

TELECOMMUNICATIONS CO OF CHILE
Form 6-K
June 06, 2005

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For June, 2005

Commission File Number: 001-10579

TELECOMMUNICATIONS COMPANY OF CHILE

(Translation of registrant's name into English)

Avenida Providencia No. 111, Piso 22
Providencia, Santiago, Chile
(562) 691-2020
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of 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

TELECOMMUNICATIONS COMPANY OF CHILE

TABLE OF CONTENTS

Item

- 1 Report on the Financial Statements for the quarters ended March 31, 2005 and 2004
(Consolidated)
 - 2 Management's Discussion and Analysis of the Consolidated Financial Statements for the
periods ended as of March 31, 2005 and 2004
-

ITEM 1

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

REPORT ON THE FINANCIAL STATEMENTS

for the quarters ended
March 31, 2005 and 2004
(CONSOLIDATED)

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONTENTS

Independent Auditors' Report

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Cash Flows

Notes to the Consolidated Financial Statements

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS MARCH 31, 2005 AND 2004

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2004)

A S S E T S	Notes	2005 ThCh\$	2004 ThCh\$
CURRENT ASSETS			
Cash		4,940,493	8,741,868
Time deposits	(34)	74,881,501	1,724,418
Marketable securities, net	(4)	31,569,713	48,674,389
Accounts receivable, net	(5)	152,351,921	206,296,459
Notes receivable, net	(5)	3,197,292	6,973,733
Other receivables	(5)	24,839,300	12,824,128
Due from related companies	(6 a)	16,160,435	20,355,713
Inventories, net		4,127,379	19,446,743
Recoverable taxes		—	16,179,311
Prepaid expenses		4,464,983	7,917,979
Deferred taxes	(7 b)	14,805,721	17,864,333
Other current assets	(8)	70,094,813	75,667,454
TOTAL CURRENT ASSETS		401,433,551	442,666,528
PROPERTY, PLANT AND EQUIPMENT			
Land	(10)	26,129,917	28,120,571
Buildings and improvements		188,311,087	188,824,530
Machinery and equipment		3,096,748,171	3,532,026,571
Other property, plant and equipment		247,534,431	353,289,036
Technical revaluation		9,360,583	9,380,024
Less: Accumulated depreciation		2,234,543,001	2,300,624,872
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET		1,333,541,188	1,811,015,860
OTHER LONG-TERM ASSETS			
Investment in related companies	(11)	8,190,924	10,389,407
Investment in other companies		3,919	3,919
Goodwill	(12)	18,810,103	157,897,495
Other receivables	(5)	21,808,091	32,104,976

Intangibles	(13)	45,386,696	41,833,263
Less: Accumulated amortization	(13)	7,584,877	5,288,948
Others	(14)	16,095,150	10,139,898
TOTAL OTHER LONG-TERM ASSETS		102,710,006	247,080,010
TOTAL ASSETS		1,837,684,745	2,500,762,398

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS MARCH 31, 2005 AND 2004 (Continued)

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2004)

LIABILITIES	Notes	2005 ThCh\$	2004 ThCh\$
CURRENT LIABILITIES			
Short-term debt with banks and financial institutions	(15)	9,485,901	19,722,403
Current maturities of long-term debt	(15)	16,751,009	88,126,030.00
Commercial paper	(17 a)	46,711,656	0
Current maturities of bonds payable	(17 b)	95,638,013	109,159,370
Current maturities of other long-term obligations		31,450	460,152
Dividends payable		2,189,791	105,710
Trade accounts payable	(35)	82,852,306	129,617,777
Notes payable		—	256,045
Other payables	(36)	26,730,083	36,964,828
Due to related companies	(6 b)	23,790,215	22,650,069
Accruals	(18)	2,657,642	4,064,644
Withholdings		11,093,849	11,680,863
Income tax		29,376,448	—
Unearned income		8,028,948	9,536,026
Other current liabilities		1,475,903	2,109,459
TOTAL CURRENT LIABILITIES		356,813,214	434,453,376
LONG-TERM LIABILITIES			
Long-term debt with banks and financial institutions	(16)	354,106,663	319,839,846
Bonds payable	(17)	41,962,979	326,695,288
Other accounts payable		4,973	3,849,591
Due to related companies	(6 b)	—	21,846,742
Accruals	(18)	33,330,365	19,832,014
Deferred taxes	(7 b)	56,710,125	49,105,632
Other liabilities		7,755,512	8,165,771
TOTAL LONG-TERM LIABILITIES		493,870,617	749,334,884

MINORITY INTEREST	(20)	1,600,192	1,341,409
SHAREHOLDERS' EQUITY	(21)		
Paid-in capital		880,977,537	878,321,326
Reserve - equity indexation		(7,047,820)	(4,391,609)
Other reserves		(989,580)	(674,778)
Retained earnings		112,460,585	442,377,790
Retained earnings		357,551,545	438,788,314
Net income for the year		8,170,508	3,589,476
Interim dividend (less)		253,261,468	—
TOTAL SHAREHOLDERS' EQUITY		985,400,722	1,315,632,729
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,837,684,745	2,500,762,398

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2005 AND 2004
(Restated for general price-level changes and expressed in thousands of constant
Chilean pesos as of March 31, 2005)

		2005 ThCh\$	2004 ThCh\$
OPERATING RESULTS:			
Operating revenues		136,623,605	205,022,188
Less: Operating costs		86,055,557	137,345,021
Gross profit		50,568,048	67,677,167
Less: Administrative and selling expenses		28,855,247	43,412,323
OPERATING RESULTS		21,712,801	24,264,844
NON-OPERATING RESULTS:			
Interest income		3,341,374	1,879,964
Equity in earnings of equity-method investees	(11)	392,462	59,465
Other non-operating income	(22 a)	578,392	709,513
Equity in losses of equity-method investees	(11)	7,360	35,366
Less: Amortization of goodwill	(12)	373,884	2,888,244
Less: Interest expense and other		8,621,575	11,593,634
Less: Other non-operating expenses	(22 b)	1,436,340	1,014,770
Price-level restatement	(23)	(5,370,278)	(2,274,377)
Foreign exchange gain	(24)	2,373,408	998,988
NON-OPERATING GAIN (LOSS), NET		(9,123,801)	(14,158,461)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST		12,589,000	10,106,383
Income taxes	(7 c)	(4,436,475)	(6,561,889)
INCOME BEFORE MINORITY INTEREST		8,152,525	3,544,494

