

TELECOMMUNICATIONS CO OF CHILE
Form 6-K
February 23, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

THROUGH FEBRUARY 23, 2006

(Commission File Number: 001-10579)

COMPAÑÍA 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, indicated below the file number assigned to the
registrant in connection with Rule 12g3-2(b): ☐ N/A ☐

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ThCh\$: Thousands of Chilean pesos.

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

ThUS\$: Thousands of US dollars.

Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries
(Translation of financial statements originally issued in Spanish see note 2)

Report of Independent Auditors

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

To the Partners of
Compañía de Telecomunicaciones de Chile S.A.

We have audited the accompanying consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and subsidiaries (the "Company") as of December 31, 2005, and the related consolidated statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Compañía de Telecomunicaciones de Chile S.A. and subsidiaries for the year ended December 31, 2004 were audited by other auditors, who issued an unqualified opinion in their report dated January 21, 2005. The attached Relevant Events do not form part of these financial statements; therefore, this report does not extend to them.

We conducted our audit in accordance with generally accepted auditing standards in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Compañía de Telecomunicaciones de Chile S.A. and subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles in Chile.

/s/ Andrés Marchant V.

ERNST & YOUNG LTDA.

Santiago, Chile January 24, 2006

Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries
Consolidated Balance Sheets

As of December 31, 2005 and 2004

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2005)

ASSETS	Notes	2005 ThCh\$	2004 ThCh\$
CURRENT ASSETS			
Cash		6,292,104	8,142,844
Time deposits	(34)	84,968,946	55,051,695
Marketable securities, net	(4)	15,747,311	27,061,316
Accounts receivable, net	(5)	141,585,377	158,420,629
Notes receivable, net	(5)	3,362,837	4,727,488
Other receivables	(5)	13,173,376	23,448,700
Accounts receivable from related companies	(6 a)	18,027,467	21,922,037
Inventories, net		2,808,747	6,638,749
Recoverable taxes		4,634,259	-
Prepaid expenses		2,601,348	3,250,494
Deferred taxes	(7 b)	11,685,444	14,760,545
Other current assets	(8)	11,099,939	114,106,058
TOTAL CURRENT ASSETS		315,987,155	437,530,555
PROPERTY, PLANT AND EQUIPMENT			
	(10)		
Land		27,279,904	27,288,397
Buildings and improvements		196,963,976	196,516,539
Machinery and equipment		3,246,876,306	3,224,360,009
Other property, plant and equipment		258,490,450	266,841,599
Technical revaluation		9,743,926	9,775,770
Less: Accumulated depreciation		2,438,856,590	2,292,121,636
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET		1,300,497,972	1,432,660,678
OTHER LONG-TERM ASSETS			
Investments in related companies	(11)	7,832,220	7,895,628
Investments in other companies		4,093	4,093
Goodwill	(12)	18,451,329	20,034,890
Other receivables	(5)	15,383,918	18,068,691
Intangibles	(13)	48,876,469	39,834,324
Less: Accumulated amortization	(13)	11,844,430	7,142,029
Others	(14)	13,611,626	13,940,466
TOTAL OTHERS LONG-TERM ASSETS		92,315,225	92,636,063

TOTAL ASSETS	1,708,800,352	1,962,827,296
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The accompanying notes 1 to 36 are an integral part of these consolidated financial statements

Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries
Consolidated Balance Sheets

As of December 31, 2005 and 2004

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2005)

LIABILITIES	Notes	2005 ThCh\$	2004 ThCh\$
CURRENT LIABILITIES			
Short-term obligations with banks and financial institutions	(15)	-	20,180,217
Short-term portion of long-term debt	(15)	1,319,583	16,075,391
Commercial paper	(17 a)	57,086,999	35,997,599
Current maturities of bonds payable	(17 b)	111,373,292	79,148,971
Current maturities of other long-term obligations		16,515	33,291
Dividends payable		1,719,486	1,834,788
Trade accounts payable	(35)	84,252,768	73,750,775
Other payables	(36)	8,781,487	43,736,847
Accounts payable to related companies	(6 b)	27,501,420	28,963,154
Accruals	(18)	10,087,472	7,660,284
Withholdings		12,325,502	16,082,858
Income tax		-	28,302,913
Unearned income		6,758,593	7,977,797
Other current liabilities		4,828,635	1,154,803
TOTAL CURRENT LIABILITIES		326,051,752	360,899,688
LONG-TERM LIABILITIES			
Long-term debt with banks and financial institutions	(16)	320,150,450	352,511,549
Bonds payable	(17 b)	12,197,201	132,438,266
Other accounts payable		25,478,768	2,257,850
Accruals	(18)	35,336,836	30,308,000
Deferred taxes	(7 b)	58,362,926	58,028,266
Other liabilities		4,011,665	4,367,360
TOTAL LONG-TERM LIABILITIES		455,537,846	579,911,291
MINORITY INTEREST	(20)	1,635,731	1,689,947
SHAREHOLDERS EQUITY			
	(21)		
Paid-in capital		912,692,729	912,692,729
Other reserves		(1,751,241)	(1,282,206)
Retained earnings		14,633,535	108,915,847
Retained earnings		-	50,563,380
Net income		25,183,320	322,847,306
Less: Interim dividend		10,549,785	264,494,839

TOTAL SHAREHOLDERS' EQUITY	925,575,023	1,020,326,370
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,708,800,352	1,962,827,296
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The accompanying notes 1 to 36 are an integral part of these consolidated financial statements

Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries
Consolidated Statements of Income

For the years ended December 31, 2005 and 2004

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2005)

OPERATING INCOME		2005 ThCh\$	2004 ThCh\$
Operating revenues		580,709,917	728,178,713
Less: Operating costs		373,054,216	460,450,195
Gross profit		207,655,701	267,728,518
Less: Administrative and selling expenses		120,559,495	165,025,547
OPERATING INCOME		87,096,206	102,702,971
NON-OPERATING RESULTS			
Interest income		7,984,778	9,620,178
Equity participation in income of equity-method investees	(11)	1,712,369	746,237
Other non-operating income	(22 a)	3,105,615	492,606,614
Equity participation in losses of equity-method investees	(11)	32,510	184,069
Less: Amortization of goodwill	(12)	1,583,561	145,456,819
Less: Interest expense and other		29,501,226	55,999,390
Less: Other non-operating expenses	(22 b)	13,076,966	25,559,119
Price-level restatement, net	(23)	1,944,827	(4,316,612)
Foreign currency translation, net	(24)	956,052	13,621,976
NON-OPERATING (LOSS) INCOME, NET		(28,490,622)	285,078,996
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST			
Income taxes	(7 c)	58,605,584 (33,392,172)	387,781,967 (64,641,434)
INCOME BEFORE MINORITY INTEREST		25,213,412	323,140,533
Minority interest	(20)	(30,092)	(293,227)
NET INCOME		25,183,320	322,847,306

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

Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2005 and 2004

	2005 ThCh\$	2004 ThCh\$
NET CASH FROM OPERATING ACTIVITIES	221,612,844	229,908,577
Net income	25,183,320	322,847,306
Sales of assets	21,291	(488,304,062)
Loss on sales of property, plant and equipment	21,291	15,848
Gain on sales of investments (less)	-	(488,319,910)
Charges (credits) to income that do not represent cash flows	228,225,830	428,710,260
Depreciation for the year	196,787,652	242,685,555
Amortization of intangibles	4,747,635	2,668,816
Provisions and write offs	24,390,021	36,829,675
Equity participation in income of equity method investees (less)	(1,712,369)	(746,237)
Equity participation in losses of equity method investees	32,510	184,069
Amortization of goodwill	1,583,561	145,456,819
Price-level restatement	(1,944,827)	4,316,612
Foreign currency translation	(956,052)	(13,621,976)
Other credits to income that do not represent cash flows (less)	(285,247)	(1,039,613)
Other charges to income that do not represent cash flows	5,582,946	11,976,540
Changes in operating assets		
(Increase) decrease	64,645,556	(4,415,008)
Trade accounts receivable	(5,897,035)	(14,002,715)
Inventories	2,201,866	(13,984,502)
Other assets	68,340,725	23,572,209
Changes in operating liabilities		
Increase (decrease)	(96,493,245)	(29,223,146)
Accounts payable related to operating activities	(72,924,798)	(64,021,285)
Interest payable	1,712,871	(7,600,952)
Income taxes payable (net)	(23,268,100)	45,884,002
Other accounts payable related to non-operating activities	1,692,456	(6,629,932)
V.A.T. and other similar taxes payable	(3,705,674)	3,145,021
Minority interest	30,092	293,227

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

Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2005 and 2004

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2005)

	2005	2004
	ThCh\$	ThCh\$
NET CASH USED IN FINANCING ACTIVITIES	(201,169,876)	(882,678,601)
Obligations with the public	69,016,189	36,114,909
Dividends paid (less)	(115,741,080)	(656,668,881)
Loans repaid (less)	(34,371,403)	(17,803,026)
Repayment of obligations with the public (less)	(120,073,582)	(221,198,890)
Payment of documented loans to related companies (less)	-	(23,122,713)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(86,438,532)	786,750,902
Sales of property, plant and equipment	1,237,690	185,606
Sales of in related companies investments	-	705,732,280
Sales of others investments	11,893,733	17,692,651
Collection of documented loans to related companies	-	176,165,990
Other investment income	26,313	-
Acquisition of property, plant and equipment (less)	(72,065,962)	(91,376,669)
Investments in related companies (less)	(48,571)	-
Investments in financial instruments (less)	(18,752,651)	(11,323,231)
Other investing activities (less)	(8,729,084)	(10,325,725)
NET CASH FLOWS FOR THE YEAR	(65,995,564)	133,980,878
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS	(1,542,004)	(6,575,576)
NET INCREASE OF CASH AND CASH EQUIVALENTS	(67,537,568)	127,405,302
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	162,799,128	35,393,826
CASH AND CASH EQUIVALENTS AT END OF YEAR	95,261,560	162,799,128

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

Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries
Notes to the Consolidated Financial Statements

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

a) The Company is a publicly-held 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 (SVS).

b) Subsidiary companies registered with the Securities Registry:

Subsidiaries	TAXPAYER No.	Registration Number	Participation (direct & indirect)	
			2005 %	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
Telefónica Asistencia y Seguridad S.A.	96,971,150-8	863	99.99	99.99

2. Summary of Significant Accounting Policies:

(a) Accounting period:

The consolidated financial statements correspond to the year ended December 31, 2005 and 2004.

(b) Basis of preparation:

These consolidated financial statements (hereinafter the financial statements) have been prepared in accordance with Generally Accepted Accounting Principles in Chile (Chilean GAAP) and standards set forth by the Chilean Superintendency of Securities and Insurance (SVS). In the event of any discrepancies in these regulations, SVS regulations supersede Chilean GAAP. Certain accounting practices applied by the Company that conform to Chilean GAAP may not conform to generally accepted accounting principles in the United States (US GAAP) or International Financial Reporting Standards (IFRS). For the convenience of the reader, these financial statements have been translated from Spanish to English.

The Company's financial statements as of June 30 and December 31 of each year 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 consolidated financial statements for 2004 and their notes have been adjusted for comparison purposes by 3.6% in order to allow comparison with the 2005 financial statements. For comparison purposes, certain reclassifications have been made to the 2004 financial statements.

