

ELLIE MAE INC
Form 4
August 08, 2014

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Luce Edgar

(Last) (First) (Middle)

C/O ELLIE MAE, INC., 4155
HOPYARD ROAD, SUITE 200

(Street)

PLEASANTON, CA 94588

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
ELLIE MAE INC [ELLI]

3. Date of Earliest Transaction
(Month/Day/Year)
08/07/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

___ Director ___ 10% Owner
 Officer (give title below) ___ Other (specify below)

Chief Financial Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Stock	08/07/2014 ⁽¹⁾		S	(A) or (D) Code V Amount (D) Price 22,000 ⁽²⁾ D 34.0407 ⁽³⁾	72,318 ⁽²⁾	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

	Maturity	ThCh\$
BCD	2007	13,806,697
BCU	2009	1,940,614

c) Cash and cash equivalents:

	2005 ThCh\$	2004 ThCh\$
Cash	6,292,104	8,142,844
Time deposits	84,968,946	55,051,695
Other current assets	4,000,510	99,604,589
Total	95,261,560	162,799,128

27. Derivative Contracts:

The breakdown of derivative contracts is as follows:

Type of derivate	Type of contract	Description of Contract					Value of Hedged item ThCh\$	Asset / Liability		Affect
		Contract Value	Maturity or Expir.	Specific Item	Purchase sale position	Hedged item or transaction Name Amount		Name	Amou ThCl	
FR	CI	19,000,000	III Quarter 06	Exchange rate	C	Oblig. in US\$ 19,000,000	9,737,500	asset liabilities	9,737,500 (9,792,600)	
FR	CCPE	24,300,000	I Quarter 06	Exchange rate	C	Oblig. in US\$ 24,300,000	12,453,750	asset liabilities	12,453,750 (14,419,000)	
FR	CCPE	20,000,000	III Quarter 06	Exchange rate	C	Oblig. in US\$ 20,000,000	10,250,000	asset liabilities	10,250,000 (10,886,700)	
FR	CCPE	150,000,000	III Quarter 08	Exchange rate	C	Oblig. in US\$ 150,000,000	76,875,000	asset liabilities	76,875,000 (85,637,900)	
FR	CCPE	200,000,000	II Quarter 09	Exchange rate	C	Oblig. in US\$ 200,000,000	102,500,000	asset liabilities	102,500,000 (116,351,600)	
FR	CCPE	70,000,000	II Quarter 2011	Exchange rate	C	Oblig. in US\$ 70,000,000	35,875,000	asset liabilities	35,875,000 (38,739,100)	
FR	CI	7,000,000	I Quarter 06	Exchange rate	C	Oblig. in US\$ 7,000,000	3,587,500	asset liabilities	3,587,500 (3,600,600)	
FR	CCPE	33,000,000	I Quarter 06	Exchange rate	C	Oblig. in 33,000,000	16,912,500	asset	16,912,500	

Explanation of Responses:

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US\$

									liabilities	(16,957,2
FR	CCPE	6,000,000	III Quarter 06	Exchange rate	C	Oblig. in US\$	6,000,000	3,075,000	asset liabilities	3,075,000 (3,451,800)
FR	CI	353,709	I Quarter 06	Exchange rate	V	Oblig. in US\$	353,709	77,586	asset liabilities	77,586 (69,500)
S	CCPE	150,000,000	III Quarter 08	Interest rate	C	Oblig. in US\$	150,000,000	-	asset	195,500
S	CCPE	200,000,000	II Quarter 09	Interest rate	C	Oblig. in US\$	200,000,000	-	asset	26,800
S	CCPE	70,000,000	II Quarter 2011	Interest rate	C	Oblig. in US\$	70,000,000	-	asset	(3,800)
Deferred income for exchange forward contracts									liabilities	(160,900)
Deferred costs for exchange insurance									asset	78,700
Exchange forward contracts expensed during the year (net)										

Total

Types of derivatives:

FR: Forward

S: Swap

Type of Contract:

CCPE: Hedge contract for existing transactions

CCTE: Hedge contract for anticipated transactions

CI: Investment hedge contract

Notes to the Consolidated Financial Statements, continued

28. Contingencies and restrictions:

a) Lawsuits:

(i) Claims presented by VTR Telefónica S.A.:

On September 30, 2000, VTR Telefónica S.A. filed an ordinary suit for the collection of access charges in the amount of ThCh\$2,500,000, based on the differences that would originate from the lowering of access charges rate due to Rate Decree No.187 of Telefónica CTC Chile. The initial sentence accepted VTR's claim and the compensation alleged by Telefónica CTC Chile. The Company filed a motion to vacate and appeal, which is currently underway.

(ii) Labor lawsuits:

In the course of normal operations, labor lawsuits have been filed against the Company.

To date, among others, there are labor proceedings involving former employees, who claim wrongful dismissal. These employees did not sign termination releases or receive staff severance indemnities. On various occasions, the Supreme Court has reviewed the sentences handed down on the matter, accepting the argument of the Company and ratifying the validity of the terminations.

There are, in addition, other lawsuits involving former employees, whose staff severance indemnities have been paid and their termination releases signed, who in spite of having chosen voluntary retirement plans or having been terminated due to company needs, intend to have the terminations voided. Of these lawsuits, to date, two have received a sentence favorable to the Company, rejecting the annulments.

Certain unions have filed complaints before the Santiago Labor Courts, requesting damage payments for various concepts.

In the opinion of Management and internal legal counsel, the risk that the Company will be required to pay indemnities in the amount claimed in the previously mentioned lawsuits, in addition to other civil and labor suits in which the Company is the defendant, is remote. Management considers it unlikely that the Company's income and equity will be significantly affected by these loss contingencies. As a consequence, no provision has been established in relation to the indemnities claimed. Consequently provisions have been established in relation to the indemnities claimed.

(iii) Other contingencies; Lawsuit against the Government:

On October 31, 2001, Telefónica CTC Chile filed an administrative motion before the Ministry of Transport and Telecommunications and the Ministry of Economy, requesting correction of the errors and illegalities in Rate Decree No. 187 of 1999. On January 29, 2002, the Ministries issued a joint response rejecting the administrative recourse, determination which they arrived at after having carefully evaluated, only the viability and timeliness of the petition made, considering the set of circumstances that concur in the problem stated and the prudence that must orient public actions, to add that such rejection has had no other motivation than to protect the general interest and progress of the telecommunications services.

Upon extinguishing the administrative instances to correct the errors and illegalities involved in the tariff setting process of 1999, in March 2002, Telefónica CTC Chile filed a lawsuit for damages against the State of Chile for the sum of Ch\$ 181,038,411,056, plus readjustments and interest, which covers past and future damages until May 2004.

The judicial process is currently at the stage of issuing a sentence.

(iv) Manquehue Net:

On June 24, 2003, Telefónica CTC Chile filed a forced compliance of contracts complaint with damage indemnity before the mixed arbitration court of Mr. Victor Vial del Río against Manquehue Net, in the amount of Ch\$ 3,647,689,175, in addition to costs incurred during the proceeding. Likewise, and on the same date, Manquehue Net filed a compliance with discounts complaint (in the amount of UF 107,000), in addition to an obligation to perform complaint (signing of a 700 services contract). After completion of the evidence period, on June 5, 2004 the arbiter called the parties together to pronounce a sentence.

On April 11, 2005, the Court notified the first instance sentence accepting the claim made by Telefónica CTC Chile condemning Manquehue to pay approximately Ch\$ 452 million, and at the same time accepted Manquehue's claim condemning Telefónica CTC Chile to pay 47,600 UF.

Telefónica CTC Chile filed an appeal for dismissal on the grounds of errors in the form in both cases; which are currently pending before the Court of Appeals of Santiago.

b) Financial restrictions:

In order to carry out its investment plans, the Company obtained financing in the local and foreign market (notes 15, 16 and 17), which established among others: maximum debt that the Company may have, interest coverage.

The maximum debt ratio for these contracts is 1.50, whereas the interest coverage ratio cannot be less than 4.00.

Non-compliance with these clauses implies that all the obligations included in these financing contracts will be considered as due.

As of December 31, 2005 the Company complies with all the financial restrictions.

29. Third party guarantees:

The Company has not received any guarantees from third parties.

30. Local and Foreign Currency:

A summary of the assets in local and foreign currency is as follows:

Description	Currency	2005 ThCh\$	2004 ThCh\$
Total current assets :		315,987,155	437,530,555
Cash	Non-indexed Ch\$	6,196,641	7,671,191
	Dollars	53,213	421,624
	Euros	42,250	50,029
Time deposits	Indexed Ch\$	290,114	50,634,077
	Dollars	84,678,832	4,417,618
Marketable securities	Indexed Ch\$	1,940,613	-
	Dollars	13,806,698	27,061,316
Notes and accounts receivable (1)	Indexed Ch\$	-	681
	Non-indexed Ch\$	154,191,565	155,367,808
	Dollars	3,930,025	31,228,328
Due from related companies	Indexed Ch\$	15,585,521	12,210,149
	Dollars	2,441,946	9,711,888
Other current assets (2)	Indexed Ch\$	2,769,040	35,900,031
	Non-indexed Ch\$	29,523,569	96,767,231
	Dollars	529,065	6,088,584
	Brazilian Real	8,063	-
Total property, plant and equipment :		1,300,497,972	1,432,660,678
Property, plant and equipment and accumulated depreciation	Indexed Ch\$	1,300,497,972	1,432,660,678
Total other long-term assets		92,315,225	92,636,063
Investment in related companies	Indexed Ch\$	7,832,220	7,895,628
Investment in other companies	Indexed Ch\$	4,093	4,093
Goodwill	Indexed Ch\$	18,451,329	20,034,890
Other long-term assets (3)	Indexed Ch\$	50,471,130	49,575,061
		4,871,251	14,651,849

Explanation of Responses:

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	Non-indexed Ch\$ Dollars	10,685,202	474,572
Total Assets		1,708,800,352	1,962,827,296
	Indexed Ch\$	1,382,256,511	1,596,705,139
	Non-indexed		
	Ch\$	210,368,547	286,668,228
	Dollars	116,124,981	79,403,900
	Euros	42,250	50,029
	Brazilian Real	8,063	-

- (1) Includes the following balance sheet accounts: Trade Accounts Receivable, Notes Receivable and Miscellaneous Accounts Receivable.
- (2) Includes the following balance sheet accounts: Inventories, Recoverable Taxes, Prepaid Expenses, Deferred Taxes and Other Current Assets.
- (3) Includes the following balance sheet accounts: Long-term Receivables, Intangibles, Accumulated amortization and Others.