Minority interest	(20)	17,983	44,982
NET INCOME FOR THE PERIOD		8,170,508	3,589,476

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

4

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2005 AND 2004 (Continued)
(Restated for general price-level changes and expressed in thousands of constant
Chilean pesos as of March 31, 2005)

	2005 ThCh\$	2004 ThCh\$
NET CASH FLOWS FROM OPERATING ACTIVITIES	71,938,048	39,097,823
Net income for the year	8,170,508	3,589,476
Sales of assets:	(1,186)	(145)
(Gain) loss on sales of property, plant and equipment	(1,186)	(145)
Debits (credits) to income that do not represent cash flows:	59,433,365	79,394,632
Depreciation for the period	49,028,199	67,347,193
Amortization of intangibles	820,085	620,963
Provisions and write offs	5,981,308	7,521,456
Equity in earnings of equity method investees	(392,462)	(59,465)
Equity in losses of equity method investees	7,360	35,366
Amortization of goodwill	373,884	2,888,244
Price-level restatement	5,370,278	2,274,377
Foreign exchange gain	(2,373,408)	(998,988)
Other credits to income that do not represent cash flows	(6,703)	(264,332)
Other debits to income that do not represent cash flows	624,824	29,818
Changes in operating assets Increase (decrease)	5,465,514	13,265,196
Trade accounts receivable	(7,108,278)	4,744,703
Inventories	1,617,502	655,727
Other assets	10,956,290	7,864,766
Changes in operating liabilities (Increase) decrease	(1,112,170)	(57,106,354)
Accounts payable related to operating activities	6,264,230	(48,872,730)
Interest payable	(2,676,210)	(3,425,079)
Income taxes payable (net)	427,412	906,644
Other accounts payable related to non-operating activities	(794,704)	(6,729,910)

V.A.T. and other similar taxes payable	(4,332,898)	1,014,721
Minority interest	(17,983)	(44,982)

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

5

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2005 AND 2004 (Continued)
(Restated for general price-level changes and expressed in thousands of constant
Chilean pesos as of March 31, 2005)

	2005 ThCh\$	2004 ThCh\$
NET CASH USED IN FINANCING ACTIVITIES	(67,025,671)	(7,041,189)
Obligations with the public	11,628,667	—
Loans repaid (less)	(9,831,023)	(3,215,160)
Repayment of obligations with the public (less)	(68,823,315)	(3,767,607)
Other sources of financing	—	(58,422)
NET CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES	(24,902,111)	(25,335,839)
Sales of property, plant and equipment	148,336	48,305
Acquisition of property, plant and equipment (less)	(13,456,404)	(22,274,755)
Investments in financial instruments (less)	(4,137,600)	(3,109,389)
Other investment activities (less)	(7,456,443)	0
NET CASH FLOWS FOR THE YEAR	(19,989,734)	6,720,795
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS	1,304,127	163,554
NET INCREASE OF CASH AND CASH EQUIVALENTS	(18,685,607)	6,884,349
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	155,884,883	33,890,612
CASH AND CASH EQUIVALENTS AT END OF YEAR	137,199,276	40,774,961

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

6

COMPAÑÍA DE TELECOMUNICACIONES DE CHILES S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 March 31, 2005 the following subsidiaries of the Group are registered with the Securities Registry:

SUBSIDIARIES	TAXPAYER N°	Registration Number	Participation (direct & indirect)	
			2005 %	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
Telefónica Asistencia y Seguridad S.A.	96,971,150-8	863	99.99	99.99

2. Significant Accounting Principles:

(a) Accounting period:

The interim consolidated financial statements cover the three-month periods ended as of March 31, 2005 and 2004.

(b) Basis of preparation:

These 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 June 30, and December 31 of each year, are prepared in order to be reviewed and audited respectively, in accordance with current legal regulations. In relation 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 consolidated financial statements for 2004 and their notes have been adjusted for comparison purposes by 2.2% in order to allow comparison with the 2005 financial statements. For comparison purposes there have been certain reclassifications made to the 2004 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 inter company transactions have been eliminated and the participation of minority investors has been recognized under Minority Interest (See Note 20).

 COMPAÑÍA DE TELECOMUNICACIONES DE CHILES S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

2. Significant Accounting Principles, continued:

(d) Basis of consolidation, continued:

Companies included in consolidation:

As of March 31, 2005 the consolidated group (The Company) is composed of Compañía de Telecomunicaciones de Chile S.A. and the following subsidiaries:

TAXPAYER N°	Company Name	Participation Percentage			
		Direct	Indirect	2005 Total	2004 Total
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. (1)	—	—	—	99.99
74,944,200-k	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	Telefónica Asistencia y Seguridad S.A.	99.93	0.06	99.99	99.99
90,430,000-4	Telefónica Empresas CTC Chile S.A.	99.99	—	99.99	99.99
96,834,320-3	Telefónica Internet Empresas S.A.	—	99.99	99.99	99.99
96,811,570-7	Administradora de Telepeajes de Chile S.A.	—	79.99	79.99	79.99
78,703,410-1	Tecnonáutica S.A.	—	99.99	99.99	99.99

1) On July 23, 2004, Telefónica CTC Chile sold 100% of its participation in Telefónica Móvil de Chile S.A.. This transaction meant a disbursement by 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 (historic value) after extraordinary amortization of the balance of goodwill on this investment as of June 2004.

(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 both periods. The accumulated variation in the CPI as of March 31, 2005 and 2004, for initial balances, is -0.8% and -0.5% , respectively.

 COMPAÑÍA DE TELECOMUNICACIONES DE CHILES S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

2. Significant Accounting Principles, continued:(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 each period end:

YEAR	US\$	EURO	UF
2005	585.93	759.57	17,198.78
2004	616.41	758.38	16,820.82

Exchange rate differences originating in the application of this Standard, are credited or debited to income for the period.

