

TELECOMMUNICATIONS CO OF CHILE
Form 6-K
October 12, 2004
FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16
OF THE SECURITIES EXCHANGE ACT OF 1934

October 12, 2004

Commission File Number: 001-10579

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

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

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

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

Form 20-F Form 40-F

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

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

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

Yes No

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

Compañía de Telecomunicaciones de Chile, S.A.

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Item 1.

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

for the six-month periods ended
June 30, 2004 and 2003
(CONSOLIDATED)

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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

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2004 AND 2003

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30, 2004)

A S S E T S	Notes	2004 ThCh\$	2003 ThCh\$
CURRENT ASSETS			
Cash		14,842,724	10,440,390
Time deposits	(34)	55,901,258	269,644
Marketable securities, net	(4)	49,920,719	42,742,457
Accounts receivable, net	(5)	210,532,769	205,458,140
Notes receivable, net	(5)	8,148,694	5,220,182
Other receivables	(5)	11,067,541	12,302,660
Due from related companies	(6a)	18,513,300	20,242,149
Inventories, net		28,287,141	18,867,710
Recoverable taxes		8,086,475	21,493,889
Prepaid expenses		7,417,858	9,302,932
Deferred taxes	(7b)	18,560,583	28,767,374
Other current assets	(8)	78,759,036	33,422,202
TOTAL CURRENT ASSETS		510,038,098	408,529,729
PROPERTY, PLANT AND EQUIPMENT			
Land	(9)	27,877,130	27,861,031
Buildings and improvements		187,377,097	187,562,539
Machinery and equipment		3,519,095,352	3,433,837,877
Other property, plant and equipment		337,133,731	381,969,479
Technical revaluation		9,297,385	9,295,493

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Less: Accumulated depreciation		2,324,270,126	2,127,318,970
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET		1,756,510,569	1,913,207,449
OTHER LONG-TERM ASSETS			
Investment in related companies	(10)	7,736,017	41,717,314
Investment in other companies		3,885	3,885
Goodwill	(11)	153,667,705	175,061,408
Other receivables	(5)	35,261,201	40,961,407
Intangibles	(12)	42,776,178	34,693,696
Less: Accumulated amortization	(12)	5,842,624	3,554,407
Others	(13)	8,539,217	11,445,881
TOTAL OTHER LONG-TERM ASSETS		242,141,579	300,329,184
TOTAL ASSETS		2,508,690,246	2,622,066,362

The accompanying notes 1 to 34 are an integral part of these consolidated financial statements

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2004 AND 2003

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30, 2004)

LIABILITIES	Notes	2004 ThCh\$	2003 ThCh\$
CURRENT LIABILITIES			
Short-term debt with banks and financial institutions	(14)	19,188,243	9,364,256
Current maturities of long-term debt	(14)	88,452,923	68,120,363
Commercial paper	(16a)	34,271,450	19,922,031
Current maturities of bonds payable	(16)	116,451,506	19,265,496
Current maturities of other long-term obligations		451,300	473,851
Dividends payable		96,248	150,434
Trade accounts payable	(33)	125,971,902	128,964,045
Notes payable		136,526	153,874
Other payables		13,376,802	23,214,363
Notes and accounts payable to related companies	(6b)	24,503,140	22,388,168
Accruals	(17)	7,089,018	6,642,863
Taxes withheld		7,943,188	10,781,000
Unearned income		9,965,733	7,676,480
Other current liabilities		3,052,087	2,891,331
TOTAL CURRENT LIABILITIES		450,950,066	320,008,555
LONG-TERM LIABILITIES			
Long-term debt with banks and financial institutions	(15)	321,842,299	397,487,784
Bonds payable	(16)	327,725,952	474,965,270
Notes and accounts payable to related companies	(6b)	22,181,473	24,038,068
Other accounts payable		3,408,791	12,075,174

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Accruals	(17)	18,575,835	18,734,549
Deferred taxes	(7b)	50,912,310	50,805,912
Other liabilities		4,324,106	4,852,586
TOTAL LONG-TERM LIABILITIES		748,970,766	982,959,343
MINORITY INTEREST	(19)	1,253,942	1,176,940
SHAREHOLDERS' EQUITY	(20)		
Paid-in capital		859,490,281	741,625,583
Reserve for monetary correction of equity		6,875,921	8,157,880
Other Paid in Capital		—	116,582,739
Other reserves		(584,245)	1,653,415
Retained earnings		441,733,515	449,901,907
Retained earnings		431,900,550	441,627,672
Net income for the period		9,832,965	8,274,235
TOTAL SHAREHOLDERS' EQUITY		1,307,515,472	1,317,921,524
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,508,690,246	2,622,066,362

The accompanying notes 1 to 34 are an integral part of these consolidated financial statements

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CONSOLIDATED STATEMENTS OF INCOME

FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2004 AND 2003

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30, 2004)

		2004 ThCh\$	2003 ThCh\$
OPERATING RESULTS:			
Operating revenues		404,936,950	401,283,198
Less: Operating costs		271,107,210	258,859,515
Gross profit		133,829,740	142,423,683
Less: Administrative and selling expenses		88,862,873	81,674,324
OPERATING RESULTS		44,966,867	60,749,359
NON-OPERATING RESULTS:			
Interest income		3,602,716	4,619,231
Equity in earnings of equity-method investees	(10)	177,740	487,860
Other non-operating income	(21 a)	7,795,341	6,803,013
Equity in losses of equity-method investees	(10)	93,651	275,552
Less: Amortization of goodwill	(11)	5,726,496	7,590,345
Less: Interest expense and other		22,905,329	34,843,869
Less: Other non-operating expenses	(21 b)	5,727,019	4,527,790
Price-level restatement	(22)	702,772	(1,277,345)
Foreign exchange gain	(23)	2,131,583	959,173
NON-OPERATING LOSS, NET		(20,042,343)	(35,645,624)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST		24,924,524	25,103,735

Income taxes	(7 c)	(15,163,426)	(16,816,913)
INCOME BEFORE MINORITY INTEREST		9,761,098	8,286,822
Minority interest	(19)	71,867	(12,587)
NET INCOME FOR THE PERIOD		9,832,965	8,274,235

The accompanying notes 1 to 34 are an integral part of these consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2004 AND 2003

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30, 2004)

	2004 ThCh\$	2003 ThCh\$
NET CASH FLOWS FROM OPERATING ACTIVITIES	84,109,068	157,699,318
Net income for the period	9,832,965	8,274,235
Sales of assets:	8,118	27,717
Loss on sales of property, plant and equipment	8,118	27,717
Debits (credits) to income that do not represent cash flows:	150,552,142	155,126,974
Depreciation for the period	132,319,041	133,270,126
Amortization of intangibles	1,247,273	873,837
Provisions and write offs	14,293,841	15,511,230
Net income from investments in related companies	(177,740)	(487,860)
Loss from investments in related companies	93,651	275,552
Amortization of goodwill	5,726,496	7,590,345
Price-level restatement	(702,772)	1,277,345
Foreign exchange gain	(2,131,583)	(959,173)
Other credits to income that do not represent cash flows	(592,339)	(4,128,316)
Other debits to income that do not represent cash flows	476,274	1,903,888
Changes in operating assets Increase (decrease)	(36,110,412)	4,336,966
Trade accounts receivable	(12,717,231)	(16,036,232)
Inventories	(14,411,579)	(6,443,781)
Other assets	(8,981,602)	26,816,979
Changes in operating liabilities (Increase) decrease	(40,101,878)	(10,079,161)
Accounts payable related to operating activities	(40,117,704)	(16,731,284)
Interest payable	2,659,686	1,499,559
Income taxes payable (net)	7,268,258	9,473,639
Other accounts payable related to non-operating activities	(8,873,036)	(7,745,532)
V.A.T. and other similar taxes payable	(1,039,082)	3,424,457
Minority interest	(71,867)	12,587