(d) Basis of consolidation:

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

Notes to the Consolidated Financial Statements, continued**2. Summary of Significant Accounting Policies, continued:****(d) Basis of consolidation, continued:****Companies included in consolidation:**

As of December 31, 2005 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			2004 Total
		Direct	2005 Indirect	Total	
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. (1)	-	-	-	99.99
74,944,200-k	Fundación Telefónica Chile	50.00	-	50.00	50.00
96,887,420-9	Globus 120 S.A.	99.99	-	99.99	99.99
96,971,150-8	Telefónica Asistencia y Seguridad S.A.	99.93	0.06	99.99	99.99
90,430,000-4	Telefónica Empresas CTC Chile S.A.	99.99	-	99.99	99.99
96,834,320-3	Telefónica Internet Empresas S.A.	-	99.99	99.99	99.99
96,811,570-7	Administradora de Telepeajes de Chile S.A.	-	79.99	79.99	79.99
78,703,410-1	Tecnonáutica S.A.	-	99.99	99.99	99.99

1) On July 23, 2004, Telefónica CTC Chile sold 100% of its participation in Telefónica Móvil de Chile S.A.. This transaction implied a disbursement by Telefónica Móviles S.A. (purchaser) of US\$ 1,058 million, which was paid on July 28, 2004. This transaction caused Telefónica CTC Chile to recognize an effect on income (net income), after extraordinary amortization of goodwill as of June 2004 associated to this investments and net of taxes in the amount of ThCh\$303,540,170 as of December 2004 (equivalent to approximately US\$470 million as of the transaction date).

(e) Price-level restatement:

The interim consolidated financial statements have been adjusted by applying price-level restatement standards, in accordance with Chilean Gaap, in order to reflect the changes in the purchasing power of the currency during both years. The accumulated variation in the CPI as of December 31, 2005 and 2004, for initial balances, is 3.6% and 2.5%, respectively.

(f) Basis of conversion:

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

YEAR	US\$	EURO	BRAZILIAN REAL	UF
2005	512.50	606.08	219.35	17,974.81
2004	557.40	760.13	-	17,317.05

Foreing currency traslation differences originating in the application of this Standard are charged or credited to net income.

(g) Time deposits:

Time deposits are carried at cost, plus adjustments where applicable, and accrued interest as of year-end.

(h) Marketable securities:

Fixed income securities are recorded at their price-level restated acquisition value, plus interest accrued as of each year-end using the real interest rate determined as of the purchase date, or their market value, whichever is less.

(i) Inventories:

Equipment held for sale is carried at price-level restated acquisition or development cost or at market value, whichever is less.

Inventories expected to be used during the next 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) Allowance for doubtful accounts:

Different percentages are applied when calculating the allowance for doubtful accounts, taking into consideration the aging of such accounts, reaching in some cases 100% for debts exceeding 120 days and 180 days in the case of large customers (corporations).

(k) Property, plant and equipment:

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

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

(l) Depreciation of property, plant and equipment:

Depreciation has been calculated and recorded on a straight-line basis over the estimated useful lives of the assets. The average annual financial depreciation rate of the Company is approximately 7.62% .

(m) Leased assets:

Rented assets received in rental with a purchase option and whose contracts satisfy the characteristics of a financial lease are recorded in a similar fashion to the acquisition of property, plant and equipment, recognizing the full obligation and interest on an accrual basis. These assets are not legally owned by the Company; therefore until it exercises the purchase option they cannot be freely disposed of.

(n) Intangibles:

i) Rights to underwater cable:

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

ii) Software licenses:

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

(ñ) Investments in related companies:

These investments are accounted for under the equity method which recognizes the investor'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.

(o) Goodwill:

Corresponds to the valuation differences that arise when adjusting the cost of the investments, adopting the Equity method or making a new purchase. Goodwill and negative goodwill amortization periods have been determined considering aspects 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 is 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 12).

Goodwill impairment has been assessed as required in SVS Circular No.1,697 and Technical Bulletin No.72 issued by the Chilean Association of Accountants.

(p) Transactions with resale agreements:

Purchases of securities under agreement to resell are recorded as fixed rate securities and are classified under Other Current Assets (see note 8).

(q) Obligations with the public:

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

Commercial paper is presented in liabilities at its placement value, plus accrued interest (see note 17a).

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

(r) Current and deferred income taxes:

Income taxes are recorded on the basis of taxable net income. Recognition of deferred taxes on all temporary differences, usable tax loss carry forwards, and other events that create differences between the tax and accounting values, performed in accordance with Technical Bulletins No. 60 and its modifications issued by the Chilean Accountants Association and as established by the SVS Circular No. 1,466 dated January 27, 2000.

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued:

(s) Staff severance indemnities:

For employees who qualify for this benefit, the Company's staff severance indemnities obligation is provided for by applying the present value of the obligation using an annual discount rate of 7%, considering estimates such the future service period of the employee, mortality rate of employees and salary increases determined on the basis of actuarial calculations (see note 19).

Costs for past services of the employees produced by changes in the actuarial bases, are deferred and amortized over the employees' average future service periods.

(t) Operating revenues:

The Company's revenues are recognized on an accrual basis in accordance with Chilean GAAP. Since billing dates are different from the accounting closing date, as of the date of preparation of these financial statements provisions have been established for services provided and not billed, which are determined on the basis of contracts, traffic, prices and current conditions for the year. These amounts are recorded under Trade Accounts Receivable.

(u) Foreign currency future contracts:

The Company has entered into future foreign currency contracts, in order to hedge its obligations in foreign currency against changes in the exchange rate.

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 Payables, as applicable. The contract's implicit premium is deferred and amortized using the straight-line method over the term of the contract.

(v) 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 therein are shown under Other Creditors or under Other Current Assets, as applicable (see note 27).

(w) Computer software:

The cost of software purchased is deferred and amortized using the straight-line method over a maximum period of four years and are classified under Other property, plant and equipment.

(x) 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.

(y) Cumulative translation adjustment:

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

(z) Statement of cash flows:

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

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 .

(aa) Correspondents:

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

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

3. Accounting Changes:

a) Accounting changes:

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

b) Change in estimate:

i) Changes in actuarial hypotheses

As established in Technical Bulletin No. 8 issued by the Chilean Association of Accountants and in light of the new contractual conditions derived from the organizational evolution undergone by the Company, a series of studies were undertaken to modify the calculation base for the staff severance indemnities provision. Initially, in December 2004, this meant recognizing deferred assets of ThCh\$4,872,939 (historical). After concluding these studies in after 2005, the Company decided to also include other actuarial estimates in the calculation methodology used for this provision. The additional variables modified were: personnel turnover index, mortality rate and future salary increases. As a result of these modifications, the Company recorded deferred assets of ThCh\$3,648,704 in 2005. Both effects will be amortized over the future service period of the employees with this benefit (see portion to be amortized in the short-term in note 8c and in the long-term in note 14b).

ii) Change in estimation of international traffic

Due to the profound changes experienced by the industry, which involve a transition from a product-oriented approach to a segment-oriented approach, and also due to the need for more and better information, for which, we began to develop information systems, make changes in the processes and introduce advances to the applications in the different business areas. It is for this reason that during 2005 the correspondent process was reviewed, in order to implement an automated system for measuring, valuating and determining international traffic provisions. This work has facilitated the optimization of the information regarding amounts pending collection and/or settlement for the concept of international traffic.

This new methodology generated a change in the estimation of provisions and settlement of the real net balances of accounts receivable and payable to correspondents, which has meant altogether recording a net charge to income in the amount of ThCh\$10,624,218 (US\$ 20.7 million) during the second half of 2005.

c) Change of reporting entity:

Sale of Telefónica Móvil de Chile S.A.

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

In order to perform a comparative analysis of the figures, the consolidated statements of income are presented, assuming for year 2004 that the investment in Telefónica Móvil de Chile S.A. was recorded at Equity Value only.

Notes to the Consolidated Financial Statements, continued

3. Accounting Changes, continued:

	Jan-Dec 2005 ThCh\$	Jan-Dec 2004 ThCh\$	Variation ThCh\$	%
Operating Revenues	580,709,917	597,249,913	(16,539,996)	-2.8%
Operating Costs	(493,613,711)	(490,937,847)	(2,675,864)	0.5%
Salaries and employee benefits	(79,077,456)	(78,967,734)	(109,722)	0.1%
Depreciation	(196,654,897)	(198,945,383)	2,290,486	-1.2%
Goods and services	(217,881,358)	(213,024,730)	(4,856,628)	2.3%
 Operating Income	 87,096,206	 106,312,066	 (19,215,860)	 -18.1%
 Interest income	 7,984,778	 14,668,412	 (6,683,634)	 -45.6%
Equity participation in earnings of equity-method investees (1)	1,679,859	(7,703,363)	9,383,222	C.S.
Amortization of goodwill	(1,583,561)	(145,456,819)	143,873,258	-98.9%
Interest expense	(29,501,226)	(55,514,038)	26,012,812	-46.9%
Other non-operating expenses	(9,971,351)	466,884,632	(476,855,983)	C.S.
Price-level restatement	2,900,879	9,978,763	(7,077,884)	-70.9%
 Non-Operating Income	 (28,490,622)	 282,857,587	 (311,348,209)	 -110.1%
 Income before income taxes and minority interest	 58,605,584	 389,169,653	 (330,564,069)	 -84.9%
 Income taxes	 (33,392,172)	 (66,029,120)	 32,636,948	 -49.4%
Minority interest	(30,092)	(293,227)	263,135	-89.7%
 Net Income	 25,183,320	 322,847,306	 (297,663,986)	 -92.2%

(1) For 2004, includes income from Telefónica Móvil de Chile S.A. and as of June a loss of Ch\$ 8,218 million using the equity method.

4. Marketable Securities:

The balance of marketable securities is as follows:

2005	2004
ThCh\$	ThCh\$

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Shares	-	455,370
Publicly offered promissory notes	15,747,311	26,605,946
Total	15,747,311	27,061,316

Publicly offered promissory notes (Fixed Income)

Instrument	Date		Par Value ThCh\$	Book Value		Market Value ThCh\$	Provision ThCh\$
	Purchase	Maturity		Amount ThCh\$	Rate %		
BCD0500907	Dec-04	Sep-07	2,562,500	2,605,038	5%	2,605,038	(43,643)
BCD0500907	Ago-05	Sep-07	1,793,750	1,823,526	5%	1,823,526	(12,202)
BCD0500907	Sep-05	Sep-07	2,050,000	2,084,030	5%	2,084,030	(27,314)
BCD0500907	Sep-05	Sep-07	2,562,500	2,605,037	5%	2,605,037	(31,990)
BCD0500907	Sep-05	Sep-07	2,562,500	2,605,037	5%	2,605,037	(29,746)
BCD0500907	Sep-05	Sep-07	512,500	521,007	5%	521,007	(5,888)
BCD0500907	Sep-05	Sep-07	512,500	521,007	5%	521,007	(5,542)
BCD0500907	Sep-05	Sep-07	1,025,000	1,042,015	5%	1,042,015	(10,085)
Sub-Total			13,581,250	13,806,697		13,806,697	(166,410)
BCU500909	Nov-05	Sep-09	1,797,481	1,940,614	5%	1,943,710	-
Sub-Total			1,797,481	1,940,614		1,943,710	-
Total			15,378,731	15,747,311		15,750,407	(166,410)

5. Current and long-term receivables:

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

Current

Description	Up to 90 days		Over 90 up to 1 year		Subtotal	Total Current (net)			
	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$		2005 ThCh\$	%	2004 ThCh\$	%
Trade accounts receivable	194,887,503	233,314,442	5,215,068	7,083,778	200,102,571	141,585,377	100.0	158,420,629	100.0
Fixed telephony service	148,286,462	163,421,549	1,645,812	4,128,000	149,932,274	102,180,321	72.17	96,828,042	59.43
Long distance Communications companies	23,779,131	42,986,654	-	-	23,779,131	16,200,173	11.44	35,773,519	23.53
Others	18,862,812	22,772,672	3,248,308	2,860,016	22,111,120	19,859,339	14.03	22,043,761	14.51
	3,959,098	4,133,567	320,948	95,762	4,280,046	3,345,544	2.36	3,775,307	2.44
	(57,403,196)	(79,858,782)	(1,113,998)	(2,118,810)	(58,517,194)	-		-	

**Allowance for
doubtful
accounts**

Notes

receivable

8,020,947	12,485,919	103,181	725,182	8,124,128	3,362,837	4,727,488
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Allowance for
doubtful notes

(4,761,291)	(8,483,613)	-	-	(4,761,291)	-	-
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**Miscellaneous
accounts**

receivable

9,914,281	5,727,032	3,259,095	18,176,668	13,173,376	13,173,376	23,448,700
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**Long-term
receivables**

Notes to the Consolidated Financial Statements, continued

6. Balances and transactions with related entities:

a) Receivable from:

