

TELECOMMUNICATIONS CO OF CHILE

Form 6-K

March 08, 2005

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

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

For March 8, 2005

Commission File Number: 001-10579

TELECOMMUNICATIONS COMPANY OF CHILE

(Translation of registrant's name into English)

Avenida Providencia No. 111, Piso 22

Providencia, Santiago, Chile

(562) 691-2020

(Address of principal executive offices)

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

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes

No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes

No

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

Yes

No

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

TELECOMMUNICATIONS COMPANY OF CHILE

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Item 1

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

REPORT ON THE FINANCIAL STATEMENTS

for the years ended
December 31, 2004 and 2003
(CONSOLIDATED)

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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ThCh\$:Thousands of Chilean pesos

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

ThUS\$:Thousands of US dollars

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

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

ASSETS

	Notes	2004 ThCh\$	2003 ThCh\$
CURRENT ASSETS			
Cash		7,859,890	19,826,344
Time deposits	(34)	53,138,702	5,512,430
Marketable securities, net	(4)	26,120,961	44,289,925
Accounts receivable, net	(5)	146,624,878	212,963,591
Notes receivable, net	(5)	4,563,212	7,535,879
Other receivables	(5)	28,924,667	17,246,222
Due from related companies	(6 a)	21,160,267	18,997,848
Inventories, net		6,408,059	20,473,935
Recoverable taxes		—	15,814,237
Prepaid expenses		3,137,542	7,695,407
Deferred taxes	(7 b)	14,247,630	17,528,897
Other current assets	(8)	110,140,983	43,315,885
TOTAL CURRENT ASSETS		422,326,791	431,200,600
PROPERTY, PLANT AND EQUIPMENT			
Land	(10)	26,340,152	28,321,545
Buildings and improvements		189,687,779	190,343,681
Machinery and equipment		3,112,316,611	3,543,119,301
Other property, plant and equipment		257,569,111	385,595,071
Technical revaluation		9,436,071	9,455,025
Less: Accumulated depreciation		2,212,472,622	2,281,219,997
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET		1,382,877,102	1,875,614,626
OTHER LONG-TERM ASSETS			
Investment in related companies	(11)	7,621,263	10,273,018
Investment in other companies		3,950	3,950
Goodwill	(12)	19,338,697	162,082,398
Other receivables	(5)	17,440,821	30,961,064
Intangibles	(13)	38,450,118	41,416,755
Less: Accumulated amortization	(13)	6,893,848	4,672,837
Others	(14)	13,456,048	10,475,756
TOTAL OTHER LONG-TERM ASSETS		89,417,049	250,540,104
TOTAL ASSETS		1,894,620,942	2,557,355,330

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

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

LIABILITIES

	Notes	2004 ThCh\$	2003 ThCh\$
CURRENT LIABILITIES			
Short-term debt with banks and financial institutions	(15)	19,478,974	19,811,495
Current maturities of long-term debt	(15)	15,516,787	85,431,911
Commercial paper	(17 a)	34,746,717	—
Current maturities of bonds payable	(17 b)	76,398,621	115,522,859
Current maturities of other long-term obligations		32,134	458,901
Dividends payable		1,771,031	113,854
Trade accounts payable	(35)	66,935,017	128,727,583
Notes payable		—	304,306
Other payables	(36)	46,401,050	85,091,154
Due to related companies	(6 b)	27,956,712	25,586,054
Accruals	(18)	7,463,071	11,871,868
Withholdings		15,523,994	12,785,949
Income tax		27,319,414	—
Unearned income		7,700,576	9,076,018
Other current liabilities		1,114,676	5,003,736
TOTAL CURRENT LIABILITIES		348,358,774	499,785,688
LONG-TERM LIABILITIES			
Long-term debt with banks and financial institutions	(16)	340,262,113	314,128,186
Bonds payable	(17)	127,836,164	319,449,187
Other accounts payable		2,179,391	6,988,687
Due to related companies	(6 b)	—	21,000,675
Accruals	(18)	29,254,826	19,675,441
Deferred taxes	(7 b)	56,011,841	47,729,995
Other liabilities		4,215,598	4,705,632
TOTAL LONG-TERM LIABILITIES		559,759,933	733,677,803
MINORITY INTEREST	(20)	1,631,223	1,398,355
SHAREHOLDERS' EQUITY			
Paid-in capital	(21)	880,977,537	880,977,537
Other reserves		(1,237,651)	(810,979)
Retained earnings		105,131,126	442,326,926