The accompanying notes 1 to 34 are an integral part of these consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2004 AND 2003

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30, 2004)

	2004 ThCh\$	2003 ThCh\$
NET CASH USED IN FINANCING ACTIVITIES	23,702,084	(117,676,773)
Proceeds from issuance of commercial paper and bonds	34,292,228	19,914,500
Less: Loans repayments	(3,187,674)	(89,748,270)
Less: Repayments of commercial paper and bonds	(4,341,983)	(47,843,003)
Less: Dividends paid	(3,135,079)	—
Other sources of financing	74,592	—
NET CASH USED IN INVESTMENT ACTIVITIES	(48,388,884)	(39,785,324)
Proceeds from sale of property, plant and equipment	76,605	—
Proceeds from sale of permanent investments	9,130,225	—
Proceeds from sale of other investments	—	50,048,175
Other investment income	—	206
Less: Acquisition of property, plant, and equipment	(53,308,018)	(73,055,747)
Less: Investments in financial instruments	(3,082,801)	(15,006,535)
Less: Other investment activities	(1,204,895)	(1,771,423)
NET CASH FLOWS FOR THE PERIOD	59,422,268	237,221
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS	(640,197)	(535,244)
NET INCREASE OF CASH AND CASH EQUIVALENTS	58,782,071	(298,023)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	33,597,302	21,413,474
CASH AND CASH EQUIVALENTS AT END OF PERIOD	92,379,373	21,115,451

The accompanying notes 1 to 34 are an integral part of these consolidated financial statements

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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)

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 June 30, 2004 the following subsidiaries of the Group are registered with the Securities Registry:

SUBSIDIARIES	TAXPAYER No.	Registration Number	Participation (direct & indirect)	
			2003 %	2004 %
Telefónica Mundo S.A.	96,551,670-0	456	99.16	99.16
Globus 120 S.A.	96,887,420-9	694	99.99	99.99
Teleemergencia S.A.	96,971,150-8	In process	99.99	99.99(1)

(1)As of the date of presentation of these financial statements, the Company is in the process of registering this Company with the Securities Registry of the Superintendency of Securities and Insurance.

2. Significant Accounting Principles:

(a) Accounting period:

The interim consolidated financial statements cover the six-month periods ended June 30, 2004 and 2003.

(b) Basis of preparations:

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

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

The Company's financial statements as of and for the six-month periods ended June 30, and as of and for the year ended December 31, 2003, are prepared in order to be reviewed and audited respectively, in accordance with current legal regulations. In relation to the quarterly financial statements as of March and September, the Company voluntarily submits these to an interim financial information review performed in accordance with the regulations established for this type of review, described in generally accepted auditing standard No. 45 Section No. 722, issued by the Chilean Association of Accountants.

c) Basis of presentation:

The interim consolidated financial statements as of and for the six-month period ended June 30, 2003 and their notes have been adjusted for comparison purposes by 0.7% in order to allow comparison with the interim consolidated financial statements as of and for the six-month period ended June 30, 2003. For comparison purposes, there have been certain non-significant reclassifications made to the 2003 financial statements.

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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)

2. Significant Accounting Principles, continued:

d) Basis of consolidation:

These interim 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 19).

Companies included in consolidation:

As of June 30, 2004 the consolidated group (The Company) is composed of Compañía de Telecomunicaciones de Chile S.A. and the following subsidiaries:

TAXPAYER NO.	Company Name	Participation Percentage			2003 Total
		Direct	2004 Indirect	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.	99.99	—	99.99	99.99
74.944.200-1	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	Teleemergencia 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. (2)	—	—	—	99.66
96.834.320-3	Telefónica Internet Empresas S.A. (5)	—	99.99	99.99	99.99
96.811.570-7	Administradora de Telepeajes de Chile S.A. (4)	—	79.99	79.99	79.99
78.703.410-1	Tecnonáutica S.A.	—	99.99	99.99	99.99

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96.934.950-Portal de Pagos e Información S.A. (3)	—	—	—	99.99
96.893.540-Infochile S.A. (4)	—	—	—	99.99

-
- 1) On September 1, 2003, Telefónica CTC Chile S.A., sold 100% of its participation in this subsidiary for UF 9,175, this transaction resulted in Telefónica CTC Chile recognizing a loss on sale of subsidiary of ThCh\$66,705.
 - 2) The Extraordinary Shareholders' Meeting of Telefónica Empresas CTC Chile, held on December 9, 2003, approved the absorption by incorporation of subsidiary Comunicaciones Mundiales S.A.
 - 3) 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.
 - 4) 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.
 - 5) On June 19, 2003, Infoera S.A. changed its name to Telefónica Internet Empresas S.A.

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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)

2. Significant Accounting Principles, continued:

(e) Price-level restatement:

The interim consolidated financial statements have been adjusted by applying price-level restatement standards, in accordance with generally accepted accounting principles in Chile, in order to reflect the changes in the purchasing power of the currency during the six-month periods ended June 30, 2004 and 2003. The accumulated variation in the CPI as of June 30, 2004 and 2003, for opening balances, is 0.8% and 1.1%, 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:

YEAR	US\$	EURO	UF
June 30, 2004	636.30	775.88	17,014.95
June 30, 2003	699.12	803.86	16,959.57

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

(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.

Investments in mutual funds are carried at market value at each period end. Investments in shares are shown at their price-level restated cost or market.

(i) Inventories:

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

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

(j) Subsidies on sale of cellular telephones:

This amount represents the difference between the cost at which the cellular equipment of Telefónica Móvil de Chile S.A. is purchased from suppliers and the price at which it is sold to customer.

The amount of subsidy both for prepayment customers as well as for customers with contracts, with the exception of accommodation contracts, is charged to income when the equipment is sold.

The amount of commission on the sale of equipment under the prepayment, contract and accommodation contract arrangements is fully charged to income at the time of the sale or signing of the accommodation contract.

(k) Accommodation Contracts:

The cost of this equipment made available under accommodation contracts is capitalized as property, plant and equipment and depreciated over 24 months from the date the contract is signed. The initial depreciation charge is recorded during the month the contract is signed.

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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)

2. Significant Accounting Principles, continued:

Effective June 1, 2002, a revised policy of customer loyalty was implemented, consisting of changing equipment out under accommodation contracts after only 18 months. Therefore, as of this date, depreciation on any phones made available under this policy has been charged to income over 18 months and any additionally required depreciation for early cancellation of contracts has been provided.

Effective September 2003, the Company changed the manner of marketing equipment under accommodation contracts for that of equipment rental, by means of which the equipment is provided for use during an agreed upon period of time, while the Company maintains ownership of the equipment.

As of June 30, 2004 and 2003, the capitalized cost of this equipment is ThCh\$ 23,538,197 and ThCh\$18,547,234, while accumulated depreciation is ThCh\$ 16,467,224 and ThCh\$ 13,604,553, respectively.

(l) Allowance for doubtful accounts:

Varying percentages are applied to the different aging brackets when calculating the allowance for doubtful accounts, taking into consideration the age of the receivable and projected collection success, with up to 100% of debts older than 120 days (180 days in the case of major customers (corporations)) being provisioned.

(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 its appraisal value, as stipulated in Article 140 of D.F.L. No. 4, and that acquired subsequently is carried at its 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.

Until December 31, 2002, work in progress included capitalized interest.

(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 8.45%.