Notes to the Consolidated Financial Statements, continued

30. Local and Foreign Currency, continued:

A summary of the current liabilities in local and foreign currency is as follows:

Description	Currency	Up to 90 days				90 days up to 1 year			
		2005		2004		2005		2004	
		Amount	Average	Amount	Average	Amount	Average	Amount	Average
ThCh\$	annual	ThCh\$	annual	ThCh\$	annual	ThCh\$	annual		
			interest		interest		interest		
			%		%		%		
Short-term obligations with banks and financial institutions	Non-indexed Ch\$	-		10,422,724	1.47	-		9,757,490	
Short-term portion of obligations with banks and financial institutions	Indexed Ch\$	-	-	214,185	-	321,206	-		
	Dollars	998,377	-	15,861,206	2.41	-	-		
Obligations with the public (Commercial paper)	Non-indexed Ch\$	22,740,193	3.10	-	-	34,346,806	3.60	35,997,500	
Obligations with the public (Bonds payable)	Indexed Ch\$	-	-	73,428,696	6.75	1,452,982	6.00	1,466,200	
	Dollars	83,588,805	8.40	4,254,027	-	26,331,505	7.60		
Long-term obligations maturing within a year	Indexed Ch\$	2,690	9.06	8,324	9.06	13,825	9.06	24,900	
Due to related parties	Indexed Ch\$	-	-	-	-	280,407	-		
	Non-indexed Ch\$	26,751,548	-	22,748,960	-	-	-	5,879,520	
	Dollars	469,465	-	200,948	-	-	-	133,720	
Other current liabilities (4)	Indexed Ch\$	1,984,441	-	-	-	804,388	-		
	Non-indexed Ch\$	115,463,016	-	154,608,001	-	5,113,828	-	24,908,680	
	Dollars	5,027,910	-	984,380	-	360,360	-		
Total Current Liabilities		257,026,445	-	282,731,451	-	69,025,307	-	78,168,220	
Subtotal by currency	Indexed Ch\$	1,987,131	-	73,651,205	-	2,872,808	-	1,491,200	
		164,954,757	-	187,779,685	-	39,460,634	-	76,543,290	

Non-indexed

Ch\$

Dollars 90,084,557 - 21,300,561 - 26,691,865 - 133,72

(4) Includes the following balance sheet accounts: Dividends payable, Trade accounts payable, Notes payable, Miscellaneous accounts payable, Accruals, Withholdings, Income taxes, Unearned Income and Other current liabilities.

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A summary of the long-term liabilities in local and foreign currency is as follows:

		1 to 3 years 2005		3 to 5 years 2005		5 to 10 years 2005		ov
		Average annual interest		Average annual interest		Average annual interest		
		Amount	rate	Amount	rate	Amount	rate	An
		ThCh\$	%	ThCh\$	%	ThCh\$	%	T
LONG-TERM LIABILITIES								
Obligation with banks and financial institutions	Indexed Ch\$	-	-	63,900,450	2.32	-	-	
	Dollars	76,875,000	4.69	102,500,000	4.90	76,875,000	4.64	
Bonds payable	Indexed Ch\$	-	-	-	-	-	-	12,19
Other long-term liabilities (5)	Indexed Ch\$	15,975,376	-	17,005,188	-	6,005,144	-	76,53
	Non-indexed Ch\$	756,020	-	482,268	-	1,205,670	-	5,22
Total Long-term Liabilities		93,606,396	-	183,887,906	-	84,085,814	-	93,95
Subtotal by currency	Indexed Ch\$	15,975,376	-	80,905,638	-	6,005,144	-	88,73
	Non-indexed Ch\$	756,020	-	482,268	-	1,205,670	-	5,22
	Dollars	76,875,000	-	102,500,000	-	76,875,000	-	

		1 to 3 years 2004		3 to 5 years 2004		5 to 10 years 2004		ov
		Average annual interest		Average annual interest		Average annual interest		
		Amount	rate	Amount	rate	Amount	rate	An
		ThCh\$	%	ThCh\$	%	ThCh\$	%	T
LONG-TERM LIABILITIES								
Obligations with banks and financial institutions	Indexed Ch\$	-	-	63,778,349	1.55	-	-	
	Dollars	138,591,936	2.94	150,141,264	2.95	-	-	
Bonds payable	Indexed Ch\$	2,562,923	6.00	2,562,924	6.00	6,407,308	6.00	1,92
	Dollars	118,982,909	8.20	-	-	-	-	
Other long-term liabilities (5)	Indexed Ch\$	13,732,416	-	7,975,430	-	20,094,992	-	18,80
		746,220	-	360,857	-	904,146	-	32,34

Non-indexed
Ch\$

Total Long-term Liabilities		274,616,404	-	224,818,824	-	27,404,446	-	53,07
	Indexed							
Subtotal by currency	Ch\$	16,295,339	-	74,316,703	-	26,502,300	-	20,72
	Non-indexed							
	Ch\$	746,220	-	360,857	-	904,146	-	32,34
	Dollars	257,574,845	-	150,141,264	-	-	-	-

(5) Includes the following balance sheet accounts: Due to related companies, Miscellaneous accounts payable, Accruals, Deferred long-term taxes, Other long-term liabilities.

Notes to the Consolidated Financial Statements, continued**31. Sanctions:**

Neither the Company, nor its Directors and Managers have been sanctioned by the Superintendency of Securities and Insurance or any other administrative authority during 2005 and 2004.

32. Subsequent events:

On January 24, 2006, the Company reported an essential event in which they inform that the Board of Directors of Compañía de Telecomunicaciones de Chile S.A. agreed to call an Extraordinary Shareholders Meeting, as established in articles 10, 57 and 67 of the Companies Law and in articles 33 and 44 of the bylaws of Compañía de Telecomunicaciones de Chile S.A., for Thursday April 20, 2006, in order to inform the shareholders and have them decide on the following matters:

- i) Capital decrease in the amount of ThCh\$40,200,513,570
- ii) Bylaws reform in reference to the modification of share capital
- iii) Adopt the corresponding decisions to formalize the agreements of the Meeting

Management is unaware of any other significant subsequent events that have occurred in the period from January 1 to 24, 2006 and that may affect the Company's financial position or the interpretation of these financial statements.

33. Environment:

In the opinion of Management and their in-house legal counsel and because the nature of the Company's operations do not directly or indirectly affect the environment, as of the closing date of these financial statements, no resources have been set aside nor have any payments been made for non-compliance with municipal ordinances or other supervising organizations.

34. Time deposits:

The detail of time deposits is as follows:

Placement	Institution	Currency	Principal	Rate	Maturity	Principal	Accrued
			ThCh\$	%		ThCh\$	ThCh\$
Dec 31, 2005	ABN AMRO BANK	US\$	165,081,000	4.0300	Jan 03, 2006	84,604,013	
Dec 26, 2005	BANCO CRÉDITO E INVERSIONES	US\$	145,900	4.3000	Jan 25, 2006	74,774	
Dec 06, 2005	BANCO CRÉDITO E INVERSIONES	UF	15,964	6.2000	Mar 07, 2006	286,946	1,2
Dec 30, 2005	SANTANDER SANTIAGO	Ch\$	1,928	-	Jan 30, 2006	1,928	
Total			165,244,792	-		- 84,967,661	1,2

35. Accounts payable:

The detail of the accounts payable balance is as follows:

	2005	2004
	ThCh\$	ThCh\$
Suppliers		
Chilean	60,800,675	53,378,613
Foreign	5,011,124	2,857,928
Carrier service	8,406,474	5,485,376
Provision for work in progress	10,034,495	12,028,858
Total	84,252,768	73,750,775

36. Other accounts payable:

The detail of other accounts payable is as follows:

	2005	2004
	ThCh\$	ThCh\$
Exchange insurance contract payables	3,093,532	40,602,337
Billing on behalf of third parties	2,804,313	2,089,258
Accrued supports	1,005,680	183,262
Others	1,877,962	861,990
Total	8,781,487	43,736,847

Alejandro Espinoza Querol
General Accountant

José Moles Valenzuela
General Manager

Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries
Management's Discussion and Analysis Of The Consolidated Financial Statements
For the year ended December 31, 2005 and 2004

1. HIGHLIGHTS

Consolidated Income and Figures for the Corporation's Business Areas

As of December 31, 2005, Telefónica CTC Chile recorded consolidated net income of Ch\$25,183 million, whereas in 2004 it presented net income of Ch\$322,847 million. 2004 income includes the effects derived from the sale of the subsidiary Telefónica Móvil de Chile S.A. in July 2004, which produced a net gain of approximately Ch\$314,468 million.

The operating income of Telefónica CTC Chile for 2005 presents a surplus of Ch\$87,096 million, 15.2% less than the Ch\$102,703 million reached in the year ended December 31, 2004.

The comparison of operating income between 2004 and 2005 includes the effects of the deconsolidation of the subsidiary Telefónica Móvil de Chile S.A. as of July 2004.

For comparison purposes, after excluding the effects of Telefónica Móvil in 2004, as detailed below, the operating margin reaches 15.0% and 17.8% for the year ended December 2005 and 2004, respectively. Operating income decreased by 18.1% due to a 2.8% decrease in revenues and a 1.7% increase in operating costs.

Operating Income for the period excluding T. Móvil

	2004	2005	% Variation
Revenues	597,250	580,710	-2.8%
Salaries	(78,968)	(79,078)	0.1%
Goods and services	(213,025)	(217,881)	2.3%
Total Cost	(291,993)	(296,959)	1.7%
EBITDA	305,257	283,751	-7.0%
Depreciation	(198,945)	(196,655)	-1.2%
Operating Income	106,312	87,096	-18.1%
Operating Margin	17.8%	15.0%	

It should be noted that as of May 6, 2004, operating income includes the effects of the tariff decree which is in force until May 6, 2009. Non operating income for the year ended December 31, 2005 shows a deficit of Ch\$28,491 million, which compares negatively to the surplus obtained the previous year in the amount of Ch\$285,078 million, derived mainly from income obtained on the sale of Telefónica Móvil de Chile S.A. Without considering this effect, there is a positive change from year to year, which is basically due to a decrease in financial expenses associated with a lower level of debt and better financing conditions, and a positive effect of price-level restatement.

With respect to operating business figures, as of December 31, 2005, Telefónica CTC Chile had a total of 2,440,827 fixed telephone lines, presenting an increase of 0.6% in relation to December 2004. ADSL customers in service reached 314,177, which represents 56.5% growth in relation to the previous year. Long distance traffic through the network of Telefónica CTC Chile, for which access fees are charged, decreased by 25.9% in domestic long distance (DLD) and 36.2% in international long distance (ILD), reaching 1,582.9 million minutes and 690.5 million minutes,

respectively.