Taxpayer No.	Company	Short-term		Long-term	
		2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
Foreign	Telefónica España	802,300	41,440	-	-
93,541,000-2	Impresora y Comercial Publiguías S.A.	3,779,839	4,362,988	-	-
Foreign	Emergia USA	-	45,587	-	-
96,834,230-4	Terra Networks Chile S.A.	1,114,005	610,026	-	-
96,895,220-k	Atento Chile S.A.	410,009	267,084	-	-
96,910,730-9	Emergia Chile S.A.	104,199	43,622	-	-
Foreign	Telefónica LD Puerto Rico	-	2,661	-	-
Foreign	Telefonica Data EEUU	26,677	51,908	-	-
Foreign	Telefónica Data España	349,776	95,481	-	-
Foreign	Telefónica Argentina	1,809,521	197,848	-	-
	Telefónica Gestión de Servicios				
Foreign	Compartidos España	11,202	-	-	-
96,786,140-5	Telefónica Móvil de Chile S.A.	6,499,149	6,423,933	-	-
Foreign	Telefónica Procesos Tec. de Información	1,338,177	9,465,790	-	-
59,083,900-0	Telefónica Ingeniería de Seguridad S.A.	1,886	1,729	-	-
	Telefonica WholeSale International				
Foreign	Services	449,971	196,589	-	-
96,672,160-k	Telefónica Móviles Chile S.A.	1,149,569	-	-	-
	Telefónica Móviles Soluciones y				
96,990,810-7	Aplicaciones S.A.	181,187	115,350	-	-
TOTAL		18,027,467	21,922,036	-	-

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

b) Payable to:

Taxpayer No.	Company	Short-term		Long-term	
		2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
96,990,810-7	Telefónica Móviles Soluciones y				
	Aplicaciones S,A,	1,274	-	-	-
Foreign	Telefónica España	-	179,015	-	-
96,527,390-5	Telefónica Internacional Chile S.A.	280,407	279,871	-	-
93,541,000-2	Impresora y Comercial Publiguías S.A.	1,636,130	1,293,592	-	-

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Foreign	Telefónica Perú	48,631	39,750	-	-
96,834,230-4	Terra Networks Chile S.A.	4,154,347	4,346,562	-	-
96,895,220-k	Atento Chile S.A.	661,344	1,840,680	-	-
96,910,730-9	Emergia Chile S.A.	215,161	133,725	-	-
Foreign	Telefónica Guatemala	98,506	2,089	-	-
Foreign	Telefónica El Salvador	56,128	149,323	-	-
96,786,140-5	Telefónica Móvil de Chile S.A.	14,670,950	12,398,934	-	-
Foreign	Telefónica Procesos Tec. de Información	-	7,330,999	-	-
59,083,900-0	Telefónica Ingenieria de Seguridad S.A.	-	34,362	-	-
	Telefonica WholeSale International				
Foreign	Services	677,991	924,466	-	-
Foreign	Telefónica LD Puerto Rico	16,048	-	-	-
Foreign	Telefónica Sao Paulo	34,991	9,785	-	-
96,672,160-k	Telefónica Móviles Chile S.A.	4,437,945	-	-	-
Foreign	Telefonica Investigacion y Desarrollo	511,567	-	-	-
TOTAL		27,501,420	28,963,153	-	-

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.

c) Transactions:

Company	Tax No.	Nature of Relationship	Description of transaction	2005 ThCh\$		2004 ThCh\$	
				Amount	Effect on income	Amount	Effect on income
Telefónica España	Foreign	Parent Co.	Sales	871,168	871,168	528,708	528,708
			Purchases	(228,087)	(228,087)	(332,791)	(332,791)
Telefónica Internacional Chile S.A.	96,527,390-5	Parent Co.	Purchases	(571,203)	(571,203)	(561,912)	(561,912)
			Financial Expenses	-	-	(269,043)	(269,043)
Impresora y Comercial Publiguías S.A.	93,541,000-2	Associate	Sales	5,432,537	5,432,537	5,773,667	5,773,667
			Purchases	(4,039,734)	(4,039,734)	(5,791,628)	(5,791,628)
			Financial Income	-	-	6,736,566	6,736,566
Terra Networks Chile S.A.	96,834,230-4	Associate	Sales	5,218,607	5,218,607	5,667,586	5,667,586
			Purchases	(914,621)	(914,621)	(2,054,660)	(2,054,660)
Atento Chile S.A.	96,895,220-k	Associate	Sales	1,674,154	1,674,154	1,107,799	1,107,799
			Purchases	(15,417,377)	(15,417,377)	(17,621,567)	(17,621,567)
Telefónica International WholeSale Services Chile S.A.	96,910,730-9	Associate	Sales	940,006	940,006	691,112	691,112
			Purchases	(108,906)	(108,906)	(78,967)	(78,967)
Telefónica Argentina	Foreign	Associate	Sales	1,129,163	1,129,163	1,245,522	1,245,522
			Purchases	(836,260)	(836,260)	(878,306)	(878,306)
Telefónica Moviles Soluciones y Aplicaciones S.A.	96,990,810-7	Associate	Sales	91,291	91,291	12,178	12,178
Telefonica WholeSale International Services	Foreign	Associate	Sales	-	-	220,655	220,655
			Purchases	-	-	(2,337,727)	(2,337,727)

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Telefónica Sao Paulo	Foreign	Associate	Sales	159,900	159,900	185,700	185,700
			Purchases	(209,174)	(209,174)	(196,746)	(196,746)
Telefónica Guatemala	Foreign	Associate	Sales	8,845	8,845	8,115	8,115
			Purchases	(37,748)	(37,748)	(17,842)	(17,842)
Telefónica Perú	Foreign	Associate	Sales	515,041	515,041	567,671	567,671
			Purchases	(540,790)	(540,790)	(636,485)	(636,485)
Telefónica LD Puerto Rico	Foreign	Associate	Sales	11,718	11,718	15,250	15,250
			Purchases	(14,150)	(14,150)	(13,938)	(13,938)
Telefónica El Salvador	Foreign	Associate	Sales	5,024	5,024	-	-
			Purchases	(29,005)	(29,005)	(33,670)	(33,670)
Telefónica Móvil de Chile S.A.	96,786,140-5	Associate	Sales	13,309,676	13,309,676	7,195,198	7,195,198
			Purchases	(41,806,465)	(41,806,465)	(19,929,059)	(19,929,059)
			Financial Income	-	-	721,044	721,044
Telefónica Móviles S.A.	Foreign	Associate	Other Income	-	-	481,581,922	481,581,922
			Amortization goodwill	-	-	(138,691,402)	(138,691,402)
Telefónica Móviles Chile Larga Distancia S.A.	96,672,160-k	Associate	Sales	1,536,816	1,536,816	-	-
			Purchases	(12,222,117)	(12,222,117)	-	-
Telefonica WholeSale International Services España	Foreign	Associate	Sales	297,897	297,897	-	-
			Purchases	(2,570,589)	(2,570,589)	-	-
Telefónica Móviles Chile Inversiones S.A.	87,845,500-2	Associate	Sales	777,383	777,383	-	-
			Purchases	(144,689)	(144,689)	-	-
Telefonica WholeSale International Services Uruguay	Foreign	Associate	Purchases	(1,300,867)	(1,300,867)	-	-
Telefónica Ingeniería de	59,083,900-0	Associate	Sales	10,018	10,018	-	-

Seguridad
S.A.
Telefónica
Gestión

España	Foreign	Associate	Sales	11,202	11,202	-	-
Telefonica							
Data USA	Foreign	Associate	Sales	9,383	9,383	-	-

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).

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

Notes to the Consolidated Financial Statements, continued**7. Current and deferred income taxes:****a) General information:**

As of December 31, 2005 and 2004, the Parent Company has established a first category income tax provision, as it has taxable net income of ThCh\$94,550,929 and ThCh\$93,139,587, respectively.

In addition, as of December 31, 2005 and 2004, a provision for first category income tax in subsidiaries was recorded in the amounts of ThCh\$44,187,489 and ThCh\$60,360,854, respectively.

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

Subsidiaries	Retained Taxable Earnings w/15% credit ThCh\$	Retained Taxable Earnings w/16% credit ThCh\$	Retained Taxable Earnings w/16,5% credit ThCh\$	Retained Taxable Earnings w/17% credit ThCh\$	Retained Taxable Earnings w/o credit ThCh\$	Amount of Credit ThCh\$
CTC Equipos y Servicios de Telecomunicaciones S.A.	-	-	-	9,472,657	2,648,591	1,940,180
Telefónica Mundo S.A.	-	66,169	4,418,074	34,645,886	3,829,889	7,981,773
Globus 120 S.A.	2,179,207	825,635	591,061	1,885,389	281,674	1,044,789
Telefónica Empresas CTC Chile S.A.	-	-	1,685,904	23,620,867	1,827,877	5,171,145
Compañía de Telecomunicaciones de Chile S.A.	-	-	-	78,727,292	16,124,866	-
Total	2,179,207	891,804	6,695,039	148,352,091	24,712,897	16,137,877

b) Deferred taxes:

As of December 31, 2005 and 2004 the accumulated balances of temporary differences that originated net deferred tax liabilities in the amount of ThCh\$46,677,482 and ThCh\$43,267,721, are as follows:

Description	2005				2004			
	Deferred tax assets		Deferred tax liabilities		Deferred tax assets		Deferred tax liabilities	
	Short-term ThCh\$	Long-term ThCh\$	Short-term ThCh\$	Long-term ThCh\$	Short-term ThCh\$	Long-term ThCh\$	Short-term ThCh\$	Long-term ThCh\$
Allowance for doubtful accounts	10,054,119	-	-	-	13,432,420	-	-	-
Vacation provision	816,932	-	-	-	676,170	-	-	-

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Tax benefits for tax losses	220,485	1,027,566	-	-	-	1,592,458	-	-
Staff severance indemnities	-	-	-	6,220,462	-	-	-	6,387,759
Leased assets and liabilities	-	60,201	-	121,456	-	65,020	-	92,955
Property, plant and equipment	-	4,127,840	-	164,432,718	-	4,002,960	-	179,475,607
Revaluation property, plant and equipment	-	-	-	-	2,880	-	-	-
Difference in amount of capitalized staff severance	-	534,925	-	-	-	749,609	-	-
Software	-	-	-	2,153,780	-	-	-	3,431,233
Deferred charge on sale of assets	-	-	-	967,737	-	-	-	1,241,740
Collective negotiation bonus	-	-	-	33,935	-	-	-	58,390
Other	642,978	286,293	49,070	4,142,744	649,075	270,402	-	1,303,965
Sub-Total	11,734,514	6,036,825	49,070	178,072,832	14,760,545	6,680,449	-	191,991,649
Complementary accounts net of accumulated amortization	-	(3,649,605)	-	(117,322,686)	-	(4,042,442)	-	(131,325,377)
Sub-Total	11,734,514	2,387,220	49,070	60,750,146	14,760,545	2,638,007	-	60,666,272
Tax reclassification	(49,070)	(2,387,220)	(49,070)	(2,387,220)	-	(2,638,007)	-	(2,638,006)
Total	11,685,444	-	-	58,362,926	14,760,545	-	-	58,028,266

c) Income tax detail:

The current tax expense shown in the following table is based on taxable income:

Description	2005 ThCh\$	2004 ThCh\$
Current tax expense before tax benefits (income tax 17%)	23,585,531	27,190,059
Current tax expense (article 21 single tax at 35%)	61,954	32,667
Current tax expense (first category tax in the nature of a single income tax)	335,298	37,585,198
Tax expense adjustment (previous year)	73,162	(5,173,678)
Income tax subtotal	24,055,945	59,634,246
- Current year's deferred taxes	(4,273,625)	(9,595,002)
- Tax benefits from tax loss carry forwards	-	(1,094,984)
- Effect of amortization of deferred assets and liabilities complementary accounts	13,609,852	15,697,174
Deferred tax subtotal	9,336,227	5,007,188
Total expense tax	33,392,172	64,641,434

