

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
Total Marketable Securities	26,120,961	44,289,925

Shares

Taxpayer No.	Company Name	Number of Shares	Interest %	Market Quote per share ThCh\$	Market Value ThCh\$	Restated Cost ThCh\$
Foreign	INTELSAT	96,022	0.057%	—	—	439,546
				Value of investment portfolios	—	439,546
				Adjustment to market value provision	—	—
				Book value of investment portfolio	—	439,546

Publicly offered promissory notes (Fixed Income)

Instrument	Date	Par Value ThCh\$	Book Value Amount ThCh\$	Market Value ThCh\$	Provision ThCh\$		
Zero-051201	Purchase Dec-2002	Maturity Oct-2005	2,974,206	3,483,329	5.07	3,530,989	—

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Zero-051101	Dec-2002	Nov-2005	1,419,031	1,693,521	5.85	1,716,749	—
Zero-051001	Dec-2002	Dec-2005	11,146,556	13,315,639	5.85	13,502,502	—
Sub-Total			15,539,793	18,492,489		18,750,240	—
BCD-501005	Sep-2004	Oct-2005	2,787,000	2,853,362	5.00	2,853,362	33,854
BCD-501005	Nov-2004	Oct-2005	1,393,500	1,426,332	5.00	1,426,332	4,616
BCD-501005	Dec-2004	Sep-2005	2,787,000	2,909,232	5.00	2,911,454	—
Sub-Total			6,967,500	7,188,926		7,191,148	38,470
Total			22,507,293	25,681,415		25,941,388	38,470

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

5) Current and long-term receivables:

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

	Over 90 up to 1 year		Current		Total Current (net)				
	2003	2004	2003	2004	2003		2004		
Up to 90 days	ThCh\$	ThCh\$	ThCh\$	ThCh\$	%	ThCh\$	%	ThCh\$	
204	287,748,331	6,837,623	10,658,446	225,753,827	146,624,878	100.0	212,963,591	100.0	2,000,000
021	165,387,825	3,984,556	8,863,641	155,436,577	87,172,573	59.45	108,142,330	50.78	2,000,000
909	44,750,957	—	—	41,492,909	34,530,424	23.55	41,020,546	19.26	
	50,112,953	—	—	—	—	—	38,989,773	18.31	
344	23,081,603	2,760,633	1,794,470	24,741,977	21,277,762	14.51	20,542,213	9.65	
930	4,414,993	92,434	335	4,082,364	3,644,119	2.49	4,268,729	2.00	
766)	(81,011,366)	(2,045,183)	(4,431,820)	(79,128,949)	—	—	—	—	
045	15,867,332	699,983	422,032	12,752,028	4,563,212	—	7,535,879	—	
816)	(8,753,485)	—	—	(8,188,816)	—	—	—	—	
621	14,138,120	17,545,046	3,108,102	28,924,667	28,924,667	—	17,246,222	—	15,300,000
	—	—	—	—	—	—	—	—	17,400,000
									Total long-term receivables

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements , continued

6. Balances and transactions with related entities:

a) Due from:

Taxpayer No.	Company	Short-term		Long-term	
		2004 ThCh\$	2003 ThCh\$	2004 ThCh\$	2003 ThCh\$
96,942,730-3	Telefónica Mobile Solutions Chile S.A.	111,342	49,823	—	—
Foreign	Telefónica España	40,000	659,965	—	—
Foreign	Telefónica Internacional Chile S.A.	—	6,813	—	—
93,541,000-2	Impresora Comercial y Publiguías S.A.	4,211,378	3,518,463	—	—
Foreign	Telefónica Sao Paulo	—	241,665	—	—
Foreign	Emergia U.S.A.	44,003	—	—	—
96,834,230-4	Terra Networks Chile S.A.	588,828	1,265,268	—	—
96,895,220-k	Atento Chile S.A.	257,803	405,164	—	—
96,545,480-2	CTC Marketing e Inform S.A. (Nexcom S.A.)	—	301,788	—	—
96,910,730-9	Emergia Chile S.A.	42,106	129,777	—	—
Foreign	Telefónica LD Puerto Rico	2,569	—	—	—
Foreign	Telefónica Data EEUU	50,104	330,221	—	—
Foreign	Telefónica Data España	92,163	413,203	—	—
Foreign	Telefónica Argentina	190,973	1,119,230	—	—
Foreign	Emergia S.A. (Uruguay)	—	45,103	—	—
96,786,140-5	Telefónica Móvil de Chile S.A.	6,200,708	—	—	—
Foreign	Telefónica Procesos Tec. de Información	9,136,863	9,976,868	—	—
59,083,900-0	Telefónica Ingeniería de Seguridad S.A.	1,669	5,999	—	—
Foreign	Telefónica Whole Sale International Services	189,758	452,647	—	—
82,049,000-2	Coasin Chile S.A.	—	75,851	—	—
	Total	21,160,267	18,997,848	—	—

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

b) Due to:

Taxpayer No.	Company	Short-term		Long-term	
		2003 ThCh\$	2004 ThCh\$	2003 ThCh\$	2004 ThCh\$
96,942,730-3	Telefónica Mobile Solutions Chile S.A.	—	1,452,155	—	—
Foreign	Telefónica España	172,794	232,241	—	—
96,527,390-5	Telefónica Internacional Chile S.A.	270,146	270,551	—	21,000,675
93,541,000-2	Impresora Comercial y Publiguías S.A.	1,248,641	1,113,562	—	—
Foreign	Telefónica Perú	38,369	32,947	—	—
96,834,230-4	Terra Networks Chile S.A.	4,195,523	4,979,587	—	—
96,895,220-k	Atento Chile S.A.	1,776,718	4,567,808	—	—
96,910,730-9	Emergia Chile S.A.	129,078	515,223	—	—
Foreign	Emergia S.A. (Uruguay)	—	4,408,582	—	—
Foreign	Telefónica Guatemala	2,016	2,202	—	—
Foreign	Telefónica El Salvador	144,134	157,385	—	—
96,786,140-5	Telefónica Móvil de Chile S.A.	11,968,083	—	—	—

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96,545,480-2	CTC Marketing e Inform S.A. (Nexcom S.A.)	—	108	—	—
Foreign	Telefónica Procesos Tec. de Información	7,076,254	7,253,160	—	—
59,083,900-0	Telefónica Ingeniería de Seguridad S.A.	33,168	6,285	—	—
Foreign	Telefónica Whole Sale International Services	892,342	575,672	—	—
Foreign	Telefónica LD Puerto	—	3,159	—	—
78,868,200-k	Atento Recursos Ltda.	—	10,668	—	—
82,049,000-2	Coasin Chile S.A.	—	4,759	—	—
Foreign	Telefónica Sao Paulo	9,446	—	—	—
	Total	27,956,712	25,586,054	—	21,000,675

As per Article No. 89d of the Corporations Law, all these transactions are carried out under conditions similar to those that normally prevail in the market.

The balance of long-term accounts with related companies, corresponds to the mercantile current account that Telefónica CTC Chile has signed with Telefónica Internacional Chile S.A.

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

6. Balances and transactions with related entities, continued:

c) Transactions:

Company	Tax No.	Nature of Relationship	Description of transaction	2004		2003	
				ThCh\$	Effect on income	ThCh\$	Effect on income
Telefónica España	Foreign	Parent Co.	Sales	510,336	510,336	—	—
Telefónica Internacional Chile S.A.	96.527.390-2	Parent Co.	Purchases	(321,227)	(321,227)	—	—
Telefónica Internacional Chile S.A.	96.527.390-2	Parent Co.	Purchases	(542,386)	(542,386)	(542,126)	(542,126)
Telefónica Internacional Chile S.A.	96.527.390-2	Parent Co.	Financial Expenses	(259,694)	(259,694)	(533,333)	(533,333)
Impresora y Comercial Publiguías S.A.	93.541.000-2	Associate	Sales	5,573,038	5,573,038	5,407,871	5,407,871
Impresora y Comercial Publiguías S.A.	93.541.000-2	Associate	Purchases	(5,590,375)	(5,590,375)	(6,569,252)	(6,569,252)
Impresora y Comercial Publiguías S.A.	93.541.000-2	Associate	Financial Income	6,502,477	6,502,477	351,624	351,624
Impresora y Comercial Publiguías S.A.	93.541.000-2	Associate	Other Non-operating Income	—	—	1,606,859	1,606,859
	96.834.230-4	Associate					