(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.

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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)

2. Significant Accounting Principles, continued:

ii) Licenses (software):

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 No. 64. These investments are controlled in dollars, since they are in countries deemed to be unstable and their activities are not an extension of the operations of the Parent Company.

(q) Goodwill:

Corresponds to the excess of the purchase price of an investment over the fair value of the assets acquired and liabilities assumed. Fair value of the assets acquired and liabilities assumed in excess of the purchase price is recorded as negative goodwill. Goodwill and negative 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 No. 64 of the Chilean Accountants Association. (See Note 11).

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

(r) Transactions with resale agreements:

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

(s) Bond payable:

- Bonds payable: are presented in liabilities at the par value of the issued bonds (see note 16a). 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 13).
- Commercial paper is presented in liabilities at its placement value, plus accrued interest (see note 16b).

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

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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)

2. Significant Accounting Principles, continued:

(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, 68, 69 and 73 issued by the Chilean Accountants Association and as established by the Chilean Superintendency of Securities and Insurance in Circular No. 1,466 dated January 27, 2000.

On September 28, 2001 Law No. 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 June 30 of each period presented, deferred tax assets and liabilities reflect the increase in tax rate, if applicable, associated with the estimated period of reversal. Recognition for the effect on deferred taxes from an increase in income tax rates follows Technical Bulletin No. 71 issued by of the Chilean Accountants Association. (See Note 7).

(u) Staff severance indemnities:

The obligation of the Company for staff severance indemnities is provided for at the present value of the obligation, using an annual discount rate of 7%, considering the projected service period of the employee. (See Note 18).

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.

(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 No. 57 of the Chilean Accountants Association.

The rights and obligations acquired are detailed in Note 24, 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 26).

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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)

2. Significant Accounting Principles, continued:

(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; this account also includes differences arising from subsidiaries and related companies investments abroad. The balance of this account is credited (charged) to income in the same period in which the gain or loss over any total or partial disposition of these investments occurs for such amounts.

(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:

Accounting principles have been consistently applied during the periods covered by these financial statements.

i) Change of reporting entity:

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.

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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)

4. Marketable Securities:

The balance of marketable securities is as follows:

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	2004 ThCh\$	2003 ThCh\$
Shares (a)	686,627	13,201,961
Commercial paper	48,801,925	29,402,319
Mutual fund units	432,167	130,993
Others	—	7,184
Total Marketable Securities	49,920,719	42,742,457

Shares

Taxpayer No.	Company Name	Number of Shares	Interest %	Market Quote per share ThCh\$	Market Value ThCh\$	Restated Cost ThCh\$
Foreign	New Skies Satellites	57,760	0.057%	4,931	284,833	254,372
Foreign	Intelsat	96,022	0.057%	—	—	432,255
	Value of investment portfolio at market and price-level				284,833	686,627
	Restated cost				—	—
	Book value of investment portfolio				—	686,627

a) The Board meeting held on July 10, 2003, approved the sale of the 2,984,986 shares the Company had in Terra Networks S.A., through the public offering launched by Telefónica S.A. The price of the public offering was 5.25 Euros per share which at the exchange rate on the date that the sale was completed, resulted in a total sale price of ThCh\$12,744,558.

Investment in debt securities (Fixed Income)

Instrument	Date		Par Value	Book Value Amount	Market Value	Provision	
	Purchase	Maturity	ThCh\$	ThCh\$	ThCh\$		
Zero-040701	Dec-2002	Jul-2004	5,701,248	6,600,019	5.40	6,600,019	—
Zero-051201	Dec-2002	Oct-2005	3,395,205	3,915,068	5.07	3,975,063	—
Zero-051101	Dec-2002	Nov-2005	1,619,895	1,902,808	5.85	1,932,095	—
Zero-051001	Dec-2002	Dec-2005	12,724,352	14,957,567	5.85	15,213,284	—
Sub-Total			23,440,700	27,375,462	—	27,720,461	—
PRD-03C0701	Mar-2004	Jul-2004	6,935,670	7,143,103	6.00	7,143,103	—
BCD-0500904	Sep-2003	Sep-2004	13,998,600	14,283,360	5.00	14,305,614	—
Total			44,374,970	48,801,925	—	49,169,178	—

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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)

5) Current and long-term receivables:

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

Up to 90 days		Over 90 up to 1 year		Current	Total Current (net)				Lo
2004	2003	2004	2003	Subtotal	2004		2003		2004
ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	%	ThCh\$	%	ThCh\$
119,138	292,307,878	7,866,380	9,311,273	306,985,518	210,532,769	100.0	205,458,140	100.0	3,180,688
849,945	177,125,130	5,822,637	8,656,879	181,672,582	107,763,820	51.19	112,757,419	53.14	3,180,688
472,885	43,963,882	—	—	45,472,885	40,933,607	19.44	40,487,287	21.87	
387,426	43,786,202	—	—	52,387,426	39,013,314	18.53	28,028,974	13.44	
981,819	23,494,372	2,038,513	654,394	23,020,332	18,494,887	8.78	20,395,856	10.03	
427,063	3,938,292	5,230	—	4,432,293	4,327,141	2.06	3,788,604	1.51	
(541,430)	(91,832,571)	(2,911,319)	(4,328,440)	(96,452,749)	—		—		
132,007	12,902,401	834,486	369,751	16,966,493	8,148,694		5,220,182		
(817,799)	(8,051,970)	—	—	(8,817,799)	—		—		
891,048	8,237,885	4,176,493	4,064,775	11,067,541	11,067,541		12,302,660		32,080,511
—	—	—	—	—	—		—		—
					Total long-term receivables				35,261,200

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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)

6. Balances and transactions with related entities:

a) Notes and accounts receivable:

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.	58,630	8,793	—	—
Foreign	Telefónica España	104,802	1,013,185	—	—
Foreign	Telefónica Internacional de España	—	6,695	—	—
93.541.000-2	Impresora Comercial y Publiguías	3,583,341	2,165,729	—	—
Foreign	Telefónica Sao Paulo	70,922	215,826	—	—
Foreign	Emergia U.S.A.	44,003	—	—	—
96.834.230-4	Terra Networks Chile S.A.	1,358,255	1,055,159	—	—
96.895.220-k	Atento Chile S.A.	291,417	575,142	—	—
96.545.480-2	CTC Marketing e Inform S.A. (Nexcom S.A.)	265,125	—	—	—
96.910.730-9	Emergia Chile S.A.	91,614	35,611	—	—
Foreign	Telefónica LD Puerto Rico	2,933	—	—	—
Foreign	Telefónica Data EEUU	621,881	—	—	—
Foreign	Telefónica Data España	477,933	193,271	—	—
Foreign	Telefónica Argentina	873,484	1,244,312	—	—
Foreign	Telefónica Procesos Tec. de Información	10,430,187	11,540,182	—	—
59.083.900-0	Telefónica Ingeniería de Seguridad S.A.	7,350	3,628	—	—
Foreign	Telefónica Whole Sale International Services	231,423	180,318	—	—
83.628.100-4	Sonda S.A.	—	2,004,298	—	—
	Total	18,513,300	20,242,149	—	—

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

b) Notes and accounts payable:

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.	1,293,314	1,492,217	—	—
Foreign	Telefónica España	199,175	147,802	—	—
96.527.390-5	Telefónica Internacional Chile S.A.	265,433	266,424	22,181,473	24,038,068
93.541.000-2	Impresora Comercial y Publiguías S.A.	3,153,783	3,399,634	—	—
Foreign	Telefónica Perú	43,800	94,006	—	—
96.834.230-4	Terra Networks Chile S.A.	4,285,098	2,657,100	—	—
96.895.220-k	Atento Chile S.A.	3,489,905	5,102,098	—	—
96.910.730-9	Emergia Chile S.A.	82,682	25,578	—	—
Foreign	Emergia Uruguay	3,390,759	—	—	—
Foreign	Telefónica Guatemala	2,301	—	—	—
Foreign	Telefónica El Salvador	164,536	9,538	—	—