8. Other Current Assets:

The detail of other current assets is as follows:

Description	2005 ThCh\$	2004 ThCh\$
Fixed income securities purchased with resale agreement (note 9)	4,000,510	99,604,589
Deferred union contract bonus (1)	1,244,357	2,333,910
Deferred exchange insurance premiums	78,763	819,871
Telephone directories for connection program	2,714,723	3,562,217
Deferred higher bond discount rate (note 25)	47,758	595,456
Deferred disbursements for placement of bonds (note 25)	263,758	433,318
Commercial paper issuance costs (note 25)	100,865	183,545
Deferred disbursements for foreign financing proceeds (2)	687,681	419,166
Exchange difference insurance receivable (net of partial liquidations)	228,187	4,860,183
Deferred staff severance indemnities charges (3)	1,016,713	-
Others	716,624	1,293,803
Total	11,099,939	114,106,058

- (1) 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).
 - (2) 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.
 - (3) Corresponds to the short-term portion to be amortized due to changes in the actuarial hypothesis, as described in note 3, and for the concept of loans to employees as indicated in note 14 (3).
-

Notes to the Consolidated Financial Statements, continued

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

Code	Dates Inception	End	Counterparty	Original Currency	Subscription value ThCh\$	Rate	Final Value ThCh\$	Instrument Identification	Book Value ThCh\$
CRV	Dec 30, 2005	Jan 05, 2006	BANCO DE CREDITO E INVERSIONES	Ch\$	1,000,000	0.37%	1,000,740	BCP0800708	1,000,123
CRV	Dec 30, 2005	Jan 06, 2006	HSBC BANK	Ch\$	2,000,000	0.39%	2,001,820	BCP0800708	2,000,260
CRV	Dec 30, 2005	Jan 05, 2006	BANCO ESTADO	UF	993,270	0.38%	994,005	PRC-750501	993,396
CRV	Dec 30, 2005	Jan 05, 2006	BANCO ESTADO	UF	6,730	0.38%	6,735	PRC-06B0695	6,731
TOTAL					4,000,000		4,003,300		4,000,510

10. Property, plant and equipment:

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

Description	2005		2004	
	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$
Land	-	27,279,904	-	27,288,397
Building and improvements	85,625,432	196,963,976	81,987,835	196,516,539
Machinery and equipment	2,190,167,273	3,246,876,306	2,052,755,546	3,224,360,009
Central office telephone equipment	1,034,857,123	1,273,036,855	971,380,755	1,257,575,393
External plant	809,880,828	1,499,691,650	757,183,807	1,493,657,687
Subscribers equipment	309,229,986	436,911,884	288,437,769	435,641,648
General equipment	36,199,336	37,235,917	35,753,215	37,485,281
Other Property, Plant and Equipment	152,119,023	258,490,450	146,380,377	266,841,599
Office furniture and equipment	81,046,427	105,026,927	79,085,348	107,930,637

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Projects, work in progress and their materials (2)	-	61,775,014	-	66,120,605
Leased assets (1)	55,206	492,679	4,059,647	5,381,988
Property, plant and equipment temporarily out of service	5,435,304	6,499,300	10,793,414	16,041,534
Software	64,662,572	83,556,171	51,613,902	70,337,859
Other	919,514	1,140,359	828,066	1,028,976
Technical revaluation Circular 550	10,944,862	9,743,926	10,997,878	9,775,770
Total	2,438,856,590	3,739,354,561	2,292,121,636	3,724,782,314

- (1) This account mainly considers as of December 2005 ThCh\$492,679 in gross value for the concept of buildings with accumulated depreciation of ThCh\$55,206 and for 2004 gross value in the amount of ThCh\$3,403,943 for the concept of electronic and computer equipment with accumulated depreciation of ThCh\$3,403, 943.
- (2) Up to December 31, 2002, works in progress included capitalization of financing cost of loans related to their financing, as per Technical Bulletin No. 31 of the Chilean Association of Accountants, thus, the gross property, plant and equipment balance includes interest in the amount of ThCh\$193,414,752 Accumulated depreciation for this interest amounts to ThCh\$124,216,529 and ThCh\$111,669,066 for 2005 and 2004, respectively. The depreciation charge of the year amounted to ThCh\$12,547,458 in 2005 and ThCh\$13,945,369 in 2004.
- A depreciation charge for the year amounting to ThCh\$189,689,803 and ThCh\$227,594,534 for 2005 and 2004, respectively, was recorded as operating cost, and a depreciation charge of ThCh\$6,965,094 for 2005 and ThCh\$8,527,527 for 2004 as administration and selling cost. Depreciation of property, plant and equipment that is temporarily out of service is made up mainly of telephone equipment under repair and incurred depreciation amounting to ThCh\$2,668,724 and ThCh\$6,563,494 in 2005 and 2004, which is classified under Other Non-operating Expenses (note 22b).
-

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

Description	Net	Accumulated	Gross property,	Gross property,
	Balance	Depreciation	plant and equipment 2005	plant and equipment 2004
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Land	(506,554)	-	(506,554)	(506,554)
Building and improvements	(866,950)	(3,993,849)	(4,860,799)	(4,860,798)
Machinery and equipment	172,568	14,938,711	15,111,279	15,143,122
Total	(1,200,936)	10,944,862	9,743,926	9,775,770

Depreciation of the technical reappraisal surplus for the year amounted to ThCh\$(23,235) and ThCh\$(29,983) for 2005 and 2004, respectively.

Gross property, plant and equipment includes assets that have been totally depreciated in the amount of ThCh\$1,080,144,611 in 2005 and ThCh\$884,213,807 in 2004, which include ThCh\$12,261,038 and ThCh\$12,517,814, respectively, from the reappraisals mentioned in Circular No.550.

11. Investments in Related Companies

The detail of investments in related companies is a follows

Taxp. No.	Company	Country of origin	Currency controlling the investment	Number of shares	Percentage participation		Equity of the companies	
					2005 %	2004 %	2005 ThCh\$	2004 ThCh\$
Foreign	TBS Celular Participación S.A. (2)	Brazil	Dollar	48,950,000	2.61	2.61	145,050,482	159,735,598
96,895,220-k	Atento Chile S.A.	Chile	Pesos	3,049,998	28.84	28.84	14,030,522	12,921,392
96,922,950-1	Empresa de Tarjetas Inteligentes S.A.(3)	Chile	Pesos	-	-	20.00	-	-
93,541,000-2	Impresora y Comercial Publiguías S.A. (1)	Chile	Pesos	-	-	-	-	-

Equity in income		Investment	Investment
Net in income (loss)	(loss)		

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Taxp. No.	Company	of the companies		of the investment		value		book value	
		2005	2004	2005	2004	2005	2004	2005	2004
		ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Foreign	TBS Celular Participación S.A.(2)	5,040,295	3,647,466	131,552	95,199	3,785,818	4,169,100	3,785,818	4,169,100
	Atento Chile S.A.	5,481,338	2,257,413	1,580,817	651,038	4,046,402	3,726,528	4,046,402	3,726,528
	96,895,220-k Empresa de Tarjetas Inteligentes S.A.(3)	(162,550)	(518,724)	(32,510)	(103,745)	-	-	-	-
	96,922,950-1 Impresora y Comercial Publiguías S.A.(1)	-	-	-	(80,324)	-	-	-	-
Total						7,832,220	7,895,628	7,832,220	7,895,628

- (1) 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\$ 9,580 million, with a gain after taxes of Ch\$ 5,251 million.
- (2) 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 No. 1,179 issued by the Superintendency of Securities and Insurance and ratified in Title II of Circular No. 1,697. 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.
- (3) The Extraordinary Shareholders Meeting agreed to the dissolution of Empresa de Tarjetas Inteligentes S.A. During September 2005 the Chilean Internal Revenue Service authorized the closing of this 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.

Notes to the Consolidated Financial Statements, continued

12. Goodwill:

The detail of goodwill is as follows:

Taxpayer No.	Company	Year	2005	2004		
			Amount amortized in the year ThCh\$	Balance of Goodwill ThCh\$	Amount amortized in the year ThCh\$	Balance of Goodwill ThCh\$
Foreign	TBS Celular Participación S.A.	2001	186,516	2,486,032	187,064	2,672,546
96,887,420-9	Globus 120 S.A.	1998	1,150,731	14,733,725	1,154,112	15,884,457
78,703,410-1	Tecnonáutica S.A.	1999	152,268	761,341	152,888	913,609
96,786,140-5	Telefónica Móvil de Chile S.A. (a)	1997	-	-	143,827,076	-
96,834,320-3	Telefónica Internet Empresas S.A.	1999	94,046	470,231	94,346	564,278
96,811,570-7	Telepeajes S.A.	2001	-	-	41,333	-
Total			1,583,561	18,451,329	145,456,819	20,034,890

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 indicated in note 2d) No. 1 with the sale of this subsidiary on July 23, 2004, the Company performed extraordinary amortization of the remaining goodwill on that investment as of June 30, 2004 of ThCh\$133,872,011 (historical).

13. Intangibles:

The detail of Intangibles is as follows:

Description	2005 ThCh\$	2004 ThCh\$
Underwater cable rights (gross)	37,049,798	36,111,066
Accumulated amortization, previous year	(5,169,360)	(3,491,394)
Amortization for the year	(2,205,633)	(1,723,200)
Licenses (Software) (gross)	11,826,671	3,723,258
Accumulated amortization, previous year	(1,927,435)	(981,819)
Amortization for the year	(2,542,002)	(945,616)
Total Net Intangible	37,032,039	32,692,295

14. Other (from Other Assets):

The detail of other is as follows:

Description	2005 ThCh\$	2004 ThCh\$
Deferred disbursement for obtaining external financing (see note 8b) (1)	1,264,614	1,336,634
Deferred union contract bonus (see note 8a)	68,280	1,227,612
Bond issue expenses (see note 25)	26,648	488,767
Bond discount (see note 25)	180,133	236,122
Securities deposits	137,533	136,643
Deferred charge due to change in actuarial estimations (2)	7,264,171	4,687,767
Deferred staff severance indemnities (3)	4,654,301	5,657,493
Others	15,946	169,428
Total	13,611,626	13,940,466

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

(2) In light of the new contractual conditions derived from the organizational evolution experienced by the Company, there have been a series of studies that allowed, beginning in 2004, the modification of the variable for future years of service of employees within the basis for calculating staff severance indemnities. After concluding these studies, in 2005 other estimates were incorporated such as mortality of employees and future salary increases, all determined on the basis of actuarial calculations, as established in Technical Bulletin No.8 of the Chilean Association of Accountants.

The difference at the beginning of the year as a result of changes in the actuarial estimates constitutes actuarial gains or losses, which are deferred and amortized during the average future years of service remaining for the employees that will receive the benefit (see note 2s).

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

The staff severance indemnities provision has been recorded in part at its current value, deferring and amortizing this effect over the years of average remaining service life of employees that subscribe to the benefit. The loan is presented under Other Long-term Receivables.