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Terra Networks Chile S.A.			Sales	5,470,643	5,470,643	5,993,078	5,993,078
			Purchases	(1,983,263)	(1,983,263)	(2,328,558)	(2,328,558)
Atento Chile S.A.	96.895.220-k	Associate	Sales	1,069,304	1,069,304	979,192	979,192
			Purchases	(17,009,235)	(17,009,235)	(12,465,811)	(12,465,811)
			Other Non-operating Income	—	—	17,153	17,153
Emergia Chile S.A.	96.910.730-9	Associate	Sales	667,097	667,097	1,087,685	1,087,685
			Purchases	(76,223)	(76,223)	(84,368)	(84,368)
			Other Non-operating Income	—	—	—	—
Telefónica Argentina	Foreign	Associate	Sales	1,202,242	1,202,242	—	—
			Purchases	(847,786)	(847,786)	—	—
Telefónica Mobile Solutions Chile S.A.	96.942.730-3	Associate	Sales	11,755	11,755	—	—
Telefónica Wholesale International Services	Foreign	Associate	Sales	212,987	212,987	382,356	382,356
			Purchases	(2,256,493)	(2,256,493)	(1,534,171)	(1,534,171)
Telefónica Sao Paulo	Foreign	Associate	Sales	179,247	179,247	—	—
			Purchases	(189,910)	(189,910)	—	—
Telefónica International Wholesale Services Guatemala S.A.	Foreign	Associate	Sales	7,833	7,833	—	—
			Purchases	(17,222)	(17,222)	—	—
Telefónica Perú	Foreign	Associate	Sales	547,945	547,945	—	—
			Purchases	(614,368)	(614,368)	—	—
Telefónica LD Puerto Rico	Foreign	Associate	Sales	14,720	14,720	—	—
			Purchases	(13,454)	(13,454)	—	—
Telefónica El Salvador	Foreign	Associate	Sales	(32,500)	(32,500)	—	—
Telefónica Móvil de Chile S.A.	96.786.140-5	Associate	Sales	6,945,172	6,945,172	—	—
			Purchases	(19,236,543)	(19,236,543)	—	—
			Financial income	695,988	695,988	—	—
Atento Recursos Ltda.	78.868.200-k	Associate	Purchases	—	—	(13,569)	(13,569)
Telefónica Móviles S.A.	Extranjera	Associate	Other Non-operating Income	464,847,415	464,847,415	—	—
			Amortization goodwill	(133,872,010)	(133,872,010)	—	—

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

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

7. Income tax and deferred taxes:

a) General information:

As of December 31, 2004 and 2003 Head Office has provided for a first category income tax of ThCh\$ 15,283,524 and ThCh\$ 5,335,675, respectively.

In addition, as of December 31, 2004 and 2003 a first category income tax in subsidiaries was provided of ThCh\$ 9,908,173 and ThCh\$ 4,459,182, respectively.

As of December 31, 2004, accumulated tax losses amount to ThCh\$ 9,332,756 and correspond mainly to Telefónica Asistencia y Seguridad S.A., which for 2003 reached ThCh\$ 27,920,688, corresponding mainly to former subsidiary Telefónica Móvil de Chile S.A.

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

Subsidiaries	Taxed Retained Earnings w/15% credit ThCh\$	Taxed Retained Earnings w/16% credit ThCh\$	Taxed Retained Earnings w/16.5% credit ThCh\$	Taxed Retained Earnings w/17% credit ThCh\$	Taxed Retained Earnings w/o credit ThCh\$	Amount of credit ThCh\$
CTC Equipos y Servicios de Telecomunicaciones S.A.	3	545,908	2,486,900	2,816,366	2,824,402	5,849,177
Telefónica Mundo S.A.	—	1,888,094	963,473	4,099,089	4,133,603	6,950,656
Globus 120 S.A.	374,527	154,805	112,738	99,665	104,651	741,735
Telefónica Empresas CTC Chile S.A.	162,401	1,393,774	965,255	2,834,946	2,928,463	5,356,377
Administradora de Sistemas de Telepeajes de Chile S.A.	—	—	—	57,820	57,820	57,820
Total	536,931	3,982,581	4,528,366	9,907,886	10,048,939	18,955,765

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

7. Income tax and deferred taxes, continued:

b) Deferred taxes:

As of December 31, 2004 and 2003, deferred tax liabilities amounted to ThCh\$ 41,764,211 and ThCh\$ 30,201,098, respectively and the detail is as follows:

Description	2004				2003			
	Deferred tax assets		Deferred tax liabilities		Deferred tax assets		Deferred tax liabilities	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Temporary differences								
Provision for doubtful accounts	12,965,656	—	—	—	14,758,399	—	—	—
Provision for vacation benefits	652,674	—	—	—	819,047	—	—	—
Provision for tax losses	—	1,537,122	—	—	—	21,138,354	—	—
Provision for severance benefits	—	—	—	6,165,790	—	2,467	—	6,961,000
Provision for intangible assets and other	—	62,761	—	89,725	70,873	634,988	—	124,000
Provision for property, plant and equipment	2,780	3,863,861	—	173,239,003	62,146	4,747,159	—	201,212,000
Provision for difference in amount of capitalized staff severance	—	723,561	—	—	—	920,127	—	—
Provision for software	—	—	—	3,312,001	—	—	—	1,000,000
Provision for deferred charge on sale of assets	—	—	—	1,198,591	—	—	—	2,326,000
Provision for collective negotiation	—	—	—	56,361	—	—	—	140,000
Provision for other	626,520	261,005	—	1,258,656	1,826,931	361,409	8,499	1,445,000
Total	14,247,630	6,448,310	—	185,320,127	17,537,396	27,804,504	8,499	213,210,000
Complementary accounts								
Provision for accumulated depreciation	—	(3,901,971)	—	(126,761,947)	—	(10,515,580)	—	(148,191,000)
Total	14,247,630	2,546,339	—	58,558,180	17,537,396	17,288,924	8,499	65,018,000
Provision for reclassification	—	(2,546,339)	—	(2,546,339)	(8,499)	(17,288,924)	(8,499)	(17,288,000)
Total	14,247,630	—	—	56,011,841	17,528,897	—	—	47,729,000

As indicated in Note 2d numeral 2, as of December 31, 2003, balances of net deferred tax assets from Telefónica Móvil de Chile S.A. of ThCh\$ 8,633,023 are included in the amount. In the 2004, financial statements of that company were consolidated until June 30, 2004, and the effect in income of deferred tax assets and liabilities and their corresponding complementary accounts amounted to ThCh\$ 1,353,312.

 COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

7. Income tax and deferred taxes, continued:

c) Income tax breakdown:

The current tax expense shown in the following table arises from the determination of taxable income:

Description	2004 ThCh\$	2003 ThCh\$
Current tax expense before tax benefits (income tax)	26,245,231	23,636,363
Current tax expense (article 21 single tax at 35%)	31,532	85,814
Current tax expense (first category tax in the nature of a single income tax)	36,279,149	—
Tax expense adjustment (previous year)	(4,993,898)	(754,959)
Income tax subtotal	57,562,014	22,967,218
- Current year's deferred taxes	(9,261,585)	8,822,059
- Tax benefits from tax loss carry forwards	(1,056,934)	(13,841,506)
- Effect of amortization of deferred assets and liabilities complementary accounts	15,151,712	11,786,610
Deferred tax subtotal	4,833,193	6,767,163
Total income tax expense	62,395,207	29,734,381

 COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

8. Other Current Assets:

The detail of other current assets is as follows:

	2004	2003
	ThCh\$	ThCh\$
Fixed income securities purchased with resale agreement	96,143,426	8,509,014
Deferred union contract bonus (a)	2,252,809	2,299,268
Deferred exchange insurance premiums	791,381	791,463
Telephone directories for connection program	3,438,433	4,317,171
Deferred higher bond discount rate (note 25)	574,764	511,902
Deferred disbursements for placement of bonds (note 25)	418,261	1,243,184
Commercial paper issuance costs (note 25)	177,167	—
Deferred disbursements for foreign financing proceeds (b)	404,600	657,151
Adjustment to market value for mobile equipment (c)	—	4,527,412
Exchange difference insurance receivable (net of partial liquidations)	4,691,296	18,387,530
Others	1,248,846	2,071,790
Total	110,140,983	43,315,885

(a) During June 2002, the Company signed a 2-year collective agreement with certain employees (3 years for employees of Telefónica Móvil) granting them among other benefits, a special signing bonus. That bonus was paid between June and July 2002 (for employees of Telefónica Móvil a second installment was be paid in May 2004 in the amount of ThCh\$ 440,000 (historical)). The total benefit amounts to ThCh\$ 2,494,544 (historical), and is being deferred using the straight-line method over the term of the respective union contracts.

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

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

(b) This amount corresponds to the cost (net of amortization) of the mandatory reserve paid to the Central Bank of Chile and disbursements incurred for foreign loans obtained by the Company to finance its investment plan.