(g) Time deposits:

Time deposits are carried at cost, plus adjustments, if applicable and accrued interest up to period end.

(h) Marketable securities:

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

Investments in mutual funds units are carried at the value of the unit at each period end. Investments in shares are shown at their price-level restated value or at their market value, whichever is less.

(i) Inventories:

Equipment destined for sale, is carried at price-level restated acquisition 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:

Represents the difference between the cost at which Telefónica Móvil de Chile S.A. acquires the cellular equipment from its suppliers and the price at which they are sold to its customers, i.e. the amount of subsidy granted to customers.

The amount of subsidy both for prepaid as well as contract plans, with the exception of accommodation plans, is charged to income at the time the equipment is sold.

COMPAÑÍA DE TELECOMUNICACIONES DE CHILES S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

2. Significant Accounting Principles, continued:

(k) Accommodation Contracts:

The acquisition cost of these cellular units is capitalized as property, plant and equipment and is depreciated over a term of 24 months from the date the contract is signed. The initial depreciation charge is recorded during the month the contract is signed.

As of June 1, 2002, as a customer retention commercial strategy, the company implemented a customer loyalty policy, which consists in changing equipment that is 18 months old related to accommodation contracts. Based on the above, depreciation provisions have been established for early write-off of equipment.

As of September 2003, the Company changed the manner in which it commercializes accommodation cellular equipment for rental cellular equipment, by means of which the equipment is delivered for use during an agreed upon period of time, while the Company maintains ownership of the equipment.

(l) Allowance for doubtful accounts:

Different percentages are applied when calculating the allowance for doubtful accounts, taking into consideration the aging of such accounts, reaching in some cases 100% for debts exceeding 120 days and 180 days in the case of large customers (corporations).

(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 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 Circular No. 550 issued by the Chilean Superintendency of Securities and Insurance. All these values have been price-level restated.

(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 7.68%.

(ñ) **Leased assets:**

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.

Notes to the Consolidated Financial Statements (Continued)

2. Significant Accounting Principles, continued:

(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.

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.

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 investor's share of income on an accrual basis. For investments abroad the valuation methodology applied is that defined in Technical Bulletin N°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:

Corresponds to the debit differences that originate when adjusting the cost of the investments, at the time of adopting the Equity Value method or when 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. Goodwill arising on the acquisition of investments abroad is controlled in United States dollars (same currency in which the investment is controlled) as per Technical Bulletin N°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.

Notes to the Consolidated Financial Statements (Continued)

2. Significant Accounting Principles, continued:

(s) Obligations with the public:

- 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 deferred and amortized using the straight-line method over the term of the respective liability.

(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, usable tax loss carry forwards, and other events that create differences between the tax and accounting base, is recorded following Technical Bulletins No. 60 and 69 of the Chilean Accountants Association and as established by the Chilean Superintendency of Securities and Insurance in Circular N°1,466 dated January 27, 2000.

(u) Staff severance indemnities:

For employees subject to this benefit, the Company's staff severance indemnities obligation is provided for by applying the present value the obligation using an annual discount rate of 7%, considering estimations such as future service period of the employee, mortality rate of employees and salary increases determined on the basis of actuarial calculations (see note 19).

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.

(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 cyclical 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 N°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 contract's implicit premium is deferred and amortized using the straight-line method over the term of the contract.

COMPAÑÍA DE TELECOMUNICACIONES DE CHILES S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

2. Significant Accounting Principles, continued:

(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.

(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. The balance of this account is credited (charged) to income in the same period in which the gain or loss is recognized over the total or partial disposal of these investments.

(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:

a) Accounting changes

During the periods covered in these financial statements, the accounting principles have been consistently applied.

COMPAÑÍA DE TELECOMUNICACIONES DE CHILES S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

3. Accounting Changes, continued:

b) Change in estimate

As established in Technical Bulletin No. 8 issued by the Chilean Association of Accountants and in function of the new contractual conditions derived from the organizational evolution experienced by the Company, a series of studies were undertaken to modify the calculation base for the staff severance indemnities provision. Initially, in December 2004, this meant recognizing deferred assets of ThCh \$ 6,008,992 (historical). After concluding these studies in 2005, the Company decided to also include other actuarial estimations in the calculation methodology used for this provision, the additional variables modified were: personnel rotation index, mortality rate and salary increases. As a result of these modifications, the Company recorded deferred assets of ThCh\$4,057,641 in 2005, both effects will be amortized over the future service period of the employees with this benefit (see portion to be amortized in the short-term in Note 8d and in the long-term in Note 14b).

c) Change of reporting entity:

i) Sale of Telefónica Móvil de Chile S.A.

As a result of the sale of the shares the company held in subsidiary Telefónica Móvil de Chile S.A., Telefónica CTC Chile deconsolidated that company from its financial statements as of July 1, 2004.

As of March 31, 2004 this investment was consolidated. The balance sheet of Telefónica Móvil de Chile S.A. at that date was as follows:

Assets	2004 ThCh\$	Liabilities	2004 ThCh\$
Current Assets	88,440,314	Current Liabilities	121,708,775
Property, Plant And Equipment	342,883,052	Long-Term Liabilities	113,458,544
Other Long-Term Assets	14,897,970	Shareholders' Equity	211,054,017
Total Assets	446,221,336	Total Liabilities And Shareholders' Equity	446,221,336

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 recorded at Equity Value only.