As of December 31, 2005, the Company had total staff of 3,910 a 3.6% increase in comparison to December 2004, where the staff was 3,774 persons.

Decrease in Financial Debt

Telefónica CTC Chile has continued to decrease its debt level through amortization and prepayment of loans and renegotiation of interest rates and terms of current loan as well as through the global drop in interest rates. As of December 31, 2005, financial debt amount to Ch\$496,316 million, reflecting a 21.3% decrease in relation to the financial debt of Ch\$628,352 million recorded as of December 31, 2004. The decrease in the debt levels along with the improved financing conditions and the drop in the value of the dollar translated into a downturn of 47.3% in financial expenses as of December 31, 2005.

Dividend Policy

On September 21, 2004, the Board of Compañía de Telecomunicaciones de Chile S.A. agreed to modify the policy for distribution of dividends with a 30% to 100% charge to income for each year, by means of an interim dividend in November of each year and a final dividend which will be proposed at the Ordinary Shareholders Meeting. In this context, the Board agreed to distribute an interim dividend charged against 2004 net income, for Ch\$124,430 million in November 2004 (equivalent to US\$ 200 million).

In January 2005, the Board agreed to propose the payment of a final dividend of Ch\$58.84591 per share with a charge to net income to the ordinary Shareholders Meeting, thereby complying with the aforementioned dividend policy. Similarly they agreed to propose the payment of an provisional dividend of Ch\$50.99095 per share, with a charge to retained earnings as of December 2004 at the next Ordinary Shareholders Meeting.

The Ordinary Shareholders Meeting held on April 14, 2005 approved the distribution of both the final and provisional dividend; the Meeting also revealed the Dividend Policy for 2005 and future years, as mentioned in the first paragraph of this section.

Similarly, on October 27, 2005, the Board of Directors approved payment of an interim dividend (No.170) of Ch\$11.00 per share, with a charge to 2005 income, equivalent to ThCh\$10,528,728 (historical).

Tariff Setting Process for Telefónica CTC (Local Telephony)

On May 4, 2004, the Ministries of Transport and Telecommunications and Economy; Development and Reconstruction (here in after the "ministries") issued Tariff Decree No. 169 which they submitted together with the supporting report to the Chilean General Comptroller together with the supporting report.

On June 2, Telefónica CTC Chile made two presentations to the Chilean General Comptroller as part of the process for Tariff Decree No.169. The first presentation denounces manifest mathematical errors in Decree No. 169, requesting that the controlling organization order these to be corrected. The second presentation includes the legal objections relating to conceptual aspects that have an impact on the definition and scope of the services included in the Decree. In both presentations the Company expressly reserves the right to take legal action.

Entel, Chilesat and Telmex filed a complaint with the Chilean General Comptroller against Tariff Decree No. 169, objecting to scaling of access charges and the criteria for cost assignation of the different tariffs.

On September 16, 2004, the Ministries issued their report to the Chilean General Comptroller relating to the complaints filed by Telefónica CTC Chile, Chilesat, Entel and Telmex. In this respect, the Ministries informed that as a result of their review of the tariff model a large part of the mathematical errors denounced by Telefónica CTC Chile were corrected, and that furthermore other errors apparently contained in the mentioned Tariff Decree were also corrected.

In turn, the Ministries defended the scaling of access charges of D.S. 169, stating that this action has been taken in conformity with the resolutions of antitrust organizations and those prescribed by the Economic Technical Bases established for this tariff setting process.

The ministries rejected the claims by Telefónica CTC Chile and Entel, Chilesat and Telmex with respect to the definition and scope of services included in the decree.

On October 4, 2004, Telefónica CTC Chile once again appealed to the Chilean General Comptroller , for the correction of new mathematical errors incurred by the Ministries they corrected the errors informed by Telefónica CTC Chile. They also resubmitted their claim regarding the decree.

The Undersecretary of Telecommunications of the Ministry of Transport and Telecommunications ("SUBTEL") once again submitted Decree No. 169 to the Chilean General Comptroller on December 30, 2004, after modifying certain network unbundling tariffs, in the item Adjustment of Civil Works . Likewise, Subtel once again modified other tariffs, including those of the Adjustment of Civil Works item, resubmitting Decree No. 169 to the Chilean General Comptroller on January 14, 2005.

In addition, in January 2005. Entel and Telmex filed new presentations to the Chilean General Comptroller, in which Entel protested the tariffs set by the Ministries regardin to Adjustment of Civil Works and on its Telmex accompanied information sustaining that access charge rates must be at direct cost.

On February 8, 2005, the Chilean General Comptroller recorded Tariff Decree No. 169. The report of the Chilean General Comptroller rejected the complaints regarding conceptual aspects presented by Telefónica CTC Chile and does not make a pronouncement regarding the new mathematical errors denounced in October 2004. The complaints filed by Telmex, Chilesat and Entel were rejected by the Chilean General Comptroller.

Tariff Decree No.169 was published in the Official Gazette on February 11, 2005. Telefónica CTC Chile enabled the application of the new rates to its customers in its systems and began the rebilling process as of May 6, 2004.

Tariff Flexibility

The Official Gazette of February 26, 2004, published Decree No.742, of December 24, 2003, issued by the Ministry of Transport and Telecommunications, which regulate conditions (without restrictions as to levels or structure) to the offer of various plans and joint offers that can be offered by the dominant operators of the local public telephone service.

Tariff flexibility allows Telefónica CTC Chile to offer its customers various commercial plans, adhering to the general framework for the application of the flexibility that must be defined by the Authority, without requiring authorization for each plan.

Telefónica CTC Chile started offering different local telephone plans, in order to adapt to customer`s needs.

Management's Discussion and Analysis Of The Consolidated Financial Statements, continued

2. VOLUME STATISTICS, PROPERTY, PLANT AND EQUIPMENT AND STATEMENTS OF INCOME

TABLE No. 1
VOLUME STATISTICS

DESCRIPTION	December 2004	December 2005	Variation Q	%
Lines in Service (end of year)	2,427,364	2,440,827	13,463	0.6%
Total Average Lines in Service	2,406,266	2,451,356	45,090	1.9%
Local calls (millions) (1)	4,615	3,309	(1,306)	-28.3%
Inter-primary DLD Minute(2) (thousands)	2,134,945	1,582,948	(551,997)	-25.9%
Total ILD Minutes(3) (thousands)	1,083,068	690,499	(392,569)	-36.2%
ILD Minute Outgoing (incl. Internet)	673,986	264,583	(409,403)	-60.7%
ILD Minutes Incoming	409,081	425,916	16,835	4.1%
Line Connections	343,318	358,088	14,770	4.3%
ADSL Connections in Service	200,794	314,177	113,383	56.5%
Permanent Personnel Telefónica CTC Chile (4)	2,817	2,945	128	4.5%
Permanent Personnel Subsidiaries (4)(5)	957	965	8	0.8%
Total Corporate Personnel (4)	3,774	3,910	136	3.6%

1. Does not include calls from public phones owned by the Company.
2. DLD: Domestic Long Distance. Corresponds to all outgoing traffic of primary areas attended by Telefónica CTC Chile, including the traffic of Telefónica Mundo and Globus 120, for which access fees are charged.
3. ILD: International Long Distance. Corresponds to all outgoing and incoming international calls of primary areas attended by Telefónica CTC Chile, including the traffic of 188 Telefónica Mundo and Globus 120, for which access fees are charged.
4. Include staff with contracts for determined term.
5. In 2004 Mobile subsidiary personnel is included.

TABLE No. 2
CONSOLIDATED NET PROPERTY, PLANT AND EQUIPMENT

(Figures in millions of pesos as of December 31, 2005)

DESCRIPTION	December 2004	December 2005	Variation MCh\$	%
Land, Infrastructure, Machinery and Equipment	3,658,661	3,677,580	18,919	0.5%
Projects and Works in Progress	66,121	61,775	(4,346)	-6.6%
Accumulated Depreciation	2,292,122	2,438,857	146,735	6.4%
NET PROPERTY, PLANT & EQUIPMENT	1,432,660	1,300,498	(132,162)	-9.2%

TABLE No. 3
CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS
ENDED AS OF DECEMBER 31, 2005 and 2004

(Figures in millions of pesos as of 12.31.05)

DESCRIPTION	Jan - Dec	Jan - Dec	Variation (2005 / 2004)	
	2004	2005	MCh\$	%
OPERATING REVENUES				
Fixed telecommunications	437,421	441,476	4,055	0.9%
Basic Telephony	310,645	294,284	(16,361)	-5.3%
Fixed charge (monthly)	152,089	123,539	(28,550)	-18.8%
Variable charge	122,449	96,908	(25,541)	-20.9%
Connections and Other Installations	4,036	3,280	(756)	-18.7%
Flexible Plans	9,005	45,727	36,722	407.8%
Value Added Services	17,702	19,475	1,773	10.0%
Others Basic Telephony Services	5,364	5,355	(9)	-0.2%
Broadband	26,068	42,901	16,833	64.6%
ADSL	19,628	31,919	12,291	62.6%
Internet Connection for Companies	6,440	10,982	4,542	70.5%
Access Charges and Interconnections (1)	32,724	44,004	11,280	34.5%
Domestic Long Distance	10,485	10,344	(141)	-1.3%
International Long Distance	2,908	2,371	(537)	-18.5%
Access Charges Mobile - Fixed	8,023	14,230	6,207	77.4%
Other Interconnection Services	11,308	17,059	5,751	50.9%
Other Local Telephone Services	67,984	60,287	(7,697)	-11.3%
Advertising in Telephone Directories	6,093	5,369	(724)	-11.9%
ISP (Switchboard and Dedicated)	3,230	2,530	(700)	-21.7%
Teleemergencia (Security Services)	6,921	8,081	1,160	16.8%
Public Phones	11,228	9,819	(1,409)	-12.5%
Interior Installation and Equipment Rental	32,401	30,687	(1,714)	-5.3%
Equipment Marketing	8,111	3,801	(4,310)	-53.1%
Long Distance	63,807	57,972	(5,835)	-9.1%
Long Distance	25,511	23,268	(2,243)	-8.8%
International Service	24,789	19,464	(5,325)	-21.5%
Network capacity and circuit rentals	13,507	15,240	1,733	12.8%
Corporate Communications	85,890	78,214	(7,676)	-8.9%
Terminal Equipment	14,064	13,378	(686)	-4.9%
Complementary Services	17,305	14,666	(2,639)	-15.2%
Data Services	32,271	28,119	(4,152)	-12.9%
Dedicated links and others	22,250	22,051	(199)	-0.9%
Mobile Communications	137,027	0	(137,027)	S.C.
Mobile Communications (outgoing traffic)	96,954	0	(96,954)	S.C.
CPP Interconnection (2)	40,073	0	(40,073)	S.C.