Notes to the Consolidated Financial Statements, continued

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

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

Taxp. No.	Bank or financial institution Short-term	US\$		U.F.		Ch\$		TOTAL	
		2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$	2005 ThCh\$	2004 ThCh\$
97,030,000-7	BANCO ESTADO	-	-	-	-	-	9,757,493	-	9,757,493
97,015,000-5	SANTANDER SANTIAGO	-	-	-	-	-	10,422,724	-	10,422,724
Total		-	-	-	-	-	20,180,217	-	20,180,217
	Outstanding principal	-	-	-	-	-	19,787,475	-	19,787,475
	Average annual interest rate	-	-	-	-	-	2.98%		2.98%
	Current maturities of long-term debt								
97,015,000-5	SANTANDER SANTIAGO	-	-	321,206	214,185	-	-	- 321,206	214,185
Foreign	CALYON NEW YORK BRANCH Y								
97,008,000-7	OTROS	125,563	93,678	-	-	-	-	- 125,563	93,678
	CITIBANK	308,648	-	-	-	-	-	- 308,648	-
Foreign	BBVA BANCOMER Y								
	OTROS	564,166	1,177,550	-	-	-	-	- 564,166	1,177,550
Foreign	BANCO BILBAO VIZCAYA								
	ARGENTARIA	-	14,589,978	-	-	-	-	- -	14,589,978
Total		998,377	15,861,206	321,206	214,185	-	-	1,319,583	16,075,391

Outstanding principal	- 14,436,660	-	-	-	-	-	- 14,436,660
Average annual interest rate	4.68%	2.41%	2.32%	1.55%	-	-	- 4.10% 2.40%

Percentage of obligations in foreign currency:	75.66% for 2005 and 43.75% for 2004
Percentage of obligations in local currency:	24.34% for 2005 and 56.25% for 2004

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

Long-term obligations with banks and financial institutions:

Tax. No.	Bank or Financial Institution	Currency or	Years to maturity for long-term			Long-term	Average	Long-term
		indexation	portion			portion as of Dec 31, 2005	annual interest rate	portion as of Dec 31, 2004
index	1 to 2	2 to 3	3 to 5					
		ThCh\$	ThCh\$	ThCh\$	ThCh\$	%	ThCh\$	
	LOANS IN DOLLARS							
	CALYON NEW YORK BRANCH Y						Libor +	
Foreign	OTROS (1)	US\$	-	-	102,500,000	102,500,000	0.40%	115,493,280
	BBVA BANCOMER						Libor +	
Foreign	Y OTROS (3)	US\$	-	-	76,875,000	76,875,000	0.375%	86,619,960
	BANCO						Libor +	
97,008,000-7	CITIBANK (2)	US\$	-	76,875,000	-	76,875,000	0.35%	86,619,960
	SUBTOTAL		-	76,875,000	179,375,000	256,250,000	4.75%	288,733,200
	LOANS IN UNIDADES DE FOMENTO							
	SANTANDER SANTIAGO						Tab 360	
97,015,000-5	(4)	UF	-	-	63,900,450	63,900,450	+ 0.45%	63,778,349
TOTAL			-	76,875,000	243,275,450	320,150,450	4.26%	352,511,549

Percentage of obligations in foreign currency:

80.04% for 2005 and 81.91% for 2004

Percentage of obligations in local currency:

19.96% for 2005 and 18.09% for 2004

- (1) In December 2004, the Company renegotiated this loan, extending its due date from January and August 2005 to December 2009, in addition to changing the agent bank, that it was the Bilbao Viscaya Argentaria Bank.
- (2) In May 2005, the Company renegotiated this loan, extending its due date from April 2006 and April 2007 to December 2008, in addition to changing the agent bank, that it was the ABN Amro Bank.
- (3) In November 2005, the Company renegotiated this loan, extending its due date from April 2006, April 2007 and April 2008 to June 2011, in addition to changing the agent bank, that is was the ABN Amro Bank.

- (4) In April 2005, the Company renegotiated this loan, extending its maturity date from April 2008 to April 2010 and reduce the interest rate to TAB 360 + 0.45%.
-

Notes to the Consolidated Financial Statements, continued**17. Obligations with the Public:****a) Commercial paper:**

On January 27, 2003 and May 12, 2004 Telefónica CTC Chile registered a commercial paper line in the securities registry, the inspection numbers of which are 5 and 15, respectively. 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 upon each issuance of these commercial papers.

On May 12, 2004, there was a 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.

On April 27, 2005 a Series F placement of the same type of instrument was made in the amount of ThCh\$23,000,000. The placement agent was Scotiabank Sudamericano Corredores de Bolsa.

On October 25, 2005 a Series G and H placement of the same type of instrument was made in the amount of ThCh\$35,000,000. The placement agent was Scotiabank Sudamericano Corredores de Bolsa.

The details of these transactions are described below:

Registration or identification number of the instrument	Series	Current nominal amount placed	Bond readjustment unit	Interest rate	Final	Accounting value		Placement in Chile or abroad
		ThCh\$	ThCh\$	%	Maturity	2005	2004	
		ThCh\$	ThCh\$			ThCh\$	ThCh\$	
Short-term comercial paper								
005	C	17,500,000	Ch\$ non-adjustable	0.2257	Apr 5, 2005	-	18,019,604	Chile
005	D	17,500,000	Ch\$ non-adjustable	0.2286	May 5, 2005	-	17,977,995	Chile
015	F	23,000,000	Ch\$ non-adjustable	0.4100	Mar 28, 2006	22,740,193	-	Chile
005	G	17,500,000	Ch\$ non-adjustable	0.4100	Apr 20, 2006	17,183,716	-	Chile
005	H	17,500,000	Ch\$ non-adjustable	0.5100	Apr 27, 2006	17,163,090	-	Chile
Total						57,086,999	35,997,599	

b) Bonds:

The detail of obligations with the public for bond issuances, 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 payment	Amortizations	Par Value 2005 ThCh\$	
Short-term portion of long-term bonds									
143,27,06,91	F	71,429	U.F.	6.000	Apr,2016	Semi-annual	Semi-annual	1,452,982	1
203,23,04,98	K (a)	-	U.F.	6.750	Feb,2020	Semi-annual	Semi-annual	-	73
Issued in New York	Yankee Bonds (b)	49,603,000	US\$	7.625	Jul,2006	Semi-annual	Maturity	26,331,505	
Issued in New York	Yankee Bonds (c)	156,440,000	US\$	8.375	Jan,2006	Semi-annual	Maturity	83,588,805	3
Total								111,373,292	79
Long-term bonds									
143,27,06,91	F	678,572	U.F.	6.000	Apr,2016	Semi-annual	Semi-annual	12,197,201	13
Issued in New York	Yankee Bonds (b)	-	US\$	7.625	Jul.2006	Semi-annual	Maturity	-	28
Issued in New York	Yankee Bonds (c)	-	US\$	8.375	Jan,2006	Semi-annual	Maturity	-	90
Total								12,197,201	132

a) During December 2004, as stated in the sixth clause, letter K of the Bond Issuance Agreement, Telefónica CTC Chile decided to exercise the advanced redemption option of all the Bonds of this series. The amount of the redemption of this issuance is U.F. 3,992,424 plus interest accrued as of February 15, 2005, the effective date of the redemption. This has meant recognizing in income the balances pending amortization for Bond issue expenses and Bond discount, reducing the term to the advanced redemption date. As of December 31, 2005 the extraordinary effects from these amortizations on total income amount to ThCh\$539,000 (included in Financial Expenses).

b) During November and December 2004, Telefónica CTC Chile made a tender offer to repurchase dollars issuances, and as a result the Company repurchased US\$ 138,082,000. This operation was carried out at a price of 107% of par value. The partial repurchase of this series meant recognizing extraordinary amortizations proportional to the balances corresponding to Bond issue expenses and Bond discount , as well as on payment of the repurchase. The net of these three effects of ThCh\$6,631,649 (historical) was charged to financial expenses for the year.

c) During November and December 2004, Telefónica CTC Chile made a tender offer to repurchase dollar issuances, and as a result the Company repurchased US\$ 43,560,000. This operation was carried out at a price of 105.356% of par value. The partial repurchase of this series meant recognizing extraordinary amortizations proportional to the balances corresponding to Bond issue expenses , Bond discount , as well as on payment of the repurchase. The net of these three effects of ThCh\$1,461,539 (historical) was charged to financial expenses for the year.

Notes to the Consolidated Financial Statements, continued**18. Provisions and Write-offs:**

The detail of provisions and write-offs shown in liabilities is as follows:

	2005 ThCh\$	2004 ThCh\$
Current		
Staff severance indemnities	476,521	144,352
Vacation	4,846,063	3,977,013
Other employee benefits (1)	5,816,689	4,952,680
Employee benefit advances	(1,051,801)	(1,413,761)
Sub-Total	10,087,472	7,660,284
Long-term		
Staff severance indemnities	35,336,836	30,308,000
Total	45,424,308	37,968,284

(1) Includes provisions for the Independence day bonus, Christmas bonus, bonus guaranteed under the current union contract, and miscellaneous.

During the year, there were bad debt write-offs of ThCh\$42,771,384 and ThCh\$23,324,517 for 2005 and 2004, 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:

	2005 ThCh\$	2004 ThCh\$
Operating costs and administrative and selling expenses	4,380,420	4,358,659
Other non-operating expenses	1,318,201	3,353,924
Total	5,698,621	7,712,583
Payments and other changes for the year (1)	1,701,590	2,226,038

(1) Includes the effect of the ThCh\$3,648,704 increase in the provision due to a change in actuarial estimations of employees made in 2005 (see note 3) and payments of ThCh\$(1,947,114).

20. Minority interest:

Minority interest recognizes the portion of equity and revenues of subsidiaries owned by third parties. The detail of 2005 and 2004, respectively, is as follows:

Subsidiaries	Percentage Minority Interest		Participation in equity		Participation in net income (loss)	
	2005	2004	2005	2004	2005	2004
	%	%	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Administradora de Sistemas de Telepeajes de Chile S.A.	20.00	20.00	246,585	253,160	(6,578)	154,762
Telefónica Mundo S.A.	0.84	0.84	1,119,213	1,195,083	8,406	84,114
Fundación Telefónica	50.00	50.00	269,922	241,664	28,259	54,345
CTC Equipos y Servicios de Telecomunicaciones S.A.	0.0001	-	11	40	5	6
Total			1,635,731	1,689,947	30,092	293,227

21. Shareholders equity:

During the years ended December 31, 2005 and 2004, respectively, changes in shareholders equity accounts are as follows:

	Paid-in capital	Other reserves	Retained earnings	Net income	Interim dividend	Total shareholders equity
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
2005						
Balances as of December 31, 2004	880,977,537	(1,237,651)	48,806,351	311,628,674	(255,303,899)	984,871,012
Transfer of 2004 net income to retained earnings	-	-	311,628,674	(311,628,674)	-	-
Adjustment of foreign investment conversion reserve	-	(469,034)	-	-	-	(469,034)
Absorption of interim dividend	-	-	(255,303,899)	-	255,303,899	-
Final Dividend 2004	-	-	(56,324,775)	-	-	(56,324,775)
Interim Dividend	-	-	(48,806,351)	-	-	(48,806,351)
Interim Dividend 2005	-	-	-	-	(10,528,728)	(10,528,728)
Price-level restatement	31,715,192	(44,556)	-	-	(21,057)	31,649,579
Net income	-	-	-	25,183,320	-	25,183,320

Balances as of December

31, 2005	912,692,729	(1,751,241)	-	25,183,320	(10,549,785)	925,575,023
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2004**Balances as of December**

31, 2003	859,490,281	(791,199)	421,404,583	10,133,882	-	1,290,237,547
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Transfer of 2003 income to retained earnings	-	-	10,133,882	(10,133,882)	-	-
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Adjustment of foreign investment conversion reserve	-	(425,240)	-	-	-	(425,240)
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Final Dividend 2003	-	-	(3,062,903)	-	-	(3,062,903)
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Final eventual dividend	-	-	(385,685,783)	-	-	(385,685,783)
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Interim dividend 2004	-	-	-	-	(252,992,348)	(252,992,348)
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Price-level restatement	21,487,256	(21,212)	6,016,572	-	(2,311,551)	25,171,065
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Net income	-	-	-	311,628,674	-	311,628,674
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Balances as of December

31, 2004	880,977,537	(1,237,651)	48,806,351	311,628,674	(255,303,899)	984,871,012
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Restated balances as of

December 31, 2005	912,692,729	(1,282,206)	50,563,380	322,847,306	(264,494,839)	1,020,326,370
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Notes to the Consolidated Financial Statements, continued**21. Shareholders' equity, continued:****(a) Paid-in capital:**

As of December 31, 2005 the Company's paid-in capital is as follows:

Number of shares:

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

Paid-in capital :

Series	Subscribed Capital ThCh\$	Paid-in Capital ThCh\$
A	833,394,333	833,394,333
B	79,298,396	79,298,396

(b) Shareholder stratification:

As indicated in Circular No. 792 of the Chilean Superintendency of Securities and Insurance, the stratification of shareholders by percentage shareholding in the Company as of December 31, 2005 is as follows:

Type of Shareholder	Percentage of total holdings %	Number of shareholders
10% holding or more	56.40	2
Less than 10% holding	42.82	1,734
Investment equal to or exceeding UF 200		
Investment under UF 200	0.78	11,329
Total	100.00	13,065

Company controller

44.90

1

(c) Dividends:**i) Dividend policy:**

In accordance with Law No. 18,046, unless otherwise decided at the Shareholders Meeting by unanimous vote of the shares issued, when there is net income, at least 30% must be allocated to dividend payments.

