

TELECOMMUNICATIONS CO OF CHILE  
Form 6-K  
October 05, 2005

**FORM 6-K**

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

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

**October 4, 2005**

Commission File Number: 001-10579

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

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

VALUE  
OF  
HEDGED  
ITEM  
ThCh\$AFFECTED ACCOUNTS

CONTRACT  
VALUEMATURITY  
OR  
EXPIR. SPECIFIC  
ITEM PURCHASE  
SALE  
POSITION HEDGED ITEM  
OR TRANSACTIONASSET / LIABILITY EFFECT ON INCOME

NAMEAMOUNTNAMEAMOUNTREALIZEDUNREALIZED ThCh\$ ThCh\$

FR CI 45,800,000 III Trim. 2005 Exchange rate C Oblig. in US\$ 45,800,000 26,518,200 asset 26,518,200 691,454  
 - liabilities (29,123,520) FR CI 83,700,000 IV Trim. 2005 Exchange rate C Oblig. in US\$ 83,700,000 48,462,300  
 asset 48,462,300 1,183,496 - liabilities (50,269,122) FR CI 19,000,000 II Trim. 2006 Exchange rate C Oblig. in  
 US\$ 19,000,000 11,001,000 asset 11,001,000 (131,961) - liabilities (11,696,921) FR CCPE 52,000,000 III Trim.  
 2005 Exchange rate C Oblig. in US\$ 52,000,000 30,108,000 asset 30,108,000 - 797,949 liabilities  
 (33,050,625) FR CCPE 175,700,000 IV Trim. 2005 Exchange rate C Oblig. in US\$ 175,700,000 101,730,300 asset  
 101,730,300 - (360,660) liabilities (102,916,520) FR CCPE 24,300,000 I Trim. 2006 Exchange rate C Oblig. in  
 US\$ 24,300,000 14,069,700 asset 14,069,700 - (122,039) liabilities (14,099,481) FR CCPE 150,000,000 III  
 Trim. 2008 Exchange rate C Oblig. in US\$ 150,000,000 86,850,000 asset 86,850,000 - (1,393,894) liabilities  
 (88,243,895) FR CCPE 200,000,000 II Trim. 2009 Exchange rate C Oblig. in US\$ 200,000,000 115,800,000 asset  
 115,800,000 - 1,411,002 liabilities (115,958,203) FR CI 29,000,000 III Trim. 2005 Exchange rate C Oblig. in US\$  
 29,000,000 16,791,000 asset 16,791,000 475,853 - liabilities (17,949,217) FR CI 6,500,000 IV Trim. 2005  
 Exchange rate C Oblig. in US\$ 6,500,000 3,763,500 asset 3,763,500 23,338 - liabilities (3,774,407) FR CCPE  
 10,000,000 III Trim. 2005 Exchange rate C Oblig. in US\$ 10,000,000 5,790,000 asset 5,790,000 - 216,000  
 liabilities (6,329,972) FR CCPE 57,000,000 IV Trim. 2005 Exchange rate C Oblig. in US\$ 57,000,000 33,003,000 asset  
 33,003,000 - 106,560 liabilities (33,201,073) FR CCPE 6,000,000 III Trim. 2006 Exchange rate C Oblig. in  
 US\$ 6,000,000 3,474,000 asset 3,474,000 - 127,080 liabilities (3,484,447) FR CI 34,000,000 III Trim. 2005  
 Exchange rate V Oblig. in US\$ 34,000,000 19,385,140 asset 19,385,140 (420,364) - liabilities (19,683,284) FR  
 CI 60,600,000 IV Trim. 2005 Exchange rate V Oblig. in US\$ 60,600,000 34,741,340 asset 34,741,340 (461,513) -  
 liabilities (35,082,213) FR CI 1,030,522 III Trim. 2005 Exchange rate V Oblig. in US\$ 1,030,522 18,023,063 asset  
 18,023,063 (488,459) - liabilities (18,335,495) FR CI 1,746,282 IV Trim. 2005 Exchange rate V Oblig. in US\$  
 1,746,282 30,541,169 asset 30,541,169 (743,487) - liabilities (31,143,795) FR CI 707,418 III Trim. 2005  
 Exchange rate V Oblig. in US\$ 707,418 175,532 asset 175,532

**22**  
**Providencia, Santiago, Chile**  
 (Address of principal executive offices)

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

Form 20-F  Form 40-F

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

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

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

Yes  No

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

**Compañía de Telecomunicaciones de Chile, S.A.**

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Items

- 1 Report on the Financial Statements for the quarters ended June 30, 2005 and 2004 (Consolidated).
2. Management's Discussion and Analysis of the Consolidated Financial Statements for the periods ended as of June 30, 2005 and 2004.

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: October 4 , 2005

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A.

By: /s/ Julio Covarrubias F.

\_\_\_\_\_  
Name: Julio Covarrubias F.  
Title: Chief Financial Officer

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Item 1

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

**REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

for the six-month periods ended  
June 30, 2005 and 2004  
(CONSOLIDATED)

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

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Report of Independent Auditors  
 Consolidated Balance Sheets  
 Consolidated Statement of Income  
 Consolidated Statement of Cash Flow  
 Notes to the Consolidated Financial Statements

ThCh\$: Thousands of Chilean pesos

The Unidad de Fomento, or UF, is an inflation-indexed peso-denominated monetary unit in Chile.