Retained earnings	48,806,351	431,939,697
Net income for the year	311,628,674	10,387,229
Interim dividend (less)	255,303,899	—
TOTAL SHAREHOLDERS' EQUITY	984,871,012	1,322,493,484
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,894,620,942	2,557,355,330

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(Restated for general price-level changes and expressed
in thousands of constant Chilean pesos as of December 31, 2004)

	2004 ThCh\$	2003 ThCh\$
OPERATING RESULTS:		
Operating revenues	702,875,206	833,109,969
Less: Operating costs	444,449,995	539,128,218
Gross profit	258,425,211	293,981,751
Less: Administrative and selling expenses	159,291,069	175,740,046
OPERATING RESULTS	99,134,142	118,241,705
NON-OPERATING RESULTS:		
Interest income	9,285,886	7,253,943
Equity in earnings of equity-method investees (11)	720,306	1,121,754
Other non-operating income (22 a)	475,489,010	12,642,215
Equity in losses of equity-method investees (11)	177,673	423,974
Less: Amortization of goodwill (12)	140,402,335	23,660,877
Less: Interest expense and other	54,053,465	62,776,634
Less: Other non-operating expenses (22 b)	24,670,964	12,782,812
Price-level restatement (23)	(4,166,614)	385,734
Foreign exchange gain (24)	13,148,626	264,789
NON-OPERATING GAIN (LOSS), NET	275,172,777	(77,975,862)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	374,306,919	40,265,843
Income taxes (7 c)	(62,395,207)	(29,734,381)
INCOME BEFORE MINORITY INTEREST	311,911,712	10,531,462

Minority interest	(20)	(283,038)	(144,233)
NET INCOME FOR THE YEAR		311,628,674	10,387,229

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(Restated for general price-level changes and expressed
in thousands of constant Chilean pesos as of December 31, 2004)

	2004 ThCh\$	2003 ThCh\$
NET CASH FLOWS FROM OPERATING ACTIVITIES	221,919,478	291,433,492
Net income for the year	311,628,674	10,387,229
Sales of assets:	(471,335,967)	(5,342,789)
(Gain) loss on sales of property, plant and equipment	15,297	(1,731,090)
Gain on sales of investments (less)	(471,351,264)	(3,679,867)
Loss on sales of investments	—	68,168
Debits (credits) to income that do not represent cash flows :	413,812,994	337,785,829
Depreciation for the year	234,252,467	275,920,648
Amortization of intangibles	2,576,077	1,951,505
Provisions and write offs	35,549,878	36,806,792
Equity in earnings of equity method investees	(720,306)	(1,121,754)
Equity in losses of equity method investees	177,673	423,974
Amortization of goodwill	140,402,335	23,660,877
Price-level restatement	4,166,614	(385,734)
Foreign exchange gain	(13,148,626)	(264,789)
Other credits to income that do not represent cash flows	(1,003,487)	(7,698,661)
Other debits to income that do not represent cash flows	11,560,369	8,492,971
Changes in operating assets Increase (decrease)	(4,261,591)	(28,888,594)
Trade accounts receivable	(13,516,134)	(39,668,607)
Inventories	(13,498,554)	(7,166,473)
Other assets	22,753,097	17,946,486

Changes in operating liabilities (Increase) decrease	(28,207,670)	(22,652,416)
Accounts payable related to operating activities	(61,796,608)	(35,037,566)
Interest payable	(7,336,826)	(3,916,724)
Income taxes payable (net)	44,289,577	19,195,460
Other accounts payable related to non-operating activities	(6,399,548)	(3,772,001)
V.A.T. and other similar taxes payable	3,035,735	878,415
Minority interest	283,038	144,233

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(Restated for general price-level changes and expressed
in thousands of constant Chilean pesos as of December 31, 2004)