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Foreign	Telefónica Argentina	655,480	—		
Foreign	Telefónica Procesos Tec. de Información	7,076,254	7,125,809	—	—
59.083.900-0	Telefónica Ingeniería de Seguridad S.A.	—	6,601	—	—
	Telefónica Whole Sale International				
Foreign	Services	332,595	916,323	—	—
Foreign	Telefónica LD Puerto	—	1,445	—	—
78.868.200-k	Atento Recursos Ltda.	49,361	39,892	—	—
82.049.000-2	Coasin Chile S.A.	7,881	—	—	—
Foreign	Telefónica Sao Paulo	10,783	—		
83.628.100-4	Sonda S.A.	—	1,103,701	—	—
	Total	24,503,140	22,388,168	22,181,473	24,038,068

As per Article No. 89 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 maturity, 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, continued
(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	
				Amount	Effect on income	Amount	Effect on income
Telefónica España	Foreign	Parent Co.	Sales	233,475	233,475	—	—
			Purchases	(149,529)	(149,529)	—	—
Telefónica Internacional Chile S.A.	96.527.390-5	Parent Co.	Purchases	(266,323)	(266,323)	(267,722)	(267,722)
			Financial Expenses	(248,948)	(248,948)	(322,177)	(322,177)
Impresora y Comercial Publicifás S.A.	93.541.000-2	Associate	Sales	7,908,580	7,908,580	1,331,260	1,331,260

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			Purchases	(4,543,559)	(4,543,559)	(2,553,717)	(2,553,717)
			Financial				
			Income	—		346,376	346,376
			Other				
			Non-operating				
			Income	—		1,581,689	1,581,689
Terra							
Networks							
Chile S.A.	96.834.230-4	Associate	Sales	2,620,586	2,620,586	2,221,940	2,221,940
			Purchases	(987,758)	(987,758)	(311,688)	(311,688)
Atento Chile							
S.A	96.895.220-k	Associate	Sales	600,419	600,419	415,892	415,892
			Purchases	(6,972,338)	(6,972,338)	(6,148,971)	(6,148,971)
			Financial				
			Expenses	(9)	(9)	—	—
			Other				
			Non-operating				
			Expenses	(30,781)	(30,781)	—	—
			Other				
			Non-operating				
			Income	—	—	9,851	9,851
Emergia							
Chile S.A.	96.910.730-9	Associate	Sales	544,321	544,321	583,963	583,963
			Purchases	(32,075)	(32,075)	(12,109)	(12,109)
Telefónica							
Argentina	Foreign	Associate	Sales	647,021	647,021	—	—
			Purchases	(432,640)	(432,640)	—	—
Telefónica							
Mobile							
Solutions							
Chile S.A.	59.083.900-0	Associate	Sales	5,864	5,864	508	508
Telefónica							
Whole Sale							
International							
Services	Foreign	Associate	Sales	105,086	105,086	—	—
			Purchases	(730,388)	(730,388)	—	—
Telefónica							
Sao Paulo	Foreign	Associate	Sales	96,417	96,417	—	—
			Purchases	(101,710)	(101,710)	—	—
Telefónica							
Guatemala	Foreign	Associate	Sales	3,847	3,847	—	—
			Purchases	(6,071)	(6,071)	—	—
Telefónica							
Perú	Foreign	Associate	Sales	246,572	246,572	—	—
			Purchases	(342,087)	(342,087)	—	—
Telefónica							
LD Puerto							
Rico	Foreign	Associate	Sales	7,484	7,484	—	—
			Purchases	(7,117)	(7,117)	—	—
Telefónica El							
Salvador	Foreign	Associate	Sales	2,265	2,265	—	—

			Purchases	(27,171)	(27,171)	—	—
Telefónica							
Data España	Foreign	Associate	Sales	—	—	152,303	152,303
			Purchases	—	—	(744,627)	(744,627)

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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)

6. Balances and transactions with related entities, continued:

c) Transactions, continued:

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 conditions for each case vary based on the transaction that produces them.

7. Income tax and deferred taxes:

a) General information:

For the six-month period ended June 30, 2004 the Parent Company has provided first category income tax of ThCh\$ 57,023,474, for the six-month period ended June 30, 2003 no such provision was recorded, due to accumulated tax losses of ThCh\$ 28,000,000 approximately.

In addition to the Parent Company, for the six-month period ended June 30, 2004 and 2003 a first category income tax provision was recorded for this tax at the subsidiary level for taxable income, amounting to ThCh\$ 29,014,955 and ThCh\$ 26,287,388, respectively.

As of June 30, 2004 and 2003, the Company had accumulated tax loss carry forwards of ThCh\$ 119,000,000 and ThCh\$ 161,000,000 respectively, mainly carried on the books of Telefónica Móvil de Chile S.A.

As of June 30, 2004 the subsidiaries which had positive taxed retained earnings and their associated tax credits, are detailed in the following table:

Subsidiaries	Taxed Retained Earnings w/15% credit	Taxed Retained Earnings w/16% credit	Taxed Retained Earnings w/16.5% credit	Taxed Retained Earnings w/17% credit	Taxed Retained Earnings w/o credit ThCh\$	Amount of credit ThCh\$
--------------	--	--	--	--	---	----------------------------------

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	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
CTC Equipos y Servicios de Telecomunicaciones S.A.	3	536,854	2,445,654	1,328,454	1,338,596	4,310,965
Telefónica Mundo S.A.	—	2,947,785	947,433	2,207,671	2,241,557	6,102,889
Globus 120 S.A.	368,315	152,237	110,868	27,429	655,914	658,850
Telefónica Empresas CTC Chile S.A.	159,708	1,370,658	949,246	1,262,484	1,354,390	3,742,096
Total	528,026	5,007,534	4,453,201	4,826,038	5,590,457	14,814,800

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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)

7. Income tax and deferred taxes, continued:

b) **Deferred taxes:**

As of June 30, 2004 and 2003, deferred tax (liabilities) assets amounted to ThCh\$ 32,351,727 and ThCh\$ 22,038,538, 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								
Advance for doubtful accounts	16,306,563	—	—	—	18,717,471	—	—	—
Provision for loss carry forwards	522,568	—	—	—	541,905	—	—	—
Provision for severance indemnities	—	20,226,747	—	—	4,943,369	21,674,184	—	—
Deferred assets and liabilities	—	—	—	6,212,812	—	977,606	—	6,503,900
Property, plant and equipment	72,313	578,429	—	93,625	—	74,102	—	129,300
Difference in amount of capitalized staff	—	5,264,455	—	191,494,370	55,664	4,067,959	—	203,335,000
Provision for employee share purchase plan	—	802,051	—	—	—	—	—	—
Intangible assets	—	—	—	4,453,232	—	—	—	5,063,500

ferred charge on of assets	—	—	—	1,205,053	—	—	—	3,291,7
vestment in Terra works S.A.	—	—	—	—	2,622,524	—	—	—
ective otiation bonus on contract s)	13,035	—	—	759,445	—	—	—	—
er	1,648,890	91,132	2,786	946,974	1,943,368	1,216,273	14,709	2,123,4
Total	18,563,369	26,962,814	2,786	205,165,511	28,824,301	28,010,124	14,709	220,447,1
plementary unts net of mulated rtization	—	(9,713,223)	—	(137,003,610)	(42,217)	(11,699,688)	—	(153,330,7
Total	18,563,369	17,249,591	2,786	68,161,901	28,782,084	16,310,436	14,709	67,116,3
reclassification	(2,786)	(17,249,591)	(2,786)	(17,249,591)	(14,710)	(16,310,436)	(14,709)	(16,310,4
l	18,560,583	—	—	50,912,310	28,767,374	—	—	50,805,9

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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)

7. Income tax and deferred taxes, continued:

c) **Income tax breakdown:**

The current tax expense shown in the following table consists of the following, net of credits for donations, training expenses and other credits.