(c) Corresponds to the adjustment to market value of cellular/mobile equipment in stock at period end, and which is charged to results based on the client plan (contract or prepaid) for said equipment, with the exception of accommodation and rented equipment.

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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)

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

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Code	Dates		Counterparty	Original currency	Subscription value	Rate	Final Value	Instrument Identification	Book Value
			CITIBANK						
CRV	Dec.21,2004	Jan.10,2005	N.A.	\$	1,173,181	0.22%	1,174,902	BCP0800709	1,174,042
			CITIBANK						
CRV	Dec.21,2004	Jan.10,2005	N.A.	\$	442,848	0.22%	443,498	BCP0800806	443,173
			CITIBANK						
CRV	Dec.21,2004	Jan.10,2005	N.A.	\$	7,654,164	0.22%	7,665,390	BCP0800806	7,659,777
			CITIBANK						
CRV	Dec.21,2004	Jan.10,2005	N.A.	\$	2,227,059	0.22%	2,230,326	BCP0800907	2,228,693
			BANCO SANTANDER						
CRV	Dec.23,2004	Jan.11,2005	SANTIAGO	\$	275,307	0.22%	275,690	BCP0800805	275,468
			BANCO SANTANDER						
CRV	Dec.27,2004	Jan.11,2005	SANTIAGO	\$	46,338	0.22%	46,388	BCP0800614	46,352
CRV	Dec.27,2004	Jan.11,2005	BCI	\$	4,000,000	0.21%	4,004,200	BCP0800708	4,001,120
CRV	Dec.15,2004	Jan.12,2005	BCI	\$	8,700,000	0.21%	8,717,052	BCP0800708	8,709,744
CRV	Dec.29,2004	Jan.18,2005	BCI	\$	5,063,825	0.21%	5,070,914	PDBC050121	5,064,533
CRV	Dec.29,2004	Jan.18,2005	BCI	\$	152,427	0.21%	152,641	BCP0800806	152,449
CRV	Dec.29,2004	Jan.18,2005	BCI	\$	624,483	0.21%	625,357	BCP0800806	624,570
CRV	Dec.29,2004	Jan.18,2005	BCI	\$	441,027	0.21%	441,644	BCP0800709	441,088
CRV	Dec.29,2004	Jan.18,2005	BCI	\$	127,838	0.21%	128,017	BCP0800709	127,856
CRV	Dec.29,2004	Jan.18,2005	BCI	\$	31,696	0.21%	31,741	BCP0800406	31,701
CRV	Dec.29,2004	Jan.18,2005	BCI	\$	15,998	0.21%	16,020	BCP0800406	16,000
CRV	Dec.29,2004	Jan.18,2005	BCI	\$	42,706	0.21%	42,766	BCP0800406	42,712
			ABN AMRO BANK						
CRV	Dec.28,2004	Jan.19,2005	CHILE	\$	5,492	0.19%	5,500	BCP0800806	5,493
			BANCO SANTANDER						
CRV	Dec.28,2004	Jan.19,2005	SANTIAGO	\$	2,094,084	0.25%	2,097,923	BCP0801205	2,094,607
			BANCO SANTANDER						
CRV	Dec.28,2004	Jan.19,2005	SANTIAGO	\$	105,916	0.25%	106,110	BCP0800907	105,943
			CITIBANK						
CRV	Dec.28,2004	Jan.19,2005	N.A.	\$	1,157,081	0.25%	1,159,203	BCP0800614	1,157,452
			CITIBANK						
CRV	Dec.28,2004	Jan.19,2005	N.A.	\$	1,562,060	0.25%	1,564,923	BCP0800614	1,562,561
			CITIBANK						
CRV	Dec.28,2004	Jan.19,2005	N.A.	\$	366,494	0.25%	367,166	BCP0800907	366,617
			CITIBANK						
CRV	Dec.28,2004	Jan.19,2005	N.A.	\$	666,353	0.25%	667,575	BCP0800907	666,576
			CITIBANK						
CRV	Dec.28,2004	Jan.19,2005	N.A.	\$	2,205,861	0.25%	2,209,905	BCP0801205	2,206,644
CRV	Dec.30,2004	Jan.07,2005	BANKBOSTON	UF	18,670	0.18%	18,679	CERO010108	18,671
			ABN AMRO BANK						
CRV	Dec.21,2004	Jan.10,2005	CHILE	UF	2,200,000	0.18%	2,202,640	BCU0500907	2,201,320

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CRV	Dec.21,2004	Jan.10,2005	DEUTSCHE BANK	UF	2,062,672	0.20%	2,065,422	PRC1D0896	2,064,047
CRV	Dec.21,2004	Jan.10,2005	DEUTSCHE BANK	UF	488,394	0.20%	489,045	PRC1D0498	488,720
CRV	Dec.21,2004	Jan.10,2005	DEUTSCHE BANK	UF	564,481	0.20%	565,234	PRC1D0897	564,858
CRV	Dec.21,2004	Jan.10,2005	DEUTSCHE BANK	UF	351,411	0.20%	351,880	PRC1D1097	351,646
CRV	Dec.21,2004	Jan.10,2005	DEUTSCHE BANK	UF	911,797	0.20%	913,013	PRC1D1197	912,405
CRV	Dec.21,2004	Jan.10,2005	DEUTSCHE BANK	UF	53,019	0.20%	53,090	PRC1A0398	53,055
CRV	Dec.21,2004	Jan.10,2005	DEUTSCHE BANK	UF	557,179	0.20%	557,922	PRC1D0798	557,551
CRV	Dec.21,2004	Jan.10,2005	DEUTSCHE BANK	UF	368,226	0.20%	368,717	PRC1D1298	368,472
CRV	Dec.21,2004	Jan.10,2005	DEUTSCHE BANK	UF	142,819	0.20%	143,009	PRC1D1296	142,914
CRV	Dec.27,2004	Jan.11,2005	BANCO BICE	UF	1,200,000	0.21%	1,201,260	CERO011006	1,200,336
CRV	Dec.23,2004	Jan.11,2005	BANCO SANTANDER SANTIAGO	UF	24,693	0.22%	24,728	PCDG021091	24,708
CRV	Dec.22,2004	Jan.17,2005	HSBC BANK	UF	324,101	0.22%	324,719	CERO010110	324,315
CRV	Dec.22,2004	Jan.17,2005	HSBC BANK	UF	1,072,472	0.22%	1,074,517	CERO010510	1,073,180
CRV	Dec.22,2004	Jan.17,2005	HSBC BANK	UF	784,103	0.22%	785,598	CERO010710	784,620
CRV	Dec.22,2004	Jan.17,2005	HSBC BANK	UF	1,017,104	0.22%	1,019,044	CERO010410	1,017,776
CRV	Dec.22,2004	Jan.17,2005	HSBC BANK	UF	802,220	0.22%	803,749	CERO010111	802,749
CRV	Dec.22,2004	Jan.17,2005	THE CHASE MANHATTAN BANK	UF	383,055	0.19%	383,686	PRC1D1096	383,274
CRV	Dec.22,2004	Jan.17,2005	THE CHASE MANHATTAN BANK	UF	2,194,979	0.19%	2,198,593	PRC1D1296	2,196,231
CRV	Dec.22,2004	Jan.17,2005	THE CHASE MANHATTAN BANK	UF	2,230,201	0.19%	2,233,873	PRC4D1298	2,231,472
CRV	Dec.22,2004	Jan.17,2005	THE CHASE MANHATTAN BANK	UF	42,477	0.19%	42,547	CERO010205	42,501
CRV	Dec.22,2004	Jan.17,2005	THE CHASE	UF	449,288	0.19%	450,028	PRC4D0798	449,544

			MANHATTAN BANK BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	579,926	0.23%	580,816	CERO011007	580,015
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	71,849	0.23%	71,959	CERO011106	71,860
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	688,805	0.23%	689,861	CERO011105	688,911
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	66,910	0.23%	67,012	CERO010812	66,920

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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)

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

Code	Inception	Dates End	Counterparty	Original currency	Subscription value	Rate	Final Value	Instrument Identification	Book Value
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	317,672	0.23%	318,159	CERO011008	317,721
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	158,650	0.23%	158,893	CERO011107	158,674
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	82,064	0.23%	82,190	CERO011105	82,076
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	249,063	0.23%	249,445	CERO011005	249,101
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	217,671	0.23%	218,005	CERO010908	217,704
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	46,285	0.23%	46,356	CERO011207	46,293
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	18,648	0.23%	18,676	CERO010511	18,651
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	273,129	0.23%	273,548	CERO010405	273,171
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	420,171	0.23%	420,815	CERO010505	420,236
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	20,536	0.23%	20,568	CERO010206	20,539
			BANCO						
CRV	Dec.29,2004	Jan.18,2005	ESTADO	UF	70,413	0.23%	70,521	CERO010508	70,423
CRV	Dec.29,2004	Jan.18,2005		UF	28,654	0.23%	28,698	CERO010412	28,659