UF: The daily UF rate is

fixed in advance based on the change in the Chilean Consumer Price Index of the previous month

ThUS\$: Thousands of US dollars

/FONT> 6,852 - liabilities (165,324) FR CI 1,414,836 IV Trim. 2005 Exchange rate V Oblig. in US\$  
 1,414,836 351,064 asset 351,064 17,714 - liabilities (318,954) FR CI 353,709 I Trim. 2005 Exchange rate  
 V Oblig. in US\$ 353,709 87,766 asset 87,766 4,422 - liabilities (77,514) S CCPE 150,000,000 III Trim.  
 2008 Interest rate C Oblig. in US\$ 150,000,000 - asset&

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**Report of Independent Auditors**

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

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

1. We have reviewed the accompanying consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries (the "Company") as of June 30, 2005 and the related consolidated statements of income and cash flow for the six-month period then ended. These interim consolidated financial statements are the responsibility of the Company's management Compañía de Telecomunicaciones de Chile S.A.. The Company's interim consolidated financial statements for the six-month period ended June 30, 2004 were reviewed by other auditors, who issued an unqualified opinion on these financial statements in a report dated July 19, 2004. The accompanying Management's Discussion and Analysis of the Consolidated Financial Statements is not an integral part of these financial statements, and, therefore, this report does not cover this item.
2. We conducted our review in accordance with generally accepted auditing standards in Chile for a review of interim financial information. A review of interim financial information consists principally of applying analytical procedures to the financial statements and making inquiries of persons responsible for financial and accounting matters. It is substantially more limited in scope than an audit conducted in accordance with generally accepted auditing standards in Chile, the objective of which is the expression of an opinion regarding the consolidated financial statement taken as whole. Accordingly, we do not express such an opinion.

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3. Based on our review of the interim consolidated financial statements as of June 30, 2005, we are not aware of any material modifications that are required for them to be in conformity with accounting principles generally accepted in Chile.

Andrés Marchant V.

ERNST & YOUNG LTDA.

Santiago, Chile, July 21, 2005

<b>PA</b>	<b>ns</b>	134,095	-	134,095											
				II Trim. Interest											
S	CCPE	200,000,000	2008	rate	C	Oblig. in US\$	200,000,000	-	asset	33,152	50,343				3
										liabilities	(1,720,507)	1,274,130	1,51		
										asset	425,818	(268,385)	(60		
												6,391,331			

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

**CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2005 AND 2004**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30, 2005)

<b>A S S E T S</b>				<b>L I A B I L I T I E S</b>			
	<b>Notes</b>	<b>2005</b>	<b>2004</b>		<b>Notes</b>	<b>2005</b>	<b>2004</b>
<b>Total</b>		<b>7,604,764</b>	<b>1,858,041</b>				

**Types of derivatives:**

**Type of Contract:**

FR: Forward  
 CCPE: Hedge contract for existing transactions

S : Swap  
 CCTE: Hedge contract for anticipated transactions

CI: Investment hedge contract

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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Notes to the Consolidated Financial Statements, continued

**28. Contingencies and restrictions:**

**a) Lawsuits:**

**(i) Complaints presented by VTR Telefónica S.A.:**

On June 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. First instance sentence accepted the complaint of VTR

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 indemnities 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) Lawsuit against the State of Chile:**

On October 31, 2001, Telefónica CTC Chile filed an administrative motion to set aside 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 moti

	ThCh\$	ThCh\$	ThC
<b>CURRENT ASSETS</b>			
<b>Cash</b>	6,192,384	15,243,977	
<b>Time deposits</b>			
			<b>CURRENT LIABILITIES</b>
			<b>Short-term obligations with banks</b>

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.

COMPañÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

**28. Contingencies and restrictions, continued:**

**(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, 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.

**(34)**

4,913,123

57,412,478

<b>Marketable securities, net</b>	<b>(4)</b>	25,957,603	51,270,262	<b>Short-term portion of long</b>
				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>Accounts receivable, net</b>	<b>(5)</b>	170,648,147		

**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 and cash flows coverage.

The maximum debt ratio for these contracts is 1.50, whereas the interest coverage ratio cannot be less than 4.00 and lastly the cash flow ratio must be equal to or greater than 0.166.

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

As of June 30, 2005 the Company complies with all the financial restrictions.

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**Third party  
guarantees:**

The Company has not received any guarantees from third parties.

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

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

**30. Local and Foreign Currency:**

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

Description	Currency	2005 ThCh\$	2004 ThCh\$	
<b>Total current assets:</b>		<b>302,642,317</b>	<b>523,826,331</b>	
Cash	Non-indexed Ch\$	6,080,909	9,416,817	
	Dollars	63,913	5,798,003	
	Euros	47,562	29,157	
Time deposits	Indexed Ch\$	281,123	13,414,124	
	Dollars	4,632,000	43,998,354	
Marketable securities	Indexed Ch\$	-	1,149,039	
	Dollars	25,957,603	50,121,223	
Notes and accounts receivable (a)	Non-indexed Ch\$	165,603,114	221,038,549	
	Dollars	35,006,106	14,921,428	
		15,521,152		
	Non-indexed Ch\$	212,449,524	<b>Commercial paper</b>	<b>(17 a)</b> 34,060,408
<b>Notes receivable, net</b>		<b>(5)</b> 4,133,040	8,368,984	

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