COMPAÑÍA DE TELECOMUNICACIONES DE CHILES S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

3. Accounting Changes, continued:

c) Change of reporting entity, continued:

	Jan-Mar 2005 ThCh\$	Jan-Mar 2004 ThCh\$	Variation	
			ThCh\$	%
Operating revenues	136,623,605	140,652,107	(4,028,502)	-2.9%
Operating costs	(114,910,804)	(115,812,814)	902,010	-0.8%
Salaries and employee benefits	(17,311,644)	(17,705,580)	393,936	-2.2%
Depreciation	(48,593,485)	(48,668,265)	74,780	-0.2%
Goods and services	(49,005,675)	(49,438,969)	433,294	-0.9%
OPERATING RESULTS	21,712,801	24,839,293	(3,126,492)	-12.6%
Interest income	3,341,374	3,512,053	(170,679)	-4.9%
Equity in earnings of	385,102	(2,928,673)	3,313,775	C.S.
Equity method investments (1)	(373,884)	(2,888,244)	2,514,360	-87.1%
Interest expense	(8,621,575)	(10,517,743)	1,896,168	-18.0%
Other non-operating expenses	(857,948)	(401,255)	(456,693)	113.8%
Price-level restatement	(2,996,870)	(818,055)	(2,178,815)	266.3%
NON-OPERATING RESULTS	(9,123,801)	(14,041,917)	4,918,116	-35.0%
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	12,589,000	10,797,376	1,791,624	16.6%
TAXES AND MINORITY INTEREST	(4,436,475)	(7,252,881)	2,816,406	-38.8%
NET INCOME FOR THE PERIOD	8,170,508	3,589,477	4,581,031	127.6%

(1) For 2004, includes income from Telefónica Móvil de Chile S.A. and as of March a loss of MCh \$2,952 using the equity method.

15

COMPAÑÍA DE TELECOMUNICACIONES DE CHILES S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

4. Marketable Securities:

The balance of marketable securities is as follows:

	2005 ThCh\$	2004 ThCh\$
Shares (a)	425,394	478,337
Publicly offered promissory notes	31,144,319	48,011,546
Mutual fund units	—	184,506
Total Marketable Securities	31,569,713	48,674,389

Shares

Taxpayer No.	Company Name	Number of Shares	Interest %	Market Quote per share ThCh\$	Market Value ThCh\$	Restated Cost ThCh\$
Foreign	INTELSAT	96,022	0.057%	—	—	425,394
	Value of investment portfolios					— 425,394
	Adjustment to market value provision					— —
	Book value of investment portfolio					— 425,394

Publicly offered promissory notes (Fixed Income)

Instrument	Date		Book Value				
	Purchase	Maturity	Par Value ThCh\$	Amount ThCh\$	Rate %	Market Value ThCh\$	Provision ThCh\$
Zero-051201	Dec-2002	Oct-2005	3,126,438	3,689,242	5.07	3,741,788	—
Zero-051101	Dec-2002	Nov-2005	1,491,663	1,793,909	5.85	1,818,354	—
Zero-051001	Dec-2002	Dec-2005	11,717,082	14,106,593	5.85	14,297,875	—
Sub-Total			16,335,183	19,589,744		19,858,017	—
BCD-501005	Sep-2004	Oct-2005	2,929,650	2,947,521	5.00	2,947,521	29,616
BCD-501005	Nov-2004	Oct-2005	1,464,825	1,473,760	5.00	1,473,760	100,987
BCD-0500907	Dec-2004	Sep-2007	2,929,650	2,984,617	5.00	2,984,617	41,556
PRD-04D1001	Feb-2005	Oct-2005	4,101,510	4,148,677	6.00	4,148,677	123,956
Sub-Total			11,425,635	11,554,575		11,554,575	296,115
Total			27,760,818	31,144,319	—	31,412,592	296,115

16

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

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 Subtotal	Total Current (net)				
2005	2004	2005	2004	2005	2005	%	2004	%	2005
ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$		ThCh\$		ThCh\$

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		ThCh\$	ThCh\$	ThCh\$	Thch\$
	Telefónica Mobile Solutions Chile S.A.	120,467	50,052	—	—
96,942,730-3	Telefónica España	40,000	—	—	—
Foreign	Telefónica Internacional de España S.A.	—	3,160,786	—	—
96,527,390-5	Telefónica Internacional Chile S.A.	—	6,793	—	—
93,541,000-2	Impresora Comercial y Publicguías S.A.	4,501,827	3,113,780	—	—
96,590,080-2	Buenventura S.A.	—	635,506	—	—
Foreign	Energia U.S.A.	44,003	—	—	—
96,834,230-4	Terra Networks Chile S.A.	1,157,178	1,221,572	—	—
96,895,220-k	Atento Chile S.A.	339,336	201,272	—	—
96,545,480-2	CTC Marketing e Inform S.A. (Nexcom S.A.)	—	300,877	—	—
96,910,730-9	Energia Chile S.A.	128,428	263,459	—	—
59,083,900-0	Telefónica Ingeniería y Seguridad	—	6,153	—	—
Foreign	Telefónica LD Puerto Rico	3,207	—	—	—
Foreign	Telefónica Data EEUU	50,104	—	—	—
Foreign	Telefónica Data España	167,625	481,385	—	—
Foreign	Telefónica Argentina	804,339	—	—	—
96,786,140-5	Telefónica Móvil de Chile S.A.	7,158,249	—	—	—
Foreign	Telefónica Procesos Tec. de	1,395,728	10,325,528	—	—

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59,083,900-0	Información Telefónica Ingeniería de Seguridad S.A.	2,347	—	—	—
Foreign	Telefónica Whole Sale International Services	247,597	512,929	—	—
82,049,000-2	Coasin Chile S.A.	—	75,621	—	—
	Total	16,160,435	20,355,713	—	—

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

18

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

b) Due to:

Taxpayer No.	Company	Short-term		Long-term	
		2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
96,942,730-3	Telefónica Mobile Solutions Chile S.A.	3,654	1,976,672	—	—
Foreign	Telefónica España	34,599	235,177	—	—
96,527,390-5	Telefónica Internacional Chile S.A.	134,150	134,077	—	21,846,742
93,541,000-2	Impresora Comercial y Publiguías S.A.	1,380,433	563,492	—	—
Foreign	Telefónica Perú	52,501	98,410	—	—
96,834,230-4	Terra Networks	4,086,952	4,692,913	—	—