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			BANCO ESTADO BANCO							
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	75,081	0.23%	75,196	CERO010606	75,093	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	76,013	0.23%	76,130	CERO010206	76,025	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	15,328	0.23%	15,352	CERO010508	15,330	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	21,663	0.23%	21,696	CERO010106	21,666	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	30,391	0.23%	30,438	CERO010810	30,396	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	272,020	0.23%	272,437	CERO010705	272,062	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	146,563	0.23%	146,787	CERO010708	146,585	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	331,404	0.23%	331,913	CERO010808	331,455	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	210,482	0.23%	210,804	CERO010610	210,514	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	143,753	0.23%	143,973	CERO010708	143,775	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	23,894	0.23%	23,930	CERO010705	23,897	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	249,817	0.23%	250,200	CERO010607	249,855	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	80,055	0.23%	80,177	CERO010606	80,067	
CRV	Dec.29,2004	Jan.18,2005	ESTADO BANCO	UF	13,091	0.23%	13,111	CERO010706	13,093	
			ABN AMRO BANK							
CRV	Dec.28,2004	Jan.19,2005	CHILE BANCO	UF	4,194,508	0.19%	4,200,475	BCU0500907	4,195,322	
CRV	Dec.28,2004	Jan.19,2005	BICE BANCO	UF	59,987	0.25%	60,097	PRC1C0397	60,001	
CRV	Dec.28,2004	Jan.19,2005	BICE BANCO	UF	59,951	0.25%	60,061	PRC1D0297	59,965	
CRV	Dec.28,2004	Jan.19,2005	BICE BANCO	UF	1,386,597	0.25%	1,389,139	PRC1D1096	1,386,920	
CRV	Dec.28,2004	Jan.19,2005	BICE BANCO	UF	138,877	0.25%	139,131	PRC4D0299	138,909	
CRV	Dec.28,2004	Jan.19,2005	BICE BANCO	UF	211,474	0.25%	211,861	PRC5B0295	211,523	
CRV	Dec.28,2004	Jan.19,2005	BICE BANCO	UF	362,552	0.25%	363,216	PRC5D0396	362,636	
CRV	Dec.28,2004	Jan.19,2005	BICE BANCO	UF	312,011	0.25%	312,583	PRC5D1295	312,084	
CRV	Dec.28,2004	Jan.19,2005	BICE	UF	114,210	0.25%	114,420	PRC6B1293	114,237	
CRV	Dec.28,2004	Jan.19,2005		UF	338,572	0.25%	339,193	PRC6B0593	338,651	

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			BANCO BICE CITIBANK							
CRV	Dec.28,2004	Jan.19,2005	N.A.	UF	1,188,853	0.25%	1,191,033	CERO011005	1,188,853	
			CITIBANK							
CRV	Dec.28,2004	Jan.19,2005	N.A.	UF	853,298	0.25%	854,862	CERO011105	853,298	
CRV	Dec.30,2004	Jan.07,2005	BANKBOSTONUSD		2,181,330	0.18%	2,182,377	BCD0500605	2,181,461	
			CITIBANK							
CRV	Dec.21,2004	Jan.10,2005	N.A.	USD	2,748	0.22%	2,752	ZERO051101	2,750	
			BANCO SANTANDER							
CRV	Dec.27,2004	Jan.11,2005	SANTIAGO	USD	4,753,662	0.22%	4,758,787	BCD0500108	4,755,120	
CRV	Dec.23,2004	Jan.11,2005	BBVA	USD	40,569	0.18%	40,615	BCD0500205	40,588	
CRV	Dec.23,2004	Jan.11,2005	BBVA	USD	110	0.18%	110	ZERO051101	110	
CRV	Dec.23,2004	Jan.11,2005	BBVA	USD	877,901	0.18%	878,902	PRD04C1201	878,323	
CRV	Dec.23,2004	Jan.11,2005	BBVA	USD	581,420	0.18%	582,083	PRD04C1201	581,698	
			BANCO SANTANDER							
CRV	Dec.27,2004	Jan.12,2005	SANTIAGO	USD	12,200,000	0.24%	12,215,616	BCD0500108	12,203,903	
			BANCO							
CRV	Dec.28,2004	Jan.19,2005	BICE	USD	580,562	0.25%	581,626	BCD0501005	580,696	
			BANCO							
CRV	Dec.28,2004	Jan.19,2005	BICE	USD	288,800	0.25%	289,329	PRD04C1001	288,982	
			BANCO							
CRV	Dec.28,2004	Jan.19,2005	BICE	USD	2,889,375	0.25%	2,894,673	PRD04D1001	2,890,047	
			BANCO							
CRV	Dec.28,2004	Jan.19,2005	BICE	USD	57,033	0.25%	57,138	BCD0500605	57,046	
					96,100,000		96,243,589		96,143,426	

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

10. Property, plant and equipment:

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

	<u>Description</u>	2004		2003	
		Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$
Land		—	26,340,152	—	28,321,545

Building and improvements	79,138,837	189,687,779	74,951,096	190,343,681
Machinery and equipment	1,981,424,272	3,112,316,611	1,989,768,853	3,543,119,301
Central office telephone equipment	937,626,211	1,213,875,862	1,025,691,140	1,674,904,496
External plant	730,872,401	1,441,754,524	673,743,298	1,430,481,968
Subscribers' equipment	278,414,835	420,503,521	258,350,986	401,366,438
General equipment	34,510,825	36,182,704	31,983,429	36,366,399
Other Property, Plant and Equipment	141,293,801	257,569,111	205,836,368	385,595,071
Office furniture and equipment	76,337,210	104,180,152	97,036,514	131,790,453
Projects, work in progress and their materials	—	63,822,978	—	104,297,219
Leased assets (1)	3,918,578	5,194,969	4,415,995	10,966,086
Property, plant and equipment temporarily out of service	10,418,353	15,484,106	17,134,983	31,129,846
Software	49,820,369	67,893,686	86,414,548	106,316,739
Others	799,291	993,220	834,328	1,094,728
Technical revaluation—Circular 550	10,615,712	9,436,071	10,663,680	9,455,025
Total	2,212,472,622	3,595,349,724	2,281,219,997	4,156,834,623

(1)As of December 31, 2004 this account is mainly composed of: ThCh\$ 3,285,659 gross value of electronic and computer equipment and accumulated depreciation of ThCh\$ 3,285,659 under a 12-year contract signed in 1994, in addition to ThCh\$ 1,006,890 gross value of long-distance transmission equipment and accumulated depreciation of ThCh\$ 251,723 under an 18-year contract signed in 1996.

Up to December 31, 2002, work in progress includes the financial cost of loans related to its financing in accordance with Technical Bulletin No. 31 of the Chilean Association of Accountants. Therefore gross property, plant and equipment includes capitalized interest up to that date and its balance amounts to ThCh\$ 186,693,775 in both years. Accumulated depreciation for this interest amounts to ThCh\$ 107,788,674 and ThCh\$ 92,814,534 for 2004 and 2003, respectively.

Operating costs include a depreciation charge for the years ended December 31, 2004 and 2003 of ThCh\$ 219,685,844 and ThCh\$ 270,279,610, respectively, and administration and selling expenses includes a depreciation charge of ThCh\$ 8,231,204 and ThCh\$ 1,880,788 for 2004 and 2003, respectively. Property, plant and equipment temporarily out of service, is made up mainly of telephone equipment under repair and depreciation amounting to ThCh\$ 6,335,419 and ThCh\$ 3,760,250 for 2004 and 2003 respectively, which are classified under Other Non-operating Expenses.

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10. Property, plant and equipment, continued:

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

<u>Description</u>	Net Balance ThCh\$	Accumulated Depreciation ThCh\$	Gross property, plant and equipment	Gross property, plant and equipment
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			2004 ThCh\$	2003 ThCh\$
Land	(488,952)	—	(488,952)	(489,305)
Building and improvements	(914,554)	(3,777,337)	(4,691,891)	(4,691,891)
Machinery and equipment	223,865	14,393,049	14,616,914	14,636,221
Total	(1,179,641)	10,615,712	9,436,071	9,455,025

Depreciation of the technical reappraisal surplus for the years ended December 31 of ThCh\$ (53,892) and ThCh\$ (54,820) for 2004 and 2003, respectively.