Considering the cash situation, levels of projected investment and the solid financial indicators for 2005 and future, on April 14, 2005, the Ordinary Shareholders Meeting modified the dividend distribution policy reported at the Ordinary Shareholders Meeting of April 2004, and agreed to distribute 100% of net income generated during the respective year, by means of an interim dividend in November of each year and a final dividend in May of the following year.

ii) Dividend distributed in the year:

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

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

- On June 14, 2004, the Board of Directors of the Company agreed to pay shareholders an interim dividend, charged to 2004 net income.

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

Both dividends, in the amount of US\$ 800 million, were subject to materialization of the sale of all the shares of Telefónica Móvil de Chile S.A., which would occur if Telefónica Móviles S.A. accepted the proposal of the Extraordinary Shareholders Meeting, which implied that it would assume responsibility for the taxes arising at of the sale operation, which amounted to US\$ 51 million.

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

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

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

On April 14, 2005, the Extraordinary Shareholders Meeting approved the payment of a final dividend (No.168) of Ch\$ 58.84591 per share with a charge to net income for 2004 equivalent to ThCh\$56,324,775. Likewise, it approved payment of a provisional dividend (No.169) of Ch\$ 50.99095 pesos per share, with a charge to retained earnings as of December 2004 equivalent to ThCh\$48,806,351. Both dividends were paid on May 30, 2005.

On October 27, 2005, the Board approved payment of an interim dividend (No.170) of Ch\$11.00 per share, with a charge to 2005 net income, equivalent to ThCh\$10,528,728.

(d) Other reserves:

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

	Company	Amount		Net Movement	Balance as of December 31, 2005
		December 31, 2004	Price-level restatement		
		ThCh\$	ThCh\$	ThCh\$	ThCh\$
Foreign	TBS Participación S.A.	(1,237,651)	(44,556)	(469,034)	(1,751,241)
Total		(1,237,651)	(44,556)	(469,034)	(1,751,241)

22. Other Non-Operating Income and Expenses:

a) Other Non-Operating Income:

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

Other Income	2005 ThCh\$	2004 ThCh\$
Fines levied on suppliers and indemnities	-	191,320
Proceeds from sale of used equipment	1,915,786	2,751,136
Sales of promotional material	-	105,762
Real estate rental	271,000	200,295
Proceeds from sale of Publiguías	-	6,736,566
Proceeds from sale of Telefónica Móvil de Chile S.A.	-	481,581,922
Gain on sale Intelsat	633,582	-
Accruals for lower market value of New Skies Satellites	-	230,420

Other	285,247	809,193
Total	3,105,615	492,606,614

Notes to the Consolidated Financial Statements, continued**22. Other Non-Operating Income and Expenses, continued:****(b) Other non-operating expenses:**

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

Other Expenses	2005 ThCh\$	2004 ThCh\$
Lawsuit indemnities and other provisions	1,164,946	707,544
Depreciation and retirement of out-of-service property, plant and equipment (1)	4,379,491	8,291,853
Unrecovered VAT tax credit	1,224,563	-
Lower market value provision	166,410	-
Provision for assets in disuse	2,217,699	9,910,201
Restructuring costs	2,028,002	6,449,256
Donations	407,782	179,829
Other	1,488,073	20,436
Total	13,076,966	25,559,119

- (1) As of December 2005 this item is mainly composed of depreciation of telephone equipment maintained in stock for replacement of lines in service. In 2004 includes ThCh\$1,728,359 corresponding to depreciation of the La Serena Cable TV network (assets temporarily out of service) not transferred in the sale of subsidiary Multimedia a Cordillera Comunicaciones.

23. Price-level restatement:

The detail of price-level restatement is as follows:

Assets (Charges) Credits	Indexation	2005 ThCh\$	2004 ThCh\$
Inventory	C.P.I	178,105	217,924
Prepaid expenses	C.P.I	5,156	4,422
Prepaid expenses	U.F.	(13,726)	(75,290)
Other current assets	C.P.I	53,535	(157,738)
Other current assets	U.F.	142,192	(4,187,088)
Short and long-term deferred taxes	C.P.I	4,422,960	3,449,692
Property, plant and equipment	C.P.I	50,249,589	41,227,629
Investments in related companies	C.P.I	210,664	145,761

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Goodwill	C.P.I	696,193	1,669,890
Long-term receivables	U.F.	(1,870,171)	(183,161)
Long-term receivables	C.P.I	297,848	236,500
Other long-term assets	C.P.I	1,678,416	991,161
Other long-term assets	U.F.	11,870	36,626
Expense accounts	C.P.I	10,874,872	8,784,646
Total Credits		66,937,503	52,160,974

Liabilities	Shareholders	Equity (Charges) Credits	Indexation	2005 ThCh\$	2004 ThCh\$
Short-term obligations			C.P.I.	-	14,826
Short-term obligations			U.F.	(6,724,235)	(5,941,620)
Long-term obligations			C.P.I.	(18,333)	(12,982)
Long-term obligations			U.F.	(9,050,016)	(4,209,050)
Shareholders equity			C.P.I.	(31,649,579)	(26,077,223)
Revenue accounts			C.P.I.	(17,550,513)	(20,251,537)
Total Charges				(64,992,676)	(56,477,586)
Gain (Loss) from price-level restatement, net				1,944,827	(4,316,612)

24. Foreign currency translation:

The detail of foreign exchange gain is as follows:

Assets (Charges) Credits	Currency	2005 ThCh\$	2004 ThCh\$
Inventories	US\$	(947,484)	-
Current assets	US\$	6,128,753	20,431,142
Current assets	EURO	(9,800)	3,961,010
	BRAZILIAN		
Current assets	REAL	(31,599)	-
Long-term receivables	US\$	5,884,400	5,394,346
Other long-term assets	US\$	5,808	60,907
Other long-term assets	EURO	-	74
Total Credits		11,030,078	29,847,479
Liabilities (Charges) Credits	Currency	2005 ThCh\$	2004 ThCh\$
Short-term obligations	US\$	(1,458,381)	(28,244,156)
Short-term obligations	EURO	5,310	(3,800,851)
	BRAZILIAN		
Short-term obligations	REAL	21,499	-
Long-term obligations	US\$	(8,642,454)	15,819,504

Total Charges	(10,074,026)	(16,225,503)
Foreign currency translation, net	956,052	13,621,976

Notes to the Consolidated Financial Statements, continued**25. Issuance and placement of shares and debt expense:**

The detail of this item is as follows:

	Short-term		Long-term	
	2005	2004	2005	2004
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Bond issuance expenses	263,758	433,318	26,648	488,767
Discount on debt	47,758	595,456	180,133	236,122
Commercial paper issuance expense	100,865	183,545	-	-
Total	412,381	1,212,319	206,781	724,889

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 investing activities that do not generate cash flows during the year, but which commit future cash flows are as follows:

a) Financing activities: Financing activities that commit future cash flows are as follows:

Obligations with banks and financial institutions	- see notes No. 15 and 16
Obligations with the public	- see notes No. 17

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

	Maturity	ThCh\$
BCD	2007	13,806,697
BCU	2009	1,940,614

c) Cash and cash equivalents:

	2005	2004
	ThCh\$	ThCh\$
Cash	6,292,104	8,142,844

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Time deposits	84,968,946	55,051,695
Other current assets	4,000,510	99,604,589
Total	95,261,560	162,799,128

27. Derivative Contracts:

The breakdown of derivative contracts is as follows:

Type of derivate	Type of contract	Description of Contract						Value of Hedged item ThCh\$	Asset / Liability		Affect		
		Contract Value	Maturity or Expir.	Specific Item	Purchase sale position	Hedged item or transaction			Name	Amount		Name	Amou ThCh\$
						Name	Amount						
FR	CI	19,000,000	III Quarter 06	Exchange rate	C	Oblig. in US\$	19,000,000	9,737,500	asset liabilities	9,737,500 (9,792,600)			
FR	CCPE	24,300,000	I Quarter 06	Exchange rate	C	Oblig. in US\$	24,300,000	12,453,750	asset liabilities	12,453,750 (14,419,000)			
FR	CCPE	20,000,000	III Quarter 06	Exchange rate	C	Oblig. in US\$	20,000,000	10,250,000	asset liabilities	10,250,000 (10,886,770)			
FR	CCPE	150,000,000	III Quarter 08	Exchange rate	C	Oblig. in US\$	150,000,000	76,875,000	asset liabilities	76,875,000 (85,637,900)			
FR	CCPE	200,000,000	II Quarter 09	Exchange rate	C	Oblig. in US\$	200,000,000	102,500,000	asset liabilities	102,500,000 (116,351,600)			
FR	CCPE	70,000,000	II Quarter 2011	Exchange rate	C	Oblig. in US\$	70,000,000	35,875,000	asset liabilities	35,875,000 (38,739,190)			
FR	CI	7,000,000	I Quarter 06	Exchange rate	C	Oblig. in US\$	7,000,000	3,587,500	asset liabilities	3,587,500 (3,600,600)			
FR	CCPE	33,000,000	I Quarter 06	Exchange rate	C	Oblig. in	33,000,000	16,912,500	asset	16,912,500			

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US\$									
								liabilities	(16,957,2
			III	Exchange		Oblig.			
			Quarter	rate		in			
FR	CCPE	6,000,000	06		C	US\$	6,000,000	3,075,000	asset
									liabilities
									(3,451,8
			I	Exchange		Oblig.			
			Quarter	rate		in			
FR	CI	353,709	06		V	US\$	353,709	77,586	asset
									liabilities
									(69,50
			III	Interest		Oblig.			
			Quarter	rate		in			
S	CCPE	150,000,000	08		C	US\$	150,000,000	-	asset
									195,5
			II	Interest		Oblig.			
			Quarter	rate		in			
S	CCPE	200,000,000	09		C	US\$	200,000,000	-	asset
									26,8
			II	Interest		Oblig.			
			Quarter	rate		in			
S	CCPE	70,000,000	2011		C	US\$	70,000,000	-	asset
									(3,80
Deferred income for exchange forward contracts								liabilities	(160,9
Deferred costs for exchange insurance								asset	78,7
Exchange forward contracts expensed during the year (net)									

Total

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

28. Contingencies and restrictions:

a) Lawsuits:

(i) Claims 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 ThCh\$2,500,000, based on the differences that would originate from the lowering of access charges rate due to Rate Decree No.187 of Telefónica CTC Chile. The initial sentence accepted VTR's claim and the compensation alleged by Telefónica CTC Chile. The Company filed a motion to vacate and appeal, which is currently underway.

(ii) Labor lawsuits:

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

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

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

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

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

(iii) Other contingencies; Lawsuit against the Government:

On October 31, 2001, Telefónica CTC Chile filed an administrative motion before the Ministry of Transport and Telecommunications and the Ministry of Economy, requesting correction of the errors and illegalities in Rate Decree No. 187 of 1999. On January 29, 2002, the Ministries issued a joint response rejecting the administrative recourse, determination which they arrived at after having carefully evaluated, only the viability and timeliness of the petition made, considering the set of circumstances that concur in the problem stated and the prudence that must orient public actions, to add that such rejection has had no other motivation than to protect the general interest and progress of the telecommunications services.

Upon extinguishing the administrative instances to correct the errors and illegalities involved in the tariff setting process of 1999, in March 2002, Telefónica CTC Chile filed a lawsuit for damages against the State of Chile for the sum of Ch\$ 181,038,411,056, plus readjustments and interest, which covers past and future damages until May 2004.

The judicial process is currently at the stage of issuing a sentence.