Description	2004 ThCh\$	2003 ThCh\$
Tax expense before tax benefits (income tax)	(15,521,074)	(4,337,419)
Common tax expense (article 21 single tax at 35%)	(16,231)	(50,897)
Common tax expense (first category tax in the nature of a single income tax)	(1,525,011)	—
Tax expense adjustment (previous year)	4,966,138	331,320
Income tax subtotal	(12,096,178)	(4,056,996)
— Current year's deferred taxes	4,140,828	(7,364,658)
— Tax benefits from tax loss carry forwards	894,541	—
— Effect of amortization of deferred assets and liabilities complementary accounts	(8,102,617)	(5,395,259)
Deferred tax subtotal	(3,067,248)	(12,759,917)

Total income tax expense	(15,163,426)	(16,816,913)
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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)

8. Other Current Assets:

The detail of other current assets is as follows:

	2004 ThCh\$	2003 ThCh\$
Securities under agreement to resell	21,203,224	10,274,424
Deferred union contract bonus ^(a)	2,806,455	1,189,274
Adjustment to market value of mobile equipment ^(c)	9,526,949	3,216,552
Deferred forward contracts	692,480	1,417,228
Telephone directories in circulation	21,990	7,813,594
Discount on bonds (note 24)	560,937	544,086
Debt issuance costs (note 24)	1,075,650	1,700,858
Commercial paper issuance costs (note 24)	416,727	106,601
Deferred financing costs for debt incurred abroad ^(b)	1,600,708	620,624
Exchange forward contracts (net of partial liquidations)	39,794,925	5,207,793
Deferred actuarial loss on severance indemnity plans (net)	—	255,147
Others	1,058,991	1,076,021
Total	78,759,036	33,422,202

(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 13).

(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 client plan (contract or prepaid)of 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. Property, plant and equipment:

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

Description	2004		2003	
	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$
Land	—	27,877,130	—	27,861,031
Building and improvements	76,196,762	187,377,097	72,899,517	187,562,539
Machinery and equipment	2,078,735,051	3,519,095,352	1,862,542,371	3,433,837,877
Central office telephone equipment	1,081,522,242	1,645,099,239	948,338,425	1,613,742,077
External plant	690,879,285	1,409,021,305	635,712,552	1,394,019,074
Subscribers' equipment	272,677,039	429,266,887	245,397,360	389,496,062
General equipment	33,656,485	35,707,921	33,094,034	36,580,664
Other Property, Plant and Equipment	158,866,684	337,133,731	181,378,495	381,969,479
Office furniture and equipment	82,186,668	118,354,695	86,316,057	132,315,958
Projects, work in progress and their materials	—	93,067,543	—	115,146,825
Leased assets ⁽¹⁾	4,530,386	10,784,659	4,644,857	11,456,400
Property, plant and equipment temporarily out of service	10,609,376	18,555,356	5,937,005	9,634,963
Software	52,200,603	81,692,959	76,904,847	99,332,356
Others	9,339,651	14,678,519	7,575,729	14,082,977
Technical revaluation—Circular 550	10,471,629	9,297,385	10,498,587	9,295,493
Total	2,324,270,126	4,080,780,695	2,127,318,970	4,040,526,419

(1) As of June 2004 this account is mainly composed of: ThCh\$5,550,392 gross value for acquisition of administrative offices with accumulated depreciation of ThCh\$694,318 under a 15-year contract signed in 1996; ThCh\$3,264,813 gross value of electronic and computer equipment with accumulated depreciation of ThCh\$3,208,079 under a 12-year contract signed in 1994, in addition to

ThCh\$990,191 gross value of long-distance transmission equipment with accumulated depreciation of ThCh\$235,170 under an 18-year contract signed in 1996.

The balance of gross property, plant and equipment includes capitalized interest until December 2002 and amounts to ThCh\$ 212,740,891. Accumulated depreciation of this interest amounts to ThCh\$112,286,106 and ThCh\$92,804,273 in 2004 and 2003, respectively.

Operating costs includes a depreciation charge for the six-month period ended June 30 of ThCh\$ 127,974,841 and ThCh\$ 129,982,658 for 2004 and 2003, respectively, and administration and selling costs includes a depreciation charge of ThCh\$ 2,473,094 for the six-month period ended June 30, 2004 and ThCh\$ 1,809,416 for the six-month period ended June 30 2003. Property, plant and equipment temporarily out of service, is made up mainly of telephone equipment being repaired and depreciation amounting to ThCh \$ 1,871,106 and ThCh\$1,478,052 for the six-month period ended June 30 2004 and 2003 respectively, which are classified under Other Non-operating Expenses.

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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. Property, plant and equipment, continued:

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

Description	Net Balance ThCh\$	Accumulated Depreciation ThCh\$	Gross property, plant and equipment 2004 ThCh\$	Gross property, plant and equipment 2003 ThCh\$
Land	(481,187)	—	(481,187)	(457,891)
Building and improvements	(944,748)	(3,668,981)	(4,613,729)	(4,579,821)
Machinery and equipment	251,693	14,140,610	14,392,301	14,333,205
Total	(1,174,242)	10,471,629	9,297,385	9,295,493

Depreciation of the technical reappraisal surplus for the period amounts to ThCh\$(25,955) for the six-month period ended June 30, 2004 and ThCh\$(27,014) for the six-month period ended June 30, 2003.

Gross property, plant and equipment includes assets that have been totally depreciated in the amount of ThCh\$842,938,096 as of June 30, 2004 and ThCh\$613,836,429 as of June 30, 2003, which include ThCh\$12,016,293 and ThCh\$12,086,474, respectively, from the reappraisals mentioned in Circular No. 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)

10. Investments in Related Companies:

The detail of investments in related companies is as follows:

Number of shares	Percentage of participation		Equity of the companies		Net income (loss) of the companies		Net 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\$
48,950,000	2.61	2.61	174,928,657	193,997,793	(114,899)	1,974,368	(2,999)	51,532	4,565,638	5,061,111
3,049,998	28.84	28.84	10,738,993	9,430,108	616,297	163,220	177,740	47,073	3,097,125	2,711,111
45,648	—	9.00	—	18,963,219	—	(2,961,803)	(77,533)	(266,562)	—	1,700,000
271,615	20.00	20.00	366,270	547,880	(65,594)	(44,942)	(13,119)	(8,990)	73,254	100,000
52,282	—	35.00	—	—	—	1,112,157	—	389,255	—	32,111
									7,736,017	41,711

(1) During September 2002, Telefónica Empresas sold and transferred 25% ownership in Sonda S.A.. This operation meant disbursements on the part of the purchasing companies, implying for Telefónica Empresas a net effect on income (loss), amounting to ThCh\$ 1,889,316, product of proportional extraordinary amortization of goodwill in relation to the percentage sold and to the difference between the book value of the investment and the amount received. Once this transaction was carried out, Telefónica Empresas had a 35% holding in that company.