Gross property, plant and equipment includes assets that have been totally depreciated in the amount of ThCh\$ 853,488,231 as of December 31, 2004 and ThCh\$ 720,638,692 as of December 31, 2003, which include ThCh\$ 12,082,832 and ThCh\$ 12,276,091, respectively, from the reappraisals mentioned in Circular N°550.

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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)

11. Investments in Related Companies:

The detail of investments in related companies is as follows:

	Percentage participation		Equity of the companies		Net income (loss) of the companies		Equity in income (loss) of the investment		Investment value	
	2004 %	2003 %	2004 ThCh\$	2003 ThCh\$	2004 ThCh\$	2003 ThCh\$	2004 ThCh\$	2003 ThCh\$	2004 ThCh\$	2003 ThCh\$
39	2.61	2.61	154,184,940	187,039,397	3,520,720	2,249,873	91,891	58,614	4,024,228	4,391,490
98	28.84	28.84	12,472,386	9,867,164	2,178,970	425,330	628,415	222,901	3,597,035	2,940,544
48	—	9.00	—	32,318,307	—	10,003,682	(77,533)	840,239	—	2,844,902

15	20.00	20.00	—	467,600	(500,699)	(136,410)	(100,140)	(24,481)	—	96,082
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82	—	35.00	—	—	—	(1,141,409)	—	(399,493)	—	—
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										7,621,263	10,273,018
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(1) On July 29, 2003, Inversiones Santa Isabel Ltda. informed its decision to exercise the purchase option for the remaining 35% of Sonda S.A. agreed upon with Telefónica Empresas Chile S.A. On August 26, 2003, the Company sold 35% of the shares of Sonda S.A. for ThCh\$ 33,388,363, for UF 1,972,206. In this transaction Telefónica recognized a gain of ThCh\$ 6,999,276 before taxes (ThCh\$ 5,683,065 net of the effect of taxes). As Telefónica Empresas, does not participate in Sonda S.A. at December 31, 2003, it has only recognized 35% of net income of Sonda S.A. up to June 30, 2003 as proportional equity value.

(2) On April 26, 2004, Compañía de Telecomunicaciones de Chile S.A. sold its 9% holding in Impresora y Comercial Publiguías S.A., to Telefónica Publicidad e Información S.A. The selling price was US\$ 14,760,000, equivalent to Ch\$ 9,013 million, with a gain after taxes of Ch\$ 4,940 million. (see note 22a)

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

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

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

12. Goodwill and negative goodwill:

Goodwill:

The detail of goodwill is as follows:

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Taxpayer No.	Company	Year	2004		2003	
			Amount amortized in the year ended December 31 ThCh\$	Balance of Goodwill ThCh\$	Amount amortized in the year ended December 31 ThCh\$	Balance of Goodwill ThCh\$
Foreign	TBS Celular Holding	2001	180,564	2,579,678	180,069	2,760,242
96.887.420-9	Globus 120 S.A.	1998	1,114,008	15,332,487	1,110,965	16,446,495
78.703.410-1	Tecnonáutica S.A.	1999	147,575	881,862	147,341	1,029,437
96.786.140-5	Telefónica Móvil S.A. (c)	1997	138,829,224	—	10,109,332	141,170,590
96.834.320-3	Telefónica Internet Empresas S.A.	1999	91,068	544,670	90,820	635,738
96.811.570-7	(b) Telepeajes S.A.	2001	39,896	—	39,897	39,896
83.628.100-4	Sonda S.A. (a)	1999	—	—	11,982,453	—
	Total		140,402,335	19,338,697	23,660,877	162,082,398

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

(a)As a result of the sale in July 2003 of the 35% holding in this company, the goodwill balance as of that date was written off.

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

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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

13. Intangibles:

The detail of Intangibles is as follows:

	2004 ThCh\$	2003 ThCh\$
Underwater cable rights (gross)	34,856,240	29,173,800
Accumulated amortization previous period	(3,370,070)	(2,425,351)

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Amortization for the period	(1,663,320)	(944,719)
Licenses (Software) (gross)	3,593,878	2,410,370
Accumulated amortization previous period	(947,701)	(268,665)
Amortization for the period	(912,757)	(679,036)
Licenses for use of broad-band width	—	9,832,585
Accumulated amortization previous period	—	(27,315)
Amortization for the period	—	(327,751)
Total Net Intangibles	31,556,270	36,743,918

14. Others (from Other Assets):

The detail of Others is as follows:

	2004	2003
	ThCh\$	ThCh\$
Deferred disbursement for obtaining external financing (see note 8b) (a)	1,290,187	1,268,583
Deferred union contract bonus (see note 8a)	1,184,954	2,353,657
Bond issue expenses (see note 25)	471,783	2,169,109
Bond discount (see note 25)	227,917	3,509,805
Deferred forward contract premiums	—	109,583
Prepaid pole rental	—	196,016
Securities deposits	131,895	135,840
Deferred actuarial indemnity difference (b)	4,524,872	—
Deferred staff severance indemnities (c)	5,460,901	—
Others	163,539	733,163
Total	13,456,048	10,475,756

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

(b) With the new contractual conditions in force in the Company, during 2004 the variable future permanence of employees was modified on the basis of the calculation of staff severance indemnities, a variable determined on the basis of actuarial estimations, as established in Technical Bulletin No. 8 of the Chilean Association of Accountants. The difference at the beginning of the year as a result of changes in the actuarial estimates constitutes actuarial gains or losses, which are deferred and amortized during the years of average future permanence remaining for the employees that will receive the benefit.

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

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

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

p. No.	Bank or financial institution	US\$		U.F.		Ch\$		TOTAL	
		2004 ThCh\$	2003 ThCh\$	2004 ThCh\$	2003 ThCh\$	2004 ThCh\$	2003 ThCh\$	2004 ThCh\$	2003 ThCh\$
0-7	BANCO ESTADO	—	—	—	—	9,418,430	9,614,076	9,418,430	9,614,076
0-5	BANCO SANTANDER SANTIAGO	—	—	—	—	10,060,544	10,197,419	10,060,544	10,197,419
	Total	—	—	—	—	19,478,974	19,811,495	19,478,974	19,811,495
	Outstanding principal	—	—	—	—	19,099,879	19,577,376	19,099,879	19,577,376
	Average annual interest rate	—	—	—	—	2.98%	3.29%	2.98%	3.29%
	Current maturities of long-term debt								
0-5	BANCO SANTANDER SANTIAGO	—	—	206,743	61,874,780	—	—	206,743	61,874,780
	CALYON NEW YORK BRANCH Y								
	OTROS	90,423	—	—	—	—	—	90,423	—
	ABN AMRO BANK	1,136,631	963,675	—	—	—	—	1,136,631	963,675
	BANCO BILBAO VIZCAYA								
0-7	ARGENTAR	14,082,990	15,937,648	—	—	—	—	14,082,990	15,937,648
	BANCO CITIBANK	—	6,655,808	—	—	—	—	—	6,655,808
	Total	15,310,044	23,557,131	206,743	61,874,780	—	—	15,516,787	85,067,168
		13,935,000	21,753,249	—	61,654,365	—	—	13,935,000	83,407,674

Outstanding principal Average annual interest rate	2.41%	1.68%	1.55%	1.65%	—	—	2.41%
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Percentage of obligations in foreign currency: 43.75% for 2004 and 22.38% for 2003

Percentage of obligations in local currency: 56.25% for 2004 and 77.62% for 2003

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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)

16. Long-term debt with banks and financial institutions:

	<u>Taxp. No.</u>	Bank or Financial Institution	Currency or Indexation	Years to maturity for long-term portion			Long-Term portion as of Dec. 31, 2004 ThCh\$	Average annual interest rate %	Long-term portion as of Dec. 31, 2003 ThCh\$
				1 to 2 ThCh\$	2 to 3 ThCh\$	3 to 5 ThCh\$			
		LOANS IN DOLLARS							
Foreign		CALYON NEW YORK BRANCH Y OTROS (1)	US\$	—	—	111,480,000	Libor + 0,40%	—	
Foreign		ABN AMRO BANK (1)	US\$	58,527,000	75,249,000	33,444,000	167,220,000	Libor + 1,063%	
97.008.000-7		BANCO CITIBANK (2)	US\$	—	—	—	—	9,805,686	
Foreign		BANCO BILBAO	US\$	—	—	—	—	121,729,000	

	VIZCAYA						
	ARGENTARIA						
	SUBTOTAL	58,527,000	75,249,000	144,924,000	278,700,000	2.94%	314,128,186
	LOANS						
	IN						
	UNIDADES						
	DE						
	FOMENTO						
97.015.000-5	BANCO						
	SANTANDER						
	SANTIAGO					Tab 360	
	(3) UF	—	—	61,562,113	61,562,113	+ 0,95%	—
	TOTAL	58,527,000	75,249,000	206,486,113	340,262,113	1.55%	314,128,186

Percentage of obligations in foreign currency: 81.91% in 2004 and 100,00 % in 2003

Percentage of obligations in local currency: 18.09% in 2004 and in 2003

-
- (1) In December 2004, the Company renegotiated this loan, extending its due date from January and August 2005 to December 2009, in addition to changing the agent bank.
 - (2) In April 2003, the Company renegotiated this loan, extending its maturity date from December 2003 to April 2008, in addition to changing the agent bank which was Citibank N.A.
 - (3) In March 2004, the Company renegotiated this loan, extending its maturity date from April 2004 to April 2008.