	2004 ThCh\$	2003 ThCh\$
NET CASH USED IN FINANCING ACTIVITIES	(852,006,372)	(176,077,608)
Obligations with the public	34,859,951	20,460,661
Dividends paid (less)	(633,850,272)	(17,134,418)
Loans repaid (less)	(17,184,388)	(96,972,241)
Repayment of obligations with the public (less)	(213,512,442)	(82,426,143)
Repayment of other loans from related companies (less)	(22,319,221)	—
Other sources of financing	—	(5,467)
NET CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES	759,412,068	(102,447,886)
Sales of property, plant and equipment	179,156	1,105,822
Sales of permanent investments	681,208,764	34,335,676
Sales of other investments	17,077,848	60,659,425
Collection of documented loans to related companies	170,044,392	—
Other investment income	—	212
Acquisition of property, plant and equipment (less)	(88,201,418)	(156,836,024)
Investments in financial instruments (less)	(10,929,760)	(33,991,800)
Other investment activities (less)	(9,966,914)	(7,721,197)
NET CASH FLOWS FOR THE YEAR	129,325,174	12,907,998
	(6,347,081)	(518,687)

EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS

NET INCREASE OF CASH AND CASH EQUIVALENTS	122,978,093	12,389,311
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	34,163,925	21,774,614
CASH AND CASH EQUIVALENTS AT END OF YEAR	157,142,018	34,163,925

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

b) Subsidiary companies registered with the Securities Registry:

As of December 31, 2004 the following subsidiaries of the Group are registered with the Securities Registry:

Subsidiaries	Taxpayer N°	Registration Number	Participation (direct & indirect)	
			2004 %	2003 %
Telefónica Mundo S.A.	96,551,670-0	456	99.16	99.16
Globus 120 S.A.	96,887,420-9	694	99.99	99.99
Telefónica Asistencia y Seguridad S.A.	96,971,150-8	863	99.99	99.99

2. Significant Accounting Principles:

(a) Accounting period:

The financial statements cover the years ended December 31, 2004 and 2003.

(b) Basis of preparations:

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

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

(c) Basis of presentation:

The consolidated financial statements for 2003 and their notes have been adjusted for comparison purposes by 2.5% in order to allow comparison with the 2004 financial statements.

For comparison purposes there have been certain reclassifications made to the 2003 financial statements.

(d) Basis of consolidation:

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

2. Significant Accounting Principles, continued:

Companies included in consolidation:

As of December 31, 2004 the consolidated group (The Company) is composed of Compañía de Telecomunicaciones de Chile S.A. and the following subsidiaries:

Taxpayer N°	Company Name	Participation Percentage			
		Direct	Indirect	Total	2003 Total
79,727,230-2	CTC Isapre S.A. (1)	—	—	—	99.99
96,545,500-0	CTC Equipos y Servicios de Telecomunicaciones S.A.	99.99	—	99.99	99.99
96,551,670-0	Telefónica Mundo S.A.	99.16	—	99.16	99.16
96,961,230-5	Telefonica Gestión de Servicios Compartidos Chile S.A.	99.90	0.09	99.99	99.99
96,786,140-5	Telefónica Móvil S.A. (2)	—	—	—	99.99
74,944,200-k	Fundación Telefónica Chile	50.00	—	50.00	50.00
96,887,420-9	Globus 120 S.A.	99.99	—	99.99	99.99
96,971,150-8	Telemergencia S.A.	99.67	0.32	99.99	99.99
90,430,000-4	Telefónica Empresas CTC Chile S.A.	99.99	—	99.99	99.99
90,184,000-8	Comunicaciones Mundiales S.A. (3)	—	—	—	99.66
96,834,320-3	Telefónica Internet Empresas S.A. (4)	—	99.99	99.99	99.99
96,811,570-7	Administradora de Telepeajes de Chile S.A. (5)	—	79.99	79.99	79.99
78,703,410-1	Tecnonáutica S.A.	—	99.99	99.99	99.99
96,934,950-7	Portal de Pagos e Información S.A. (6)	—	—	—	99.99
96,893,540-2	Infochile S.A. (5)	—	—	—	99.99

1) On September 1, 2003, Telefónica CTC Chile, sold 100% of its participation in this subsidiary for UF 9,175, which resulted in Telefónica CTC Chile recognizing a loss on sale of subsidiary

of ThCh\$ 66,705.

