

TELECOMMUNICATIONS CO OF CHILE
Form 6-K
December 10, 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

December 10, 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.

TABLE OF CONTENTS

Item

- 1) Consolidated Financial Statements as of and for the periods ended September 30, 2004 and 2003.
 - 2) Management's Discussion and Analysis for the period ended September 30, 2004.
- 2
-

Item 1

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

for the nine-month periods ended
September 30, 2004 and 2003
(CONSOLIDATED)

3

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONTENTS

Independent Accountants' Review Report

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Cash Flows

Notes to the Consolidated Financial Statements

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

4

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Chairman and Members of the Board of Directors
of Compañía de Telecomunicaciones de Chile S.A.

We have reviewed the accompanying interim consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and subsidiaries as of September 30, 2004 and 2003 and the related interim consolidated statements of income and cash flows for the nine-month periods then ended. These interim consolidated financial statements (including the related notes) are the responsibility of the management of the Company. The accompanying Management's Discussion and Analysis of the Consolidated Financial Statements is not an integral part of these financial statements, and, therefore, this report does not cover this item.

We conducted our reviews in accordance with generally accepted auditing standards in Chile for a review of interim financial information. A review of interim financial information consists principally of applying analytical procedures to the financial statements and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Chile, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review of the interim consolidated financial statements at September 30, 2004 and 2003, we are not aware of any material modifications that are required for them to be in conformity with accounting principles generally accepted in Chile.

The accompanying financial statements have been translated into English for the convenience of readers outside Chile.

/s/ DELOITTE

October 15, 2004

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 SEPTEMBER 30, 2004 AND 2003

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

A S S E T S	Notes	2004 ThCh\$	2003 ThCh\$
CURRENT ASSETS			
Cash		6,559,003	11,253,673
Time deposits	(35)	162,306,466	273,430
Marketable securities, net	(4)	24,347,305	48,290,006
Accounts receivable, net	(5)	171,048,884	216,759,696
Notes receivable, net	(5)	5,256,899	6,061,897
Other receivables	(5)	21,984,549	11,598,711
Due from related companies	(6 a)	25,356,734	19,989,077
Inventories, net		7,106,111	20,038,925
Recoverable taxes		—	21,971,497
Prepaid expenses		4,594,512	8,896,484
Deferred taxes	(7 b)	15,579,256	21,514,392
Other current assets	(8)	211,828,289	36,026,171
TOTAL CURRENT ASSETS		655,968,008	422,673,959
PROPERTY, PLANT AND EQUIPMENT			
	(10)		
Land		26,184,666	28,165,146
Buildings and improvements		188,481,195	189,972,371
Machinery and equipment		3,086,651,531	3,499,145,112
Other property, plant and equipment		251,491,620	387,406,971
Technical revaluation		9,386,693	9,399,467
Less: Accumulated depreciation		2,157,964,021	2,217,152,406
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET		1,404,231,684	1,896,936,661
OTHER LONG-TERM ASSETS			
Investment in related companies	(11)	7,756,394	10,645,697
Investment in other companies		3,928	3,928
Goodwill	(12)	19,618,607	164,060,549
Other receivables	(5)	18,666,057	31,091,715
Intangibles	(13)	34,740,816	36,724,975
Less: Accumulated amortization	(13)	6,181,265	4,098,028
Others	(14)	3,956,892	10,126,546
TOTAL OTHER LONG-TERM ASSETS		78,561,429	248,555,382
TOTAL ASSETS		2,138,761,121	2,568,166,002

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2004 AND 2003

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

LIABILITIES	Notes	2004 ThCh\$	2003 ThCh\$
CURRENT LIABILITIES			
Short-term debt with banks and financial institutions	(15)	19,333,609	19,505,494
Current maturities of long-term debt	(15)	139,385,177	57,234,238
Commercial paper	(17 a)	34,509,084	10,119,174
Current maturities of bonds payable	(17)	7,099,458	111,713,626
Current maturities of other long-term obligations		31,979	452,848
Dividends payable		124,521,516	170,523
Trade accounts payable	(34)	63,081,389	133,028,051
Notes payable		—	231,086
Other payables		18,062,135	43,565,051
Notes and accounts payable to related companies	(6 b)	31,833,928	20,459,743
Accruals	(18)	6,483,812	9,646,954
Withholdings		11,326,100	9,381,524
Income tax		30,719,607	—
Unearned income		8,182,655	7,836,295
Other current liabilities		1,863,902	2,839,320
TOTAL CURRENT LIABILITIES		496,434,351	426,183,927
LONG-TERM LIABILITIES			
Long-term debt with banks and financial institutions	(16)	243,783,223	377,561,451
Bonds payable	(17)	317,550,159	344,177,678
Other accounts payable		997,413	9,175,189
Notes and accounts payable to related companies	(6 b)	—	23,072,882
Accruals	(18)	19,057,449	19,430,545
Deferred taxes	(7 b)	58,007,428	47,581,286
Other liabilities		4,259,894	4,753,687
TOTAL LONG-TERM LIABILITIES		643,655,566	825,752,718
MINORITY INTEREST	(20)	1,519,738	1,282,682
SHAREHOLDERS' EQUITY			
Paid-in capital	(21)	859,490,281	865,435,375
Reserve for monetary correction of equity		16,330,315	10,385,221
Other reserves		(837,209)	60,030
Retained earnings		122,168,079	439,066,049
Retained earnings		50,823,547	429,395,215
Net income for the period		324,372,126	9,670,834
Provisory dividend (less)		253,027,594	—
TOTAL SHAREHOLDERS' EQUITY		997,151,466	1,314,946,675

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,138,761,121	2,568,166,002
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The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

6

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

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

	2004 ThCh\$	2003 ThCh\$
OPERATING RESULTS:		
Operating revenues	556,062,153	615,595,049
Less: Operating costs	355,257,336	396,281,252
Gross profit	200,804,817	219,313,797
Less: Administrative and selling expenses	123,434,625	129,655,758
OPERATING RESULTS	77,370,192	89,658,039
NON-OPERATING RESULTS:		
Interest income	7,136,772	6,047,619
Equity in earnings of equity-method investees (11)	353,666	1,073,260
Other non-operating income (22 a)	471,688,284	11,561,420
Equity in losses of equity-method investees (11)	85,269	423,439
Less: Amortization of goodwill (12)	140,000,015	20,572,392
Less: Interest expense and other	35,533,901	50,220,394
Less: Other non-operating expenses (22 b)	7,787,794	7,235,592
Price-level restatement (23)	(2,275,986)	(415,141)
Foreign exchange gain (24)	13,464,652	1,380,037
NON-OPERATING LOSS, NET	306,960,409	(58,804,622)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	384,330,601	30,853,417
Income taxes (7 c)	(59,779,033)	(21,077,057)
INCOME BEFORE MINORITY INTEREST	324,551,568	9,776,360
Minority interest (20)	(179,442)	(105,526)
NET INCOME FOR THE PERIOD	324,372,126	9,670,834

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

7

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

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

	2004 ThCh\$	2003 ThCh\$
NET CASH FLOWS FROM OPERATING ACTIVITIES	166,044,191	203,147,692
Net income for the period	324,372,126	9,670,834
Sales of assets :	(469,320,661)	(3,917,051)
(Gain) on sales of property, plant and equipment	(708,862)	(333,793)
Gain on sales of investments (less)	(468,611,799)	(3,651,096)
Loss on sales of investments	—	67,838
Debits (credits) to income that do not represent cash flows:	333,157,865	246,842,013
Depreciation for the period	181,675,108	203,930,774
Amortization of intangibles	2,068,043	1,392,171
Provisions and write offs	21,005,889	25,176,277
Net income from investments in related companies	(353,666)	(1,073,260)
Loss from investments in related companies	85,269	423,439
Amortization of goodwill	140,000,015	20,572,392
Price-level restatement	2,275,986	415,141
Foreign exchange gain	(13,464,652)	(1,380,037)
Other credits to income that do not represent cash flows	(1,792,247)	(5,141,494)
Other debits to income that do not represent cash flows	1,658,120	2,526,610
Changes in operating assets Increase (decrease)	(8,641,804)	(11,660,562)
Trade accounts receivable	(7,882,210)	(17,250,013)
Inventories	(14,357,672)	(5,211,401)
Other assets	13,598,078	10,800,852
Changes in operating liabilities (Increase) decrease	(13,702,777)	(37,893,068)
Accounts payable related to operating activities	(47,041,298)	(36,125,387)
Interest payable	(7,638,500)	(9,912,521)
Income taxes payable (net)	44,587,987	14,863,279
Other accounts payable related to non-operating activities	(2,546,888)	(3,926,133)
V.A.T. and other similar taxes payable	(1,064,078)	(2,792,306)
Minority interest	179,442	105,526

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

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

	2004 ThCh\$	2003 ThCh\$
NET CASH USED IN FINANCING ACTIVITIES	(615,927,264)	(162,229,263)
Obligations with the public	34,651,890	20,127,715
Other sources of financing	75,405	—
Dividends paid (less)	(507,979,982)	(17,046,511)
Loans repaid (less)	(17,081,823)	(94,565,987)
Obligations with the public repaid (less)	(103,406,742)	(70,744,480)
Repayment of other loans from related companies (less)	(22,186,012)	—
NET CASH USED IN INVESTMENT ACTIVITIES	784,697,981	(40,989,893)
Sales of property, plant and equipment	117,895	645,987
Sales of permanent investments	677,140,975	33,955,503
Sales of other investments	17,233,225	63,451,973
Collection of documented loans to related companies	169,029,504	—
Other investment income	—	209
Acquisition of property, plant and equipment (less)	(70,081,046)	(101,897,557)
Investments in financial instruments (less)	(6,366,573)	(33,929,011)
Other investment activities (less)	(2,375,999)	(3,216,997)
NET CASH FLOWS FOR THE PERIOD	334,814,908	(71,464)
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS	(4,544,382)	(606,052)
NET INCREASE OF CASH AND CASH EQUIVALENTS	330,270,526	(677,516)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	33,963,939	21,647,153
CASH AND CASH EQUIVALENTS AT END OF PERIOD	364,234,465	20,969,637

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements

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 September 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 nine-month periods ended September 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 nine-month periods ended September 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. With respect 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 nine-month period ended September 30, 2003 and their notes have been adjusted for comparison purposes by 1.7% in order to allow comparison with the interim consolidated financial statements as of and for the nine-month period ended September 30, 2003. For comparison purposes, there have been certain non-significant reclassifications made to the 2003 financial statements.