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

17. Obligations with the Public, continued:

a) Commercial paper:

On January 27, 2003, Telefónica CTC Chile registered a commercial paper line in the securities registry, the inspection number of which is 5. The maximum amount of the line is ThCh\$ 35,000,000, and placements charged to this line may not exceed that amount. The term of this line will be 10 years from the date of registration with the Superintendency of Securities and Insurance. The interest rate will be defined on each issuance of these commercial papers.

On May 12, 2004, there was a second placement in two series (C and D) for ThCh \$ 35,000,000 of the same type of financial instrument. The placement agent was Santander Investment S.A.

The details of these transactions are those described below:

Series

Accounting value

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Registration or identification number of the instrument		Current nominal amount placed M\$	Bond readjustment unit M\$	Interest rate %	Final Maturity	2004 M\$	2003 M\$	Placement in Chile or abroad
Short-term commercial paper								
005	C	17,500,000	Ch\$	0.2257	Apr 5, 2005	17,393,440	—	Chile
005	D	17,500,000	Ch\$	0.2286	May 5, 2005	17,353,277	—	Chile
Total						34,746,717	—	

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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)

17. Obligations with the Public, continued:

b) Bonds

The detail of obligations with the public for bond issues, classified as short and long-term is as follows:

Registration number or identification of the instrument	Series	Nominal Amount of issue	Readjustment unit for bond	Nominal annual interest rate %	Final maturity	Frequency Interest payments	2004 ThCh\$	2003 ThCh\$	Location of bond placement
Short-term portion of long-term bonds									
03.27.06.91	F	71,429	U.F.	6.000	Apr. 2016	Semi-annual	1,415,297	1,430,445	Chile
03.23.04.98	K (a)	3,992,424	U.F.	6.750	Feb. 2026	Semi-annual	70,877,120	1,877,430	Chile
Issued in New York	Yankee Bonds	—	US\$	7.625	Jul. 2006	Semi-annual	704,602	5,055,505	Abroad
Issued in New York	Yankee Bonds	—	US\$	8.375	Jan. 2006	Semi-annual	3,401,602	3,985,263	Abroad
Issued in Luxembourg	Eurobonds	—	EURO	5.375	Aug. 2006	Semi-annual	—	103,174,216	Abroad
Total							76,398,621	115,522,859	
Long-term bonds									
03.27.06.91	F	750,000	U.F.	6.000		Semi-annual	12,987,796	14,246,036	Chile

					Apr. 2016				
03.23.04.98	K	—	U.F.	6.750	2006	Semi-annual	—	69,240,613	Chile
	Yankee Bonds				Jul. 2006	Semi-annual			
issued in New York	(b)	49,603,000	US\$	7.625	2006	Maturity	27,648,712	114,233,538	Abroad
	Yankee Bonds				Jan. 2006	Semi-annual			
issued in New York	(c)	156,440,000	US\$	8.375	2006	Maturity	87,199,656	121,729,000	Abroad
						Total	127,836,164	319,449,187	

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 COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

17. Obligations with the Public, continued:

b) Bonds, continued:

- a) During December 2004 and as stated in the sixth clause, letter K of the Bond Issuance Agreement, Telefónica CTC Chile decided to exercise the advanced redemption option of all the Bonds of this series. The amount of the redemption of this issuance is U.F. 3,992,424 plus interest accrued until February 15, 2005, the effective date of the redemption. This has meant recognizing in income the balances pending amortization for "Bond issue expenses" and "Bond discount", reducing the term to the advanced redemption date. As of December 31, 2004 the extraordinary effects from these amortizations on total income amount to ThCh \$ 3,236,587 (included in Financial Expenses).
- b) Starting May 2003 and until December of that same year, Telefónica CTC Chile, partially repurchased US\$12.3 million of its placement denominated in the same currency. This repurchase was carried out at an average of 111.05% of par value, which meant a payment of US\$ 13.68 million, plus accrued interest as of that date on the nominal amount of the repurchase. During November and December 2004, Telefónica CTC Chile affected a repurchase offer for the dollar issuances. As a product of this offer, in those two months and for that placement, the Company repurchased US\$ 138,082,000. This operation was carried out paying an average price of 107.0 % of the par value. The partial repurchase of this series resulted in the Company recognizing extraordinary proportional amortization of the balances corresponding to "Bond issue expenses" and "Bond discount", as well as on payment of the repurchase. The net of these three effects of ThCh\$ 6,631,649 was charged to the financial expenses for the period.
- c) During November and December 2004, Telefónica CTC Chile effected an offer to repurchase US\$ issuances. As a result of this offer the Company in these two months, and for this placement, repurchased US\$ 43,560,000. This operation was carried out at a price of 105.356% of par value. The partial repurchase of this series meant recognizing extraordinary amortizations proportional to the balances corresponding to "Bond issue expenses", "Bond discount", as well as on payment of the repurchase. The net of these

three effects of ThCh\$ 1,461,539 was charged to financial expenses for the period.

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

18. Accruals:

The detail of accruals shown in liabilities is as follows:

	2004 ThCh\$	2003 ThCh\$
Current		
Staff severance indemnities	208,310	194,432
Vacation	3,838,816	4,817,923
Other employee benefits (a)	4,780,578	8,778,844
Employee benefit advances	(1,364,633)	(1,919,331)
	7,463,071	11,871,868
Long-term		
Staff severance indemnities	29,254,826	19,675,441
Total	36,717,897	31,547,309

(a) Includes provisions for the bonus guaranteed under the current union contract, and miscellaneous. During 2004 and 2003, there were a bad debt write-off of ThCh\$ 22,125,586 and ThCh\$ 20,639,447, respectively, which were charged against the respective allowance for doubtful accounts.

19. Staff severance indemnities:

The detail of the charge to income for staff severance indemnities is as follows:

	2004 ThCh\$	2003 ThCh\$
Operating costs and administration and selling expenses	4,207,200	4,174,126
Other non-operating expenses	3,237,378	—
Total	7,444,578	4,174,126
Payments in the period	2,148,685	(2,261,172)

2004 includes payment of the balances of staff indemnities of ThCh\$ (7,837,088) net of the increase in the provision for change in the future permanence and charge in the provision (see Note 14b and 14c) of employees for ThCh \$ 9,985,773.

20. Minority interest:

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Minority interest recognizes the portion of equity and revenues of subsidiaries owned by third parties. The breakdown for the years ended December 31, 2004 and 2003, respectively, is as follows:

Subsidiaries	Percentage Minority Interest		Participation in equity		Participation in net income (loss)	
	2004	2003	2004	2003	2004	2003
	%	%	M\$	M\$	M\$	M\$
Administradora de Sistemas de Telepeajes de Chile S.A.	20.00	20.00	244,363	95,759	149,384	(10,018)
Telefónica Mundo S.A.	0.84	0.84	1,153,555	1,121,755	81,191	163,348
Fundación Telefónica	50.00	50.00	233,266	180,809	52,457	(9,105)
CTC Equipos y Servicios S.A.	0.0001	—	39	32	6	8
Total			1,631,223	1,398,355	283,038	144,233

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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)

21. Shareholders' Equity:

During the years ended December 31, 2004 and 2003, respectively, changes in shareholders' equity accounts are as follows:

	Paid-in capital ThCh\$	Contributed surplus ThCh\$	Other reserves ThCh\$	Retained earnings ThCh\$	Net income for the year ThCh\$	Interim dividend ThCh\$	Total sharehold equity ThCh\$
2004							
Balances as of December 31, 2003	859,490,281	—	(791,199)	421,404,583	10,133,882	—	1,290,237,567
Transfer of 2003 net income to retained earnings	—	—	—	10,133,882	(10,133,882)	—	—
Adjustment of foreign currency conversion rate	—	—	(425,240)	—	—	—	(425,240)
Interim dividend 2003	—	—	—	(3,062,903)	—	—	(3,062,903)
Interim dividend 2004	—	—	—	(385,685,783)	—	—	(385,685,783)
2004 interim dividend	—	—	—	—	—	(252,992,348)	(252,992,348)
Level-level restatement	21,487,256	—	(21,212)	6,016,572	—	(2,311,551)	25,171,071