- 2) On July 23, 2004, Telefónica CTC Chile sold 100% of its participation in Telefónica Móvil de Chile S.A.. This transaction meant a disbursement by Telefónica Móviles S.A. (purchaser) of US\$ 1,058 million, which were paid on July 28, 2004. For Telefónica CTC Chile this transaction meant recognizing a net of tax gain of US\$ 470 million after extraordinary amortization of the balance of goodwill on this investment as of June 2004 (see Note 12c).
- 3) The Extraordinary Shareholders' Meeting of Telefónica Empresas CTC Chile S.A., held on December 9, 2003, approved the absorption by incorporation of the subsidiary Comunicaciones Mundiales S.A.
- 4) On June 19, 2003, Infoera S.A. changed its name to Telefónica Internet Empresas S.A.
- 5) On December 1, 2003, the Board of Telefónica Empresas CTC Chile S.A. approved the sale of its shareholding in that company as of that date, to its subsidiary Telefónica Internet Empresas S.A.
- 6) By means of public deeds dated December 1, 2003 and December 31, 2003, the Boards of Portal de Pagos e Información S.A. and Infochile S.A. recorded the absorption of these companies by Tecnonáutica S.A.

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

2. Significant Accounting Principles, continued:

(e) Price-level restatement:

The consolidated financial statements have been adjusted by applying price-level restatement standards, in accordance with Generally Accepted Accounting Principles in Chile, in order to reflect the changes in the purchasing power of the currency during both years. The accumulated variation in the CPI as of December 31, 2004 and 2003, for opening balances, is 2.5% and 1.0%, respectively.

(f) Basis of conversion:

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

Year	US\$	EURO	UF
2004	557.40	760.13	17,317.05
2003	593.80	744.95	16,920.00

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

(g) Time deposits:

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

(h) Marketable securities:

Fixed income securities are carried at price-level restated cost or market value, whichever is less, plus accrued interest at each year end, using the real interest rate calculated at the date of acquisition.

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

(i) Inventories:

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

Inventories with an estimated turnover period of less than twelve months are classified as current assets and their cost is price-level restated. The obsolescence provision has been determined on the basis of a survey of materials with slow turnover.

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

2. Significant Accounting Principles, continued:

(j) Subsidies on sale of cellular telephones:

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

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

(k) Accommodation Contracts:

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

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

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

(l) Allowance for doubtful accounts:

Differentiated percentages are applied when calculating allowance for doubtful accounts, taking into consideration aging of and eventual administrative collections costs, reaching in some cases 100% of debts past due more older than 120 days and 180 days in the case of large customers (corporations).

(m) Property, plant and equipment:

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

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

2. Significant Accounting Principles, continued:

(n) Depreciation of property, plant and equipment:

Depreciation has been calculated and recorded on a straight-line basis over the estimated useful lives of the assets. The average annual financial depreciation rate of the Company is approximately 7.93%.

(ñ) Leased assets:

Leased assets with a purchase option.

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

(o) Intangibles

i) Rights to underwater cable:

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

ii) Software licenses:

Software licenses are valued at their price-level restated acquisition cost. Amortization is calculated using the straight-line method over their estimated useful life, which does not exceed 4 years.

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

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

(p) Investments in related companies:

These investments are accounted for under the equity method which recognizes the investee's share of income on an accrual basis. For investments abroad the valuation methodology applied is that defined in Technical Bulletin N°64. These investments are controlled in dollars, since they are in countries deemed to be unstable and their activities are not an extension of the operations of the Parent Company.

(q) Goodwill:

In the case of investments made through December 31, 2003, corresponds to the excess of the purchase price of an investment over the net book value of the assets acquired and liabilities assumed, under the equity method. Goodwill amortization periods have been determined considering factors such as the nature and characteristics of the business and the estimated period of return of the investment. Goodwill arising on the acquisition of investments abroad are controlled in United States dollars (same currency in which the investment is controlled) as per Technical Bulletin N°64 of the Chilean Accountants Association. (See Note 11).

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

2. Significant Accounting Principles, continued:

(r) Transactions with resale agreements:

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

(s) Obligations with the public:

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

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

(t) Income tax and deferred income tax:

Income tax is recorded on the basis of taxable net income. Recognition of deferred taxes on all temporary differences, utilizable tax loss carry forwards, and other events that create differences between the tax and accounting base, is recorded following Technical Bulletins No. 60 and 69 of the Chilean Accountants Association and as established by the Chilean Superintendency of Securities and Insurance in Circular N°1,466 dated January 27, 2000.

On September 28, 2001 Law N°19,753 was published, increasing the income tax rate to 16% in 2002, 16.5% in 2003 and 17% in 2004 and thereon. As of December 31 of each period presented, deferred tax assets and liabilities reflect the increase in tax rate. Recognition for the effect on deferred taxes from an increase in income tax rates follows Technical Bulletin N°71 issued by of the Chilean Accountants Association. (See Note 7).