Additionally, on September 26, Telefónica Empresas signed an agreement with Inversiones Santa Isabel Limitada, which granted it an option to sell 35% of Sonda, which it could exercise between July 16 and 25, 2005, at the book value of the investment as of June 30, 2005, plus a bonus of UF 142,021, with a minimum value of UF 2,048,885. In case Telefónica Empresas does not exercise such option to sell, between July 26 and August 5, 2005, Inversiones Santa Isabel Limitada has an option to purchase the same 35% of Sonda, under the same conditions as above.

Likewise, Inversiones Santa Isabel Limitada can exercise the option to purchase in advance between July 26 and 31, 2003, at the book value on June 30, 2003, plus a bonus of UF 96,000, with a minimum price of UF 1,983,185, or between July 26 and 31, 2004, at the book value of June 30, 2004, plus a bonus of UF 119,000 with a minimum price of UF 2,003,260.

On July 29, 2003, Telefónica Empresas became aware of the decision of Inversiones Santa Isabel Limitada, to anticipate and exercise the purchase option for the remaining 35% of Sonda S.A. This transaction meant a disbursement on the part of the purchasing company of ThCh\$ 33,388,363 (historical), implying an effect on income, before taxes amounting to ThCh\$ 6,999,276, historical (ThCh\$ 5,683,065 net of tax effect).

(2) On April 26, 2004, Compañía de Telecomunicaciones de Chile S.A., sold to Telefónica Publicidad e Información S.A. all its participation in Impresora y Comercial Publiguías S.A., amounting to 9% of capital stock. The price of the transaction was US\$ 14,760,000, equivalent to Ch\$ 9,013 million, with positive income after taxes of Ch\$ 4,940 million. (see note 21a)

(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.

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
(Translation of financial statements originally issued in Spanish)

11. Goodwill and negative goodwill:

Goodwill:

The detail of goodwill is as follows:

Taxpayer No.	Company	Year	2004		2003	
			Amount amortized In the six-month period ended June 30 ThCh\$	Balance of Goodwill ThCh\$	Amount amortized In the six-month period ended June 30 ThCh\$	Balance of Goodwill ThCh\$
Foreign	TBS Celular Holding	2001	88,299	2,626,164	87,814	2,803,732
96.887.420-9	Globus 120 S.A.	1998	544,772	15,628,951	541,780	16,724,484
78.703.410-1	Tecnonáutica	1999	72,114	940,250	71,966	1,086,279

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S.A.					
96.786.140-5 Telefónica Móvil S.A.	1997	4,957,214	133,872,010	4,929,976	143,840,913
96.834.320-3 Telefónica Internet Empresas S.A. (b)	1999	44,534	580,659	44,290	670,218
96.811.570-7 Telepeajes S.A.	2001	19,563	19,671	19,399	58,839
83.628.100-4 Sonda S.A. (a)	1999	—	—	1,895,120	9,876,943
Total		5,726,496	153,667,705	7,590,345	175,061,408

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% participation held 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.

12. Intangibles:

The detail of Intangibles is as follows:

	2004 ThCh\$	2003 ThCh\$
Underwater cable rights (gross)	29,894,838	22,808,262
Accumulated amortization previous period	(3,314,191)	(2,387,815)
Amortization for the period	(631,521)	(432,129)
Licenses (Software) (gross)	3,211,862	2,206,044
Accumulated amortization previous period	(931,984)	(265,105)
Amortization for the period	(454,594)	(281,148)
Licenses for use of broad-band width	9,669,478	9,679,388
Accumulated amortization previous period	(349,176)	(27,648)
Amortization for the period	(161,158)	(160,560)
Total Net Intangibles	36,933,554	31,139,289

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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)

13. Others (from Other Assets):

The detail of Others is as follows:

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	2004 ThCh\$	2003 ThCh\$
Debt issuance costs (see note 8b)	1,041,619	1,483,394
Deferred union contract bonus (see note 8a)	2,305,167	557,272
Bond issue expenses (see note 24)	1,604,409	3,163,013
Bond discount (see note 24)	3,216,537	3,715,995
Deferred forward contract premiums	70,242	204,308
Prepaid pole rental	—	770,299
Securities deposits	140,382	283,661
Others	160,861	1,267,939
Total	8,539,217	11,445,881

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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)

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

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

No.	Bank or financial institution	US\$ 2004 ThCh\$	US\$ 2003 ThCh\$	U.F. 2004 ThCh\$	U.F. 2003 ThCh\$	Ch\$ 2004 ThCh\$	Ch\$ 2003 ThCh\$	TOTAL 2004 ThCh\$	TOTAL 2003 ThCh\$
0-5	SANTANDER SANTIAGO	—	—	—	—	9,913,906	—	9,913,906	—
0-7	BANCO ESTADO	—	—	—	9,364,256	9,274,337	—	9,274,337	9,364,256
	Total	—	—	—	9,364,256	19,188,243	—	19,188,243	9,364,256
	Outstanding principal	—	—	—	9,264,189	19,099,879	—	19,099,879	9,264,189
	Average annual interest rate	—	—	—	3.36%	2.98%	—	2.98%	3.36%
0-7	Short-term portion of long-term	6,934,567	7,741,980	—	—	—	—	6,934,567	7,741,980

BANCO CITIBANK SANTANDER SANTIAGO	—	—	200,534	30,818,349	—	9,903,763	200,534	40,7
ABN AMRO BANK	1,015,052	1,183,480	—	—	—	—	1,015,052	1,1
BANCO BILBAO VIZCAYA ARGENTAR	802,770	18,472,791	—	—	—	—	80,302,770	18,4
Total	88,252,389	27,398,251	200,534	30,818,349	—	9,903,763	88,452,923	68,1
Outstanding principal	86,371,651	25,161,848	—	30,356,923	—	9,903,763	86,371,651	65,4
Average annual interest rate	2.20%	1.93%	1.55%	3.60%	—	3.54%	2.20%	
Percentage of obligations in foreign currency: 81.99% for 2004 and 35.36% for 2003								
Percentage of obligations in national currency: 18.01% for 2004 and 64.64% 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)

15. Long-term debt with banks and financial institutions:
Long-term obligations with banks and financial institutions:

Taxp. No.	Bank or Financial Institution	Currency or Indexation Index	Years to maturity for long-term portion			Long-term portion as of 6-30-04	Long-term portion as of 6/30/2003
			1 to 2	2 to 3	3 to 5		

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		ThCh\$	ThCh\$	ThCh\$	ThCh\$		ThCh\$
	LOANS IN DOLLARS						
97.008.000-7	BANCO CITIBANKUS\$	6,834,152	—	—	6,834,152	Libor + 0.57%	15,122,903
Foreign	ABN AMRO BANK						
Foreign	(1) US\$	66,811,500	85,900,500	38,178,000	190,890,000	Libor + 1.063%	211,204,774
	BANCO BILBAO VIZCAYA						
	ARGENTINA\$	63,630,000	—	—	63,630,000	Libor + 1.125%	140,803,183
	SUBTOTAL	137,275,652	85,900,500	38,178,000	261,354,152	2.28%	367,130,860
	LOANS IN UNIDADES DE FOMENTO						
97.015.000-5	BANCO SANTANDER SANTIAGO						
	(2) UF	—	—	60,488,147	60,488,147	Tab 360 + 0.95%	30,356,924
	SUBTOTAL	—	—	60,488,147	60,488,147		30,356,924
	TOTAL	137,275,652	85,900,500	98,666,147	321,842,299	2.14%	397,487,784
	Percentage of obligations in foreign currency: 81.21% in 2004 and 92.36% in 2003						
	Percentage of obligations in local currency: 18.79% in 2004 and 7.64% in 2003						

(1) In April 2003, the Company renegotiated this loan, which allowed it to extend the maturity date from December 2003 to April 2008, in addition to changing the agent bank which was Citibank N.A..