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	Chile S.A.				
96,895,220-k	Atento Chile S.A.	3,184,974	4,473,718	—	—
96,910,730-9	Emergia Chile S.A.	104,499	412,098	—	—
59,083,900-0	Telefónica Ingeniería de Seguridad S.A.	—	6,266	—	—
Foreign	Emergia S.A. (Uruguay)	—	2,014,023	—	—
Foreign	Telefónica Guatemala	5,634	4,464	—	—
Foreign	Telefónica El Salvador	156,093	319,166	—	—
96,786,140-5	Telefónica Móvil de Chile S.A.	11,843,238	—	—	—
Foreign	Telefónica Argentina	563,113	—	—	—
Foreign	Telefónica Procesos Tec. de Información	—	7,231,292	—	—
Foreign	Telefónica WholeSale International Services	1,298,829	456,305	—	—
Foreign	Telefónica LD Puerto Atento	—	6,406	—	—
78,868,200-k	Recursos Ltda. Coasin Chile	—	20,845	—	—
82,049,000-2	S.A. Telefónica Investigación y Desarrollo	941,546	—	—	—
Foreign	Total	23,790,215	22,650,069	—	21,846,742

As per Article No. 89d of the Corporations Law, all these transactions are carried out under conditions similar to those that normally prevail in the market. The balance of long-term accounts with related companies, corresponds to the mercantile current account that Telefónica CTC Chile has signed with Telefónica Internacional Chile S.A.

This mercantile current account is in a contract denominated in dollars with undefined maturities, which accrue interest at a fixed annual rate of 2.07%.

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

(Translation of financial statements originally issued in Spanish)**6. Balances and transactions with related companies, continued:**

c) Transactions:

Company	Tax No,	Nature of Relationship	Description of transaction	2005		2004	
				Amount ThCh\$	Effect on income	Amount ThCh\$	Effect on income
Telefónica España	Foreign	Parent Co,	Sales	159,158	159,158	—	—
			Purchases	(47,624)	(47,624)	—	—
Telefónica Internacional Chile S,A,	96,527,390-5	Parent Co,	Purchases	(134,175)	(134,175)	(123,086)	(123,086)
			Financial Expenses	—	—	(134,008)	(134,008)
Impresora y Comercial Publiguías S,A,	93,541,000-2	Associate	Sales	995,316	995,316	1,181,810	1,181,810
			Purchases	(890,376)	(890,376)	(2,333,754)	(2,333,754)
Terra Networks Chile S,A,	96,834,230-4	Associate	Sales	1,307,543	1,307,543	961,523	961,523
			Purchases	(133,909)	(133,909)	(57,008)	(57,008)
Atento Chile S,A	96,895,220-k	Associate	Sales	437,431	437,431	212,638	212,638
			Purchases	(3,644,723)	(3,644,723)	(3,043,937)	(3,043,937)
			Other Non— operating Income	—	—	4,258	4,258
Emergia Chile S,A,	96,910,730-9	Associate	Sales	276,719	276,719	—	—
			Purchases	(414,990)	(414,990)	19,397	19,397
Telefónica Argentina	Foreign	Associate	Sales	165,040	165,040	—	—
			Purchases	(135,757)	(135,757)	—	—
Telefónica Mobile Solutions Chile S,A,	96,942,730-3	Associate	Sales	11,158	11,158	—	—
Telefónica Wholesale International Services	Foreign	Associate	Sales	48,174	48,174	51,776	51,776

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			Purchases	(658,403)	(658,403)	(366,490)	(366,490)
Telefónica Sao Paulo	Foreign	Associate	Sales	24,696	24,696	—	—
			Purchases	(28,720)	(28,720)	—	—
Telefónica Guatemala	Foreign	Associate	Sales	1,252	1,252	—	—
			Purchases	(3,261)	(3,261)	—	—
Telefónica Perú	Foreign	Associate	Sales	85,812	85,812	—	—
			Purchases	(94,266)	(94,266)	—	—
Telefónica LD Puerto Rico	Foreign	Associate	Sales	2,174	2,174	—	—
			Purchases	(1,831)	(1,831)	—	—
Telefónica El Salvador	Foreign	Associate	Sales	727	727	—	—
			Purchases	(3,601)	(3,601)	—	—
Telefónica Móvil de Chile S.A,	96,786,140-5	Associate	Sales	3,513,006	3,513,006	—	—
			Purchases	(12,165,879)	(12,165,879)	—	—
Telefonica, Procesos y Tecnología de Información S.A,	Foreign	Associate	Financial Expenses	1,045,244	1,045,244	—	—
Bellsouth Chile S.A,	96,672,160-k	Associate	Sales	394,415	394,415	—	—
			Purchases	(3,184,544)	(3,184,544)	—	—

The conditions of the agreement related to intercompany transactions between the Company and its equity-method investees and its mercantile current account are short and long-term, respectively, in the case of Telefonica Internacional Chile S.A. It is denominated in US dollars, accruing interest at a variable rate adjusted to market rates (US\$ + Market Spread)

In the case of Sales and Services Rendered, these mature in the short-term (less than a year) and the maturity terms for each case vary based on the related transaction,

20

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

7. Income tax and deferred taxes:

a) General information:

As of March 31, 2005 and 2004, the Parent Company has established a first category income tax provision, as it has taxable net income of ThCh\$20,718,824 and ThCh\$21,858,156, respectively.

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In addition, as of March 31, 2005 and 2004 first category income tax in subsidiaries was provided for ThCh\$ 10,298,865 and ThCh \$ 14,074,279, respectively.

As of March 31, 2005, accumulated tax losses amount to ThCh\$ 8,798,565 and correspond mainly to Telefónica Asistencia y Seguridad S.A., and in 2004 reached ThCh\$ 120,275,435, corresponding mainly to the former subsidiary Telefónica Móvil de Chile S.A.