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Income for the year	—	—	—	—	311,628,674	—	311,628,674
Adjustments as of December 31, 2004	880,977,537	—	(1,237,651)	48,806,351	311,628,674	(255,303,899)	984,871,000
2003							
Income for the year	736,468,120	114,512,356	1,924,736	451,465,216	(17,680,376)	—	1,286,690,000
Transfer of 2002 loss to retained earnings	—	—	—	(17,680,376)	17,680,376	—	—
Amortization of accumulated deficit	—	—	—	—	—	—	—
Development period	114,512,356	(114,512,356)	—	—	—	—	—
Final dividend 2002	—	—	—	(16,750,249)	—	—	(16,750,000)
Adjustment of foreign currency	—	—	(2,721,166)	—	—	—	(2,721,000)
Price-level restatement	8,509,805	—	5,231	4,369,992	—	—	12,885,000
Income for the year	—	—	—	—	10,133,882	—	10,133,000
Adjustments as of December 31, 2003	859,490,281	—	(791,199)	421,404,583	10,133,882	—	1,290,237,000
Adjusted balances as of December 31, 2004	880,977,537	—	(810,979)	431,939,697	10,387,229	—	1,322,493,000

As established in Article No. 10 of Law 18,046 on Corporations, price-level restatement of shareholders' equity has been incorporated into paid-in-capital.

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

21. Shareholders' Equity, continued:

(a) Paid-in capital:

As of December 31, 2004, the Company's paid-in capital is as follows:

Number of shares:

Series	No. of subscribed shares	No. of paid shares	No. of shares with voting rights
A	873,995,447	873,995,447	873,995,447
B	83,161,638	83,161,638	83,161,638

Paid-in capital:

Series	Subscribed Capital ThCh\$	Paid-in Capital ThCh\$
A	804,434,684	804,434,684
B	76,542,853	76,542,853

On July 11, 2003, the Extraordinary Shareholders' Meeting agreed to increase share capital, by capitalizing the share premium for ThCh\$114,512,356.

(b) Shareholder stratification:

As indicated in Circular No. 792 of the Chilean Superintendency of Securities and Insurance, the stratification of shareholders by percentage shareholding in the Company as of December 31, 2004 is as follows:

Type of shareholder	Percentage of Total holdings %	Number of shareholders
10% holding or more	56.53	2
Less than 10% holding exceeding UF 200	42.69	1,870
Investment under UF 200	0.78	11,540
Total	100.00	13,412
Company controller	44.90	1

(c) Dividends:

As established in Law No. 18,046, unless otherwise agreed upon by the unanimous vote of all shareholders at a Shareholders' Meeting, when there is net income, at least 30% must be distributed as dividends.

On April 4, 2003, the Annual General Shareholders' Meeting was informed of the dividend distribution policy proposed by the Board for 2003, this being the minimum legal distribution, as indicated in the preceding paragraph.

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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)

21. Shareholders' Equity, continued:

i) Dividend policy:

On September 21, 2004, the Company's Board of Directors, in view of the cash situation, levels of projected investment and solid financial indicators for 2004 and thereafter, modified the distribution of dividends reported to the Annual General Shareholders' Meeting of April 2004, and declared that it is the intention of the Board to distribute

100% of net income earned during the respective year, through an interim dividend in November of each year and a final dividend in May of the following year, and that will be submitted to the corresponding Annual General Shareholders' Meeting.

ii) Dividend distributed in the year:

On July 11, 2003, the Extraordinary Shareholders' Meeting agreed to pay a dividend of ThCh\$ 16,750,249 (historical), with a charge to retained earnings as of December 31, 2002, which was paid on July 31, 2003.

On April 15, 2004, the Annual General Shareholders' Meeting approved a final dividend of (No. 164) Ch\$ 3.20 per share equivalent to ThCh \$ 3,062,903, with a charge to net income for 2003. The dividend was paid on May 7, 2004.

Additionally, during July 2004 the following dividend distribution was agreed:

– On June 14, 2004, the Board of Directors of the Company agreed to give shareholders' a temporary dividend on of 2004 net income.

– In turn, the Extraordinary Shareholders' Meeting of July 15, 2004, approved the sale of subsidiary Telefónica Móvil de Chile S.A., and distribution of a final dividend against retained earnings as of December 31, 2003.

Both dividends, in the amount of US\$ 800 million, were subject to materialization of the sale of all the shares of Telefónica Móvil de Chile S.A., event that would be consummated if, Telefónica Móviles S.A, accepted the proposal of the Extraordinary Shareholders' Meeting, which implied, it assuming the taxes arising at of the sale operation, that amounts to US\$ 51 million.

On July 23, 2004, the agreement for the sale of the shares of the former subsidiary Telefónica Móvil de Chile S.A. was signed. Therefore, on August 31, 2004, the Company paid the dividends resulting from the sale of its subsidiary. The dividends are analyzed in the following manner:

- Dividend No. 165, with a charge to retained earnings of ThCh\$ 385,685,783.
- Dividend No. 166, in the nature of an interim dividend of ThCh\$ 128,561,925, with a charge to 2004 net income.

In the context of the modification of the dividend policy approved in September 2004, the Board agreed to distribute interim dividend (No. 167) with a charge to 2004 net income of \$130 per share equivalent to ThCh\$ 124,430,423 which was paid on November 4, 2004.

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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)

21. Shareholders' Equity, continued:

(d) Other reserves:

Other Reserves include the net effect of the adjustment for conversion differences as established in Technical Bulletin No. 64 of the Chilean Association of Accountants, the detail of which is as follows:

	Company	Amount			Balance as of December 31, 2004 ThCh\$
		December 31, 2003 ThCh\$	Price-level restatement ThCh\$	Net Movement ThCh\$	
96.720.710-1	Invercom S.A.	41,417	—	(41,417)	—
84.119.600-7	Instacom S.A.	15,883	—	(15,883)	—
Foreign	TBS Participación S.A. (1)	(848,499)	(21,212)	(367,940)	(1,237,651)
	Total	(791,199)	(21,212)	(425,240)	(1,237,651)

(1) This increase (decrease) corresponds to the net effect of the adjustment for conversion difference as established in Technical Bulletin N°64 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

(Translation of financial statements originally issued in Spanish)

22. Income and Expenses:

(a) Other non-operating income:

The breakdown of other non-operating income is as follows:

Other Income	2004 ThCh\$	2003 ThCh\$
Penalties on suppliers and indemnities	184,672	2,705,792
Proceeds from sale of used equipment	2,655,537	—
Sales of promotional material	102,087	—
Real estate rental	193,335	—
Gain on sale Publiguías S.A. (1)	6,502,477	—
Gain on sale Telefónica Móvil de Chile S.A. (2)	464,847,415	—
Provision for lower market value of New Skies Satellites	222,413	—
Gain on sale Sonda S.A (4)	—	3,647,237
Provision for adjustment to market value of Terra Network (3)	—	3,448,138
Final compensatory payment for termination of Publiguías agreement	—	1,606,869
Others	781,074	1,234,179
Total	475,489,010	12,642,215

(1) See note 11 "Investment in related Companies" number 2.

(2) See note 2 d) "Significant Accounting Principles" number 2.

(3) The Board meeting held on July 10, 2003, approved the sale of the 2,984,986 shares that the

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company held in Terra Networks S.A., through the Public Offering launched by Telefónica S.A. The price was 5.25 Euros per share which at the exchange rate at the date on which the sale materialized, represented a total sales value of ThCh\$ 12,744,558.

(4)Corresponds to the sale of 35% of Sonda S.A.

(b) Other non-operating expenses:

The detail of other non-operating expenses is as follows:

	2004 ThCh\$	2003 ThCh\$
Other Expenses:		
Lawsuit indemnities and other provisions	682,958	891,241
Depreciation and retirement of out of service property, plant and equipment (1)	8,003,719	8,367,081
Restructuring costs	6,225,151	—
Provision for assets in disuse	9,565,831	2,097,930
Donations	173,580	538,818
Others	19,725	887,742
Total	24,670,964	12,782,812

(1)As of December 2004 other non-operating expenses are mainly composed of the depreciation of the La Serena Cable TV network and in 2003 includes depreciation of the Concepción Cable TV network (assets temporarily out of service) not transferred in the sale of the subsidiary Multimedia to Cordillera Comunicaciones.