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 20).

Companies included in consolidation:

As of September 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. (2)	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. (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 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) On July 23, 2004, Telefónica CTC Chile sold 100% of its participation in Telefónica Móvil Chile S.A.. This transaction meant a disbursement on the part of 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, held on December 9, 2003, approved the absorption by incorporation of 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.

11

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 nine-month periods ended September 30, 2004 and 2003. The accumulated variation in the CPI as of September 30, 2004 and 2003, for opening balances, is 1.9% and 1.2%, 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
September 30, 2004	608.90	757.34	17,190.78
September 30, 2003	660.97	770.81	16,946.03

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 the

lower of their price-level restated cost or market.

(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.

(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.

12

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 September 30, 2004 and 2003, the capitalized cost of this equipment is ThCh\$ 19,495,227, while accumulated depreciation is ThCh\$ 14,361,440, 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 September 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.

Assets under construction and not yet in use included the real financial cost of loans related to their financing, which originated during the construction stage and which could have been avoided had these disbursements not been incurred.

(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 8.41%.

(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.

13

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:

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. Net book 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 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 capitalized and amortized using the straight-line method over the term of the respective liability.

14

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 Nos. 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 September 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 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.

(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 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.

2. Significant Accounting Principles, continued:

(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.

(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.

a) 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.

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)

3. Accounting Changes, continued:

a) **Change of reporting entity, continued:**

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

Due to the sale of the shares it had in subsidiary Telefónica Móvil de Chile S.A. as of September 30, 2004, Telefónica CTC Chile deconsolidated its financial statements with that company as of July 1, 2004.

As of September 30, 2003 this investment was consolidated line by line. The balance sheet of Telefónica Móvil de Chile S.A. at that date was as follows:

	2003 ThCh\$
Assets	
Current Assets	75,165,203
Property, Plant And Equipment	357,179,876
Other Long-Term Assets	14,208,690
Total Assets	446,553,769
Liabilities	
Current Liabilities	91,882,453
Long-Term Liabilities	138,869,115
Shareholders' Equity	215,802,201
Total Liabilities And Shareholders' Equity	446,553,769

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 only recorded at Equity Value.

	Jan-Sep 2004 ThCh\$	Jan-Sep 2003 ThCh\$	Variation	
			ThCh\$	%
Operating revenues	430,418,352	448,511,131	(18,092,779)	-4.0%
Operating costs	(348,925,672)	(369,795,736)	20,870,064	-5.6%
Salaries and employee benefits	(57,048,507)	(55,524,321)	(1,524,186)	2.7%
Depreciation	(143,288,086)	(154,437,243)	11,149,157	-7.2%
Goods and services	(148,589,079)	(159,834,172)	11,245,093	-7.0%
OPERATING RESULTS	81,492,680	78,715,395	2,777,285	3.5%
Gross profit	18.9%	17.6%		
EBITDA	52.2%	52.0%		
EBITDA	224,780,766	233,152,638	(8,371,872)	-3.6%
Interest income	11,980,503	12,231,840	(251,337)	-2.1%
Equity in earnings of	(7,709,915)	6,610,960	(14,320,875)	C.S.
Equity in earnings of (1)	(140,000,015)	(20,572,392)	(119,427,623)	580.5%
Interest expense	(35,068,213)	(49,539,295)	14,471,082	-29.2%
Other non-operating expenses	463,736,622	4,916,928	458,819,694	C.S.
Price-level restatement	11,238,404	885,879	10,352,525	1,168.6%
NON-OPERATING RESULTS	304,177,386	(45,466,080)	349,643,466	C.S.

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

3. Accounting Changes, continued:a) **Change of reporting entity, continued:**

	Jan-Sep	Jan-Sep	Variation	
	2004	2003	ThCh\$	%
	ThCh\$	ThCh\$	ThCh\$	%
INCOME BEFORE INCOME	385,670,066	33,249,315	352,420,751	1,059.9%
TAXES AND MINORITY	(61,118,498)	(23,472,957)	(37,645,541)	160.4%
INTEREST	(179,442)	(105,525)	(73,917)	70.0%
NET INCOME FOR THE PERIOD	324,372,126	9,670,833	314,701,293	3,254.1%

(1) For 2004 Telefónica Móvil de Chile S.A., incurred to a loss of ThCh\$ 7,978,287, whereas for 2003 it had net income of ThCh \$ 5,961,122.

4. Marketable Securities:

The balance of marketable securities is as follows:

	2004	2003
	ThCh\$	ThCh\$
Shares	694,120	459,545
Commercial paper	23,218,937	47,739,524
Mutual fund units	434,248	81,959
Others	—	8,978
Total Marketable Securities	24,347,305	48,290,006

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%	4,762	275,030	257,148
Foreign	Intelsat	96,022	0.057%	—	—	436,972
Value of investment portfolio at market and price-level					275,030	694,120
Restated cost					—	—
Book value of investment portfolio					—	694,120

Investment in debt securities (Fixed Income)

Instrument	Date		Par	Book Value		Market	Provision
	Purchase	Maturity	Value	Amount	Rate	Value	
			ThCh\$	ThCh\$		ThCh\$	ThCh\$
Zero-051201	Dec-2002	Oct-2005	3,249,002	3,534,293	5.07	3,600,564	—
Zero-051101	Dec-2002	Nov-2005	1,550,140	2,076,961	5.85	2,116,360	—
Zero-051001	Dec-2002	Dec-2005	12,176,423	14,429,693	5.85	14,715,551	—
Sub-Total			16,975,565	20,040,947	—	20,432,475	—
BCD-501005	Sep-2004	Oct-2005	3,044,500	3,177,990	2.50	3,177,990	—
Total			20,020,065	23,218,937	—	23,610,465	—

18

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:

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

Up to 90 days	Current			Total Current (net)				Long	
	2004	Over 90 up to 1 year	Subtotal	2004		2003			2004
ThCh\$	2004	2003	2004	ThCh\$	%	ThCh\$	%	ThCh\$	
0,712	291,735,116	8,003,303	11,094,838	260,164,015	171,048,884	100.0	216,759,696	100.0	2,730,050
1,388	183,076,891	4,674,645	9,323,414	188,566,033	109,680,355	64.12	116,038,533	53.53	2,730,050
9,812	48,460,274	—	—	45,199,812	39,716,051	23.22	44,558,903	20.56	—
—	34,323,996	—	—	—	—	—	32,685,980	15.08	—
4,894	19,978,432	3,125,728	1,771,424	22,100,622	17,613,405	10.30	18,379,249	8.48	—
4,618	5,895,523	202,930	—	4,297,548	4,039,073	2.36	5,097,031	2.35	—
7,808)	(81,408,551)	(2,337,323)	(4,661,707)	(89,115,131)	—	—	—	—	—
7,770	14,275,328	807,123	336,660	13,254,893	5,256,899	—	6,061,897	—	—

7,994)	(8,550,091)	—	—	(7,997,994)	—	—	—
7,108	8,137,009	1,147,441	3,461,702	21,984,549	21,984,549	11,598,711	15,936,007
—	—	—	—	—	—	—	—
						Total long-term receivables	18,666,057

19

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	2003	2004	2003
		ThCh\$	ThCh\$	ThCh\$	ThCh\$
96.942.730-3	Telefónica Mobile Solutions Chile S.A.	109,894	17,332	—	—
Foreign	Telefónica España	475,404	1,057,451	—	—
96.527.390-5	Telefónica Internacional Chile S.A.	—	6,760	—	—
93.541.000-2	Impresora Comercial y Publiguías	5,140,834	3,529,079	—	—
Foreign	Telefónica Sao Paulo	140,548	258,058	—	—
Foreign	Emergia U.S.A.	44,003	—	—	—
96.834.230-4	Terra Networks Chile S.A.	704,058	1,019,280	—	—
96.895.220-k	Atento Chile S.A.	327,914	305,087	—	—
96.545.480-2	CTC Marketing e Inform S.A. (Nexcom S.A.)	—	296,776	—	—
96.910.730-9	Emergia Chile S.A.	91,064	6,547	—	—
Foreign	Telefónica LD Puerto Rico	14,236	—	—	—
Foreign	Telefónica Data EEUU	50,105	686,474	—	—
Foreign	Telefónica Data España	481,172	286,897	—	—
Foreign	Telefónica Argentina	1,796,058	1,220,360	—	—
96.786.140-5	Telefónica Móvil de Chile S.A.	5,301,673	—	—	—
Foreign	Telefónica Procesos Tec. de Información	9,981,048	11,018,614	—	—
59.048.390-2	Telefónica Ingeniería y Seguridad S.A.	8,949	4,482	—	—
Foreign	Telefónica Whole Sale International Services	189,476	275,880	—	—

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	Telefónica International WholeSale Services				
Foreign	Guatemala S.A.	5,846	—	—	—
Foreign	Telefónica El Salvador	74,542	—	—	—
Foreign	Telefónica Perú	419,910	—	—	—
	Total	25,356,734	19,989,077	—	—

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	2003	2004	2003
		ThCh\$	ThCh\$	ThCh\$	ThCh\$
96.942.730-3	Telefónica Mobile Solutions Chile S.A.	—	2,272,763	—	—
Foreign	Telefónica España	416,878	247,982	—	—
96.527.390-5	Telefónica Internacional Chile S.A.	134,088	403,273	—	23,072,882
93.541.000-2	Impresora Comercial y Publiguías S.A.	1,958,246	366,128	—	—
Foreign	Telefónica Perú	488,385	148,804	—	—
96.834.230-4	Terra Networks Chile S.A.	3,902,801	3,732,475	—	—
96.895.220-k	Atento Chile S.A.	1,919,242	5,460,200	—	—
96.910.730-9	Emergia Chile S.A.	166,298	265,400	—	—
Foreign	Telefónica International WholeSale Services América S.A.	2,115,802	—	—	—
Foreign	Telefónica International WholeSale Services Guatemala S.A.	13,940	18,014	—	—
Foreign	Telefónica El Salvador	190,049	8,804	—	—
96.786.140-5	Telefónica Móvil de Chile S.A.	11,132,853	—	—	—
Foreign	Telefónica Argentina	1,271,151	—	—	—
Foreign	Telefónica Procesos Tec. de Información	7,076,254	7,196,452	—	—
Foreign	Telefónica WholeSale International Services	881,592	276,283	—	—
Foreign	Telefónica LD Puerto	10,669	2,766	—	—
78.868.200-k	Atento Recursos Ltda.	—	60,399	—	—
82.049.000-2	Coasin Chile S.A.	4,777	—	—	—
Foreign	Telefónica Sao Paulo	150,903	—	—	—
	Total	31,833,928	20,459,743	—	23,072,882

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%.