Other Businesses (3)	4,034	3,048	(986)	-24.4%
TOTAL OPERATING REVENUES	728,179	580,710	(147,469)	-20.3%

Management's Discussion and Analysis Of The Consolidated Financial Statements, continued

2. Volume statistics, property, plant and equipment and statements of income, continued

TABLE No. 3
Consolidated statements of income for the years, continued

DESCRIPTION	Jan - Dec	Jan - Dec	Variation (2005 / 2004)	
	2004	2005	MCh\$	%
OPERATING COSTS	(460,450)	(373,054)	87,396	-19.0%
Salaries	(49,776)	(42,715)	7,061	-14.2%
Depreciation	(227,595)	(189,690)	37,905	-16.7%
Other Operating Costs	(183,079)	(140,649)	42,430	-23.2%
Administration and Selling Costs	(165,026)	(120,560)	44,466	-26.9%
Total Operating Costs	(625,476)	(493,614)	131,862	-21.1%
Operating Income	102,703	87,096	(15,607)	-15.2%
Interest Income	9,620	7,985	(1,635)	-17.0%
Other Non-operating Income	492,607	3,106	(489,501)	-99.4%
Income from Investment in Related Companies (4)	562	1,680	1,118	198.9%
Interest Expenses	(55,999)	(29,501)	26,498	-47.3%
Amortization of Goodwill	(145,457)	(1,584)	143,873	-98.9%
Other Non-operating Expenses	(25,559)	(13,077)	12,482	-48.8%
Monetary correction	9,304	2,900	(6,404)	-68.8%
Non-operating Income	285,078	(28,491)	(313,569)	C.S.
Income before Income Tax	387,781	58,605	(329,176)	-84.9%
Income taxes	(64,641)	(33,392)	31,249	-48.3%
Minority Interest	(293)	(30)	263	-89.8%
NET INCOME (5)	322,847	25,183	(297,664)	-92.2%

(1) Due to accounting consolidation does not include access charges of Telefónica Mundo and Globus.

(2) Corresponds to income recorded in Telefónica Móvil.

(3) Includes revenues from T-gestiona, Telepeajes and Tecnonáutica.

(4) For the purposes of a comparative analysis, participation in income from investments in related companies is shown net (net income/losses).

(5) For comparative purposes certain reclassifications have been made for 2004 statements of income.

3. ANALYSIS OF NET INCOME FOR THE YEAR

3.1 Operating Income

As of December 31, 2005, operating income amounted Ch\$87,096 million, which represents a 15.2% decrease with respect to the previous year. This decrease shows an extraordinary change associated with lower income and higher costs related to the correspondent business, among other effects.

Operating Revenues

Operating revenues for the year amounted to Ch\$580,710 million, a decrease of 20.3% in relation to prior year operating revenues of Ch\$728,179 million.

This variation was primarily due to the fact that 2005 does not include revenues from mobile services as a result of the deconsolidation of subsidiary Telefónica Móvil de Chile S.A. in July 2004. In addition, there was a decrease in long distance revenues and in revenues from corporate communications, partly offset by an increase in revenues from fixed telecommunication services.

Revenues from Fixed Telecommunication Services: These revenues show a 0.9% increase, due to the effects of a 5.3% drop in basic telephone services in respect to the previous year, derived from the 20.9% decrease in the level of variable charge, which shows the effect of lower revenues derived from the application of the new

tariff decree, the downturn in traffic per line and the migration of customers to flexible plans recorded in 2005. Fixed monthly charge, corresponding to the fixed monthly charge for connection to the network, decreased 18.8% mainly as a product of the incorporation of customers to flexible plans, which is offset by the effect of higher income due to the application of the new tariff decree. Consequently the incorporation of customers to flexible plans positively contributed to the Ch\$36,722 million increase in revenues. Revenues from connections and other installations dropped 18.7% with respect to the previous year, whereas value added services grew by 10.0% partly due to an increase in advanced corporate services. Other basic telephony services revenues dropped by 0.2% .

Broadband services increased by 64.6% in the period from January to December 2005, for a total of Ch\$42,901 million compared to Ch\$26,068 million the prior year.

Access charges and interconnections increased by 34.5%, mainly due to the 50.9% increase in other interconnection services, in particular media rental services, carrier information and connection services, and unbundling services, together with a 77.4% increase in mobile and fixed access charges. It should be noted that these increases are influenced by the recognition in 2005 of income from services generated by Telefónica Móvil. There was an 18.5% drop in revenues from international long distance and a 1.3% drop in domestic long distance.

Other fixed telephone services decreased by 11.3%, equivalent to Ch\$7,697 million explained fundamentally by the Ch\$4,310 million decrease in revenues from commercialization of equipment and Ch\$1,714 million in revenues from interior installations and equipment rental.

Long Distance: Long distance revenues services decreased by 9.1% in comparison to 2004, due to a decrease of 8.8% and 21.5% in DLD and ILD, respectively, which was influenced by a decrease in average outgoing long distance prices, a 10.3% drop in DLD traffic and a 2.2% drop in outgoing ILD traffic, added to the extraordinary effect of lower revenues due to the new valuation of correspondents. The above is partly offset by the incorporation of revenues from media and circuit rental to Telefónica Móvil de Chile, as of July 2004.

Corporate Communications: Corporate communications revenue shows an 8.9% decrease in respect to the previous year, mainly due to a drop in all lines of business: 15.2% in revenues from complementary services; 4.9% in revenues from sale of terminal equipment and 12.9% in data services. This was partly offset by a 0.9% increase in revenues from circuits and others.

Mobile Communications: No revenues for this concept have been recorded in 2005 since this business was deconsolidated due to the sale of Telefónica Móvil de Chile S.A. in July 2004. In 2004 these revenues amounted to Ch\$137,027 million.

Other Businesses: Revenue from other businesses shows a 24.4% decrease mainly due to decrease in revenues from the subsidiary Telepeajes (teletoll services).

Operating Costs

Operating costs for the period amounted to Ch\$493,614 million, decreasing by 21.1% in relation to 2004, when they amounted to Ch\$625,476 million. However, after separating the effect of Móviles, consolidated operating cost amounted to Ch\$486,948 increasing by 1.4% in relation to 2004.

The above is mainly explained by the extraordinary adjustment made for the concept of correspondents, which is offset by a trend of falling expense levels, basically in goods and services, remuneration and depreciation due to the efforts put into the efficient use of resources applied by the Company in the last few years.

3.2 Non-operating Income

Non-operating income for the year ended December 31, 2005 shows a deficit of Ch\$28,491 million, whereas in the previous year non-operating income amounted to Ch\$285,078 million. The change in non-operating income is broken down as follows:

Interest income shows a decrease of 17.0%, mainly because in 2004 the greater volume of funds available from the sale of the mobile subsidiary was temporarily allocated to financial investments.

Other non-operating income amounted to Ch\$3,106 million, which is lower than the Ch\$492,607 million reached in 2004. This is mainly due to net income generated by the sale of Telefónica Móvil de Chile and the sale of the participation in the ownership of Publiguías recorded in 2004.

Interest expenses decreased by 47.3% in 2005, mainly due to lower interest bearing debt, renegotiation of the rates of current loans, the drop in market interest rate and the effect of the drop in the exchange rate.

Amortization of goodwill shows a Ch\$143,873 million decrease in relation to 2004, mainly due to amortization of goodwill of the subsidiary Telefónica Móvil de Chile, sold during 2004.

Other non-operating expenses decreased by 48.8%, derived mainly from lower restructuring costs, retired assets and depreciation of assets that are out of service. These effects were offset by higher expenses in 2005 than in 2004, due to agreements reached in lawsuits, retirement of out of service assets and unrecovered taxes.

Price-level restatement in 2005 shows a net gain of Ch\$2,900 million, mainly due to the variations experienced in the CPI, unidad de fomento and exchange rate. It should be noted that a 100% hedge has been maintained for exchange rate fluctuation and a 79% hedge for interest rate. The Company's exchange rate (peso-dollar) hedge policy was largely able to neutralize the effect of the exchange rate variation in 2004 and 2005.

Management's Discussion and Analysis Of The Consolidated Financial Statements, continued

3. Analysis of net income for the year, continued

3.3 Net Income

Net income in 2005 amounted to Ch\$ 25,183 million, whereas in 2004 net income was Ch\$322,847 million. The lower income obtained in 2005 in comparison to 2004 is derived from a 15.2% operating surplus and the decrease in non-operating deficit equivalent to Ch\$313,569 million, which basically was due to the sale of Telefónica Móvil de Chile S.A.. Both effects are offset by the lower level of income taxes, which in 2004 was influenced by the tax on the sale of the subsidiary Telefónica Móvil.

4. RESULTS BY BUSINESS AREA

Fixed Telecommunication Business: Recorded net income of Ch\$11,967 million as of December 31, 2005, comparatively lower than the surplus of Ch\$302,860 million recorded in 2004, due to lower non-operating income and lower taxes derived mainly from the sale of the mobile subsidiary in 2004, offset by the improved operating result of 2005 in relation to 2004.

Corporate Communications Business: This business contributed net income of Ch\$10,778 million, a 34.2% decrease in relation to 2004 which presents net income of Ch\$16,371 million, due mainly to 31.0% lower operating income.

Long Distance Business: As of December 31, 2005 presented net income reached Ch\$1,612 million, lower than 2004 which amounted to Ch\$10,709 million. This variation is produced mainly by a 70.3% drop in operating income, mostly due to the extraordinary adjustment due to changes experienced in international businesses.

Mobile Business: Only 2004 income is presented (loss of Ch\$8,212 million) due to the deconsolidation of Telefónica Móvil de Chile S.A. in July 2004.

Other Businesses: The businesses as a whole generated net income of Ch\$826 million and operating income of Ch\$810 million in the year ended December 31, 2005, whereas during the previous year they recorded net income of Ch\$1,118 million, with operating income of Ch\$1,371 million. These businesses mainly include Telepeajes (teletoll services), Tecnonáutica and T-gestiona.

