440, respectively.

(l) Allowance for doubtful accounts:

Varying percentages are applied to the different aging brackets when calculating the allowance for doubtful accounts, taking into consideration the age of the receivable and projected collection success, with up to 100% of debts older than 120 days (180 days in the case of major customers (corporations)) being provisioned.

(m) Property, plant and equipment:

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

Property, plant and equipment acquired up to December 31, 1979 are carried at its appraisal value, as stipulated in Article 140 of D.F.L. No. 4, and that acquired subsequently is carried at its acquisition value, except for those assets which are carried at the appraisal value recorded as of September 30, 1986, as authorized in Circular No. 550 issued by the Chilean Superintendency of Securities and Insurance. All these values have been price-level restated.

Assets under construction and not yet in use included the real financial cost of loans related to their financing, which originated during the construction stage and which could have been avoided had these disbursements not been incurred.

(n) 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 8.41%.

(ñ) Leased assets:

Leased assets with a purchase option.

Leased assets with a purchase option which are under contracts which meet the characteristics of a financial lease, are recorded as "Other Assets". These assets are not legally owned by the Company; therefore until it exercises the purchase option they cannot be freely disposed of.

(o) Intangibles

i) Rights to underwater cable:

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

(Translation of financial statements originally issued in Spanish)

2. Significant Accounting Principles, continued:

ii) Licenses (software):

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.

iii) License for the use of radio-electric space:

Corresponds to the cost incurred in obtaining licenses for the use of broad-band width. They are shown at price-level restated value and are amortized over the concession term (30 years from the date of publication in the Official

Gazette of the decrees that formalize the granting of the respective licenses).

(p) Investments in related companies:

These investments are accounted for under the equity method which recognizes the investee'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 operations of the Parent Company.

(q) Goodwill:

In the case of investments made through December 31, 2003, corresponds to the excess of the purchase price of an investment over the net book value of the assets acquired and liabilities assumed. Net book value of the assets acquired and liabilities assumed in excess of the purchase price is recorded as negative goodwill. Goodwill and negative goodwill amortization periods have been determined considering factors such as the nature and characteristics of the business and the estimated period of return of the investment. Goodwill arising on the acquisition of investments abroad are controlled in United States dollars (same currency in which the investment is controlled) as per Technical Bulletin No. 64 of the Chilean Accountants Association. (See Note 11).

Goodwill impairment has been assessed as required in Circular No. 151, of the Superintendency of Securities and Insurance and Technical Bulletin No. 72, of the Chilean Association of Accountants.

(r) Transactions with resale agreements:

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

(s) Bond payable:

- Bonds payable: are presented in liabilities at the par value of the issued bonds (see 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 straight-line over the term of the respective bond (see notes 8 and 14).
- Commercial paper is presented in liabilities at its placement value, plus accrued interest (see note 17a).

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

2. Significant Accounting Principles, continued:

(t) Income tax and deferred income tax:

Income tax is recorded on the basis of taxable net income. Recognition of deferred taxes on all temporary differences, utilizable tax loss carry forwards, and other events that create differences between the tax and accounting base, is recorded following Technical Bulletins Nos. 60, 68, 69 and 73 issued by the Chilean Accountants Association and as

established by the Chilean Superintendency of Securities and Insurance in Circular No. 1,466 dated January 27, 2000.

On September 28, 2001 Law No. 19,753 was published, increasing the income tax rate to 16% in 2002, 16.5% in 2003 and 17% in 2004 and thereon. As of September 30 of each period presented, deferred tax assets and liabilities reflect the increase in tax rate, if applicable, associated with the estimated period of reversal. Recognition for the effect on deferred taxes from an increase in income tax rates follows Technical Bulletin No. 71 issued by of the Chilean Accountants Association. (See Note 7).

(u) Staff severance indemnities:

The obligation of the Company for staff severance indemnities is provided for at the present value of the obligation, using an annual discount rate of 7%, considering the projected service period of the employee. (See Note 19).

Actuarial gains and losses are deferred and amortized over average periods of employee service.

(v) Operating revenues:

The Company's revenues are recognized on an accrual basis in accordance with generally accepted accounting principles in Chile. Since billing is performed on cycle rather than month-end dates, revenue has been accrued for services that have not been invoiced, determined on the basis of the contracts in force. These amounts are recorded under Trade Accounts Receivable.