20

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

6. Balances and transactions with related companies, 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	360,603	360,603	—	—
			Purchases	(226,279)	(226,279)	—	—
Telefónica Internacional Chile S.A.	96.527.390-5	Parent Co.	Purchases	(404,524)	(404,524)	(404,893)	(404,893)
			Financial Expenses	(258,146)	(258,146)	(442,473)	(442,473)
Impresora y Comercial Publiguías S.A.	93.541.000-2	Associate	Sales	4,717,956	4,717,956	4,341,731	4,341,731
			Purchases	(5,522,446)	(5,522,446)	(4,361,314)	(4,361,314)
			Financial Income	—	—	350,084	350,084
			Other Non-operating Income	—	—	1,595,943	1,595,943
Terra Networks Chile S.A.	96.834.230-4	Associate	Sales	3,998,855	3,998,855	3,249,139	3,249,139
			Purchases	(1,229,571)	(1,229,571)	(428,123)	(428,123)
Atento Chile S.A.	96.895.220-k	Associate	Sales	713,776	713,776	624,932	624,932
			Purchases	(10,374,429)	(10,374,429)	(9,127,182)	(9,127,182)
			Other Non-operating Income	—	—	12,801	12,801
Emergia Chile S.A.	96.910.730-9	Associate	Sales	815,912	815,912	296,495	296,495
			Purchases	(52,895)	(52,895)	(30,811)	(30,811)
			Other Non-operating Income	—	—	12,248	12,248
Telefónica Argentina	Foreign	Associate	Sales	960,187	960,187	—	—

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			Purchases	(643,897)	(643,897)	—	—
Telefónica Mobile Solutions Chile S.A.	96.942.730-3	Associate	Sales	9,906	9,906	—	—
			Purchases	(1,714)	(1,714)	—	—
Telefónica Wholesale International Services	Foreign	Associate	Sales	1,700,241	1,700,241	233,470	233,470
			Purchases	—	—	(1,122,371)	(1,122,371)
Telefónica Sao Paulo	Foreign	Associate	Sales	140,548	140,548	—	—
			Purchases	(140,585)	(140,585)	—	—
Telefónica International Wholesale Services Guatemala S.A.	Foreign	Associate	Sales	5,846	5,846	—	—
			Purchases	(11,738)	(11,738)	—	—
Telefónica Perú	Foreign	Associate	Sales	415,133	415,133	—	—
			Purchases	(488,385)	(488,385)	—	—
Telefónica LD Puerto Rico	Foreign	Associate	Sales	11,429	11,429	—	—
			Purchases	(10,669)	(10,669)	—	—
Telefónica El Salvador	Foreign	Associate	Sales	3,619	3,619	—	—
			Purchases	(32,598)	(32,598)	—	—
Telefónica Móvil de Chile S.A.	96.786.104-5	Associate	Sales	2,998,284	2,988,284	—	—
			Purchases	(9,510,644)	(9,510,644)	—	—
Atento Recursos Ltda.	78.868.200-k	Associate	Purchases	—	—	(13,499)	(13,499)

21

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 related transaction.

22

7. Income tax and deferred taxes:

a) General information:

As of September 30, 2004 and 2003 the Parent Company provided for first category income tax of ThCh\$ 15,389,334 and ThCh\$ 2,317,628, respectively.

In addition to the Parent Company, for the nine-month period ended September 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\$ 7,320,724 and ThCh\$ 2,587,218, respectively.

As of September 30, 2004, accumulated tax losses amount to ThCh\$ 9,000,000 and correspond to Telefónica Asistencia y Seguridad S.A., whereas in 2003 they amounted to ThCh\$ 111,000,000, corresponding mainly to the former subsidiary Telefónica Móvil de Chile S.A.

As of September 30, 2004 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 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	542,713	2,472,342	2,054,683	2,062,511	5,069,741
Telefónica Mundo S.A.	—	2,979,953	957,772	3,285,467	3,319,791	7,223,192
Globus 120 S.A.	372,335	153,899	112,078	20,810	498,042	659,121
Telefónica Empresas CTC Chile S.A.	161,451	1,385,615	959,605	1,879,178	1,972,097	4,385,851
Total	533,789	5,062,180	4,501,797	7,240,138	7,852,441	17,337,905

23

7. Income tax and deferred income taxes, continued:

b) Deferred taxes:

As of September 30, 2004 and 2003, deferred tax liabilities amounted to ThCh\$ 42,428,172 and ThCh\$ 26,066,894, 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								
Allowance for doubtful accounts	14,960,935	—	—	—	18,579,219	—	—	—
Provision for doubtful accounts	486,193	—	—	—	681,907	—	—	—
Loss carry forwards	—	1,529,097	—	—	167,743	20,389,437	—	—
Accumulated severance indemnities	—	—	—	6,078,838	—	938,458	—	6,662,920
Depreciated assets and liabilities	—	62,791	—	93,615	68,842	71,575	—	128,250
Property, plant and equipment	—	3,858,732	—	176,887,072	102,356	5,382,373	—	203,889,280
Difference in amount of capitalized staff	—	758,396	—	—	—	—	—	—
Software	—	—	—	3,980,475	—	—	—	571,490
Earned revenue	—	—	—	—	495,389	—	—	—
Deferred charge on assets	—	—	—	1,542,302	—	—	—	2,773,530
Selective negotiation bonus	—	—	—	70,680	—	—	—	—
Contract (loss)	145,238	86,255	13,110	1,363,753	1,428,348	107,914	9,412	1,360,780
-Total	15,592,366	6,295,271	13,110	190,016,735	21,523,804	26,889,757	9,412	215,386,260
Complementary accounts net of accumulated amortization								
-Total	—	(3,978,308)	—	(129,692,344)	—	(10,249,041)	—	(151,164,260)
-Total	15,592,366	2,316,963	13,110	60,324,391	21,523,804	16,640,716	9,412	64,222,000
Reclassification	(13,110)	(2,316,963)	(13,110)	(2,316,963)	(9,412)	(16,640,716)	(9,412)	(16,640,716)
Total	15,579,256	—	—	58,007,428	21,514,392	—	—	47,581,284

As indicated in Note 2d numeral 2, as of September 30, balances of net deferred tax assets from Telefónica Móvil de Chile S.A. of ThCh\$ 7,795,771 are included in the amount. In the 2004, financial statements that company was consolidated line by line 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
(Translation of financial statements originally issued in Spanish)

7. Income tax and deferred income taxes, continued:c) **Income tax breakdown:**

The taxes expense recorded by the Company in the nine-month periods ended September 30, 2004 and 2003, originates in the following items:

Description	2004 ThCh\$	2003 ThCh\$
Current tax expense before tax benefits (income tax)	(23,992,638)	(19,088,505)
Current tax expense (article 21 single tax at 35%)	(28,615)	(71,810)
Current tax expense (first category tax in the nature of a single income tax)	(36,288,086)	—
Tax expense adjustment (previous year)	4,993,932	97,903
Income tax subtotal	(55,315,408)	(19,062,412)
— Current year's deferred taxes	5,743,563	(9,170,217)
— Tax benefits from tax loss carry forwards	1,282,581	14,183,658
— Effect of amortization of deferred assets and liabilities complementary accounts	(11,489,770)	(7,028,085)
Deferred tax subtotal	(4,463,626)	(2,014,644)
Total income tax expense	(59,779,033)	(21,077,056)

25

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\$
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Securities under agreement to resell	194,934,748	9,360,575
Deferred union contract bonus ^(a)	2,232,837	1,094,970
Adjustment to market value of mobile equipment ^(c)	—	3,175,473
Deferred forward contracts	564,531	997,688
Telephone directories in circulation	2,648,294	6,104,860
Discount on bonds (note 25)	2,071,096	510,996
Debt issuance costs (note 25)	1,335,971	1,575,864
Commercial paper issuance costs (note 25)	296,947	26,220
Deferred financing costs for debt incurred abroad ^(b)	696,779	670,468
Exchange forward contracts (net of partial liquidations)	5,809,806	11,100,767
Deferred actuarial loss on severance indemnity plans (net)	—	128,839
Others	1,237,280	1,279,451
Total	211,828,289	36,026,171

(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 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 client plan (contract or prepaid) of said equipment, with the exception of accommodation and rented equipment.