REVENUES AND COSTS BY BUSINESS*As of December 31, 2004 and 2005*

(Figures in millions of pesos as of 12.31.05)

	Fixed		Corporate				Mobile Telephony		Others	
	Telecommunications		Communications		Long Distance					
	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Operating Revenues	507,440	501,197	105,122	87,982	90,696	79,090	141,806	-	19,299	17,780
Revenues	437,421	441,476	85,890	78,214	63,807	57,972	137,027	-	4,034	3,048
Intercompany Transfers	70,019	59,721	19,232	9,768	26,889	21,118	4,779	-	15,265	14,732
Operating Expenses	(446,871)	(439,019)	(84,089)	(73,477)	(70,752)	(73,159)	(145,370)	-	(17,928)	(16,970)
Payroll	(60,795)	(59,678)	(9,445)	(10,575)	(3,072)	(2,620)	(8,886)	-	(5,655)	(6,204)
Depreciation	(176,103)	(176,167)	(11,954)	(9,692)	(10,733)	(10,624)	(37,177)	-	(177)	(171)
Goods and Services	(136,393)	(144,408)	(21,334)	(19,574)	(40,563)	(44,756)	(93,254)	-	(9,932)	(9,144)
Intercompany Transfers	(73,580)	(58,766)	(41,356)	(33,636)	(16,384)	(15,159)	(6,053)	-	(2,164)	(1,451)
Operating Income	60,569	62,178	21,033	14,505	19,944	5,931	(3,564)	-	1,371	810
Financial Expenses	(55,469)	(29,484)	(41)	(7)	(1)	(4)	(485)	-	(3)	(6)
Other Income and Expenses	346,363	4,125	(362)	(1,230)	(4,445)	(1,740)	(352)	-	(128)	(143)
Intercompany Transfers	9,148	1,604	198	854	(802)	1,114	(5,199)	-	5	98
Non-operating Income	300,042	(23,755)	(205)	(383)	(5,248)	(630)	(6,036)	-	(126)	(51)
R.A.I.I.D.A.I.E (*)	592,183	244,074	32,823	23,821	25,430	15,929	28,062	-	1,425	936
Taxes and Others	(57,751)	(26,456)	(4,457)	(3,344)	(3,987)	(3,689)	1,388	-	(127)	67
Income After Taxes	302,860	11,967	16,371	10,778	10,709	1,612	(8,212)	-	1,118	826

(*) R.A.I.I.D.A.I.E. : Income before taxes, interest, depreciation, amortization and extraordinary items.

GRAPH OF NET INCOME (LOSS) BY BUSINESS

As of December 31, 2004 and 2005

(Figures in millions of pesos as of 12.31.05)

The following table shows the contribution of each business area to corporate results:

Management's Discussion and Analysis Of The Consolidated Financial Statements, continued**5. STATEMENT OF CASH FLOWS****TABLE No. 4****CONSOLIDATED CASH FLOWS***(figures in millions of pesos as of December 31, 2005)*

DESCRIPTION	Jan-Dec 2004	Jan-Dec 2005	VARIATION MCh\$	%
Net cash from operating activities	229,909	221,613	(8,296)	-3.6%
Net cash from financing activities	(882,679)	(201,170)	681,509	-77.2%
Net cash from investing activities	786,751	(86,439)	(873,190)	-111.0%
Effect of inflation on cash and cash equivalents	(6,576)	(1,542)	5,034	-76.6%
Net change in cash and cash equivalents for the year	127,405	(67,538)	(194,943)	-153.0%

The negative variation of Ch\$ 67,538 million in cash flows for 2005 as compared to the positive variation of Ch\$127,405 million in 2004 is mainly due to resources obtained on the sale of the subsidiary Telefónica Móvil in 2004, presented as cash flows from investing activities. Therefore, during 2004, cash flows were allocated to amortization and prepayment, in order to decrease the financial debt of Telefónica CTC Chile, and to the payment of dividends, which are presented within financing activities. During 2005 this policy of decreasing financial debt and distributing dividends has continued, which partly explains the negative net variation in cash and cash equivalents.

6. FINANCIAL INDICATORS**TABLE No. 5
CONSOLIDATED FINANCIAL INDICATORS**

DESCRIPTION	JAN-DEC 2004	JAN-DEC 2005
LIQUIDITY RATIO		
Current Ratio (Current Assets / Current Liabilities)	1.21	0.97
Cash Ratio (Most liquid assets / Current Liabilities)	0.25	0.33
DEBT RATIOS		
Debt Ratio (Total Liabilities / Shareholders' Equity)	0.92	0.84
Long-term Debt Ratio (Long-term Liabilities / Total Liabilities)	0.62	0.58
Financial Expenses Coverage (Income Before Taxes and Interest / Interest Expenses)	7.75	2.72
RETURN AND NET INCOME PER SHARE RATIO		
Operating Margin (Operating Income / Operating Revenues)	14.1%	15.0%
Operational Income Return (Operating Income / Net Property, Plant and Equipment ⁽¹⁾)	5.3%	6.2%
Net Income per Share (Net Income / Average number of paid shares each year)	\$323	\$26.3
Return on Equity (Income / Average shareholders' equity)	27.0%	2.60%
Return on Assets (Income/Average assets)	14.0%	1.38%
Operating Assets (Net income / Average operating assets (2))	19.13%	1.85%
Return on Dividends (Paid dividends / Market Price per Share)	42.4%	10.8%
ACTIVITY INDICATORS		
Total Assets	MCh\$ 1,962,827	MCh\$ 1,708,800
Sale of Assets	MCh\$ 215,450	MCh\$ 1,318
Investments in other companies and property, plant and equipment	MCh\$ 87,301	MCh\$ 76,402
Inventory Turnover (Cost of Sales / Average Inventory)	3.48	2.78
Days in Inventory (Average Inventory / Cost of sales times 360 days)	103.5	129.6

- (1) Figures at the beginning of the year, restated.
- (2) Property, plant and equipment are considered operating assets.

From the previous table we emphasize the following:

The current ratio shows a decrease due to the write-off of current assets equivalent to 27.8%, whereas current liabilities decreased by 9.7%, due to a decrease in the financial debt in comparison to December of the previous year. Both issues were influenced by the effects of the deconsolidation of the mobile subsidiary. On the other hand, this lower current ratio, that is current asset divided by current liabilities, is basically explained by the reclassification of the Yankee bonds to the short-term since both series of bonds will be paid during 2006. The Company has contemplated covering those obligations with cash flows generated from its operations.

The decrease in the debt ratio is explained by a 16.9% drop in the level of demand liabilities whereas shareholders equity decreased by 9.3%, mainly due to distribution of retained earnings through the payment of dividends.

Management's Discussion and Analysis Of The Consolidated Financial Statements, continued

7. EXPLANATION OF THE MAIN DIFFERENCES BETWEEN MARKET OR ECONOMIC VALUE AND THE BOOK VALUE OF THE COMPANY'S ASSETS

Due to market inaccuracies regarding the capital assets of the sector, there is no economic or market value that can be compared to the respective accounting values. However, there are certain buildings with a book value equal or close to zero, that have a market value, which compared to the book value is not significant with respect to the Company's assets in the aggregate.

In relation to other assets, such as marketable securities (shares and promissory notes) with a referential market value, the corresponding provisions have been set up, when the market value is less than the book value.

8. REGULATORY ASPECTS

Fixed Telephony Tariff Decree

Decree No. 187 was in effect as of May 5, 1999. It establishes maximum tariffs for Telefónica CTC Chile for local telephone services and interconnection services for a period of 5 years, and expired on May 5, 2004.

The main services subject to regulation of tariffs are: Telephone Line Service (formerly fixed charge), Local Measured Service, Local Tranche, Access Charges, Communications Service from Public Telephones and Network Unbundling Services.

In relation to the procedure to be followed for setting tariffs for services subject to tariff regulation, on January 13, 2003 Telefónica CTC Chile requested the Antitrust Commission to liberate tariffs in specific geographic areas and to define telephone services which will be subject to tariff regulation in areas where the market conditions are not sufficient to guarantee a free tariffs regime and that they determine that Telefónica CTC Chile has the right to offer alternative tariff plans without prior authorization.

Together with the tariff setting process of Telefónica CTC Chile, Subtel began the tariff setting process for public services provided by Entelphone in Easter Island and the tariffs for interconnection services (access charges) provided by Entelphone, CMET, Telesat and Manquehue Net.

On April 30, 2003, Telefónica CTC Chile presented to Subtel its Technical Economic Bases for the Tariff Setting Study for the services provided by Telefónica CTC Chile to other public telephone concessionaries, to intermediate services concessionaries which provide long distance telephone services, and to suppliers of complementary services.

On May 20, 2003, the Antitrust Commission dictated Resolution No. 686 which defines the services subject to tariff setting by the Ministries of Economy and Transport and Telecommunications, which are similar to those established for the 1999 - 2004 period. Resolution No. 686 rejects the petition for freedom of rates for the specific primary zones requested by Telefónica CTC Chile, and in relation to the request for rate flexibility, informed favorably by the Regulator, the Antitrust Commission did not make a specific pronouncement in spite of the fact that most of its members were in favor of making a pronouncement, whereas the rest of the members considered that such matters did not correspond to that Commission. By request from Telefónica CTC Chile, the Antitrust Commission clarified Resolution No. 686, dictating to this effect Resolution No. 709, which provided that notwithstanding the tariff setting by the administrative authority, the dominant operators could offer lower rates or different plans under the conditions defined by the respective authority.

On May 30, 2003, Subtel submitted to Telefónica CTC Chile the Preliminary Technical Economic Bases. Telefónica CTC Chile formulated 84 objections to the Preliminary Technical Economic Basis of Subtel and requested the

formation of an Commission of Experts as established by the law and in the Regulations that govern the procedure, advertising and participation of the rate setting process.

The Commission of experts was officially formed on June 17 and was composed of experts designated by Telefónica CTC Chile and Subtel. The commission issued its report on July 17, 2003, making a unanimous pronouncement on all the objections, with the exception of one objections, the pronouncement on which was supported by a majority opinion.

On July 25, 2003, Subtel dictated Exempt Resolution No. 827 of 2003 which sets the Final Technical Economic Bases ("TEB") that will govern the tariff study to set the levels, structure and indexation mechanisms of the services provided by Telefónica CTC Chile that are subject to tariff setting.

Entelphone, CMET, Manquehue Net and Telesat did not formulate objections to the Preliminary TEB. Consequently, Subtel dictated the Final Technical Economic Bases for the respective companies.

On November 6, 2003 Telefónica CTC Chile, presented the Tariff Study that sets the levels, structure and indexation mechanisms of the services subject to tariff setting.

On March 5, 2004, the Ministries of Transport and Telecommunications and Economy, Development and Reconstruction submitted the Report on Objections and Counterproposals to the Tariff Study. Telefónica CTC Chile requested the formation of a Commission of experts, which was officially formed on March 12, 2004. The Commission issued its report on April 2, 2004, making a pronouncement on the rules on the queries by Telefónica CTC Chile.

On April 4, 2004, Telefónica CTC Chile submitted to the Ministries the Report on amendments and reiterations of the Tariff Study, incorporating the recommendations of the Commission and insisting on those matters that were not the object of inquiries.