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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)

23. Price-level restatement:

The detail of price-level restatement is as follows:

<u>Assets (Charges) Credits</u>	Indexation	2004 ThCh\$	2003 ThCh\$
Inventories	C.P.I.	210,351	90,887
Prepaid expenses	C.P.I.	4,268	5,225
Prepaid expenses	U.F.	(72,674)	28,668
Other current assets	C.P.I.	(152,257)	680,167
Other current assets	U.F.	(4,041,591)	(6,414,936)
Short and long-term deferred taxes	C.P.I.	3,329,819	1,509,245
Property, plant and equipment	C.P.I.	39,795,009	19,295,052

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Investments in related companies	C.P.I.	140,696	451,312
Goodwill	C.P.I.	1,611,863	1,861,916
Long-term debtors	C.P.I.	(176,796)	(1,315,976)
Long-term debtors	U.F.	228,282	—
Other long-term assets	C.P.I.	956,719	236,690
Other long-term assets	U.F.	35,353	2,334,641
Expense accounts	C.P.I.	8,479,390	159,744
Total (Charges) Credits		50,348,432	18,922,635

<u>Liabilities — Shareholders' Equity (Charges) Credits</u>	Indexation	2004 ThCh\$	2003 ThCh\$
Short-term obligations	C.P.I.	14,311	41,088
Short-term obligations	U.F.	(5,735,154)	(1,759,557)
Long-term obligations	C.P.I.	(12,531)	(13,438)
Long-term obligations	U.F.	(4,062,790)	(3,291,775)
Shareholders' equity	C.P.I.	(25,171,065)	(13,207,154)
Revenue accounts	C.P.I.	(19,547,817)	(306,065)
Total Credits (Charges)		(54,515,046)	(18,536,901)
(Loss) Gain from price-level restatement, net		(4,166,614)	385,734

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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)

24. Foreign exchange gains/losses:

The detail of foreign exchange gain loss is as follows:

<u>Assets (Charges) Credits</u>	Currency	2004 ThCh\$	2003 ThCh\$
Current assets	US\$	19,721,180	(6,533,132)
Current assets	EURO	3,823,369	(6,491,535)
Long-term receivables	US\$	5,206,898	339,134
Long-term receivables	EURO	—	(7,081,197)
Other long-term assets	US\$	58,791	(387,652)
Other long-term assets	EURO	71	108,223
Total Credits		28,810,309	(20,046,159)

<u>Liabilities (Charges) Credits</u>	Currency	2004	2003
--------------------------------------	----------	------	------

		ThCh\$	ThCh\$
Short-term obligations	US\$	(27,262,699)	(101,162,255)
Short-term obligations	EURO	(3,668,775)	1,896,294
Long-term obligations	US\$	15,269,791	108,164,315
Long-term obligations	EURO	—	11,412,594
Total (Charges)		(15,661,683)	20,310,948
Foreign exchange gain, net		13,148,626	264,789

25. Issuance and placement of shares and debt expense:

The detail of this item is as follows:

	Short-term		Long-term	
	2004	2003	2004	2003
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Bond issuance expenses	574,764	511,902	471,783	2,169,109
Discount on debt	418,261	1,243,184	227,917	3,509,805
Commercial paper issuance expense	177,167	—	—	—
Total	1,170,192	1,755,086	699,700	5,678,914

These items are classified under Other Current Assets and Other Long-term Assets, as applicable and are amortized over the term of the respective obligations, as described in Note 17 "Obligations with the Public".

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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)

26. Cash flows:

Financing and investment activities that do not generate cash flows during the period, but which commit future cash flows are as follows:

- a) Financing activities:** The breakdown of financing activities that commit future cash flows are:

Obligations with banks and financial institutions	— see Notes No. 15 and 16
Obligations with the public	— see Notes No. 17

- b) Investment activities:** Investment activities that commit future cash flows are as follows:

	Maturity	ThCh\$
Zero	2005	18,492,489
BCD	2005	7,188,926

- c) Cash and cash equivalents:**

	2004 ThCh\$	2003 ThCh\$
Cash	7,859,890	19,826,344
Time deposits	53,138,702	5,512,430
Mutual funds	—	316,137
Other current assets	96,143,426	8,509,014
Total	157,142,018	34,163,925

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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)

27. Derivative Contracts:

The breakdown of derivative contracts is as follows:

Type of Derivative Contract	Type of Contract	Contract Value	Maturity or Expir. I	Purchase or Specific Item rate	Sale Position	Hedged Item or Transaction	Value of Hedged Item ThCh\$	Affected Accounts		Effect on Income
								Asset / Liability	Amount ThCh\$	
R	CI	38,100,000	2005	Trim.Exchange rate	C	US\$ 38,100,000	21,236,940	asset liabilities	21,236,940 (23,489,598)	— (1,932,000)
R	CI	62,000,000	2005	Trim.Exchange rate	C	US\$ 62,000,000	34,558,800	asset liabilities	34,558,800 (38,727,435)	— (4,105,000)
R	CI	41,800,000	2005	Trim.Exchange rate	C	US\$ 41,800,000	23,299,320	asset liabilities	23,299,320 (26,082,350)	— (3,628,000)
R	CI	40,000,000	2005	Trim.Exchange rate	C	US\$ 40,000,000	22,296,000	asset liabilities	22,296,000 (23,626,024)	— (2,029,000)
R	CI	19,000,000	2006	Trim.Exchange rate	C	US\$ 19,000,000	10,590,600	asset liabilities	10,590,600 (11,269,908)	— (793,000)

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R	CCPE	73,500,000	I Trim.Exchange 2005	rate	C	Oblig. in US\$	73,500,000	40,968,900	asset liabilities	40,968,900 (45,088,580)	— (3,639,
R	CCPE	79,300,000	II Trim.Exchange 2005	rate	C	Oblig. in US\$	79,300,000	44,201,820	asset liabilities	44,201,820 (49,853,255)	— (6,003,
R	CCPE	96,700,000	III Trim.Exchange 2005	rate	C	Oblig. in US\$	96,700,000	53,900,580	asset liabilities	53,900,580 (59,787,190)	— (8,245,
R	CCPE	49,700,000	IV Trim.Exchange 2005	rate	C	Oblig. in US\$	49,700,000	27,702,780	asset	27,702,780	— (2,554,
R	CCPE	200,000,000	II Trim.Exchange 2009	rate	C	Oblig. in US\$	200,000,000	111,480,000	asset liabilities	111,480,000 (113,650,749)	— (2,170, —
R	CI	29,800,000	I Trim.Exchange 2005	rate	C	Oblig. in US\$	29,800,000	16,610,520	asset liabilities	16,610,520 (17,324,354)	— (780,
R	CI	58,000,000	II Trim.Exchange 2005	rate	C	Oblig. in US\$	58,000,000	32,329,200	asset liabilities	32,329,200 (35,591,714)	— (3,049,
R	CI	21,000,000	III Trim.Exchange 2005	rate	C	Oblig. in US\$	21,000,000	11,705,400	asset liabilities	11,705,400 (13,268,054)	— (1,650,
R	CCPE	95,000,000	I Trim.Exchange 2005	rate	C	Oblig. in US\$	95,000,000	52,953,000	asset liabilities	52,953,000 (55,082,433)	— (2,109,
R	CCPE	43,000,000	II Trim.Exchange 2005	rate	C	Oblig. in US\$	43,000,000	23,968,200	asset liabilities	23,968,200 (26,072,063)	— (2,031,
R	CCPE	10,000,000	III Trim.Exchange 2005	rate	C	Oblig. in US\$	10,000,000	5,574,000	asset liabilities	5,574,000 (6,310,761)	— (791,
R	CI	53,400,000	I Trim.Exchange 2005	rate	V	Oblig. in US\$	53,400,000	31,877,570	asset liabilities	31,877,570 (29,775,553)	— 2,141,
R	CI	48,000,000	II Trim.Exchange 2005	rate	V	Oblig. in US\$	48,000,000	27,700,860	asset	27,700,860	— 967,

liabilities (26,773,863)

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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)
27. Derivative Contracts, continued:

The breakdown of derivative contracts is as follows:

Type of Derivative	Type of Contract	Contract Value	Maturity or Expir.	Purchase or Specific Item	Position	Hedged Item or Transaction Name	Amount	Value of Hedged Item ThCh\$	Affected Accounts		Effect on Income	
									Asset / Liability Name	Amount ThCh\$	Realized	Unrealized ThCh\$
FR	CI	12,000,000	2005 III Trim.Exchange	rate	V	Oblig. in US\$	12,000,000	6,793,920	asset liabilities	6,793,920 (6,691,352)	—	101,608
FR	CI	9,600,000	2005 IV Trim.Exchange	rate	V	Oblig. in US\$	9,600,000	5,396,160	asset liabilities	5,396,160 (5,352,309)	—	33,771
FR	CI	368,918	2005 I Trim.Exchange	rate	V	Oblig. in US\$	368,918	6,388,571	asset	6,388,571	—	215,080