26

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):

Code	Dates		Counterparty	Original currency	Subscription value	Rate	Instrument	
	Inception	End					Final Value	Identification Book Value
CRV	Sep. 24, 2004	Oct. 01, 2004	ABN AMRO BANK	\$	5,178	0.15%	5,180	BCP0801204 5,179

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CRV	Sep. 10, 2004	Oct. 04, 2004	CORP BANCA ABN	\$	2,202,022	0.16%	2,204,841BCP0800805	2,204,371
CRV	Sep. 13, 2004	Oct. 05, 2004	AMRO BANK	\$	2,000,000	0.16%	2,002,347BCP0800614	2,001,813
CRV	Sep. 13, 2004	Oct. 05, 2004	BCI ABN	\$	10,000,000	0.17%	10,012,467BCP0800708	10,009,633
CRV	Sep. 20, 2004	Oct. 06, 2004	AMRO BANK SCOTIA	\$	6,300,000	0.16%	6,305,376BCP0801204	6,303,360
CRV	Sep. 13, 2004	Oct. 06, 2004	SD DAMERICANO C. DE B. SCOTIA	\$	4,694,130	0.15%	4,699,528BCP0800805	4,698,120
CRV	Sep. 20, 2004	Oct. 06, 2004	SD DAMERICANO C. DE B.	\$	7,994,563	0.16%	8,001,385BCP0800406	7,998,826
CRV	Sep. 14, 2004	Oct. 07, 2004	BANCOESTADO	\$	6,515,814	0.16%	6,523,807BCP0801205	6,521,374
CRV	Sep. 14, 2004	Oct. 07, 2004	BANCOESTADO	\$	2,232,426	0.16%	2,235,164BCP0800907	2,234,331
CRV	Sep. 14, 2004	Oct. 07, 2004	CITIBANK N.A.	\$	9,297,514	0.16%	9,308,919BCP0801205	9,305,448
CRV	Sep. 15, 2004	Oct. 13, 2004	BANCO BICE	\$	108,603	0.16%	108,765BCP0801205	108,690
CRV	Sep. 15, 2004	Oct. 13, 2004	BCI	\$	8,000,000	0.17%	8,012,693BCP0800708	8,006,800
CRV	Sep. 16, 2004	Oct. 14, 2004	BANCO BICE	\$	2,907,810	0.14%	2,911,610BCP0800805	2,909,710
CRV	Sep. 16, 2004	Oct. 14, 2004	BANCOESTADO	\$	3,080,708	0.14%	3,084,733BCP0800708	3,082,721
CRV	Sep. 16, 2004	Oct. 14, 2004	BCI	\$	6,500,000	0.17%	6,510,313BCP0800708	6,505,157
CRV	Sep. 22, 2004	Oct. 18, 2004	BBVA	\$	448,989	0.16%	449,612BCP0800805	449,181
CRV	Sep. 22, 2004	Oct. 18, 2004	BBVA SCOTIA	\$	8,657,204	0.16%	8,669,209BCP0801205	8,660,898
CRV	Sep. 21, 2004	Oct. 19, 2004	SD DAMERICANO C. DE B.	\$	2,799,526	0.16%	2,803,707BCP0800406	2,800,870
CRV	Sep. 21, 2004	Oct. 20, 2004	BANCOESTADO ABN	\$	10,868,839	0.16%	10,885,650BCP0800907	10,874,056
CRV	Sep. 23, 2004	Oct. 21, 2004	AMRO BANK SCOTIA	\$	771,546	0.16%	772,698BCP0801204	771,834
CRV	Sep. 23, 2004	Oct. 21, 2004	SD DAMERICANO C. DE B. SCOTIA	\$	2,109,858	0.16%	2,113,009BCP0800805	2,110,646
CRV	Sep. 23, 2004	Oct. 21, 2004	SD DAMERICANO C. DE B.	\$	1,387,232	0.16%	1,389,303BCP0800805	1,387,750
CRV			UF		994,822	0.15%	995,170BCU0500907	995,122

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	Sep. 24, 2004	Oct. 01, 2004	ABN AMRO BANK						
CRV	Sep. 13, 2004	Oct. 06, 2004	BANK BOSTON SCOTIA	UF	14,359	0.16%	14,376	CERO010108	14,372
CRV	Sep. 13, 2004	Oct. 06, 2004	DAMERICANO C. DE B. SCOTIA	UF	5,870	0.15%	5,877	CERO010508	5,875
CRV	Sep. 20, 2004	Oct. 06, 2004	DAMERICANO C. DE B.	UF	5,437	0.16%	5,442	CERO011107	5,440
CRV	Sep. 14, 2004	Oct. 07, 2004	BANCOESTADOUF		3,795	0.16%	3,800	CERO011205	3,798
CRV	Sep. 14, 2004	Oct. 07, 2004	BANCOESTADOUF		247,965	0.16%	248,269	CERO010108	248,177
CRV	Sep. 14, 2004	Oct. 07, 2004	CITIBANK N.A.	UF	2,486	0.16%	2,489	CERO011005	2,488
CRV	Sep. 15, 2004	Oct. 13, 2004	BANCO BICE	UF	493,246	0.16%	493,982	CERO010105	493,640
CRV	Sep. 16, 2004	Oct. 14, 2004	BANCO BICE	UF	474,236	0.14%	474,855	PRC-4D0197	474,545
CRV	Sep. 16, 2004	Oct. 14, 2004	BANCOESTADOUF		1,001	0.14%	1,002	CERO011105	1,001
CRV	Sep. 16, 2004	Oct. 14, 2004	BANCOESTADOUF		18,292	0.14%	18,316	PRC-4A0301	18,304
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	21,167	0.14%	21,195	CERO011105	21,181

27

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	Dates		Original Counterparty	Subscription currency	Subscription value	Rate	Final Value	Instrument Identification	Book Value
	Inception	End							
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	185,660	0.14%	185,903	PRC-1D0698	185,782
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	103,883	0.14%	104,019	PRC-1D1298	103,951
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	42,413	0.14%	42,469	PRC-4B1297	42,441

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CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	356,918	0.14%	357,385	PRC-4D0397	357,151
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	56,118	0.14%	56,192	PRC-4D0798	56,155
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	1,217,243	0.14%	1,218,834	PRC-4D0201	1,218,039
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	98,210	0.14%	98,339	PRC-5C1293	98,275
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	16,336	0.14%	16,357	PRC-5C0294	16,346
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	53,104	0.14%	53,174	PRC-5C0395	53,139
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	123,723	0.14%	123,885	PRC-5C0596	123,804
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	85,446	0.14%	85,557	PRC-5D0393	85,502
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	292,655	0.14%	293,037	PRC-5D0493	292,846
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	196,454	0.14%	196,710	PRC-5D1293	196,582
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	2,841,060	0.14%	2,844,772	PRC-5D0396	2,842,916
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	372,213	0.14%	372,699	PRC-6B0495	372,456
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	744,547	0.14%	745,519	PRC-6D0495	745,033
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	41,179	0.14%	41,233	PRC-5C0696	41,206
CRV	Sep. 16, 2004	Oct. 14, 2004	CITIBANK N.A.	UF	1,151,669	0.14%	1,153,174	BCP0800805	1,152,421
SCOTIA									
CRV	Sep. 21, 2004	Oct. 20, 2004	SUDAMERICANO C. DE B.	UF	474	0.16%	475	CERO011107	474
CRV	Sep. 21, 2004	Oct. 20, 2004	BANCOESTADOUF	UF	449,196	0.16%	449,891	PRC-6D0594	449,411
CRV	Sep. 21, 2004	Oct. 20, 2004	BANCOESTADOUF	UF	200,541	0.16%	200,851	PRC-5D0697	200,637
CRV	Sep. 21, 2004	Oct. 20, 2004	BANCOESTADOUF	UF	171,062	0.16%	171,326	PRC-6B0695	171,144
CRV	Sep. 21, 2004	Oct. 20, 2004	BANCOESTADOUF	UF	209,975	0.16%	210,300	PRC-6D0896	210,076
CRV	Sep. 21, 2004	Oct. 20, 2004	BANCOESTADOUF	UF	388	0.16%	388	CERO010705	388
ABN									
CRV	Sep. 23, 2004	Oct. 21, 2004	AMRO BANK	UF	2,828,454	0.16%	2,832,678	BCU0500907	2,829,510
SCOTIA									
CRV	Sep. 23, 2004	Oct. 20, 2004	SUDAMERICANO C. DE B.	UF	2,910	0.16%	2,914	CERO010705	2,911
CRV	Sep. 10, 2004	Oct. 04, 2004	BANK BOSTON	US\$	10,000,000	0.16%	10,012,800	BCD0500205	10,010,667

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CRV	Sep. 20, 2004	Oct. 05, 2004	BANCO DE CHILE	US\$	9,692,995	0.16%	9,700,701	BCD0500205	9,698,132
CRV	Sep. 20, 2004	Oct. 05, 2004	BANCO DE CHILE	US\$	4,607,005	0.16%	4,610,668	BCD0500605	4,609,447
CRV	Sep. 13, 2004	Oct. 06, 2004	BANK BOSTON	US\$	9,985,641	0.16%	9,997,890	BCD0500205	9,994,695
CRV	Sep. 15, 2004	Oct. 13, 2004	BBVA	US\$	308,154	0.16%	308,614	BCD0501104	308,400
CRV	Sep. 15, 2004	Oct. 13, 2004	BBVA	US\$	9,791,846	0.16%	9,806,469	PRD04D0602	9,799,680
CRV	Sep. 15, 2004	Oct. 13, 2004	BANCO BICE	US\$	639,721	0.16%	640,676	PRD04D0901	640,233
CRV	Sep. 15, 2004	Oct. 13, 2004	BANCO BICE	US\$	158,431	0.16%	158,667	ZERO041101	158,558

28

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:

e	Dates		Counterparty	Original currency	Subscription value	Rate	Final Value	Instrument Identification	Book V
	Inception	End							
	Sep. 14, 2004	Oct. 14, 2004	BBVA	US\$	138,356	0.17%	138,584	BCD0501104	138
	Sep. 14, 2004	Oct. 14, 2004	BBVA	US\$	2,926,686	0.17%	2,931,515	PRD04B1001	2,929
	Sep. 14, 2004	Oct. 14, 2004	BBVA	US\$	1,294,285	0.17%	1,296,420	PRD04D1201	1,295
	Sep. 14, 2004	Oct. 14, 2004	BBVA	US\$	640,673	0.17%	641,730	PRD04C0302	641
	Sep. 14, 2004	Oct. 14, 2004	BBVA	US\$	13,509	0.17%	13,531	ZERO041101	13
	Sep. 14, 2004	Oct. 14, 2004	BBVA	US\$	1,902,869	0.17%	1,906,009	PRD04D0901	1,904
	Sep. 14, 2004	Oct. 14, 2004	BBVA	US\$	3,083,622	0.17%	3,088,710	BCD0501005	3,086
	Sep. 16, 2004	Oct. 14, 2004	BANCO BICE	US\$	17,954	0.14%	17,978	ZERO041101	17
			BANCO DE CHILE	US\$	31,150	0.16%	31,193	BCD0500205	31