On May 4, 2004, the Ministries of Transport and Telecommunications and of Economy, Development and Reconstruction dictated Tariff Decree No. 169 which they submitted along with the supporting

report to the Chilean General Comptroller for the recording process. On June 2, 2004, Telefónica CTC Chile presented to the Chilean General Comptroller two presentations within the recording process of Tariff Decree No. 169. The first denounces manifest mathematical errors included in Decree No. 169, requesting that the controlling organization correct them. The second presentation formulates legal objections relating to conceptual aspects that have an impact on the definition and scope of the services included in the decree. In both presentations the Company expressly reserves the right to take legal action.

Entel, Chilesat and Telmex filed a complaint with the Chilean General Comptroller against Tariff Decree No. 169, to the assignment of cost of all charges and the criteria for cost assignment of the different tariff.

On December 16, 2004, the Ministries issued their report to the Chilean General Comptroller relating to the complaints filed by Telefónica CTC Chile, Chilesat, Entel and Telmex. In this respect, the Ministries reported that as results of their review of the tariff model a large part of the mathematical errors denounced by Telefónica CTC Chile were corrected, and in addition other errors apparently contained in the tariff decree.

In turn, the Ministries defended the scaling of access charges of Tariff Decree No. 169, stating that such criteria has been taken in conformity with the resolutions of antitrust organizations and those prescribed by the Economic Technical Bases established for this tariff setting process.

Regarding the definition and scope of services included in the decree. The Ministries rejected the complaints filed by Telefónica CTC Chile, Entel, Chilesat and Telmex.

On October 4, 2004, Telefónica CTC Chile once again appealed to the Chilean General Comptroller, in order to request the correction on of new mathematical errors incurred by the Ministries precisely at the time of corrections the errors informed by Telefónica CTC Chile. At the same time, the Company resubmitted their complaints regarding certain conceptual aspects.

Subtel once again submitted Decree No. 169 to the Chilean General Comptroller on December 30, 2004, after modifying certain network unbundling tariffs, in the item Adjustment of Civil Works . Likewise, Subtel once again modified among other tariffs, those of the Adjustment of Civil Works item, resubmitting Decree No. 169 to the Chilean General Comptroller on January 14, 2005.

In addition, in January 2005. Entel and Telmex submitted new presentations to the Chilean General Comptroller, in which Entel complained about the tariffs set by the Ministries in respect to Adjustment of Civil Works and Telmex attached information sustaining that access charge rates must be at direct cost.

On February 8, 2005, the Chilean General Comptroller recorded Tariff Decree No. 169. The report of the Chilean General Comptroller rejected the complaints regarding conceptual aspects presented by Telefónica CTC Chile and did not make a pronouncement regarding the new mathematical errors denounced in October 2004. The complaints filed by Telmex, Chilesat and Entel were rejected by the Chilean General Comptroller.

Tariff Decree No. 169 was published in the Official Gazette on February 11, 2005. Telefónica CTC Chile enabled the application of the new tariffs to its customers in its systems and began the rebilling process as of May 6, 2004.

Tariff Flexibility

By means of Resolution No. 709 of October 13, 2003, the Resolutive Commission decided to: Accept the request on fs 476 of Compañía de Telecomunicaciones de Chile S.A., only in as much as it is necessary to clarify Resolution No. 686, of May 20, 2003, recorded on fs. 440, in the sense that the resolution implies that the market conditions are insufficient to ensure tariff freedom, therefore a maximum rate must be set. Lower tariffs or plans may be offered, but the conditions of these, which protect and provide due guarantees to the user from those in dominant positions in the market, must be

regulated by the respective authority.

The Official Gazette of February 26, 2004, published Decree No.742, of December 24, 2003, issued by the Ministry of Transport and Telecommunications, which establishes the regulations that govern, without restrictions as to levels or structure, the conditions under which various plans and joint offers can be offered by the dominant operators of the local public telephone service.

The tariff flexibility allows Telefónica CTC Chile to offer its customers various commercial plans, in addition the plan regulated by the authority, as per the conditions defined by the respective authority.

Telefónica CTC Chile started commercializing the different plans for local public telephone service, so that the interested public can choose an alternative that is different to the rate structure defined by the regulator.

Mobile Telephony Tariff Decree

Decree No. 7 is in effect as of February 12, 1999. It establishes maximum rates for Telefónica Móvil for interconnection services, including Mobile Access Charges, for a period of five years, which expired on February 12, 2004.

On July 25, 2003, Telefónica Móvil presented the Tariff Study to set the tariffs for services subject to tariff setting.

On January 20, 2004, the Ministries of Transport and Telecommunications and of Economy, Development and Reconstruction, by means of a decree set the levels, structure and indexation mechanisms of the services subject to tariff setting. That decree was submitted for recording by the Chilean General Comptroller, together with the supporting report.

On April 12, 2004, the Chilean General Comptroller recorded the decrees that set the tariffs for access charges for mobile telephony companies. The tariff decrees were published in the Official Gazette of April 14, 2004.

Management's Discussion and Analysis Of The Consolidated Financial Statements, continued

8. Regulatory Aspects, continued

Modifications of the Regulatory Framework

Extension of the length of the public telephone services subscriber number.

By means of Resolution No. 1120, of December 28, 2005, published in the Official Gazette on October 4, 2005, Subtel set a period of 10 months to extend by one digit the local telephone numbers in the Primary Zones of Valparaiso and Concepción. The extension for Santiago and the rest of the zones was deferred. In addition, by means of Decree No. 400, of October 4, 2005, issued by the Ministry of Transport and Telecommunications, the Fundamental Telephone Numbering Technical Plan was modified defining the virtual mobile area code to identify the mobile network as the number 9.

Attention of customer complaints by telephone and free communications for emergency services

Decree No.590 issued by the Ministry of Transport and Telecommunication establishes communications free of charge to emergency service numbers 131, 132 and 133 and communications to emergency services are exempt from disconnection of service; it establishes the obligation of the telephone companies to attend to complaints over the telephone and defines a new special number for telephone complaints (105). Telefónica CTC Chile had already incorporated such free of charge communications as of May 6, 2004, in accordance with tariff decree No. 169 and in turn, telephone complaints have been operating since the end of 2000 through the special 107 number. In relation to the enabling of communication with emergency services from a line which has been disconnected, Telefónica CTC Chile enabled telephone lines that depend on switchboards that currently have the capacity and functions necessary to maintain availability of access to emergency services even in case of service disconnection due to breach by the subscriber.

New format of Single Telephone Bill.

Decree No.510 issued by the Ministry of Transport and Telecommunications establishes the minimum contents and other elements of the Single Telephone Bill and sets a period of 120 days which expires on April, 2005 to apply the dispositions established in the mentioned decree.

On January 12, Telefónica CTC Chile requested from Subtel the approval of the contents and design of the new Single Telephone bill in conformity with the mentioned Decree No. 510.

Outside of the specified comment period the Subtel made observations to the proposal made by Telefónica CTC Chile, ordering them to be rectified before issuance to the public, in addition to issuing an Official Circular with instructions for applying the Regulation.

Telefónica CTC Chile filed a complaint before the Chilean General Comptroller against Subtel pertaining to the legality of infringing on the standard that establishes that after 30 days, the proposal made by the concessionary will be understood to be fully approved, which did in fact occur and that is not recognized in the pronouncement.

On August 30, 2005, Subtel responded to the Chilean General Comptroller with respect to the legality complaint filed by Telefónica CTC against the acts of Subtel which made observations on the new model of the Single Telephone Bill outside of the specified comment period.

In its report, Subtel recognizes that it made observations outside of the specified comment period, and formulates its defense on the basis that Telefónica CTC Chile's model of telephone bill is not in accordance with the legal ordinance.

On October 6, Telefónica CTC Chile presented a writ before the Chilean General Comptroller answering the arguments made by Subtel in its report. As support for the legal thesis stated in the complaint, Telefónica CTC Chile attached a Legal Report to the Chilean General Comptroller from the Administrative Law Professor, which confirms the relevance of the complaint that was filed.

With this information the Chilean General Comptroller must decide whether it accepts or rejects the complaint filed; the pronouncement from the controlling organization is still pending.

Technical Standard that classifies complementary services into categories.

By means of Exempt Resolution No. 1319, of October 6, 2004, the Subtel established the categories of complementary services and attributed the numeration to the respective categories of complementary services that users can access through the public telephone network.

Telefónica CTC Chile made the adjustments to its network to enable, among other aspects, numbering of the complementary Internet narrowband access service, the deadline for which is April 8, 2006.

Public consultation of regulation projects.

In July and August 2004, Subtel started making public inquiries to the relevant parties of the telecommunications sector in respect with proposals for regulations regarding Network Unbundling and IP Telephony.

The Network Unbundling proposal, which was subjected to a new public inquiry in December 2004, defines the services, their operating conditions and adds new services that modify the conditions already defined in the Tariff Decree, defining new obligations that make unbundling more troublesome (obligation to invest, new rights of subscribers, discrimination of obligations according to the technology used, etc.). Furthermore, the obligation to resell is established for mobile companies and the resale conditions are regulated for wholesalers of alternative tariff plans offered by Telefónica CTC Chile. The Company participated in those public inquiries making its observations and formulating its legal objections among which it emphasized that a large part of those proposals are matters of law and not mere regulations, at the same time that other aspects of the regulatory proposal cannot even be addressed in a law since they affect rights guaranteed by the Chilean Constitution.

Regarding the IP Telephony proposal, it defines a special type of broadband telephony, which is provided using the existing broadband infrastructure, which fewer regulatory requirements than traditional telephony (for example, the multicarrier system for DLD is not applicable), and which discriminates against traditional operators who could not provide the service under these same conditions. The Company, as well as other operators, made their observations and legal objections to this proposal since they consider it, among other aspects, discriminatory and an attack on the development of the industry since it discourages investment in new infrastructure and in broadband.

As of December 31, 2005, Subtel has not made a pronouncement on either case regarding the observations and legal objections made by the Company and by other companies in the sector, nor has it sent to the Chilean General Comptroller the final texts of such regulations for recording.

Lawsuit against the State of Chile

On October 31, 2001, Telefónica CTC Chile, seeking to correct errors in Tariff Decree No. 187 of 1999, filed a motion for reconsideration with the Ministries requesting corrections to the 1999 Tariff Decree No. 187. On January 29, 2002, the Ministries issued a joint rejection of this request, explaining that having carefully evaluated, only the feasibility and timeliness of the petition made, considering the set of circumstances of the problem and the prudence that must orient public actions, and that the rejection has had purpose other than to protect the general interest and progress of the telecommunications services.