(u) Staff severance indemnities:

For employees subject to this benefit the Company's staff severance indemnities obligation is provided for applying the present value the obligation using an annual discount rate of 7%, considering the projected service periods of the employee determined on the basis of actuarial calculations (see note 19).

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

(v) Operating revenues:

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

2. Significant Accounting Principles, continued:

(w) Foreign currency future contracts:

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

These instruments are valued in accordance with Technical Bulletin N°57 of the Chilean Accountants Association.

The rights and obligations acquired are detailed in Note 27, reflecting in the balance sheet only the net right or obligation at period end, classified according to the maturity of each contract under Other Current Assets or Other Creditors, as applicable. The exchange cover insurance premium implicit in the contract is deferred and amortized using the straight-line method over the term of the same.

(x) Interest rate coverage:

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

(y) Computer software:

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

(z) Research and development expenses:

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

(aa) Accumulated adjustment for conversion differences:

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

2. Significant Accounting Principles, continued:

(ab) Statement of cash flows:

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

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

(ac) Correspondents:

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

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

3. Accounting Changes:

a) Accounting changes

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

b) Change in estimate

As established in Technical Bulletin No. 8 of the Chilean Association of Accountants, and derived from the current conditions in the collective agreements, the Company modified the estimation of future permanence of employees subject to the mentioned agreements. As a product of this change in estimate, the Company recorded deferred charge for ThCh\$ 6,008,992 at the beginning of the year which will be amortized over the period of future permanence of employees eligible for the benefit (see Note 14b).

c) Change of reporting entity:

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

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

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

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

3. Accounting Changes, continued:

c) Change of reporting entity, continued:

As of December 31, 2003 this investment was consolidated. The balance sheet of Telefónica Móvil de Chile S.A. at that date was as follows:

Assets	2003 ThCh\$	Liabilities	2003 ThCh\$
Current Assets	88,568,354	Current Liabilities	120,285,807
Property, Plant and Equipment	358,599,935	Long-Term Liabilities	125,744,985
Other Long-Term Assets	14,595,150	Shareholders' Equity	215,732,647
Total Assets	461,763,439	Total Liabilities and Shareholders' Equity	461,763,439

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

	Jan-Dec 2004 ThCh\$	Jan-Dec 2003 ThCh\$	Variation ThCh\$	%
Operating revenues	576,496,055	600,418,277	(23,922,222)	-4.0%
Operating costs	(473,878,230)	(496,020,799)	22,142,569	-4.5%
Salaries and employee benefits	(76,223,681)	(77,374,932)	1,151,251	-1.5%
Depreciation	(192,032,223)	(207,548,689)	15,516,466	-7.5%
Goods and services	(205,622,326)	(211,097,178)	5,474,852	-2.6%
OPERATING RESULTS	102,617,825	104,397,478	(1,779,653)	-1.7%
Interest income	14,158,699	15,727,926	(1,569,227)	-10.0%
Equity in earnings of equity-method investees	(7,435,679)	5,353,796	(12,789,475)	C.S.
Amortization of goodwill	(140,402,335)	(23,660,877)	(116,741,458)	493.4%
Interest expense	(53,584,979)	(61,885,810)	8,300,831	-13.4%
Other non-operating expenses	450,660,842	2,298,490	448,362,352	19,506.8%
Price-level restatement	9,632,011	133,789	9,498,222	7,099.4%
NON-OPERATING RESULTS	273,028,559	(62,032,686)	335,061,245	C.S.

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INCOME BEFORE INCOME TAXES AND	375,646,384	42,364,792	333,281,592	786.7%
MINORITY INTEREST	(63,734,672)	(31,833,330)	(31,901,342)	100.2%
Minority interest	(283,038)	(144,233)	(138,805)	96.2%
NET INCOME FOR THE PERIOD	311,628,674	10,387,229	301,241,445	2,900.1%

(1) In 2004 Telefónica Móvil de Chile S.A., incurred a loss of ThCh\$ 7,978,287, whereas in 2003 its net income was ThCh\$ 4,656,002.

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

4. Marketable Securities:

The balance of marketable securities is as follows:

	2004 ThCh\$	2003 ThCh\$
Shares (a)	439,546	470,234
Publicly offered promissory notes	25,681,415	43,503,554
Mutual fund units	—	316,137
	26,120,961	

Total Marketable Securities