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Sep. 22, 2004	Oct. 18, 2004								
Sep. 22, 2004	Oct. 18, 2004	BANCO DE CHILE	US\$	917,535	0.16%	918,807	BCD0500605	917,535	
Sep. 22, 2004	Oct. 18, 2004	BANCO DE CHILE	US\$	129,945	0.16%	130,125	PRD04A1001	130,125	
Sep. 22, 2004	Oct. 18, 2004	BANCO DE CHILE	US\$	324,862	0.16%	325,313	PRD04C1001	325,313	
Sep. 22, 2004	Oct. 18, 2004	BANCO DE CHILE	US\$	1,296,507	0.16%	1,298,305	PRD04C1101	1,298,305	
Sep. 22, 2004	Oct. 18, 2004	BBVA	US\$	631,542	0.16%	632,418	PRD04D0901	632,418	
Sep. 22, 2004	Oct. 18, 2004	BBVA	US\$	1,943,143	0.16%	1,945,838	PRD04D1001	1,945,838	
Sep. 22, 2004	Oct. 18, 2004	BBVA	US\$	319,121	0.16%	319,564	PRD04C0302	319,564	
Sep. 21, 2004	Oct. 19, 2004	BANCO DE CHILE	US\$	8,495,685	0.16%	8,508,371	BCD0500205	8,508,371	
Sep. 21, 2004	Oct. 19, 2004	BANCO DE CHILE	US\$	472,391	0.16%	473,097	BCD0500605	473,097	
Sep. 21, 2004	Oct. 19, 2004	BANCO DE CHILE	US\$	31,924	0.16%	31,972	BCD0501005	31,972	
Sep. 23, 2004	Oct. 21, 2004	BANCO DE CHILE	US\$	3,617,247	0.16%	3,622,649	BCD0500205	3,622,649	
Sep. 23, 2004	Oct. 21, 2004	BANCO DE CHILE	US\$	31,669	0.16%	31,717	BCD0500605	31,717	
Sep. 23, 2004	Oct. 21, 2004	BANCO DE CHILE	US\$	256,826	0.16%	257,210	BCD0501005	257,210	
Sep. 23, 2004	Oct. 21, 2004	BANCO DE CHILE	US\$	650,364	0.16%	651,336	PRD04D1001	651,336	
Sep. 23, 2004	Oct. 21, 2004	BANCO DE CHILE	US\$	648,892	0.16%	649,861	PRD04D1101	649,861	
Sep. 23, 2004	Oct. 21, 2004	BANCO DE CHILE	US\$	1,295,001	0.16%	1,296,935	PRD04D1201	1,296,935	
Sep. 23, 2004	Oct. 21, 2004	BANK BOSTON	US\$	5,500,000	0.15%	5,507,700	BCD0500605	5,507,700	
				194,802,020		195,056,543		194,802,020	

29

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. Property, plant and equipment:

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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	—	26,184,666	—	28,165,146
Building and improvements	77,760,531	188,481,195	74,171,557	189,972,371
Machinery and equipment	1,931,466,928	3,086,651,531	1,935,240,052	3,499,145,112
Central office telephone equipment	916,491,499	1,204,710,569	990,723,137	1,648,385,519
External plant	713,846,972	1,431,010,895	655,838,335	1,415,571,963
Subscribers' equipment	267,052,784	414,916,185	257,090,699	399,005,074
General equipment	34,075,673	36,013,882	31,587,881	36,182,556
Other Property, Plant and Equipment	138,169,742	251,491,620	197,132,518	387,406,971
Office furniture and equipment	74,838,604	104,836,303	93,367,098	134,362,976
Projects, work in progress and their materials	—	54,077,911	—	113,986,095
Leased assets ⁽¹⁾	3,878,247	5,181,172	4,270,282	10,889,578
Property, plant and equipment temporarily out of service	12,440,740	19,604,503	11,727,538	19,860,375
Software	46,216,937	66,779,548	82,659,547	100,286,293
Others	795,214	1,012,183	5,108,053	8,021,654
Technical revaluation—Circular 550	10,566,820	9,386,693	10,608,279	9,399,467
Total	2,157,964,021	3,562,195,705	2,217,152,406	4,114,089,067

(1)As of September 30, 2004 this account is mainly composed of: ThCh\$ 3,283,039 gross value of electronic and computer equipment and accumulated depreciation of ThCh\$ 3,268,083 under a 12-year contract signed in 1994, in addition to ThCh\$ 1,000,996 gross value of long-distance transmission equipment and accumulated depreciation of ThCh\$ 243,993 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\$ 182,785,511. Accumulated depreciation of this interest amounts to ThCh\$ 103,120,789 and ThCh\$ 98,800,594 in 2004 and 2003, respectively.

Operating costs includes a depreciation charge for the nine-month period ended September 30 of ThCh\$ 173,526,208 and ThCh\$ 199,358,602 for 2004 and 2003, respectively, and administration and selling costs includes a depreciation charge of ThCh\$ 5,223,952 for the nine-month period ended September 30, 2004 and ThCh\$ 2,000,271 for the nine-month period ended September 30, 2003. Property, plant and equipment temporarily out of service, is made up mainly of telephone equipment being repaired and depreciation amounting to ThCh\$ 2,924,948 and ThCh\$ 2,571,901 for the nine-month period ended September 30, 2004 and 2003 respectively, which are classified under Other Non-operating Expenses.

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

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

Description	Net	Accumulated	Gross property,	Gross property,
	Balance	Depreciation	plant and equipment 2004	plant and equipment 2003
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Land	(486,090)	—	(486,090)	(486,442)
Building and improvements	(932,293)	(3,732,133)	(4,664,426)	(4,664,425)
Machinery and equipment	238,256	14,298,953	14,537,209	14,550,334
Total	(1,180,127)	10,566,820	9,386,693	9,399,467

Depreciation of the technical reappraisal surplus for the period amounts to ThCh\$ 39,437 for the nine-month period ended September 30, 2004 and ThCh\$ (22,318) for the nine-month period ended September 30, 2003.

Gross property, plant and equipment includes assets that have been totally depreciated in the amount of ThCh\$ 843,310,750 as of September 30, 2004 and ThCh\$ 672,522,395 as of September 30, 2003, which include ThCh\$ 12,151,217 and ThCh\$ 12,219,571, respectively, from the reappraisals mentioned in Circular No. 550.

31

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:

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\$
0,999,739	2.61	2.61	167,562,724	185,577,053	56,797	2,232,283	1,482	58,262	4,373,388	4,843,5

3,049,998	28.84	28.84	11,454,331	9,790,018	1,221,167	422,005	352,184	121,706	3,303,427	2,823,4
45,648	—	9.00	—	32,065,631	—	9,925,470	(77,533)	893,292	—	2,885,9
271,615	20.00	20.00	397,895	463,944	(38,679)	(135,344)	(7,736)	(27,068)	79,579	92,7
52,282	—	35.00	—	—	—	(1,132,489)	—	(396,371)	—	—
									7,756,394	10,645,6

(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 or taxes).

Telefónica Empresas, does not participate in Sonda S.A. since September 30, 2003, it has only recognized 35% of the 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.

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.

32

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements, continued
(Translation of financial statements originally issued in Spanish)

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 nine-month period ended September 30 ThCh\$	Balance of Goodwill ThCh\$	Amount amortized in the nine-month period ended September 30 ThCh\$	Balance of Goodwill ThCh\$
Foreign	TBS Celular Holding	2001	134,384	2,609,701	133,893	2,789,207
96.887.420-9	Globus 120 S.A.	1998	829,103	15,521,121	826,077	16,628,607
78.703.410-1	Tecnonáutica S.A.	1999	109,751	913,659	109,577	1,061,031
96.786.140-5	Telefónica Móvil S.A. (c)	1997	138,829,225	—	7,516,966	142,877,417
96.834.320-3	Telefónica Internet Empresas S.A. (b)	1999	67,778	564,237	67,531	654,774
96.811.570-7	Telepeajes S.A.	2001	29,774	9,889	29,578	49,513
83.628.100-4	Sonda S.A. (a)	1999	—	—	11,888,770	—
	Total		140,000,015	19,618,607	20,572,392	164,060,549

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) Due to the sale of this subsidiary on July 23, 2004 the Company extraordinarily amortized the goodwill of ThCh\$ 133,872,010 arising on outstanding on that investment as of June 30, 2004.