(iv) Manquehue Net:

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

On April 11, 2005, the Court notified the first instance sentence accepting the claim made by Telefónica CTC Chile condemning Manquehue to pay approximately Ch\$ 452 million, and at the same time accepted Manquehue's claim condemning Telefónica CTC Chile to pay 47,600 UF.

Telefónica CTC Chile filed an appeal for dismissal on the grounds of errors in the form in both cases; which are currently pending before the Court of Appeals of Santiago.

b) Financial restrictions:

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

The maximum debt ratio for these contracts is 1.50, whereas the interest coverage ratio cannot be less than 4.00.

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

As of December 31, 2005 the Company complies with all the financial restrictions.

29. Third party guarantees:

The Company has not received any guarantees from third parties.

30. Local and Foreign Currency:

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

Description	Currency	2005 ThCh\$	2004 ThCh\$
Total current assets :		315,987,155	437,530,555
	Non-indexed		
Cash	Ch\$	6,196,641	7,671,191
	Dollars	53,213	421,624
	Euros	42,250	50,029
Time deposits	Indexed Ch\$	290,114	50,634,077
	Dollars	84,678,832	4,417,618
Marketable securities	Indexed Ch\$	1,940,613	-
	Dollars	13,806,698	27,061,316
Notes and accounts receivable (1)	Indexed Ch\$	-	681
	Non-indexed		
	Ch\$	154,191,565	155,367,808
	Dollars	3,930,025	31,228,328
Due from related companies	Indexed Ch\$	15,585,521	12,210,149
	Dollars	2,441,946	9,711,888
Other current assets (2)	Indexed Ch\$	2,769,040	35,900,031
	Non-indexed		
	Ch\$	29,523,569	96,767,231
	Dollars	529,065	6,088,584
	Brazilian Real	8,063	-
Total property, plant and equipment :		1,300,497,972	1,432,660,678
Property, plant and equipment and accumulated depreciation	Indexed Ch\$	1,300,497,972	1,432,660,678
Total other long-term assets		92,315,225	92,636,063
Investment in related companies	Indexed Ch\$	7,832,220	7,895,628
Investment in other companies	Indexed Ch\$	4,093	4,093
Goodwill	Indexed Ch\$	18,451,329	20,034,890
Other long-term assets (3)	Indexed Ch\$	50,471,130	49,575,061
		4,871,251	14,651,849

Non-indexed		
Ch\$		
Dollars	10,685,202	474,572

Total Assets	1,708,800,352	1,962,827,296
---------------------	----------------------	----------------------

Indexed Ch\$	1,382,256,511	1,596,705,139
Non-indexed		
Ch\$	210,368,547	286,668,228
Dollars	116,124,981	79,403,900
Euros	42,250	50,029
Brazilian Real	8,063	-

- (1) Includes the following balance sheet accounts: Trade Accounts Receivable, Notes Receivable and Miscellaneous Accounts Receivable.
 - (2) Includes the following balance sheet accounts: Inventories, Recoverable Taxes, Prepaid Expenses, Deferred Taxes and Other Current Assets.
 - (3) Includes the following balance sheet accounts: Long-term Receivables, Intangibles, Accumulated amortization and Others.
-

Notes to the Consolidated Financial Statements, continued

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			
		2005	Average annual interest %	2004	Average annual interest %	2005	Average annual interest %	2004	Average annual interest %
		Amount ThCh\$		Amount ThCh\$		Amount ThCh\$		Amount ThCh\$	
Short-term obligations with banks and financial institutions	Non-indexed Ch\$	-		10,422,724	1.47	-	-	9,757,490	
Short-term portion of obligations with banks and financial institutions	Indexed Ch\$	-	-	214,185	-	321,206	-		
	Dollars	998,377	-	15,861,206	2.41	-	-		
Obligations with the public (Commercial paper)	Non-indexed Ch\$	22,740,193	3.10	-	-	34,346,806	3.60	35,997,590	
Obligations with the public (Bonds payable)	Indexed Ch\$	-	-	73,428,696	6.75	1,452,982	6.00	1,466,240	
	Dollars	83,588,805	8.40	4,254,027	-	26,331,505	7.60		
Long-term obligations maturing within a year	Indexed Ch\$	2,690	9.06	8,324	9.06	13,825	9.06	24,960	
Due to related parties	Indexed Ch\$	-	-	-	-	280,407	-		
	Non-indexed Ch\$	26,751,548	-	22,748,960	-	-	-	5,879,520	
	Dollars	469,465	-	200,948	-	-	-	133,720	
Other current liabilities (4)	Indexed Ch\$	1,984,441	-	-	-	804,388	-		
	Non-indexed Ch\$	115,463,016	-	154,608,001	-	5,113,828	-	24,908,680	
	Dollars	5,027,910	-	984,380	-	360,360	-		
Total Current Liabilities		257,026,445	-	282,731,451	-	69,025,307	-	78,168,230	
Subtotal by currency	Indexed Ch\$	1,987,131	-	73,651,205	-	2,872,808	-	1,491,240	
		164,954,757	-	187,779,685	-	39,460,634	-	76,543,290	

Non-indexed

Ch\$

Dollars 90,084,557 - 21,300,561 - 26,691,865 - 133,72

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

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

		1 to 3 years 2005		3 to 5 years 2005		5 to 10 years 2005		over 10 years
		Amount	Average annual interest rate	Amount	Average annual interest rate	Amount	Average annual interest rate	Amount
		ThCh\$	%	ThCh\$	%	ThCh\$	%	T
LONG-TERM LIABILITIES								
Obligation with banks and financial institutions	Indexed Ch\$	-	-	63,900,450	2.32	-	-	
	Dollars	76,875,000	4.69	102,500,000	4.90	76,875,000	4.64	
Bonds payable	Indexed Ch\$	-	-	-	-	-	-	12,19
Other long-term liabilities (5)	Indexed Ch\$	15,975,376	-	17,005,188	-	6,005,144	-	76,53
	Non-indexed Ch\$	756,020	-	482,268	-	1,205,670	-	5,22
Total Long-term Liabilities		93,606,396	-	183,887,906	-	84,085,814	-	93,95
Subtotal by currency	Indexed Ch\$	15,975,376	-	80,905,638	-	6,005,144	-	88,73
	Non-indexed Ch\$	756,020	-	482,268	-	1,205,670	-	5,22
	Dollars	76,875,000	-	102,500,000	-	76,875,000	-	

		1 to 3 years 2004		3 to 5 years 2004		5 to 10 years 2004		over 10 years
		Amount	Average annual interest rate	Amount	Average annual interest rate	Amount	Average annual interest rate	Amount
		ThCh\$	%	ThCh\$	%	ThCh\$	%	T
LONG-TERM LIABILITIES								
Obligations with banks and financial institutions	Indexed Ch\$	-	-	63,778,349	1.55	-	-	
	Dollars	138,591,936	2.94	150,141,264	2.95	-	-	
Bonds payable	Indexed Ch\$	2,562,923	6.00	2,562,924	6.00	6,407,308	6.00	1,92
	Dollars	118.982.909	8.20	-	-	-	-	
Other long-term liabilities (5)	Indexed Ch\$	13,732,416	-	7,975,430	-	20,094,992	-	18,80
		746,220	-	360,857	-	904,146	-	32,34

Non-indexed
Ch\$

Total Long-term Liabilities	274,616,404	-	224,818,824	-	27,404,446	-	53,07
	Indexed						
Subtotal by currency	Ch\$	16,295,339	-	74,316,703	-	26,502,300	- 20,72
	Non-indexed						
	Ch\$	746,220	-	360,857	-	904,146	- 32,34
	Dollars	257,574,845	-	150,141,264	-	-	-

(5) Includes the following balance sheet accounts: Due to related companies, Miscellaneous accounts payable, Accruals, Deferred long-term taxes, Other long-term liabilities.

Notes to the Consolidated Financial Statements, continued**31. Sanctions:**

Neither the Company, nor its Directors and Managers have been sanctioned by the Superintendency of Securities and Insurance or any other administrative authority during 2005 and 2004.

32. Subsequent events:

On January 24, 2006, the Company reported an essential event in which they inform that the Board of Directors of Compañía de Telecomunicaciones de Chile S.A. agreed to call an Extraordinary Shareholders Meeting, as established in articles 10, 57 and 67 of the Companies Law and in articles 33 and 44 of the bylaws of Compañía de Telecomunicaciones de Chile S.A., for Thursday April 20, 2006, in order to inform the shareholders and have them decide on the following matters:

- i) Capital decrease in the amount of ThCh\$40,200,513,570
- ii) Bylaws reform in reference to the modification of share capital
- iii) Adopt the corresponding decisions to formalize the agreements of the Meeting

Management is unaware of any other significant subsequent events that have occurred in the period from January 1 to 24, 2006 and that may affect the Company's financial position or the interpretation of these financial statements.

33. Environment:

In the opinion of Management and their in-house legal counsel and because the nature of the Company's operations do not directly or indirectly affect the environment, as of the closing date of these financial statements, no resources have been set aside nor have any payments been made for non-compliance with municipal ordinances or other supervising organizations.

34. Time deposits:

The detail of time deposits is as follows:

Placement	Institution	Currency	Principal	Rate	Maturity	Principal	Accrued interest
			ThCh\$	%		ThCh\$	ThCh\$
Dec 31, 2005	ABN AMRO BANK	US\$	165,081,000	4.0300	Jan 03, 2006	84,604,013	
Dec 26, 2005	BANCO CRÉDITO E INVERSIONES	US\$	145,900	4.3000	Jan 25, 2006	74,774	
Dec 06, 2005	BANCO CRÉDITO E INVERSIONES	UF	15,964	6.2000	Mar 07, 2006	286,946	1,2
Dec 30, 2005	SANTANDER SANTIAGO	Ch\$	1,928	-	Jan 30, 2006	1,928	
Total			165,244,792	-	-	84,967,661	1,2

35. Accounts payable:

The detail of the accounts payable balance is as follows:

	2005 ThCh\$	2004 ThCh\$
Suppliers		
Chilean	60,800,675	53,378,613
Foreign	5,011,124	2,857,928
Carrier service	8,406,474	5,485,376
Provision for work in progress	10,034,495	12,028,858
 Total	 84,252,768	 73,750,775

36. Other accounts payable:

The detail of other accounts payable is as follows:

	2005 ThCh\$	2004 ThCh\$
Exchange insurance contract payables	3,093,532	40,602,337
Billing on behalf of third parties	2,804,313	2,089,258
Accrued supports	1,005,680	183,262
Others	1,877,962	861,990
 Total	 8,781,487	 43,736,847

Alejandro Espinoza Querol
General Accountant

José Moles Valenzuela
General Manager

Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries
Management's Discussion and Analysis Of The Consolidated Financial Statements
For the year ended December 31, 2005 and 2004

1. HIGHLIGHTS

Consolidated Income and Figures for the Corporation's Business Areas

As of December 31, 2005, Telefónica CTC Chile recorded consolidated net income of Ch\$25,183 million, whereas in 2004 it presented net income of Ch\$322,847 million. 2004 income includes the effects derived from the sale of the subsidiary Telefónica Móvil de Chile S.A. in July 2004, which produced a net gain of approximately Ch\$314,468 million.

The operating income of Telefónica CTC Chile for 2005 presents a surplus of Ch\$87,096 million, 15.2% less than the Ch\$102,703 million reached in the year ended December 31, 2004.

The comparison of operating income between 2004 and 2005 includes the effects of the deconsolidation of the subsidiary Telefónica Móvil de Chile S.A. as of July 2004.

For comparison purposes, after excluding the effects of Telefónica Móvil in 2004, as detailed below, the operating margin reaches 15.0% and 17.8% for the year ended December 2005 and 2004, respectively. Operating income decreased by 18.1% due to a 2.8% decrease in revenues and a 1.7% increase in operating costs.