(2) In March 2004, the Company renegotiated this loan, which allowed it to extend the maturity date from April 2004 to April 2008.

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. Obligations with the Public:**a) Commercial paper:**

On January 27, 2003, Telefónica CTC Chile registered a line of commercial papers 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 in each issuance of these commercial papers.

On June 26, 2003, Telefónica CTC Chile, placed ThCh \$ 20,000,000 in two series (A and B) of commercial papers. The placement agent was Scotiabank Sud Americano.

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

The details of these transactions are those described below:

Registration or identification number of the instrument	Series	Current nominal amount placed M\$	Bond readjustment unit M\$	Interest rate %	Final Maturity	Accounting value		Placement in Chile or abroad
						2004 M\$	2003 M\$	
Short-term commercial papers								
005	A	10,000,000	Ch\$ non-adjustable	0.2700	24-09-2003	—	9,992,714	National
005	B	10,000,000	Ch\$ non-adjustable	0.2974	20-11-2003	—	9,929,317	National
005	C	17,500,000	Ch\$ non-adjustable	0.2257	05-04-2005	17,157,021		— National
005	D	17,500,000	Ch\$ non-adjustable	0.2286	05-05-2005	17,114,429		— National
				Total		34,271,450	19,922,031	

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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. 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	Bond for readjustment unit	Nominal annual interest rate %	Final maturity	Frequency		Par value		Country of placing bonds
						Interest payment	Amortizations	2004 ThCh\$	2003 ThCh\$	
Short-term portion of long-term bonds										
143.27.06.91	F	71,429	U.F.	6.000	Apr.2016	Semi-annual	Semi-annual	1,395,865	1,413,566	Chile
203.23.04.98	K	22,727	U.F.	6.750	Feb.2020	Semi-annual	Semi-annual	2,087,060	1,693,987	Chile
Issued in New York	Yankee Bonds	—	US\$	7.625	Jul.2006	Semi-annual	Maturity	5,285,212	5,863,826	Abroad
Issued in New York	Yankee Bonds	—	US\$	8.375	Jan.2006	Semi-annual	Maturity	4,166,344	4,809,553	Abroad
Issued in Luxembourg	Eurobonds (a)	127,200,000	EURO	5.375	Aug.2004	Semi-annual	Maturity	103,517,025	5,484,564	Abroad
							Total	116,451,506	19,265,496	
Long-term bonds										
143.27.06.91	F	785,714	U.F.	6.000	Apr.2016	Semi-annual	Semi-annual	13,368,890	14,638,575	Chile
203.23.04.98	K	3,977,273	U.F.	6.750	Feb.2020	Semi-annual	Semi-annual	67,673,096	68,313,349	Chile
Issued in New York	Yankee Bonds (b)	187,685,000	US\$	7.625	Jul.2006	Semi-annual	Maturity	119,423,966	138,691,136	Abroad
Issued in New York	Yankee Bonds	200,000,000	US\$	8.375	Jan.2006	Semi-annual	Maturity	127,260,000	140,803,183	Abroad
Issued in Luxembourg	Eurobonds (a)	—	EURO	5.375	Aug.2004	Semi-annual	Maturity	—	112,519,027	Abroad
							Total	327,725,952	474,965,270	

(a) Commercings June 2002, Telefónica CTC Chile made a partial purchases of this placement denominated in euros. As of the date of these financial statements the anticipated redemption of this placement amounted to 72.8 million euros. The total redemption during 2004 were 5 million euros.

(b) Commercings May 2003, Telefónica CTC Chile made a partial repurchase of 12.3 million dollars denominated in this currency. This transaction was priced at 111.05% of par value, which resulted in a payment of 13.68 million dollars, plus interest accrued as of that date on the nominal amount of the repurchase.

These transactions implied recognizing in income the placement expenses for these bonds as well as the higher bond discount rate.

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. Accruals:

The detail of accruals shown in liabilities is as follows:

	2004 ThCh\$	2003 ThCh\$
Current		
Staff severance indemnities	254,873	268,500
Vacation	2,719,783	3,211,360
Other employee benefits (a)	6,540,097	6,127,961
Employee benefit advances	(2,425,735)	(2,964,958)
	7,089,018	6,642,863
Long-term		
Staff severance indemnities	18,575,835	18,734,549
Total	25,664,853	25,377,412

(a)Includes provisions for the bonus guaranteed under the current union contract, and miscellaneous. During 2004 and 2003, there were bad debt write-offs of ThCh\$ 450,698 and ThCh\$ 1,014,640, respectively, which were charged against the respective allowance for doubtful accounts.

18. 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	2,177,815	2,437,360
Other non-operating expenses	2,518,796	—
Total	4,696,611	2,437,360
Payments in the period	(5,406,227)	(903,265)

19. Minority interest:

Minority interest recognizes the portion of equity and revenues of subsidiaries belonging to third parties. The breakdown for the six-month periods ended June 30 2004 and 2003, respectively, is as follows:

Subsidiaries	Percentage Minority Interest		Participation in equity December 30,		Participation in net income (loss) for the years ended December 31,	
	2004	2003	2004	2003	2004	2003
	%	%	M\$	M\$	M\$	M\$
Administradora de Sistemas de Telepeajes de Chile S.A.	20.00	20.00	104,228	23,554	10,821	(6,332)
Telefónica Mundo S.A.	0.84	0.84	1,132,684	1,057,582	78,121	115,179
Fundación Telefónica	50.00	50.00	16,997	90,322	(160,813)	(96,442)
Comunicaciones Mundiales S.A.	0.34	0.34	—	5,482	—	182
CTC Equipos y Servicios S.A.	0.0001	—	33	—	4	—
		Total	1,253,942	1,176,940	(71,867)	12,587

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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)

20. Shareholders' Equity:

During the periods ended June 30, 2004 and 2003, respectively, changes in shareholders' equity accounts are as follows:

	Paid-in capital ThCh\$	Price-level Restatement ThCh\$	Contributed surplus ThCh\$	Other reserves ThCh\$	Retained earnings ThCh\$	Net income for the period ThCh\$	Total shareholders' equity ThCh\$
2004							
Balances as of December 31, 2003	859,490,281	—	—	(791,199)	421,404,583	10,133,882	1,290,237,547
Transfer of 2003 net income to retained earnings	—	—	—	—	10,133,882	(10,133,882)	—
Increase for capitalization of share premium	—	—	—	—	—	—	—
Final dividend 2003	—	—	—	—	(3,062,903)	—	(3,062,903)
Adjustment of foreign investment conversion reserve	—	—	—	213,742	—	—	213,742
Final dividend 2003	—	—	—	—	(3,062,903)	—	(3,062,903)
Price-level restatement	—	6,875,921	—	(6,788)	3,424,988	—	10,294,121

Net income for the period	—	—	—	—	—	9,832,965	9,832,965
Balance as of June 30, 2004	859,490,281	6,875,921	—	(584,245)	431,900,550	9,832,965	1,307,515,472
2003							
Balances as of December 31, 2002	736,468,120	—	114,512,356	1,924,736	451,465,216	(17,680,376)	1,286,690,052
Transfer of 2002 loss to retained earnings	—	—	—	—	(17,680,376)	17,680,376	—
Absorption of accumulated deficit development period	—	—	—	—	—	—	—
Final dividend 2002	—	—	—	—	—	—	—
Adjustment of foreign investment conversion reserve	—	—	—	(303,991)	—	—	(303,991)
Price-level restatement	—	8,101,149	1,259,636	21,172	4,771,634	—	14,153,591
Net income for the period	—	—	—	—	—	8,216,694	8,216,694
Balance as of June 30, 2003	736,468,120	8,101,149	115,771,992	1,641,917	438,556,474	8,216,694	1,308,756,346
Restated balances as of June 30, 2004	741,625,583	8,157,880	116,582,739	1,653,415	441,627,672	8,274,235	1,317,921,524