13. Intangibles:

The detail of Intangibles is as follows:

	2004 ThCh\$	2003 ThCh\$
Underwater cable rights (gross)	31,379,027	24,544,016
Accumulated amortization previous period	(3,338,724)	(2,410,311)
Amortization for the period	(1,229,403)	(675,736)
Licenses (Software) (gross)	3,361,789	2,395,855
Accumulated amortization previous period	(935,656)	(268,390)
Amortization for the period	(677,482)	(471,782)
Licenses for use of broad-band width	—	9,785,104
Accumulated amortization previous period	—	(27,156)
Amortization for the period	—	(244,653)
Total Net Intangibles	28,559,551	32,626,947

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. Others (from Other Assets):

The detail of Others is as follows:

	2004 ThCh\$	2003 ThCh\$
Debt issuance costs (see note 8b)	923,531	1,425,083
Deferred union contract bonus (see note 8a)	1,731,532	429,421
Bond issue expenses (see note 25)	701,905	2,699,594
Leased vehicles	77,331	250,976
Bond discount (see note 25)	246,445	3,613,950
Deferred forward contract premiums	53,317	143,735
Prepaid pole rental	—	486,210
Securities deposits	147,144	302,355
Others	75,687	775,222
Total	3,956,892	10,126,546

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:

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

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\$
b. Short-term	—	—	—	—	9,346,384	9,461,363	9,346,384	9,461,363

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BANCO ESTADO									
0-5 BANCO SANTANDER SANTIAGO	—	—	—	—	9,987,225	10,044,131	9,987,225	10,044,131	10,044,131
Total	—	—	—	—	19,333,609	19,505,494	19,333,609	19,505,494	19,505,494
Outstanding principal	—	—	—	—	19,099,879	19,424,313	19,099,879	19,424,313	19,424,313
Average annual interest rate	—	—	—	—	2.98%	3.89%	2.98%	3.89%	2.98%
Short-term portion of long-term									
0-5 BANCO SANTANDER SANTIAGO	—	—	444,684	31,308,885	—	—	444,684	31,308,885	31,308,885
ABN AMRO BANK	1,249,514	1,085,221	—	—	—	—	1,249,514	1,085,221	1,085,221
BANCO BILBAO VIZCAYA									
ARGENTINA	137,690,979	17,568,168	—	—	—	—	137,690,979	17,568,168	17,568,168
0-7 BANCO CITIBANK	—	7,271,964	—	—	—	—	—	7,271,964	7,271,964
Total	138,940,493	25,925,353	444,684	31,308,885	—	—	139,385,177	57,203,242	57,203,242
Outstanding principal	137,002,500	24,024,639	—	30,633,218	—	—	137,002,500	54,688,067	54,688,067
Average annual interest rate	2.38%	1.63%	1.55%	5.09%	—	—	2.38%	1.63%	1.55%
Percentage of obligations in foreign currency: 87.54% for 2004 and 33.78% for 2003									
Percentage of obligations in national currency: 12.46% for 2004 and 66.22% for 2003									

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:

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 Sep. 30, 2004 ThCh\$		Long-term portion as of Sep. 30, 2003 ThCh\$
			1 to 2 ThCh\$	2 to 3 ThCh\$	3 to 5 ThCh\$			
	LOANS IN DOLLARS							
	ABN AMRO BANK						Libor +	
Foreign	(1)	US\$	63,934,500	82,201,500	36,534,000	182,670,000	1.063%	201,659,205
	BANCO BILBAO VIZCAYA							
Foreign	ARGENTARIUS	US\$	—	—	—	—	—	134,439,469
	BANCO CITIBANK							
97.008.000-7(2)		US\$	—	—	—	—	—	10,829,558
	SUBTOTAL		63,934,500	82,201,500	36,534,000	182,670,000	2.95%	346,928,232
	LOANS IN UNIDADES DE FOMENTO							
	BANCO SANTANDER SANTIAGO						Tab 360 +	
97.015.000-5(3)		UF	—	—	61,113,223	61,113,223	0.95%	30,633,219
	TOTAL		63,934,500	82,201,500	97,647,223	243,783,223	2.60%	377,561,451
	Percentage of obligations in foreign currency: Percentage							74.93% in 2004 and 91.89% in 2003 25.07% in 2004 and 8.11% in 2003

of
obligations
in local
currency:

- (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 August 2004, the Company prepaid this loan, the original maturity of which was January 2006.
- (3) In March 2004, the Company renegotiated this loan, extending the maturity date from April 2004 to April 2008.

36

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:

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) 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:

Registration or identification number of the instrument	Series	Current nominal amount placed M\$	Bond readjustment unit M\$	Interest rate %	Accounting value			Placement in Chile or abroad
					Final Maturity	2004 M\$	2003 M\$	
Short-term commercial papers								
005	B	10,000,000	Ch\$ non-adjustable	0,2974	Nov 20, 2003	—	10,119,174	Chile
005	C	17,500,000	Ch\$ non-adjustable	0,2257	Apr 5, 2005	17,275,230	—	Chile

005	D	17,500,000	Ch\$ non-adjustable	0,2286	May 5, 2005	17,233,854	—	Chile
				Total		34,509,084	10,119,174	

37

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	Par value		Location of bond placement	
							2004	2003		
							Th	Ch\$		
Short-term portion of long-term bonds										
143.27.06	191	71,429	U.F.	6.000	Apr.2016	Semi-annual	1,634,085	1,664,132	Chile	
203.23.04	498	37,879	U.F.	6.750	Feb.2020	Semi-annual	1,213,844	695,718	Chile	
Issued in New Yankee York Bonds			—US\$	7.625	Jul.2006	Semi-annual	Maturity 2,472,926	2,807,115	Abroad	
Issued in New Yankee York Bonds			—US\$	8.375	Jan.2006	Semi-annual	Maturity 1,778,603	2,029,383	Abroad	
Issued in Luxembourg bonds			—EURO	5.375	Aug.2004	Semi-annual	Maturity	—	104,517,278	Abroad
Long-term bonds						Total	7,099,458	111,713,626		

143.27.0691	714,286	U.F.	6.000	Apr.2016	Semi-annual	Semi-annual	13,507,041	14,771,896	Chile
203.23.0498	3,954,546	U.F.	6.750	Feb.2020	Semi-annual	Semi-annual	67,981,722	68,804,953	Chile
Issued									
in Yankee									
New Bonds									
York (a)	187,684,998	US\$	7.625	Jul.2006	Semi-annual	Maturity	114,281,396	126,161,359	Abroad
Issued									
in									
New Yankee									
York Bonds	200,000,000	US\$	8.375	Jan.2006	Semi-annual	Maturity	121,780,000	134,439,470	Abroad
							Total	317,550,159	344,177,678

(a) Starting 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 unamortized placement expenses on these bonds, as well as the bond discount.

38

COMPANÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

18. Accruals:

The detail of accruals shown in liabilities is as follows:

	2004	2003
	ThCh\$	ThCh\$
Current		
Staff severance indemnities	104,607	229,969
Vacation	2,864,731	4,011,213
Other employee benefits (a)	6,461,216	8,938,660
Employee benefit advances	(2,946,742)	(3,532,888)
	6,483,812	9,646,954
Long-term		
Staff severance indemnities	19,057,449	19,430,545
Total	25,541,261	29,077,499

(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\$ 141,249 and ThCh\$ 1,362,768, 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	3,366,911	3,413,231
Other non-operating expenses	3,188,902	—
Total	6,555,813	3,413,231
Payments in the period	(6,909,438)	(1,394,855)

20. Minority interest:

Minority interest recognizes the portion of equity and revenues of subsidiaries, owned by third parties. The breakdown for the nine-month periods ended September 30, 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	124,863	17,995	30,439	(12,135)
Telefónica Mundo S.A.	0.84	0.84	1,179,020	1,102,039	112,930	149,232
Fundación Telefónica	50.00	50.00	215,818	157,128	36,068	(31,674)
Comunicaciones Mundiales S.A.	0.34	0.34	—	5,489	—	97
CTC Equipos y Servicios S.A.	0.0001	—	37	31	5	6
		Total	1,519,738	1,282,682	179,442	105,526

39

COMPANIA 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 periods ended September 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\$	Provisory dividend ThCh\$	Total shareho equi ThCh\$
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2004

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es as of ber 31, 2003	859,490,281	—	—	(791,199)	421,404,583	10,133,882	—	1,290,23
r of 2003								
ome to l earnings	—	—	—	—	10,133,882	(10,133,882)	—	
ment of investment								
ion reserve	—	—	—	(29,889)	—	—	—	(2
ividend	—	—	—	—	(3,062,903)	—	—	(3,06
ventual d	—	—	—	—	(383,441,784)	—	—	(383,44
terim d	—	—	—	—	—	—	(252,244,349)	(252,24
vel ment	—	16,330,315	—	(16,121)	5,789,769	—	(783,245)	21,32
ome for the	—	—	—	—	—	324,372,126	—	324,37
es as of ber 30, 2003	859,490,281	16,330,315	—	(837,209)	50,823,547	324,372,126	(253,027,594)	997,15
es as of ber 31, 2002	736,468,120	—	114,512,356	1,924,736	451,465,216	(17,680,376)	—	1,286,69
r of 2002								
retained	—	—	—	—	(17,680,376)	17,680,376	—	
s tion of lated deficit ment	114,512,356	—	(114,512,356)	—	—	—	—	
ividend					(16,750,249)	—	—	(16,75
ment of investment								
ion reserve	—	—	—	(1,887,404)	—	—	—	(1,88
vel ment	—	10,211,766	—	21,695	5,188,668	—	—	15,42
ome for the	—	—	—	—	—	9,509,308	—	9,50
es as of ber 30,	850,980,476	10,211,766	—	59,027	422,223,259	9,509,308	—	1,292,98
d balances								
eptember 4	865,435,375	10,385,221	—	60,030	429,395,215	9,670,834	—	1,314,94

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

As of September 30, 2004, the Company's paid-in capital is detailed as follows:

Number of shares:

	Series	No. of subscribed	No. of paid shares	No. of shares with
		shares		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	Paid-in
	Capital ThCh\$	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 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 September 30, 2004 is as follows:

Class of shareholder	Percentage of Total holdings %	Number of shareholders
10% holding or more	57.29	2
Less than 10% holding exceeding UF 200	41.94	1,887
Investment under UF 200	0.77	11,584
Total	100.00	13,473
Controlling share holder	44.90	1

(c) Dividends:

As established in Law No. 18,046, unless otherwise agreed upon by 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 dividend distribution policy proposed by the Board for 2003 was made known to the Ordinary Shareholders' Meeting.

Distribute for 2003, at least 30% of net income earned 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 Ordinary Shareholders' Meeting.

On July 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.

41

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. Equity, continued:

(c) Dividends, continued:

On April 15, 2004, the Ordinary Shareholders' Meeting, approved the payment of final dividend No. 164 of Ch\$ 3.20 per share equivalent to ThCh\$ 3,062,903, charging net income for 2003. The dividend was paid on May 7, 2004.

Additionally during July 2004 distribution of the following dividends was agreed:

— On June 14, 2004, the Board of Directors of the Company agreed to distribute to shareholders an interim dividend against net income for 2004.

— 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 eventual dividend against retained earnings as of December 31, 2003.

Both dividends, for US\$ 800 million, were subject to the closing 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 paying the tax derived from the sales transaction, amounting to US\$ 51 million.