The companies in the group with positive Taxed Retained Earnings and their associated credits are as follows:

Subsidiaries	Taxed Retained Earnings w/15% credit ThCh\$	Taxed Retained Earnings w/16% credit ThCh\$	Taxed Retained Earnings w/16.5% credit ThCh\$	Taxed Retained Earnings w/17% credit ThCh\$	Taxed Retained Earnings w/0 credit ThCh\$	Amount of credit ThCh\$
CTC Equipos y Servicios de Telecomunicaciones S.A.	19	2,866,021	12,585,206	16,887,324	3,466,704	6,491,656
Telefónica Mundo S.A.	—	9,912,501	4,875,753	23,728,301	4,894,522	7,711,574
Globus 120 S.A.	2,122,327	812,726	570,522	973,204	35,533	841,400
Telefónica Empresas CTC Chile S.A.	920,278	7,317,322	4,884,772	15,392,123	3,247,103	5,674,030
Administradora de Sistemas de Telepeajes de Chile S.A.	—	—	—	17,196,627	3,522,201	3,522,196
Total	3,042,624	20,908,570	22,916,253	74,177,579	15,166,063	24,240,856

21

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

7. **Income tax and deferred income taxes**, continued:

b) Deferred taxes:

As of March 31, 2005 and 2004, deferred tax liabilities amounted to ThCh\$ 41,904,404 and ThCh\$ 31,241,299, respectively and the detail is as follows:

Description	2005				2004			
	Deferred tax assets		Deferred tax liabilities		Deferred tax assets		Deferred tax liabilities	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term

Temporary differences								
Allowance for doubtful accounts	14,020,647	—	—	—	15,708,152	—	—	
Accumulation provision	322,059	—	—	—	343,974	—	—	
Accumulated benefits for tax								
Expenses	—	1,495,756	—	—	—	20,446,824	—	
Accumulated severance								
Compensations	—	—	—	5,796,173	—	—	—	6,842,200
Accumulated assets and liabilities	—	71,717	—	119,640	70,786	545,194	—	120,110
Property, plant and equipment	8,697	3,933,409	—	166,186,711	81,314	4,847,990	—	194,641,910
Reference in amount of								
Capitalized staff								
Expenses	—	667,062	—	—	—	867,270	—	
Software	—	—	—	3,934,275	—	—	—	4,400,200
Deferred charge on								
Disposal of assets	—	—	—	1,306,406	—	—	—	1,730,600
Collective								
Retirement bonus	—	—	—	18,511	—	—	—	225,100
Other	460,261	268,679	5,943	4,404,170	1,684,339	354,796	24,232	1,787,400
—Total	14,811,664	6,436,623	5,943	181,765,886	17,888,565	27,062,074	24,232	209,747,800
Supplementary								
Accounts net of								
Accumulated								
Depreciation	—	(3,776,717)	—	(122,395,855)	—	(9,594,100)	—	(143,174,200)
—Total	14,811,664	2,659,906	5,943	59,370,031	17,888,565	17,467,974	24,232	66,573,600
Reclassification	(5,943)	(2,659,906)	(5,943)	(2,659,906)	(24,232)	(17,467,974)	(24,232)	(17,467,974)
Total	14,805,721	—	—	56,710,125	17,864,333	—	—	49,105,600

22

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued
7. Income tax and deferred income taxes, continued:
c) Income tax breakdown:

The current tax expense shown in the following table is based on taxable income:

Description	2005	2004
	ThCh\$	ThCh\$
Current tax expense before tax benefits (income tax)	5,288,170	6,812,604
Current tax expense (article 21 single tax at 35%)	6,152	8,422
Income tax subtotal	5,294,322	6,821,026
– Current period's deferred taxes	(4,100,642)	(2,549,941)
– Tax benefits from tax loss carry forwards	(15,163)	(704,090)
– Effect of amortization of deferred assets and liabilities complementary accounts	3,257,958	2,994,894
Deferred tax subtotal	(857,847)	(259,137)
Total income tax expense	4,436,475	6,561,889

23

 COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

 8. Other Current Assets:

The detail of other current assets is as follows:

	2005	2004
	ThCh\$	ThCh\$
Fixed income securities purchased with resale agreement	57,377,282	30,124,169
Deferred union contract bonus (a)	2,225,050	3,033,475
Deferred exchange insurance premiums	738,244	994,410
Telephone directories for connection program	3,200,382	1,970,870
Deferred higher bond discount rate (note 25)	56,700	560,933
Deferred disbursements for placement of bonds (note 25)	406,754	878,488
Commercial paper issuance costs (note 25)	169,707	—
Deferred disbursements for foreign financing proceeds (b)	544,714	614,240
Adjustment to market value for mobile equipment (c)	—	4,054,053
Exchange difference insurance receivable (net of partial liquidations)	3,034,321	29,501,245
Dispensable property	112,500	—
Deferred staff severance indemnities charges (d)	686,921	—
Others	1,542,238	3,935,571
Total	70,094,813	75,667,454

(a) During June 2002, the Company signed a 2-year collective agreement with certain employees (3 years for employees of Telefónica Móvil) granting them among other benefits, a special signing bonus. That bonus was paid between June and July 2002. The total benefit amounts to ThCh\$2,494,544 (historical), and is being deferred using the straight-line method over the term of the respective union contracts.

Between November and December 2003, the Company negotiated a 32-month and 36-month union contract with a number of its employees, granting them, among other benefits, a signing bonus. That bonus was paid in November and December 2003. The total benefit of ThCh\$3,425,245 (historical), was deferred using the straight-line method over the term of the union agreement.

The long-term portion is shown under "Other Long-term" (Note 14).

- (b) This amount corresponds to the cost (net of amortization) of the mandatory reserve paid to the Central Bank of Chile and disbursements incurred for foreign loans obtained by the Company to finance its investment plan.
- (c) Corresponds to the adjustment to market value of cellular/mobile equipment in stock at period end, and which is charged to results based on the client plan (contract or prepaid) for said equipment, with the exception of accommodation and rented equipment.
- (d) Corresponds to the short-term portion to be amortized due to changes in the actuarial hypothesis, as described in Note 3, and for the concept of loans to employees as indicated in Note 14.