Having exhausted all administrative remedies aimed at correcting the illegal actions taken in the tariff-setting process of May 1999, in March 2002, Telefónica CTC Chile filed a lawsuit for damages against the Government in the amount of Ch\$181,038,411,056 plus readjustments and interest, covering past and future damages incurred up to May 2004.

Expert reports were presented on various aspects of the case supporting the position held by Telefónica CTC Chile. On March 29, 2005, the court dictated a resolution summoning the parties to the first instance sentencing which involves an end to the discussion and evidence. A sentence as expected to be declared in the following months.

Voissnet makes a claim before the National Economic Attorney General's Office (Fiscalía Nacional Económica) and files a suit before the Antitrust Commission, both against Telefónica CTC Chile

On January 20, 2005, Telefónica CTC Chile responded to the accusation made by Voissnet filed with the National Economic Attorney General's Office for alleged events which in its opinion violate free competition, development and growth of Internet technology, fundamentally of broadband telephony, and access to broadband, since they establish the prohibition of carrying voice using the Internet broadband access provided by Telefónica CTC Chile.

On March 14, 2005 Telefónica CTC Chile responded to the complaint filed by Voissnet with the Antitrust Commission (Tribunal de Defensa de la Libre Competencia), hereafter TDLC, which is founded on the same facts that Voissnet indicated in the accusation filed with the National Economic Attorney General's Office. Voissnet's intent is for the TDLC to force Telefónica CTC to allow third parties to provide IP Telephony through the Internet using the ADSL owned by Telefónica.

Telefónica CTC Chile rejected each and every part of the claims made by Voissnet, providing market, legal and regulatory information regarding development of the broadband market in Chile, stating that it has made considerable investments to develop broadband in Chile and has facilitated the participation of all ISPs through an open model, and that it is not opposed to IP telephony, but rather to the anti-competitive practices that companies are attempting to use, taking advantage of investments made by others.

Telefónica CTC Chile in turn filed a counter suit against Voissnet, in order for the Court to correct, prohibit and suppress the serious attempts to limit free competition incurred by that company, by providing telephone services to

its subscribers without having the concession required by Law, or complying with the legal, regulatory and technical regulations applicable to telephony that are fulfilled by the public telephone service concessionaries, applying market skimming practices of customers of telephone concessionaries with a greater amount of traffic and which have the broadband service, and taking advantage of the existing infrastructure owned by the mentioned companies, without their authorization, and without any retribution or payment whatsoever for the use of the public telephone network and equipment used to provide broadband Internet access.

Subtel submitted the report requested by the TDLC in relation to the complaint presented by Voissnet, without making reference to the countersuit presented by Telefónica CTC Chile, questioning the contractual restrictions imposed by Telefónica CTC Chile.

On April 8, 2005, Voissnet answered the countersuit filed by Telefónica CTC Chile, stating that it will be rejected in all its parts. By means of resolution dated June 1, 2005, the TDLC deemed that there were no substantial, relevant and controversial facts, therefore the case was not to be received for evidence, but a date would be set to hear the case.

Telefónica CTC Chile appealed the resolution of the TDLC since it considers that there are substantial, relevant and controversial facts that both parties must prove within the evidence stage, and which are determinant for due resolution of this process and it requested that the Court dismiss it and replace it, receiving the case for the evidence stage.

On June 22, 2005, the TDLC dismissed the appeal made by Telefónica CTC Chile, ratifying that in this case only legal and not factual aspects must be clarified.

Management's Discussion and Analysis Of The Consolidated Financial Statements, continued

8. Regulatory Aspects, continued

On August 16, 2005, Telefónica CTC Chile was notified of the requirement filed against it by the Economic National Attorney General's Office, based on the same conducts alleged by Voissnet against Telefónica CTC Chile in its complaint of December 2004. In its requirement, the FNE mainly requests the following from the TDLC: That it declare that Telefónica CTC has infringed on free trade, through the creation of artificial entry barriers for new competitors in the local fixed telephony market, ordering it to abstain from persisting in any act or conduct the purpose of which is to prevent granting of IP Telephony. That the Megavía DSL Contracts for Broadband Access to Internet signed by CTC with the ISP be modified, in order to immediately terminate the application of the clauses that prohibit granting of IP voice service. That Telefónica CTC Chile be fined 350 unidades tributarias anuales, or and fine the TDLC in justice determines, and payment of the costs of this case, and that a request be made to the President of the Chile so that, through the applicable ministries, a study should be performed of the modifications needed to the legal and regulatory precepts of the current regulatory framework of the telecommunications market.

On September 2, 2005, Telefónica CTC Chile answered the complaint of the FNE.

The TDLC ordered both processes to be accumulated, which means that the Voissnet lawsuit is suspended until the new lawsuit arrives at the same stage. Therefore, the allegations cited for last August 11 were suspended.

On October 4, 2005, the TDLC accepted the petition of Telefónica CTC Chile to receive the case for evidence, setting the points of evidence. On October 11, 2005, accepting the request of the Company and the FNE for reinstatement, the Court modified the originally defined points of evidence.

On December 15, 2005, Telmex Servicios Empresariales S.A. became a party to the process as a third party interested in the results of the lawsuit, stating to the TDLC that in accordance with current legislation, the broadband voice services provided by Voissnet are a public telecommunications service, and therefore there is no reason that in their provision they are exempt from the regime applicable to all local telephone operators.

On December 20, 2005, the TDLC began hearing evidence from witnesses, with Voissnet providing evidence first followed by the FNE and finally Telefónica CTC Chile. Likewise, on December 27, 2005, the parties filed their technical economic reports.

During January 2006, the TDLC will hear the declarations of the three parties involved in the lawsuit.

Setting Rates for Post Rental

Telefónica CTC Chile together with other telecommunications companies presented objections before the Panel of Experts of the Electricity Law, regarding rates for services corresponding to rental of posts, proposing an annual rate for each post rental of approximately 0.02 UF.

Similarly, the electric distribution companies also presented before the Panel of Experts their objections regarding the post rental rates proposed by the National Energy Commission (NEC) proposing an annual rate of between 0.4 UF and 0.5 UF for each support.

On July 7, 2005 Telefonica CTC Chile and the rest of the telecommunications companies that submitted objections to the Panel of Experts, presented their observations of the objections formulated by the electric companies.

The Court of Appeals rejected the protection petition filed by Chilectra S.A., against the ruling of the Panel of Experts, which made a pronouncement on the objections formulated by the electric and the telecommunications

companies against the Technical Report of the CNE. The ruling of the Panel of Experts opted for the amount proposed by the NEC, including the service of post rental.

Chilectra S.A. also filed an appeal with the Chilean General Comptroller regarding the legality of the tariff process. The same was done by the electric companies, ASEP and Chilquita, filing separate appeals before the Chilean General Comptroller. The Chilean General Comptroller has not issued its report.

Last September 16, 2005, the Ministry of Economy submitted to the Chilean General Comptroller for recording, the Tariff Decree that sets the new rates for associated services.

On December 6, 2005, the Chilean General Comptroller returned the decree to the Ministry of Economy, without recording since it deemed that it lacks legality since tariffs must be established during the tariff setting process completed in November 2004, for a 4-year term.

On December 14, 2005, the Ministry of Economy and the National Energy Commission filed an appeal before the Chilean General Comptroller. A pronouncement from the controlling entity is still pending.

Telefónica CTC Chile filed a motion for protection against the decision of the Comptroller before the Santiago Court of Appeals, which was accepted for processing by the court. In the next few days the Comptroller must issue the report requested by the Court of Appeals regarding the motion filed by Telefónica CTC Chile.

Public bidding process to grant wireless local public telephone concessions on the 3,400 – 3,600 MHz frequency band

On September 15, 2005 the projects were delivered to the companies participating in the public tender called by Subtel to grant wireless local public telephone concessions on the 3,400 – 3,600 MHz band.

The companies participating in that tender were Telefónica CTC Chile, Telmex Servicios Empresariales, MIC Chile S.A. (owned by Telmex Chile) and VTR.

On December 13, 2005, Subtel informed that VTR and Telmex were awarded the concessions to offer wireless local telephone throughout the country, through the preferential rights of both companies.

The resolution that awards Telmex the national wireless local public telephone service concession was published in the Official Gazette on December 16, 2005 and the resolutions awarding VTR the regional concessions excluding Regions XI and XII, of the bidding process were published on December 21, 2005.

Telefónica CTC Chile is the only bidder for the projects corresponding to Regions XI and XII, and presented guarantee deposits for faithful, complete and timely compliance with the technical project, procedure prior to the awarding of the concessions for the mentioned regions.

Telefónica CTC Chile appealed the awarding of the concessions in conformity with the procedure established in the General Telecommunications Law. Furthermore, Telefónica CTC Chile filed a public law motion to vacate in respect to the preferential rights of VTR.

Permit for limited television service

Through Exempt Resolution No. 1605 of December 23, 2005, the Undersecretary of Telecommunications granted Tecnonáutica S.A., a limited satellite television service permit to operate throughout the national territory, which complements the authorization that Tecnonáutica S.A. has to provide limited television service through the XSDL broadband network.

9. ANALYSIS OF MARKETS, COMPETITION AND RELATIVE PARTICIPATION

Relevant aspects of the industry

During 2005, the Telecommunications industry maintained the dynamism that characterizes it, with emphasis on the evolution of the mergers and acquisition processes of operators and continuity of the constant changes in consumer choices for telecommunications services, particularly broadband development.

It is estimated that lines in service as of December 2005 reached approximately 3.5 million, reflecting a 3.7% increase in respect to as of December 2004, derived mainly from prepaid telephone services which represent approximately 17% of total lines. Voice services show variations of approximately -7% in local, -13.1% in DLD and -5.6% in ILD in respect to the previous year.

It is estimated that as of December 2005 the mobile telephone market reached a total of 11.2 million subscribers, which represents acumulative growth of 19% with respect to December 2004.

The Internet market shows a migration from narrowband to broadband, with a 46% decrease in the narrowband market with a total estimated 4,150 million minutes and a 46% increase in the broadband market, which as of December 2005, amounts to 739,000 access points, 55% with ADSL technology.

Relevant aspects in the competitive areas

GTD acquires Manquehue Net S.A.

On June 17, 2005, the Board of Directors of Manquehue Net S.A. received the offer made by GTD Grupo Teleductos S.A. to the shareholders of Manquehue Net S.A.

On September 30, 2005, Manquehue Net S.A notified the Chilean Securities and Exchange Comissions that GTD Grupo Teleductos S.A through its subsidiaries GTD Teleductos S.A and GTD Telesat S.A. purchased all the shares of

Manquehue Net S.A. there by acquiring control of the company.