On July 23, 2004, the contract was signed for the sale of shares of former subsidiary Telefónica Móvil de Chile S.A. Therefore, on August 31, 2004, the Company paid the previously approval dividends corresponding to the sale of its subsidiary. The dividends are broken down in the following manner:

- Dividend No. 165, ThCh\$ 383,441,784 charges to retained earnings.
- Interim dividend No. 166, ThCh\$ 127,813,928, declared out of 2004 income.

On September 21, 2004, the Company's Board, taking into account the cash situation, the projected investment levels and the solid financial indicators for 2004 and later, modified the dividend distribution policy, reported to the Ordinary Shareholders' Meeting of April 2004, and declared that it was the intention of the Board to distribute 100% of net income earned during the current year, by means of an interim dividend in November of each year and a final

dividend in May of the following year, that will be submitted to the corresponding Ordinary Shareholders' Meeting.

In the context of the foregoing modification, the Board agreed to distribute an interim dividend (No. 167) out of net income of Ch\$130 per share equivalent to ThCh\$ 124,430,423 for 2004 and which will be paid on November 4, 2004.

(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:

Company	Amount	Price-level restatement	Net Movement	Balance as of
	December 31, 2003			September 30, 2004
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
96.720.710- Invercom S.A.	41,417	—	(41,417)	—
84.119.600- Instacom S.A.	15,883	—	(15,883)	—
Foreign TBS Participación S.A. (1)	(848,499)	(16,121)	27,411	(837,209)
Total	(791,199)	(16,121)	29,889	(837,209)

(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.

42

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	2003
	ThCh\$	ThCh\$
Penalties on suppliers and indemnities	127,743	1,170,206
Proceeds from sale of used equipment	928,098	463,820
Sales of promotional material	101,076	—
Real estate rental	127,321	—
Gain on sale Publiguías S.A. (1)	6,463,669	—
Gain on sale Telefónica Móvil de Chile S.A. (2)	462,148,130	—
Provision for lower market value of New Skies Satellites	222,413	—
Gain on sale Sonda S.A (4)	—	3,651,096
Provision for adjustment of Terra Network to market value (3)	—	3,458,766
Compensatory final payment for Publiguías agreement termination	—	1,598,624

Others		1,569,834	1,218,908
	Total	471,688,284	11,561,420

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

(2) See note 2 d) "Significant Accounting Principles" number 6.

(3) The Board meeting held on July 10, 2003, approved the sale of the 2,984,986 shares that the company held in Terra Networks S.A., through the IPO (Initial Public Offering) launched by Telefónica S.A. The IPO 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	1,141,359	1,996,280
Depreciation and retirement of out of service property, plant and equipment (1)	2,924,948	3,090,262
Resignment costs	3,366,575	—
Provision for assets in disuse	—	528,487
Donations	—	149,990
Others	354,912	1,470,573
Total	7,787,794	7,235,592

(1) As of September 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.

43

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:

Assets (Charges) Credits	Indexation	2004 ThCh\$	2003 ThCh\$
Inventories	C.P.I.	116,381	47,336
Prepaid expenses	C.P.I.	3,314	—
Prepaid expenses	U.F.	(30,126)	—

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Other current assets	C.P.I.	329,801	565,625
Other current assets	U.F.	(3,902,531)	(6,302,299)
Short and long-term deferred taxes	C.P.I.	2,529,577	1,795,709
Property, plant and equipment	C.P.I.	30,793,593	23,710,186
Investments in related companies	C.P.I.	98,803	235,402
Goodwill	C.P.I.	1,489,453	2,189,234
Long-term debtors	C.P.I.	178,876	(1,335,781)
Long-term debtors	U.F.	(188,913)	—
Other long-term assets	C.P.I.	617,586	305,806
Other long-term assets	U.F.	32,809	2,239,313
Expense accounts	C.P.I.	5,740,721	2,679,064
Total (Charges) Credits		37,809,344	26,129,595

Liabilities — Shareholders' Equity (Charges) Credits	Indexation	2004	2003
		ThCh\$	ThCh\$
Short-term obligations	C.P.I.	(9,267)	(52,030)
Short-term obligations	U.F.	(3,904,180)	(3,296,939)
Long-term obligations	C.P.I.	(209,523)	(14,352)
Long-term obligations	U.F.	(2,336,985)	(3,673,216)
Shareholders' equity	C.P.I.	(21,320,718)	(15,684,093)
Revenue accounts	C.P.I.	(12,104,657)	(3,824,106)
Total Credits (Charges)		(39,885,330)	(26,544,736)
Loss from price-level restatement, net		(2,275,986)	(415,141)

44

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:

Assets (Charges) Credits	Currency	2004	2003
		ThCh\$	ThCh\$
Current assets	US\$	24,568,252	(6,998,466)
Current assets	EURO	3,764,143	(2,873,385)
Long-term receivables	US\$	5,206,898	1,897,816
Long-term receivables	EURO	—	(7,025,834)
Other long-term assets	US\$	106,558	(187,023)
Other long-term assets	EURO	71	19,672
Total Credits		33,645,922	(15,167,220)
Liabilities (Charges) Credits	Currency		

		2004	2003
		ThCh\$	ThCh\$
Short-term obligations	US\$	366,060	(43,918,470)
Short-term obligations	EURO	(3,668,081)	(1,641,854)
Long-term obligations	US\$	(16,879,249)	50,784,211
Long-term obligations	EURO	—	11,323,370
Total (Charges)		(20,181,270)	16,547,257
Income net, from foreign exchange gain		13,464,652	1,380,037

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	1,335,971	1,575,864	701,905	2,699,594
Discount on debt	2,071,096	510,996	246,445	3,613,950
Commercial papers issuance expense	296,947	26,220	—	—
Total	3,704,014	2,113,080	948,350	6,313,544

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".

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

45

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. Issuance and placement of shares and debt expense, continued:

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

	Maturity	ThCh\$
Zero	2005	20,040,947
BCD	2004	3,177,990

c) Cash and cash equivalents:

	2004	2003
	ThCh\$	ThCh\$
Cash	6,559,003	11,253,673
Time deposits	162,306,466	273,430
Investments in debt securities	194,934,748	9,360,575
Mutual funds	434,248	81,959
Total	364,234,465	20,969,637

46

COMPAÑÍA DE TELECOMMUNICACIONES 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 CONTRACT	TYPE OF CONTRACT	CONTRACT VALUE	MATURITY OR EXPIRY	SPECIFIC PURCHASE OR SALE POSITION	HEDGED ITEM OR TRANSACTION NAME	AMOUNT	VALUE OF HEDGED ITEM ThCh\$	AFFECTED ACCOUNTS		EFFECT ON INCOME
								ASSET / LIABILITY NAME	AMOUNT	
CI		40,000,000	IV Trim. 2004	Exchange rate	C Oblig. in US\$	40,000,000	24,356,000	asset	24,356,000	—
								liabilities	(25,615,362)	
CI		23,800,000	I Trim. 2005	Exchange rate	C Oblig. in US\$	23,800,000	14,491,820	asset	14,491,820	—
								liabilities	(15,006,218)	
CI		36,000,000	II Trim. 2005	Exchange rate	C Oblig. in US\$	36,000,000	21,920,400	asset	21,920,400	—
								liabilities	(22,341,820)	
CI		19,000,000	III Trim. 2006	Exchange rate	C Oblig. in US\$	19,000,000	11,569,100	asset	11,569,100	—

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CCPE	167,700,000	IV Trim. 2004	Exchange rate	C	Oblig. in US\$	167,700,000	102,112,530	liabilities (12,938,085) asset 102,112,530	—	
CCPE	87,800,000	I Trim. 2005	Exchange rate	C	Oblig. in US\$	87,800,000	53,461,420	liabilities (108,617,619) asset 53,461,420	—	
CCPE	105,300,000	II Trim. 2005	Exchange rate	C	Oblig. in US\$	105,300,000	64,117,170	liabilities (53,729,797) asset 64,117,170	—	(3)
CCPE	138,500,000	III Trim. 2005	Exchange rate	C	Oblig. in US\$	138,500,000	84,332,650	liabilities (66,041,829) asset 84,332,650	—	(3)
CI	8,000,000	IV Trim. 2004	Exchange rate	C	Oblig. in US\$ fixed	8,000,000	4,871,200	liabilities (85,573,859) asset 4,871,200	—	
CI	10,400,000	I Trim. 2005	Exchange rate	C	Oblig. in US\$ fixed	10,400,000	6,332,560	liabilities (4,734,815) asset 6,332,560	—	
CI	20,000,000	II Trim. 2005	Exchange rate	C	Oblig. in US\$ fixed	20,000,000	12,178,000	liabilities (6,101,998) asset 12,178,000	—	
CI	9,000,000	III Trim. 2005	Exchange rate	C	Oblig. in US\$ fixed	9,000,000	5,480,100	liabilities (12,475,874) asset 5,480,100	—	
CCPE	38,000,000	IV Trim. 2004	Exchange rate	C	Oblig. in US\$ fixed	38,000,000	23,138,200	liabilities (5,686,591) asset 23,138,200	—	
CCPE	114,400,000	I Trim. 2005	Exchange rate	C	Oblig. in US\$ fixed	114,400,000	69,658,160	liabilities (24,372,024) asset 69,658,160	—	3
CCPE	81,000,000	II Trim. 2005	Exchange rate	C	Oblig. in US\$ fixed	81,000,000	49,320,900	liabilities (66,219,446) asset 49,320,900	—	

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CCPE	22,000,000	III Trim. 2005	Exchange rate	C	Oblig. in US\$ fixed	22,000,000	13,395,800	liabilities asset	(49,172,947) 13,395,800	—
CI	7,000,000	I Trim. 2005	Exchange rate	V	Oblig. in US\$	7,000,000	4,421,020	liabilities asset	(13,815,807) 4,421,020	—
CI	10,000,000	II Trim. 2005	Exchange rate	V	Oblig. in US\$	10,000,000	6,324,000	liabilities asset	(4,267,592) 6,324,000	—
CI	64,898	I Trim. 2005	Exchange rate	V	Oblig. in US\$	64,898	1,115,648	liabilities asset	(6,109,909) 1,115,648	—
CI	398,448	II Trim. 2005	Exchange rate	V	Oblig. in US\$	398,448	6,849,638	liabilities asset	(1,094,654) 6,849,638	—
CCTE	80,000,000	I Trim. 2005	Interest rate	C	Oblig. in US\$	80,000,000	—	liabilities liabilities	(6,712,153) 87,395	—
CCPE	70,000,000	I Trim. 2005	Interest rate	C	Oblig. in US\$	70,000,000	—	asset	(6,334)	—
Income for exchange forward								liabilities	(3,002,818)	4,397,895
Costs for exchange insurance forward contracts expensed period (net)								asset	617,848	(1,958,078) 10,470,686
										12,910,503

Types of derivatives:

FR: Forward

S: Swap

Type of Contract:

CCPE: Hedge contract for existing transactions

CCTE: Hedge contract for anticipated transactions

CI: Investment hedge contract

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

28. Contingencies and restrictions:

a) Lawsuits:

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

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

(ii) Labor lawsuits:

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

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

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

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

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

(iii) Complaint against Chilean government:

Upon extinction of the administrative avenues available to correct alleged illegalities incurred in setting rates, Telefónica CTC Chile S.A. filed an indemnity lawsuit for damages against the Government.