24

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

(Translation of financial statements originally issued in Spanish)

9. Information regarding purchase commitment and sales commitment transactions (agreements):

Code	Dates Inception	End	Counterparty	Original currency	Subscription value	Rate	Final Value	Instrument Identification	Book Value
CRV	Mar. 08, 2005	Abr. 04, 2005	BCI	\$	9,000,000	0.25%	9,019,597	BCP0800907	9,017,250
CRV	Mar. 28, 2005	Abr. 05, 2005	BCI ABN AMBRO	\$	9,600,000	0.25%	9,606,194	BCP0800708	9,602,400
CRV	Mar. 22, 2005	Abr. 06, 2005	BANK CHILE	\$	4,200,000	0.24%	4,204,877	BCP0800708	4,203,023
CRV	Mar. 29, 2005	Abr. 07, 2005	BCI	\$	900,000	0.24%	900,627	BCP0800708	900,144
CRV	Mar. 29, 2005	Abr. 07, 2005	CITIBANK	\$	1,600,000	0.23%	1,601,068	BCP0800708	1,600,245
CRV	Mar. 23, 2005	Abr. 12, 2005	CITIBANK	\$	5,000,000	0.23%	5,007,419	BCP0500108	5,003,067
CRV	Mar. 18, 2005	Abr. 01, 2005	CITIBANK	USD	4,300,000	0.23%	4,304,466	BCD0500907	4,304,286
CRV	Mar. 24, 2005	Abr. 01, 2005	CITIBANK	USD	2,200,000	0.22%	2,201,249	BCD0500907	2,201,129
CRV	Mar. 14, 2005	Abr. 04, 2005	BANCO DE	USD	2,000,000	0.23%	2,003,116	BCD0500907	2,002,607

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CHILE									
CRV	Mar. 21, 2005	Abr. 04, 2005	CITIBANK USD	2,900,000	0.21%	2,902,750	BCD0500108	2,902,030	
			SCOTIABANK						
CRV	Mar. 28, 2005	Abr. 04, 2005	SUD AMERICAN USD	996,081	0.23%	996,598	BCD0500108	996,309	
			SCOTIABANK						
CRV	Mar. 29, 2005	Abr. 05, 2005	SUD AMERICAN USD	4,687,440	0.23%	4,689,874	BCD0500907	4,688,156	
CRV	Mar. 29, 2005	Abr. 05, 2005	DEUTSCHE BANK USD	4,453,068	0.23%	4,455,381	ZERO051101	4,453,749	
			BANCO						
CRV	Mar. 14, 2005	Abr. 06, 2005	DE CHILE USD	2,000,000	0.23%	2,003,413	BCD0501005	2,002,607	
CRV	Mar. 30, 2005	Abr. 14, 2005	CTIBANK USD	3,500,000	0.24%	3,504,065	BCD0500907	3,500,280	
				57,336,589		57,400,694		57,377,282	

CRV= Purchases under agreements to resell.
25

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

10. Property, plant and equipment:

The detail of property, plant and equipment is as follows:

Description	2005		2004	
	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$
Land	—	26,129,917	—	28,120,571
Building and improvements	79,394,201	188,311,087	75,936,066	188,824,530
Machinery and equipment	2,003,033,743	3,096,748,171	2,049,759,854	3,532,026,571
Central office telephone equipment	949,306,695	1,213,528,262	1,065,792,444	1,676,453,311
External plant	738,750,954	1,431,427,981	683,299,517	1,417,611,084
Subscribers' equipment	280,361,993	415,632,462	266,798,449	401,525,916
General equipment	34,614,101	36,159,466	33,869,444	36,436,260
Other Property, Plant and Equipment	141,589,048	247,534,431	164,357,519	353,289,036
Office furniture and equipment	75,892,259	101,886,768	92,691,200	129,222,733
	—	62,123,045	—	100,330,054

Projects, work in progress and their materials				
Leased assets ⁽¹⁾	50,807	483,735	4,470,617	10,865,202
Property, plant and equipment temporarily out of service	12,007,642	14,608,650	12,463,065	24,349,022
Software	52,825,043	67,446,958	48,510,239	79,838,001
Others	813,297	985,275	6,222,398	8,684,024
Technical revaluation-Circular 550	10,526,009	9,360,583	10,571,433	9,380,024
Total	2,234,543,001	3,568,084,189	2,300,624,872	4,111,640,732

(1)As of March 2005, this item considers mainly, ThCh\$ 471,755 gross value of buildings with accumulated depreciation of ThCh\$ 46,987.

Up to December 31, 2002, works in progress includes capitalization of financing cost of loans related to its financing, as per Technical Bulletin No. 31 of the Chilean Association of Accountants, thus, the gross property, plant and equipment balance includes interest in the amount of ThCh\$ 185,200,225 for both years. Accumulated depreciation for this interest amounts to ThCh\$ 109,934,043 and ThCh\$ 96,137,205 for 2005 and 2004, respectively.

A depreciation charge for the period amounting to ThCh\$46,150,088 and ThCh\$65,141,548 for 2005 and 2004, respectively was recorded as operating cost, and a depreciation charge of ThCh\$2,443,397 for 2005 and ThCh\$1,282,007 for 2004 as administration and selling cost. Depreciation of property, plant and equipment that is temporarily out of service, is made up mainly of telephone equipment under repair and incurred depreciation amounting to ThCh\$809,456 and ThCh\$928,228 in 2005 and 2004, which is classified under "Other Non-operating Expenses".

26

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

The detail by item of the technical revaluation is as follows:

Description	Net Balance ThCh\$	Accumulated Depreciation ThCh\$	Gross property, plant and equipment 2005 ThCh\$	Gross property, plant and equipment 2004 ThCh\$
Land	(485,040)	—	(485,040)	(485,393)
Building and improvements	(887,939)	(3,766,416)	(4,654,355)	(4,654,003)
Machinery and equipment	207,555	14,292,425	14,499,978	14,519,420
Total	(1,165,424)	10,526,009	9,360,583	9,380,024

Depreciation of the technical reappraisal surplus for the period of ThCh\$(4,777) and ThCh\$(13,073) for 2005 and 2004, respectively.

Gross property, plant and equipment includes assets that have been totally depreciated in the amount of ThCh\$912,180,691 in 2005 and ThCh\$832,298,721 in 2004, which include ThCh\$11,643,650 and ThCh\$12,122,658, respectively, from the reappraisals mentioned in Circular N°550.