Operating Income for the period excluding T. Móvil

	2004	2005	% Variation
Revenues	597,250	580,710	-2.8%
Salaries	(78,968)	(79,078)	0.1%
Goods and services	(213,025)	(217,881)	2.3%
Total Cost	(291,993)	(296,959)	1.7%
EBITDA	305,257	283,751	-7.0%
Depreciation	(198,945)	(196,655)	-1.2%
Operating Income	106,312	87,096	-18.1%
Operating Margin	17.8%	15.0%	

It should be noted that as of May 6, 2004, operating income includes the effects of the tariff decree which is in force until May 6, 2009. Non operating income for the year ended December 31, 2005 shows a deficit of Ch\$28,491 million, which compares negatively to the surplus obtained the previous year in the amount of Ch\$285,078 million, derived mainly from income obtained on the sale of Telefónica Móvil de Chile S.A. Without considering this effect, there is a positive change from year to year, which is basically due to a decrease in financial expenses associated with a lower level of debt and better financing conditions, and a positive effect of price-level restatement.

With respect to operating business figures, as of December 31, 2005, Telefónica CTC Chile had a total of 2,440,827 fixed telephone lines, presenting an increase of 0.6% in relation to December 2004. ADSL customers in service reached 314,177, which represents 56.5% growth in relation to the previous year. Long distance traffic through the network of Telefónica CTC Chile, for which access fees are charged, decreased by 25.9% in domestic long distance (DLD) and 36.2% in international long distance (ILD), reaching 1,582.9 million minutes and 690.5 million minutes,

respectively.

As of December 31, 2005, the Company had total staff of 3,910 a 3.6% increase in comparison to December 2004, where the staff was 3,774 persons.

Decrease in Financial Debt

Telefónica CTC Chile has continued to decrease its debt level through amortization and prepayment of loans and renegotiation of interest rates and terms of current loan as well as through the global drop in interest rates. As of December 31, 2005, financial debt amount to Ch\$496,316 million, reflecting a 21.3% decrease in relation to the financial debt of Ch\$628,352 million recorded as of December 31, 2004. The decrease in the debt levels along with the improved financing conditions and the drop in the value of the dollar translated into a downturn of 47.3% in financial expenses as of December 31, 2005.

Dividend Policy

On September 21, 2004, the Board of Compañía de Telecomunicaciones de Chile S.A. agreed to modify the policy for distribution of dividends with a 30% to 100% charge to income for each year, by means of an interim dividend in November of each year and a final dividend which will be proposed at the Ordinary Shareholders Meeting. In this context, the Board agreed to distribute an interim dividend charged against 2004 net income, for Ch\$124,430 million in November 2004 (equivalent to US\$ 200 million).

In January 2005, the Board agreed to propose the payment of a final dividend of Ch\$58.84591 per share with a charge to net income to the ordinary Shareholders Meeting, thereby complying with the aforementioned dividend policy. Similarly they agreed to propose the payment of an provisional dividend of Ch\$50.99095 per share, with a charge to retained earnings as of December 2004 at the next Ordinary Shareholders Meeting.

The Ordinary Shareholders Meeting held on April 14, 2005 approved the distribution of both the final and provisional dividend; the Meeting also revealed the Dividend Policy for 2005 and future years, as mentioned in the first paragraph of this section.

Similarly, on October 27, 2005, the Board of Directors approved payment of an interim dividend (No.170) of Ch\$11.00 per share, with a charge to 2005 income, equivalent to ThCh\$10,528,728 (historical).

Tariff Setting Process for Telefónica CTC (Local Telephony)

On May 4, 2004, the Ministries of Transport and Telecommunications and Economy; Development and Reconstruction (here in after the "ministries") issued Tariff Decree No. 169 which they submitted together with the supporting report to the Chilean General Comptroller together with the supporting report.

On June 2, Telefónica CTC Chile made two presentations to the Chilean General Comptroller as part of the process for Tariff Decree No.169. The first presentation denounces manifest mathematical errors in Decree No. 169, requesting that the controlling organization order these to be corrected. The second presentation includes the legal objections relating to conceptual aspects that have an impact on the definition and scope of the services included in the Decree. In both presentations the Company expressly reserves the right to take legal action.

Entel, Chilesat and Telmex filed a complaint with the Chilean General Comptroller against Tariff Decree No. 169, objecting to scaling of access charges and the criteria for cost assignation of the different tariffs.

On September 16, 2004, the Ministries issued their report to the Chilean General Comptroller relating to the complaints filed by Telefónica CTC Chile, Chilesat, Entel and Telmex. In this respect, the Ministries informed that as a result of their review of the tariff model a large part of the mathematical errors denounced by Telefónica CTC Chile were corrected, and that furthermore other errors apparently contained in the mentioned Tariff Decree were also corrected.

In turn, the Ministries defended the scaling of access charges of D.S. 169, stating that this action has been taken in conformity with the resolutions of antitrust organizations and those prescribed by the Economic Technical Bases established for this tariff setting process.

The ministries rejected the claims by Telefónica CTC Chile and Entel, Chilesat and Telmex with respect to the definition and scope of services included in the decree.

On October 4, 2004, Telefónica CTC Chile once again appealed to the Chilean General Comptroller , for the correction of new mathematical errors incurred by the Ministries they corrected the errors informed by Telefónica CTC Chile. They also resubmitted their claim regarding the decree.

The Undersecretary of Telecommunications of the Ministry of Transport and Telecommunications ("SUBTEL") once again submitted Decree No. 169 to the Chilean General Comptroller on December 30, 2004, after modifying certain network unbundling tariffs, in the item Adjustment of Civil Works . Likewise, Subtel once again modified other tariffs, including those of the Adjustment of Civil Works item, resubmitting Decree No. 169 to the Chilean General Comptroller on January 14, 2005.

In addition, in January 2005. Entel and Telmex filed new presentations to the Chilean General Comptroller, in which Entel protested the tariffs set by the Ministries regardin to Adjustment of Civil Works and on its Telmex accompanied information sustaining that access charge rates must be at direct cost.

On February 8, 2005, the Chilean General Comptroller recorded Tariff Decree No. 169. The report of the Chilean General Comptroller rejected the complaints regarding conceptual aspects presented by Telefónica CTC Chile and does not make a pronouncement regarding the new mathematical errors denounced in October 2004. The complaints filed by Telmex, Chilesat and Entel were rejected by the Chilean General Comptroller.

Tariff Decree No.169 was published in the Official Gazette on February 11, 2005. Telefónica CTC Chile enabled the application of the new rates to its customers in its systems and began the rebilling process as of May 6, 2004.

Tariff Flexibility

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The Official Gazette of February 26, 2004, published Decree No.742, of December 24, 2003, issued by the Ministry of Transport and Telecommunications, which regulate conditions (without restrictions as to levels or structure) to the offer of various plans and joint offers that can be offered by the dominant operators of the local public telephone service.

Tariff flexibility allows Telefónica CTC Chile to offer its customers various commercial plans, adhering to the general framework for the application of the flexibility that must be defined by the Authority, without requiring authorization for each plan.

Telefónica CTC Chile started offering different local telephone plans, in order to adapt to customer`s needs.

Management's Discussion and Analysis Of The Consolidated Financial Statements, continued**2. VOLUME STATISTICS, PROPERTY, PLANT AND EQUIPMENT AND STATEMENTS OF INCOME****TABLE No. 1**
VOLUME STATISTICS

DESCRIPTION	December 2004	December 2005	Variation Q	%
Lines in Service (end of year)	2,427,364	2,440,827	13,463	0.6%
Total Average Lines in Service	2,406,266	2,451,356	45,090	1.9%
Local calls (millions) (1)	4,615	3,309	(1,306)	-28.3%
Inter-primary DLD Minute(2) (thousands)	2,134,945	1,582,948	(551,997)	-25.9%
Total ILD Minutes(3) (thousands)	1,083,068	690,499	(392,569)	-36.2%
ILD Minute Outgoing (incl. Internet)	673,986	264,583	(409,403)	-60.7%
ILD Minutes Incoming	409,081	425,916	16,835	4.1%
Line Connections	343,318	358,088	14,770	4.3%
ADSL Connections in Service	200,794	314,177	113,383	56.5%
Permanent Personnel Telefónica CTC Chile (4)	2,817	2,945	128	4.5%
Permanent Personnel Subsidiaries (4)(5)	957	965	8	0.8%
Total Corporate Personnel (4)	3,774	3,910	136	3.6%

1. Does not include calls from public phones owned by the Company.
2. DLD: Domestic Long Distance. Corresponds to all outgoing traffic of primary areas attended by Telefónica CTC Chile, including the traffic of Telefónica Mundo and Globus 120, for which access fees are charged.
3. ILD: International Long Distance. Corresponds to all outgoing and incoming international calls of primary areas attended by Telefónica CTC Chile, including the traffic of 188 Telefónica Mundo and Globus 120, for which access fees are charged.
4. Include staff with contracts for determined term.
5. In 2004 Mobile subsidiary personnel is included.

TABLE No. 2
CONSOLIDATED NET PROPERTY, PLANT AND EQUIPMENT*(Figures in millions of pesos as of December 31, 2005)*

DESCRIPTION	December 2004	December 2005	Variation MCh\$	%
Land, Infrastructure, Machinery and Equipment	3,658,661	3,677,580	18,919	0.5%
Projects and Works in Progress	66,121	61,775	(4,346)	-6.6%
Accumulated Depreciation	2,292,122	2,438,857	146,735	6.4%
NET PROPERTY, PLANT & EQUIPMENT	1,432,660	1,300,498	(132,162)	-9.2%

TABLE No. 3
CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS
ENDED AS OF DECEMBER 31, 2005 and 2004

(Figures in millions of pesos as of 12.31.05)

DESCRIPTION	Jan - Dec 2004	Jan - Dec 2005	Variation (2005 / 2004) MCh\$	%
OPERATING REVENUES				
Fixed telecommunications	437,421	441,476	4,055	0.9%
Basic Telephony	310,645	294,284	(16,361)	-5.3%
Fixed charge (monthly)	152,089	123,539	(28,550)	-18.8%
Variable charge	122,449	96,908	(25,541)	-20.9%
Connections and Other Installations	4,036	3,280	(756)	-18.7%
Flexible Plans	9,005	45,727	36,722	407.8%
Value Added Services	17,702	19,475	1,773	10.0%
Others Basic Telephony Services	5,364	5,355	(9)	-0.2%
Broadband	26,068	42,901	16,833	64.6%
ADSL	19,628	31,919	12,291	62.6%
Internet Connection for Companies	6,440	10,982	4,542	70.5%
Access Charges and Interconnections (1)	32,724	44,004	11,280	34.5%
Domestic Long Distance	10,485	10,344	(141)	-1.3%
International Long Distance	2,908	2,371	(537)	-18.5%
Access Charges Mobile - Fixed	8,023	14,230	6,207	77.4%
Other Interconnection Services	11,308	17,059	5,751	50.9%
Other Local Telephone Services	67,984	60,287	(7,697)	-11.3%
Advertising in Telephone Directories	6,093	5,369	(724)	-11.9%
ISP (Switchboard and Dedicated)	3,230	2,530	(700)	-21.7%
Teleemergencia (Security Services)	6,921	8,081	1,160	16.8%
Public Phones	11,228	9,819	(1,409)	-12.5%
Interior Installation and Equipment Rental	32,401	30,687	(1,714)	-5.3%
Equipment Marketing	8,111	3,801	(4,310)	-53.1%
Long Distance	63,807	57,972	(5,835)	-9.1%
Long Distance	25,511	23,268	(2,243)	-8.8%
International Service	24,789	19,464	(5,325)	-21.5%
Network capacity and circuit rentals	13,507	15,240	1,733	12.8%
Corporate Communications	85,890	78,214	(7,676)	-8.9%
Terminal Equipment	14,064	13,378	(686)	-4.9%
Complementary Services	17,305	14,666	(2,639)	-15.2%
Data Services	32,271	28,119	(4,152)	-12.9%
Dedicated links and others	22,250	22,051	(199)	-0.9%
Mobile Communications	137,027	0	(137,027)	S.C.
Mobile Communications (outgoing traffic)	96,954	0	(96,954)	S.C.
CPP Interconnection (2)	40,073	0	(40,073)	S.C.

Other Businesses (3)	4,034	3,048	(986)	-24.4%
TOTAL OPERATING REVENUES	728,179	580,710	(147,469)	-20.3%