The lawsuit for US\$ 274 million, plus readjustments and interest, covers past and future damages until May 2004, due to lower mandated rates than those that should have legally been set.

The Third Civil Court of Santiago accepted the complaint, and notified the Government. Once the answer from the Government had been received, as well as its defense arguments for which the discussion period has ended, the Court of Justice dictated the writ of evidence, defining the pertinent, substantial and disputed evidence, which began the evidential stage, with declarations made by witnesses and presentation of documents by both parties.

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

(Translation of financial statements originally issued in Spanish)

28. Contingencies and restrictions, continued:

Once the evidential proceeding was concluded, the expert testimonies requested by the parties began. The Court designated the experts to testify on the different technical matters. On April 2 and June 17, 2004, the first expert reports were presented relating to the overdue status of the fixed telephone-mobile telephone access charges and the optimum location of the switching stations.

(iv) Manquehue Net:

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

b) Financial restrictions:

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

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

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

As of September 30, 2004 the Company complies with all the financial restrictions.

29. Third party guarantees:

The Company has not received any guarantees from third parties.

49

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements, continued

(Translation of financial statements originally issued in Spanish)

30. Local and Foreign Currency:

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

Description

Currency

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		2004	2003
		ThCh\$	ThCh\$
Total current assets:		655,968,008	422,673,959
	Non-indexed		
Cash	Ch\$	5,816,607	10,716,117
	Dollars	693,598	527,075
	Euros	48,798	10,481
	Indexed		
Time deposits	Ch\$	143,247,896	273,430
	Dollars	19,058,570	—
	Indexed		
Marketable securities	Ch\$	434,248	90,937
	Dollars	23,913,057	48,199,069
	Indexed		
Notes and accounts receivable (a)	Ch\$	15,283,390	803,610
	Non-indexed		
	Ch\$	168,606,294	233,616,694
	Dollars	14,400,648	—
	Indexed		
Notes and accounts receivable from related companies	Ch\$	—	5,461,223
	Non-indexed		
	Ch\$	12,619,516	1,057,451
	Dollars	12,737,218	13,470,403
	Indexed		
Other current assets (b)	Ch\$	30,341,935	52,340,500
	Non-indexed		
	Ch\$	201,958,302	42,300,869
	Dollars	6,807,931	13,423,375
	Euros	—	382,725
Total property, plant and equipment:		1,404,231,684	1,896,936,661
	Indexed		
Property, plant and equipment and accumulated depreciation	Ch\$	1,404,231,684	1,896,936,661
Total other long-term assets:		78,561,429	248,555,382
	Indexed		
Investment in related companies	Ch\$	7,756,394	10,645,697
	Indexed		
Investment in other companies	Ch\$	3,928	3,928
	Indexed		
Goodwill	Ch\$	19,618,607	164,060,549
	Indexed		
Other long-term assets (c)	Ch\$	41,629,518	45,481,317
	Non-indexed		
	Ch\$	8,855,850	9,906,264
	Dollars	697,132	18,457,627
Total assets		2,138,761,121	2,568,166,002
	Indexed		
	Ch\$	1,662,547,600	2,176,097,852
	Non-indexed		
	Ch\$	397,856,569	297,597,395
	Dollars	78,308,154	94,077,549
	Euros	48,798	393,206

(a) Includes the following balance sheet accounts: Trade Accounts Receivable, Notes Receivable and Miscellaneous Accounts Receivable.

(b) Includes the following balance sheet accounts: Inventories, Recoverable Taxes, Prepaid Expenses, Deferred Taxes and Other Current Assets.

(c) Includes the following balance sheet accounts: Long-term Debtors, Notes and Accounts Receivable from Related Companies, Intangibles, Accumulated amortization and Others.

50

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

30. Local and Foreign Currency, continued:

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

Description	Currency	Up to 90 days				90 days up to 1 year			
		2004	Average annual interest %	2003	Average annual interest %	2004	Average annual interest %	2003	Average annual interest %
		Amount ThCh\$		Amount ThCh\$		Amount ThCh\$		Amount ThCh\$	
Short-term obligations with banks and financial institutions	Non-indexed Ch\$	—	—	19,505,494	3.89	19,333,609	2.98	—	—
Short-term portion of obligations with banks and financial institutions	Indexed Ch\$	444,684	—	675,667	—	—	—	30,633,218	5.09
	Dollars	138,870,639	2.38	1,794,762	—	69,854	2.36	24,130,591	1.65
Obligations with the public (Commercial paper)	Non-indexed Ch\$	—	—	10,119,174	3.40	34,509,084	5.45	—	—
Obligations with the public (Bonds payable)	Indexed Ch\$	1,020,128	5.80	1,613,796	5.80	1,827,802	6.29	746,055	5.80
	Dollars	—	—	4,836,497	—	4,251,528	—	—	—

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	Euros	—	—	—	—	—	—	104,517,278	5.38
Long-term obligations maturing within a year	Indexed Ch\$	7,995	9.04	416,926	8.95	23,984	9.04	35,922	9.01
Notes and accounts payable to related parties	Indexed Ch\$	—	—	403,273	—	—	—	—	—
	Non-indexed Ch\$	9,681,642	—	12,272,663	—	7,076,254	—	7,196,452	—
	Dollars	4,909,734	—	426,371	—	166,298	—	160,984	2.89
Other current liabilities (d)	Indexed Ch\$	—	—	43,258,175	—	—	—	326,884	—
	Non-indexed Ch\$	213,819,744	—	157,159,500	—	29,153,729	—	—	—
	Dollars	1,267,643	—	5,954,245	—	—	—	—	—
TOTAL CURRENT LIABILITIES		400,022,209		258,436,543		96,412,142		167,747,384	
Subtotal by currency	Indexed Ch\$	1,472,807		46,367,837		1,851,786		31,742,079	
	Non-indexed Ch\$	213,501,386		199,056,831		90,072,676		7,196,452	
	Dollars	145,048,016		13,011,875		4,487,680		24,291,575	
	Euros	—		—		—		104,517,278	

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

51

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

30. Local and Foreign Currency, continued:

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

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		1 to 3 years 2004		3 to 5 years 2004		5 to 10 years 2004		over 10 years 2004	
		Average annual interest		Average annual interest		Average annual interest		Average annual interest	
		Amount ThCh\$	rate %	Amount ThCh\$	rate %	Amount ThCh\$	rate %	Amount ThCh\$	rate %
LONG-TERM LIABILITIES									
Obligation with banks and financial institutions	Indexed Ch\$	—	—	61,113,223	1.55	—	—	—	—
Bonds payable	Dollars	146,136,000	2.94	36,534,000	2.31	—	—	—	—
	Indexed Ch\$	4,409,324	6.26	6,883,754	6.41	25,068,428	6.52	45,127,256	6.03
Other long-term liabilities (e)	Dollars	236,061,397	8.01	—	—	—	—	—	—
	Indexed Ch\$	11,803,410	—	8,042,742	—	20,045,912	—	19,244,780	—
	Non-indexed Ch\$	791,624	—	415,598	—	1,038,996	—	20,939,122	—
	Dollars	—	—	—	—	—	—	—	—
TOTAL LONG-TERM LIABILITIES		399,201,755		112,989,317		46,153,336		85,311,158	
Subtotal by currency	Indexed Ch\$	16,212,734		76,039,719		45,114,340		64,372,036	
	Non-indexed Ch\$	791,624		415,598		1,038,996		20,939,122	
	Dollars	382,197,397		36,534,000		—		—	
LONG-TERM LIABILITIES									
		1 to 3 years 2003		3 to 5 years 2003		5 to 10 years 2003		over 10 years 2003	
		Average annual interest		Average annual interest		Average annual interest		Average annual interest	
		Amount ThCh\$	rate %	Amount ThCh\$	rate %	Amount ThCh\$	rate %	Amount ThCh\$	rate %
Obligations with banks and financial institutions	Indexed Ch\$	30,633,219	5.09	—	—	—	—	—	—
Bonds payable	Dollars	215,849,749	2.84	131,078,483	2.89	—	—	—	—
	Indexed Ch\$	4,289,829	6.32	6,378,773	6.32	25,086,111	6.52	47,822,136	6.68
Other long-term liabilities (e)	Dollars	260,600,829	8.01	—	—	—	—	—	—
	Indexed Ch\$	17,028,618	—	8,009,196	—	10,223,918	—	23,135,288	—
	Non-indexed Ch\$	2,149,395	—	468,357	—	495,392	—	19,430,545	—

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	Dollars	23,072,880	2.07	—	—	—	—	—
TOTAL LONG-TERM LIABILITIES		553,624,519		145,934,809		35,805,421		90,387,969
Subtotal by currency	Indexed Ch\$	51,951,666		14,387,969				