27

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued
(Translation of financial statements originally issued in Spanish)

11. Investments in Related Companies

The detail of investments in related companies is as follows:

Number of shares	Percentage participation		Equity of the companies		Net income (loss) of the companies		Equity in income (loss) of the investment		Investment value	
	2005 %	2004 %	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
48,950,000	2.61	2.61	162,246,409	173,352,632	169,656	65,490	4,428	1,709	4,234,631	4,234,631
3,049,998	28.84	28.84	13,718,077	10,411,331	1,345,470	200,262	388,034	57,756	3,956,293	3,956,293
298,815	20.00	20.00	(101,867)	376,763	(36,801)	(58,868)	(7,360)	(11,773)	—	—
—	—	9.00	—	30,965,801	—	(262,145)	—	(23,593)	8,190,924	10,140,000

(1) On April 26, 2004, Compañía de Telecomunicaciones de Chile S.A. sold its 9% holding in Impresora y Comercial Publicguías S.A., to Telefónica Publicidad e Información S.A.. The selling price was US\$ 14,760,000, equivalent to Ch\$ 9,013 million, with a gain after taxes of Ch\$ 4,940 million.

(2)

The Company records its investment in TBS Celular using the equity method since it exercises significant influence through the business group to which it belongs, as established in paragraph No. 4 of Circular 1179 issued by the Superintendency of Securities and Insurance and ratified in Title II of Circular 1697. Although Telefónica CTC Chile only has a 2.61% direct participation in TBS Celular, its Parent Company, Telefónica España directly and indirectly has a percentage exceeding 20% ownership of the capital stock of that company.

(3) Investment for which a provision has been established the Company's participation in the negative shareholders' equity of this related company. This provision is included in "other current liabilities".

As of the date of these financial statements there are no liabilities for hedge instruments assigned to foreign investments. The Company has the intention of reinvesting net income from foreign investments on a permanent basis, therefore there is no net income that is potentially remittable.

28

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

12. Goodwill and negative goodwill:

Goodwill:

The detail of goodwill is as follows:

Taxpayer No.	Company	Year	2005		2004	
			Amount amortized in the period ended March 31 ThCh\$	Balance of Goodwill ThCh\$	Amount amortized in the period ended March 31 ThCh\$	Balance of Goodwill ThCh\$
Foreign	TBS Celular Holding	2001	44,037	2,515,005	44,535	2,693,626
96,887,420-9	Globus 120 S.A.	1998	271,691	14,938,135	274,764	16,040,158
78,703,410-1	Tecnonáutica S.A.	1999	22,205	838,856	36,372	984,829
96,786,140-5	Telefónica Móvil S.A. (a)	1997	—	—	2,500,245	137,540,981
96,834,320-3	Telefónica Internet Empresas S.A.	1999	35,951	518,107	22,462	608,190

96,811,570-7	Telepeajes S.A.	2001	—	—	9,866	29,711
	Total		373,884	18,810,103	2,888,244	157,897,495

Goodwill amortization periods have been determined taking into account aspects such as the nature and characteristics of the business and estimated period of return of investment.

(a)As indicated in Note 2d) No. 1 with the sale of this subsidiary on July 23, 2004, the Company extraordinary amortized the remaining goodwill on that investment as of June 30, 2004 of ThCh\$ 133,872,010.

13. Intangibles:

The detail of Intangibles is as follows:

	2005 ThCh\$	2004 ThCh\$
Underwater cable rights (gross)	34,366,502	28,866,222
Accumulated amortization previous period	(4,919,218)	(3,359,414)
Amortization for the period	(443,283)	(317,075)
Licenses (Software) (gross)	11,020,194	3,229,361
Accumulated amortization previous period	(1,845,574)	(972,701)
Amortization for the period	(376,802)	(222,551)
Licenses for use of broad-band width	—	9,753,984
Accumulated amortization previous period	—	(352,173)
Amortization for the period	—	(81,338)
Total Net Intangibles	37,801,819	36,544,315

29

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

14. Others (from Other Assets):

The detail of Others is as follows:

	2005 ThCh\$	2004 ThCh\$
Deferred disbursement for obtaining external financing (see note 8b) (a)	1,126,932	1,132,883
Deferred union contract bonus (see note 8a)	630,044	2,865,132

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Bond issue expenses (see note 25)	361,800	1,934,818
Bond discount (see note 25)	212,582	3,366,732
Deferred forward contract premiums	36,372	102,317
Leased vehicles	53,934	221,849
Securities deposits	131,911	135,697
Deferred charge due to change in actuarial estimations (b)	8,063,309	—
Deferred staff severance indemnities (c)	5,370,684	—
Others	107,582	380,470
Total	16,095,150	10,139,898

(a) This amount corresponds to the cost (net of amortizations) of the mandatory reserve paid to the Banco Central de Chile and disbursements incurred for foreign loans obtained by the Company, to finance its investment plan.

(b) In virtue of the new contractual conditions derived from the organizational evolution experienced by the Company, there have been a series of studies that allowed, in first instance in 2004, modification of the future permanence of employees variable of the basis for calculating staff severance indemnities. After concluding these studies, in 2005 other estimations were incorporated such as mortality of employees and salary increases, all determined on the basis of actuarial calculations, as established in Technical Bulletin No. 8 of the Chilean Association of Accountants.

The difference at the beginning of the year as a result of changes in the actuarial estimates constitutes actuarial gains or losses, which are deferred and amortized during the years of average future permanence remaining for the employees that will receive the benefit. (see note 2 u)

(c) In conformity with the union agreements between the Company and its employees, loans were granted to employees, the amounts and conditions of which were based, among other aspects, on the accrued balances of staff severance indemnities when they were granted.

The loan is presented in other long-term receivables. The staff severance indemnities provision has been partially recorded at its current value, deferring and amortizing this effect over the years of average future permanence remaining of the employee who accepted the benefit.

30

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued
(Translation of financial statements originally issued in Spanish)

15. Short-term debt with banks and financial institutions:

The breakdown of short-term obligations with banks and financial institutions is as follows:

Taxp. No.	Bank or financial institution	US\$		U.F.		Ch\$		TOTAL	
		2005	2004	2005	2004	2005	2004	2005	2004
	Short-term	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$

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97,030,000- BANCO ESTADO	—	—	—	—	9,485,901	9,665,539	9,485,901
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