(w) Foreign currency future contracts:

The Company has entered into future foreign currency contracts, which represent a hedge against the variation in the exchange rate of its obligations in foreign currency.

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

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 Creditors, as applicable. (The exchange cover insurance premium implicit in the contract is deferred and amortized using the straight-line method over the term of the same).

(x) Interest rate coverage:

Interest on loans for which associated interest rate swaps have been entered into, are recorded recognizing the effect of those contracts on the interest rate established in such loans and the rights and obligations acquired there under are shown under Other Creditors or under Other Current Assets, as applicable (See Note 27).

(y) Computer software:

The cost of software purchased is deferred and amortized using the straight-line method over a maximum period of four years.

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

2. Significant Accounting Principles, continued:

(z) Research and development expenses:

Research and development expenses are charged to income in the period in which they are incurred. Those expenses have not been significant in recent years.

(aa) Accumulated adjustment for conversion differences:

The Company recognizes in this equity reserve account the difference from exchange rate fluctuations and the Consumer Price Index (C.P.I.) from restating its investments abroad. These investments are controlled in United States dollars; this account also includes differences arising from subsidiaries and related companies investments abroad. The balance of this account is credited (charged) to income in the same period in which the gain or loss over any total or partial disposition of these investments occurs.

(ab) Statement of cash flows:

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

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

(ac) Correspondents:

The Company has current agreements with foreign correspondents, which set the conditions that regulate international traffic, charging or paying the same according to net traffic receivable/payable and the rates set in each agreement.

This receivable/payable is recorded on an accrual basis, recognizing the costs and income for the period in which these, are incurred, recording the net balances receivable and payable of each correspondent under "Trade Accounts Receivable" or "Accounts Payable" as applicable.

3. Accounting Changes:

Accounting principles have been consistently applied during the periods covered by these financial statements.

a) Change of reporting entity:

i) Sale of Compañía de Teléfonos Isapre S.A.:

On September 2, 2003, the sale of the subsidiary Compañía de Teléfonos Isapre S.A. was completed and its net effect resulted in a ThCh\$ 66,705 (historic) loss on the sale of that investment.

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

3. Accounting Changes, continued:

a) **Change of reporting entity, continued:**



**ii) Sale of Telefónica Móvil de Chile S.A.**

Due to the sale of the shares it had in subsidiary Telefónica Móvil de Chile S.A. as of September 30, 2004, Telefónica CTC Chile deconsolidated its financial statements with that company as of July 1, 2004.

As of September 30, 2003 this investment was consolidated line by line. The balance sheet of Telefónica Móvil de Chile S.A. at that date was as follows:

	2003 ThCh\$
<b>Assets</b>	
Current Assets	75,165,203
Property, Plant And Equipment	357,179,876
Other Long-Term Assets	14,208,690
<b>Total Assets</b>	<b>446,553,769</b>
<b>Liabilities</b>	
Current Liabilities	91,882,453
Long-Term Liabilities	138,869,115
Shareholders' Equity	215,802,201
<b>Total Liabilities And Shareholders' Equity</b>	<b>446,553,769</b>

In order to make a comparative analysis of the figures, the consolidated statements of income are presented, assuming for both periods that the investment in Telefónica Móvil de Chile S.A. was only recorded at Equity Value.

	Jan-Sep 2004 ThCh\$	Jan-Sep 2003 ThCh\$	Variation	
			ThCh\$	%
<b>Operating revenues</b>	430,418,352	448,511,131	(18,092,779)	-4.0%
<b>Operating costs</b>	(348,925,672)	(369,795,736)	20,870,064	-5.6%
Salaries and employee benefits	(57,048,507)	(55,524,321)	(1,524,186)	2.7%
Depreciation	(143,288,086)	(154,437,243)	11,149,157	-7.2%
Goods and services	(148,589,079)	(159,834,172)	11,245,093	-7.0%
<b>OPERATING RESULTS</b>	81,492,680	78,715,395	2,777,285	3.5%
<b>Gross profit</b>	18.9%	17.6%		
<b>EBITDA</b>	52.2%	52.0%		
<b>EBITDA</b>	224,780,766	233,152,638	(8,371,872)	-3.6%
Interest income	11,980,503	12,231,840	(251,337)	-2.1%
Equity in earnings of	(7,709,915)	6,610,960	(14,320,875)	C.S.
<del>Equity in earnings of</del> (1)	(140,000,015)	(20,572,392)	(119,427,623)	580.5%
Interest expense	(35,068,213)	(49,539,295)	14,471,082	-29.2%
Other non-operating expenses	463,736,622	4,916,928	458,819,694	C.S.
Price-level restatement	11,238,404	885,879	10,352,525	1,168.6%
<b>NON-OPERATING RESULTS</b>	304,177,386	(45,466,080)	349,643,466	C.S.