América Móvil acquires Smartcom

On August 3, 2005 América Móvil announced the acquisition of 100% of the ownership of the Endesa Spain Group in Smartcom, The company value involved in the operation was US\$ 472 million. América Móvil is associated with Telmex Corp. S.A.

Telecom Italia sells its participation in Entel S.A.

On January 24, 2005, Almendral S.A communicated to the Chilean Securities and Exchange Comissions the completion of negotiations with Telecom Italia, for the acquisition of their participation in Entel Chile

On March 29, 2005, Almendral S.A. and its subsidiary Inversiones Altel Limitada, purchased from Telecom Italia International N.V., 5.86% and 48.9%, respectively, of the shares of Entel S.A. The price paid for 54.76% of the shares was US\$ 934 million, with a value of US\$ 7.21 per share

Liberty Media takes control of United Global Com, Parent Company of VTR and merges its operations in Chile

On January 5, 2004 Liberty Media, owner of 50% of Metrópolis Intercom in association with Claro Group, announced the takeover by the management of United Global Com, owner of 100% of VTR Chile. After the operation, Liberty requested that the Antitrust Commission analyze the possibility of merging VTR and Metrópolis Intercom. Both companies concentrate over 90% of the Pay TV market and are relevant competitors for Telefónica CTC Chile in the broadband market providing cable modem. Likewise, VTR is the second operator of local telephone services in the country.

On June 9, 2004 the National Economic Attorney General s Office issued its report to the Antitrust Commission recommending the authorization of the merger subject to compliance with a series of restrictions.

On October 25, 2004, the Antitrust Commission resolved to approve the merger of VTR and Metrópolis Intercom, subject to compliance of a series of corporate conditions, of distribution of contents, prices,

Management's Discussion and Analysis Of The Consolidated Financial Statements, continued

9. Analysis of Markets, Competition and Relative Participation

quality of service and opening cable network broadband to other ISP. These conditions are applied to ensure development of effective competition in the pay TV market in the short-term.

On March 10, 2005 the Supreme Court of Chile authorized the merger of VTR and Metrópolis, however it considered that the transaction could hinder development of effective competition in the pay television market in the short-term, therefore it made the transactions subject to fulfillment of eight conditions, thus ratifying the decision of the Antitrust Commission in respect with merger restrictions.

On July 1, 2005 VTR began unifying its program offer for VTR and former Metrópolis customers.

Telefónica Móviles S.A. acquires the assets of Bellsouth in Latin America and the mobile subsidiary of Telefónica CTC Chile

On March 8, 2004, Telefónica Móviles S.A. announced the agreement to purchase the assets of Bellsouth Corporation in Latin America. This agreement includes the mobile business of Bellsouth in Chile which operates with a 25 Mhz spectrum on the 800 Mhz band with TDMA and 10 Mhz on the 1900 Mhz band with CDMA.

On May 18, 2004, the Board of Telefónica CTC Chile unanimously accepted the association offer made by Telefónica Móviles S.A., for the acquisition of 100% of the mobile subsidiary of Telefónica CTC Chile, subject to the approval of the Shareholders Meeting.

On July 15, 2004, the shareholders' meeting to decide on the sale of the mobile subsidiary of Telefónica CTC was held. At this meeting a counteroffer was made by the shareholders such that Telefónica Móviles S.A would pay for the taxes derived from the operation.

On July 23, 2004, the contract was signed for the sale of all the shares of the subsidiary, with which Telefónica CTC no longer participates in the mobile business.

Telefónica Móviles S.A. consult Antitrust Commission on the purchase of Bellsouth

Telefónica Móviles S.A., subsidiary of Telefónica S.A. presented to the Antitrust Commission an inquiry regarding the contract denominated "Stock Purchase Agreement" dated March 5, 2004, signed with Bellsouth Corporation, by which it acquires all the telephony assets of the latter in Central and South America, among which is its indirect full ownership of Bellsouth Chile S.A., current mobile telephony operator in the Chilean market.

On January 4, 2005 the Antitrust Commission resolved to approve the consultation of Telefónica Móviles S.A., subsidiary of Telefónica S.A., setting a series of conditions for the merger. One of these conditions directly affects Telefónica CTC Chile, establishing that, any joint offer of services for fixed and mobile telephone services commercialized by the merged company and which, considers fixed telephone services provided by Telefónica CTC Chile, will be understood to be a joint offer made by the latter, which therefore must be governed by Decree No. 742 issued by the Undersecretary of Telecommunications of Chile, published on February 26, 2004.

On April 5, 2005 Telefónica Móviles S.A, subsidiary of Telefónica S.A. launched "Movistar" in Chile, grouping under this brand the mobile subsidiary purchased from Telefónica CTC Chile in July 2004 and the operations of Bellsouth acquired with the approval of the Antitrust Commission in January 2005.

Analysis of relative participation

Local Telephone Service

This market contemplates providing local telephone services within the primary areas, interconnection with other telecommunications companies and other unregulated local services. Entrance to this market is regulated by concessions awarded by Subtel.

Currently 10 companies with 13 brands participate in this market, including three rural operators. The penetration rate as of December 2005 was on the order of 21.1 lines per 100 residents. Telefónica CTC Chile has approximately 71% of the fixed telephone lines as of December 2005.

Long Distance

This market contemplates communications services between primary areas (DLD) and international communications (ILD), also known as intermediate services.

On March 9, 1994 Law No. 19,302 came into effect. It establishes the application of a multicarrier system for domestic and international long distance. This law allows local telephone operators to participate in the long distance market through an independent subsidiary subject to a series of requirements.

In this market there are currently 15 companies operating with 18 carrier codes. Traffic in the DLD market, through fixed telephone lines recorded a 13.8% drop in the fourth quarter of 2005 in respect to the fourth quarter of 2004. In the same period a decrease of 6.0% is estimated in the ILD market. Telefónica CTC Chile, through its subsidiaries Telefónica Mundo and GLOBUS 120, reached an estimated market share of 45.7% in domestic long distance and 33.2% in outgoing international long distance in the fourth quarter of 2005. When considering market shares accumulated from January to December of 2005, Telefónica CTC Chile obtains 46.2% of the Domestic Long Distance market and 32.5% of the International Long distance Market.

Corporate Communications

This business area contemplates providing circuit and data services (Datared, E1, ATM, Frame Relay), IP network solutions, Hosting, ASP and advanced telecommunications solutions for Internet service providers (ISPs). It also includes commercialization of advanced equipment (multiple lines and PABX, among others).

In this business Telefónica CTC Chile competes with 8 companies in the private services arena and in the hosting business with at least

10 companies, reaching a market share in income of approximately 43% accumulated as of the third quarter of 2005, including sale of advanced equipment to companies.

Mobile Communications

Mobile communications includes the provision of mobile communication services (cellular telephone, trunking and wireless data transmission). There are currently three mobile telephone operators, one smaller operator of mobile satellite communications and one operator that offers digital trunking and is authorized to interconnect to the public mobile network.

Telefónica CTC Chile stopped offering mobile services in July 2004. It currently maintains the relationship with this sector through incoming and outgoing fixed telephone service traffic. Fixed mobile traffic increased by 5% in the period from January to December 2005 in respect to the same period the previous year, the upward tendency continues mainly due to the increase in mobile subscribers. Mobile-fixed traffic increased by 3% in the same period.

Pay TV

In the pay television market there is one dominant operator due to the merger of VTR and Metrópolis Intercom who altogether have over 90% of the pay TV market with 743,900 connections as of September 2005, two satellite TV operators and close to 20 cable TV operators in specific areas, which as a group do not exceed 10% of the market.

Internet Access

In this market there are currently approximately 35 ISPs operating effectively, with three of these concentrating 83% of traffic. IP traffic (switchboard) accumulated from January to December 2005 on the network of Telefónica CTC Chile reached 3,267 million minutes, with a 32% drop with respect to the same period in 2004, mainly due to migration of users to broadband.

Telefónica CTC Chile continues with an intensive deployment of Internet access through ADSL broadband, directly to the customer and through a wholesale model to in the ISP industry. As of December 2005, Telefónica CTC Chile s broadband connections in service reached 314,177 a growth of 56% with respect to December 2004, achieving an estimated broadband market share of 43% as of December 2005, considering speeds equal to or exceeding 128 kbps.

Other Businesses

Comprises the Public Telephone market, in which Telefónica CTC Chile participates through its subsidiary CTC Equipos. There are seven nationwide companies of which CTC Equipos, as of December 2005 has approximately 24% of the market share considering it owns 10,057 public telephones. Additionally, Telefónica CTC Chile has another 12,949 community telephones installed.

On November 20, 2001 a new subsidiary was formed to commercialize and install alarm systems and video cameras for residential and corporate customers, providing monitoring and surveillance services and any other service relating to the above. As of December 2005 it is estimated that Telefónica CTC Chile has a market share of 31% in this service.

10. ANALYSIS OF MARKET RISK

Financial Risk Coverage

With the attractive foreign interest rates in certain periods, the Company has obtained financing abroad, denominated mainly in dollars and in certain cases at a floating interest rate. For this reason the Company faces two types of

financial risks, the risk of exchange rate fluctuations and the risk of interest rate fluctuations.

Financial risk due to foreign currency fluctuations

The Company has exchange rate coverage instruments, the purpose of which is to reduce the negative impact of the dollar fluctuations on its results. The percentage of interest bearing debt exposure is defined and continuously reviewed, basically considering the volatility of the exchange rate, its trend, and the cost and availability of hedging instruments for different terms.

The main hedging instruments used are Cross Currency Swaps, and dollar/UF and dollar/peso exchange hedges.

As of December 31, 2005, the interest bearing debt in original currency expressed in dollars was US\$979.1 million, including US\$716.4 million in financial liabilities in dollars, US\$151.3 million in debt expressed in unidades de fomento and US\$ 111.4 million of debt in Chilean pesos. In this manner US\$716.4 million correspond to debt directly exposed to the variations of the dollar.

Simultaneously, the Company had Cross Currency Swaps, dollar/UF, dollar/peso exchange hedges and assets in dollars that resulted, as of 2005 year-end in close to 0% exposure to foreign exchange.

Financial risk due to floating interest rate fluctuations

The policy for hedging interest rates seeks to reduce the negative impact on financial expenses due to interest rate increases.

As of December 31, 2005, the Company had debt at variable interest rates Libor and TAB mainly for bank loans.

To protect the Company from increases in the floating interest rates, derivative financial instruments have been used, particularly Cross Currency Swaps (which protect the Libor rate), to limit the future fluctuation of interest rates. As of December 31, 2005 this has allowed the Company to end with an exposure of 21% of the total interest bearing debt.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 23, 2006

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A.

By: /s/ Julio Covarrubias F.

Name: Julio Covarrubias F.
Title: Chief Financial Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.