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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)

20. Shareholders' Equity, continued:**(a) Paid-in capital:**

As of June 30, 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	784,814,326	784,814,326
B	74,675,955	74,675,955

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

(b) Shareholder distribution:

As indicated in Circular No. 792 of the Chilean Superintendency of Securities and Insurance, the distribution of shareholders by percentage shareholding in the Company as of June 30, 2004 is as follows:

Class of shareholder	Percentage of Total holdings %	Number of shareholders
10% holding or more	57.41	2
Less than 10% holding:	41.91	2,259
Investment equal to or exceeding UF 200	0.68	11,392
Total	100.00	13,653
Controlling share holder	43.64	1

(c) Dividends:

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

On April 4, 2003, the Ordinary Shareholders' Meeting was informed of the dividend distribution policy proposed by the Board for 2003:

Distribute for 2003, at least 30% of net income generated in the year a percentage that is equal to that required by law — by means of a final dividend in May 2004, which will be proposed at the corresponding General Shareholders' Meeting.

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

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

20. Shareholders' Equity, continued:

(c) Dividends, continued:

The Ordinary Shareholders' Meeting held on April 15, 2004, approved payment of a final dividend of Ch \$ 3.20 per share equivalent to ThCh\$ 3,062,903, out of retained earnings as of December 31, 2003. The dividend was paid on May 7, 2004.

The Board of Directors Meeting held on May 18, 2004, agreed to propose at the Extraordinary Shareholders' Meeting called for July 15, 2004, the approval of the sale of subsidiary Telefónica Móvil S.A. for US\$ 1,007 million, and distribution of an extraordinary dividend of US\$ 800 million, as indicated in note 31c), the Extraordinary Shareholders' Meeting approved the sale of the subsidiary and distribution of the dividend.

(d) Other reserves:

Other Reserves includes 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:

		Amount			
Company		December 31, 2003	Price-level restatement	Net Movement	Balance as of June 30, 2004
		ThCh\$	ThCh\$	ThCh\$	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)	(6,788)	271,042	(584,245)
	Total	(791,199)	(6,788)	213,742	(584,245)

(1) This increase (decrease) corresponds to the net effect of the adjustment for conversion difference as established in Technical Bulletin No. 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)

21. 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	115,234	1,001,078
Proceeds from sale of used equipment	537,834	—
Sales of promotional material	100,774	—
Real estate rental	74,601	—
Proceeds from sale of participation in related Company (1)	6,396,579	—
Provision for lower market value of New Skies Satellites	222,414	8,387
Provision for adjustment of Terra Network to market value	—	3,398,138
Compensatory final payment for Publiguías agreement termination	—	1,581,689
Recovered insurance claim	—	86,930
Reversal of customs lawsuit provision	—	302,101
Others	347,905	424,690
Total	7,795,341	6,803,013

(1) See note 10 "Investment in related Companies" number 2.

(b) Other non-operating expenses:

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

Other Expenses:	2004 ThCh\$	2003 ThCh\$
Lawsuit indemnities and other provisions	35,969	1,061,303
Depreciation and retirement of out of service property, plant and equipment (1)	2,337,042	2,020,289
Restructuring costs	3,282,877	—
Donations	60,793	84,547
Loss for damage to assets	—	82,365
Others	10,338	1,279,286
Total	5,727,019	4,527,790

(1)As of June 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 subsidiary Multimedia to Cordillera Comunicaciones.

22. Price-level restatement:

The detail of price-level restatement is as follows:

Assets (Charges) Credits	Indexation	2004 ThCh\$	2003 ThCh\$
Inventories	C.P.I.	53,449	51,477
Prepaid expenses	C.P.I.	456	4,819
Prepaid expenses	U.F.	(15,319)	14,000
Other current assets	C.P.I.	188,137	422,372
Other current assets	U.F.	(2,389,992)	(6,500,427)
Short and long-term deferred taxes	C.P.I.	1,065,179	1,630,157
Property, plant and equipment	C.P.I.	14,443,666	21,462,030
Investments in related companies	C.P.I.	34,406	455,230
Goodwill	C.P.I.	1,265,033	1,998,997
Long-term debtors	C.P.I.	(206,537)	(1,376,000)
Long-term debtors	U.F.	92,947	—
Other long-term assets	C.P.I.	269,122	384,580
Other long-term assets	U.F.	(12,472)	2,460,398
Expense accounts	C.P.I.	2,996,397	1,701,507
Total (Charges) Credits		17,784,472	22,709,140
Liabilities – Shareholders' Equity (Charges)		2004	2003
Credits	Indexation	ThCh\$	ThCh\$
Short-term obligations	C.P.I.	10,543	17,341
Short-term obligations	U.F.	(1,080,697)	(3,310,445)
Long-term obligations	C.P.I.	(4,010)	(13,706)
Long-term obligations	U.F.	(1,137,470)	(3,801,368)
Shareholders' equity	C.P.I.	(10,294,121)	(14,252,708)
Revenue accounts	C.P.I.	(4,575,945)	(2,625,599)
Total Credits (Charges)		(17,081,700)	(23,986,485)
Income (loss) from price-level restatement, net		702,772	(1,277,345)

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COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued
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23. Foreign exchange gains/losses:

The detail of foreign exchange gain loss is as follows:

Assets (Charges) Credits	Currency	2004 ThCh\$	2003 ThCh\$
Other current assets	US\$	22,889,351	(10,691,106)
Other current assets	EURO	4,013,606	235,916
Long-term debtors	US\$	5,402,038	3,626,665
Long-term debtors	EURO	—	(5,457,283)
Other long-term assets	US\$	94,884	(63,872)
Other long-term assets	EURO	84	21,545
Total Credits		32,399,963	(12,328,135)

Liabilities (Charges) Credits	Currency	2004 ThCh\$	2003 ThCh\$
Short-term obligations	US\$	8,275,213	(10,976,429)
Short-term obligations	EURO	(3,853,370)	(188,847)
Long-term obligations	US\$	(34,690,223)	19,165,755
Long-term obligations	EURO	—	5,286,829
Total (Charges)		(30,268,380)	13,287,308
Income net, from foreign exchange gain/loss		2,131,583	959,173

24. Issuance and placement of shares and debt expense:

The detail of this item is as follows:

	Short-term		Long-term	
	2004 ThCh\$	2003 ThCh\$	2004 ThCh\$	2003 ThCh\$
Bond issuance expenses	1,075,650	1,700,858	1,604,409	3,163,013
Discount on debt	560,937	544,086	3,216,537	3,715,995
Commercial papers issuance expense	416,727	106,601	—	—
Total	2,053,314	2,351,545	4,820,946	6,879,008

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 16 "Obligations with the Public".

25. 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. 14 and 15

Obligations with the public - see Notes No. 16

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

25. Cash flows, continued:

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

	Maturity	ThCh\$
Zero	2004	6,600,019
Zero	2005	20,775,443
PRD	2004	7,143,103
BCD	2004	14,283,360

c) Cash and cash equivalents:

	2004	2003
	ThCh\$	ThCh\$
Cash	14,842,724	10,440,390
Time deposits	55,901,258	269,644
Investments in debt securities	21,203,224	