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

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

3. Accounting Changes, continued:a) **Change of reporting entity, continued:**

	Jan-Sep	Jan-Sep	Variation	
	2004	2003	ThCh\$	%
	ThCh\$	ThCh\$	ThCh\$	%
<b>INCOME BEFORE INCOME</b>	385,670,066	33,249,315	352,420,751	1,059.9%
<b>TAXES AND MINORITY</b>	(61,118,498)	(23,472,957)	(37,645,541)	160.4%
<b>INTEREST</b>	(179,442)	(105,525)	(73,917)	70.0%
<b>NET INCOME FOR THE PERIOD</b>	324,372,126	9,670,833	314,701,293	3,254.1%

(1) For 2004 Telefónica Móvil de Chile S.A., incurred to a loss of ThCh\$ 7,978,287, whereas for 2003 it had net income of ThCh \$ 5,961,122.

4. Marketable Securities:

The balance of marketable securities is as follows:

	2004	2003
	ThCh\$	ThCh\$
Shares	694,120	459,545
Commercial paper	23,218,937	47,739,524
Mutual fund units	434,248	81,959
Others	—	8,978
<b>Total Marketable Securities</b>	24,347,305	48,290,006

Shares

Taxpayer No.	Company Name	Number of Shares	Interest %	Market Quote per share ThCh\$	Market Value ThCh\$	Restated Cost ThCh\$
Foreign	New Skies Satellites	57,760	0.057%	4,762	275,030	257,148
Foreign	Intelsat	96,022	0.057%	—	—	436,972
<b>Value of investment portfolio at market and price-level</b>					275,030	694,120
<b>Restated cost</b>					—	—
<b>Book value of investment portfolio</b>					—	694,120

Investment in debt securities (Fixed Income)

Instrument	Date		Par	Book Value		Market	Provision
	Purchase	Maturity	Value	Amount	Rate	Value	
			ThCh\$	ThCh\$		ThCh\$	ThCh\$
Zero-051201	Dec-2002	Oct-2005	3,249,002	3,534,293	5.07	3,600,564	—
Zero-051101	Dec-2002	Nov-2005	1,550,140	2,076,961	5.85	2,116,360	—
Zero-051001	Dec-2002	Dec-2005	12,176,423	14,429,693	5.85	14,715,551	—
<b>Sub-Total</b>			16,975,565	20,040,947	—	20,432,475	—
BCD-501005	Sep-2004	Oct-2005	3,044,500	3,177,990	2.50	3,177,990	—
<b>Total</b>			20,020,065	23,218,937	—	23,610,465	—

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

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

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

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

Up to 90 days	Over 90 up to 1 year	Current			Total Current (net)				Long
		Subtotal	2004		2003		2004		
2004	2004	2004	2003	2004	2004	%	2003	%	2004
ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$		ThCh\$		ThCh\$
50,712	291,735,116	8,003,303	11,094,838	260,164,015	171,048,884	100.0	216,759,696	100.0	2,730,050
91,388	183,076,891	4,674,645	9,323,414	188,566,033	109,680,355	64.12	116,038,533	53.53	2,730,050
99,812	48,460,274	—	—	45,199,812	39,716,051	23.22	44,558,903	20.56	—
—	34,323,996	—	—	—	—	—	32,685,980	15.08	—
ns									
74,894	19,978,432	3,125,728	1,771,424	22,100,622	17,613,405	10.30	18,379,249	8.48	—
94,618	5,895,523	202,930	—	4,297,548	4,039,073	2.36	5,097,031	2.35	—
77,808)	(81,408,551)	(2,337,323)	(4,661,707)	(89,115,131)	—	—	—	—	—
47,770	14,275,328	807,123	336,660	13,254,893	5,256,899	—	6,061,897	—	—

97,994)	(8,550,091)	—	—	(7,997,994)	—	—	—
37,108	8,137,009	1,147,441	3,461,702				